Ryan Weispfenning
Thank you. Good morning and welcome to Medtronic’s third quarter conference call and webcast. During the next hour, Omar Ishrak, Medtronic Chairman and Chief Executive Officer, and Karen Parkhill, Medtronic Chief Financial Officer, will provide comments on the results of our third quarter, which ended on January 25, 2019. After our prepared remarks, we will be happy to take your questions.

First, a few logistical comments: 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 and outlook. During today’s earnings call, many of the statements made 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. In addition, the reconciliations of any non-GAAP financial measures are available on our website, InvestorRelations.Medtronic.com. Unless we say otherwise, references to quarterly revenue growth rates and ranges are given on an organic basis, which exclude the impact of any material acquisitions, divestitures, and foreign currency, and are in comparison to the third quarter of fiscal year 2018. All of these adjustment details can be found in the reconciliation tables included with our earnings press release. Finally, our EPS guidance does not include any charges or gains that would be reported as non-GAAP adjustments to earnings during the fiscal year. With that, I am now pleased to turn the call over to Medtronic Chairman and Chief Executive Officer, Omar Ishrak.

Omar Ishrak
Thank you, Ryan, and thank you to everyone for joining us.

This morning we reported another quarter of solid top- and bottom-line performance. Revenue grew 4.4% organic, reflecting the benefits of our diversified model.¹ We leveraged our top-line to grow adjusted operating profit 7.7% and adjusted diluted EPS 10.3% or 8.5% at constant currency.

Execution is our top priority, and in Q3 we executed on multiple fronts to deliver a strong quarter, despite difficult comparisons we were facing in the back half of our fiscal year. Revenue outperformance in MITG and RTG, driven by a number of recent product launches, offset the challenges in CVG that we talked about in January. The other big driver was Emerging Markets, which grew 14%, reflecting a strong quarter across all businesses and geographies.

Down the P&L, we saw the benefits this quarter from our focus throughout the organization on margin improvement, resulting in 140 basis points of operating margin expansion, including a benefit from currency.
We continue to execute on free cash flow, working to improve our cash conversion and ultimately drive greater shareholder value. Through the first three quarters of the year, we generated over $4.1 billion of free cash flow, compared to $2.9 billion in the prior year. We have made significant progress on this front, and I really appreciate the engagement of the entire Medtronic team.

Overall, it was another good quarter for Medtronic. But, what continues to be even more exciting than our results, is the progress we are making on our pipeline. As I commented last quarter, we believe we have more opportunities for growth than at any time in our company’s history. I’ll come back to the pipeline shortly, but first let’s review our performance this quarter in a little more detail.

I’ll start with our Minimally Invasive Therapies Group. MITG had an outstanding quarter, growing 6.6%, with outperformance in both SI and RGR divisions. Our Surgical Innovations division grew 6.4%, with strong growth in both Advanced Energy and Advanced Stapling. Advanced Energy products grew in the low-double digits, driven by the adoption of enhanced LigaSure™ vessel sealing instruments and the Valleylab™ FT10 energy platform. In Advanced Stapling, we grew in the high-single digits, as our Tri-Staple™ 2.0 endo stapling reloads and Signia™ surgical stapling system continue to perform well in the minimally invasive surgery market.

Our Respiratory, GI, and Renal division grew 7.0%, with strong results across all businesses. GI grew mid-single digits, led by strength in Beacon™ endoscopic ultrasound products and Bravo™ reflux testing systems. Respiratory had high-single digit growth driven by Puritan Bennett™ 980 ventilators and Nellcor™ pulse oximetry products. Renal Care grew in the mid-teens, with solid sales of Bellco and renal access products.

Next, our Restorative Therapies Group had another strong quarter, growing 5.5%, driven by sustained momentum in the Brain Therapies division. Brain grew 13.2%, with high-teens growth in both Neurovascular and Neurosurgery. In Neurovascular, we are seeing broad strength across our stroke franchise, with double-digit growth in stent retrievers, flow diveters, neuro access, and embolic products. In Neurosurgery, we delivered high-thirties growth in capital equipment, driven by our StealthStation® navigation, O-arm® imaging, Mazor robotics, and Midas Rex® powered surgical systems. We launched our Mazor X™ Stealth Edition robotic guidance platform last month, and we have received early, enthusiastic feedback for this combination of best-in-class robotics and navigation capability.

We believe our strong capital equipment sales supporting our Brain Therapies growth are a leading indicator for future growth in our Spine business, as customers choose to link future spine implant purchases with the capital equipment that they are acquiring. As we execute more of these contracts, we would expect our core spine implant sales to grow over the coming quarters.

In our Spine division, while results were flat this quarter – when combined with sales of our capital equipment used in Spine surgery – which is the way many of our competitors report their results – our Spine division grew 4.6%, including 5.4% growth in U.S. Core Spine.

In Pain Therapies, our performance was driven by high-single digit growth in Spinal Cord Stim, as the market continues to appreciate the differentiation of Intellis™, with its Evolve™ workflow algorithm and Snapshot™ reporting.
Our Diabetes Group grew 6.5% this quarter. As expected, the group is facing difficult year-over-year comparisons on U.S. pump sales in the back half of this fiscal year. Despite this, we grew 5% sequentially from Q2, including high-single digit sequential growth in insulin pumps, specifically. Our performance outside the U.S. was especially strong, with Western Europe, Latin America, and China growing 25%, 17%, and 16%, respectively.

CGM as a category grew over 30% this quarter, with over 60% growth in Western Europe. Our recently launched stand-alone CGM system, the Guardian® Connect, posted its third consecutive quarter of triple digit growth.

Our Cardiac & Vascular Group grew 1.6% this quarter, in-line with the revised forecast we provided in early January, with mid-single digit growth in both CSH and APV divisions. Coronary & Structural Heart had another strong quarter in transcatheter valves, with 16% TAVR growth in the U.S. and 15% in international markets. We are seeing solid momentum and share gains in the U.S. and in other global markets because of the clinical performance characteristics of our Evolut® Pro valve, and we are the market leader in many regions around the world, including Western Europe.

In Aortic, Peripheral, and Venous, growth was driven by the continued launch of the Valiant Navion™ thoracic stent graft system, as well as mid-teens growth in both VenaSeal™ vein closure systems and IN.PACT® Admiral® drug-coated balloons.

In Cardiac Rhythm & Heart Failure, we had mid-single digit growth in pacemakers on the strength of our Micra® transcatheter pacing system and Azure™ wireless pacemaker. This was offset by mid-teens declines in Heart Failure, primarily due to a mid-forties decline in LVADs, as a result of market share loss and heart transplant guideline changes.

AF Solutions grew in the mid-teens, driven by continued growth in Cryoballoons. We also announced the acquisition of EPIX Therapeutics. EPIX is developing what we believe is a highly differentiated technology for the over $3 billion focal catheter segment of the ablation market. When combined with our leading Cryoballoon technology, EPIX provides us with a complete portfolio of best-in-class AF ablation catheter technology.

It’s worth noting that CVG’s Services & Solutions faced a number of comparison headwinds, including a revenue recognition change that started in the second quarter, a large order from the U.S. Department of Veterans Affairs in Q3 of last year, and the exit of a product line in Q1 this fiscal year. Excluding Services & Solutions, CVG’s growth would have been 110 basis points higher and CRHF’s growth would have been 180 basis points higher.

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Now, turning to Emerging Markets. Our performance continues to be strong, growing 14% this quarter, and now representing 16% of Medtronic revenue. Our strength was diversified across multiple geographies, with China growing 13%, South Asia by 23%, and the Middle East & Africa by 20%. In addition, Eastern Europe grew 12%, Southeast Asia 11%, and Latin America 9%. Our differentiated strategies of public and private partnerships and optimizing the distribution channel are paying off and making a real difference in emerging markets around the world.4

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In addition to our solid performance in the quarter, I remain excited about the unprecedented opportunities for growth that our pipeline presents. We are building upon leadership positions in several of the fastest growing markets in MedTech by intentionally allocating our capital to high growth markets and new opportunities. As we invest in these opportunities, we are doing much more than simply improving today’s products and therapies. We are disrupting existing markets and inventing new ones. And when we do this – when we successfully disrupt and invent markets – we distance ourselves from the competition and raise our weighted average market growth rate. All of this creates significant value – for patients, for physicians, for healthcare systems, and for our shareholders.

It’s worth highlighting some of the most exciting elements of our pipeline that we expect to bring to market in the near future.

In RTG, as I mentioned earlier, we are just launching the Mazor X Stealth™, our integrated robotics and navigation platform, which we expect to drive growth in our Neurosurgery business, along with creating demand for our Core Spine implants. In Neurovascular, we are now in limited market release of our 071 React™ catheter and continuing the launch of our Riptide™ aspiration system. We expect to launch our next generation Solitaire™ stent for ischemic stroke by the end of FY19. In FY20, we intend to launch our DBS primary cell device, with unique sensing capabilities, the first of a series of disruptive product launches planned in our DBS business.

In CVG, we are awaiting the presentation of two landmark clinical trials at the American College of Cardiology meeting on March 17th. The first is the interim results of our low-risk TAVR study, which has the potential to expand indications for our transcatheter valve therapy to the largest segment of the market. The second is the results of the WRAP-IT trial of our TYRX™ antibacterial envelope, which could enable guideline changes in cardiac rhythm implantables.

In FY20, we are expecting to launch our next-generation TAVR valve, the Evolut® Pro Plus, which features a lower profile and improved predictability of placement, for enhanced ease of use. We also expect to launch our next-generation insertable cardiac monitor, the Reveal LINQ™ 2.0, which will include Bluetooth connectivity, five-year battery longevity, and the ability to monitor additional physiological parameters.

In the second half of FY20, we are planning to launch new conventional ICD and CRT-D product families based on our Polaris high power technology platform, and we expect to receive a new drug-coated balloon indication in the U.S. for the AV Fistula market.

Finally, around year end FY20, we are expecting FDA approval for our Micra® AV transcatheter cardiac pacemaker, which would enable us to access and disrupt over 55% of the eligible pacemaker market, up from 16% today.

The pipeline at MITG is equally impressive. We are currently expanding into key specialty areas of our Tri-Staple™ technology, and we are launching our new Microstream™ Advanced capnography solutions for the Capnostream™ 35 portable respiratory monitor. We are also currently launching a next-generation Sonicision™ ultrasonic dissection system.

Regarding our robotic assisted surgery platform, we’re hitting key milestones and are on track for an expected launch in FY20. We have had several pre-submission meetings with regulatory bodies around the world, including the U.S. FDA. More than a hundred surgeons have used the system and...
provided us with very positive feedback. We’re also partnering with physician societies to develop guidelines for use of the platform. We believe this robotic assisted surgery platform, combined with our industry-leading surgical instruments and surgeon training centers around the world, will expand the market for minimally invasive surgery.

In Diabetes, we are continuing the introduction of the 670G into new geographies around the world. In FY20, we expect to launch our Advanced Hybrid Closed-Loop System with Bluetooth, which we are calling the MiniMed™ 780G. The 780G will feature next-generation algorithms designed to improve time-in-range to over 80% by automating insulin delivery following a snack or a meal. In addition, the system will reduce the burden of carb counting and enable remote monitoring and remote software downloads. We also expect to submit our application for non-adjunctive designation for our Guardian® Sensor 3 in the next few months.

So, we expect the next five quarters or so to be very exciting, as we bring these innovative pipeline products to market. However, I am equally excited about our longer-term pipeline.

- In CVG, we are developing several technologies that will create large and important new markets, including the Intrepid™ transcatheter mitral valve replacement system and the Symplicity Spyral™ renal denervation system for hypertension. We also expect to disrupt existing markets with our pulsed field ablation technology for AF, and the extravascular ICD. When launched, all of these new products are expected to create multiple, new multi-billion-dollar growth opportunities.

- In RTG, we are developing InterStim™ Micro, a 3cc sacral nerve microstimulator for bladder control with full body MRI compatibility. In DBS, we expect to build on our sensing technology to develop a closed-loop deep brain stimulation system. In addition, we are planning to introduce a cranial mounted DBS system, leveraging our differentiated miniaturization and battery technology. I am really excited about our plans to disrupt the deep brain stimulation market with this series of new products and make a real impact to patients.

- In MITG, we continue to develop disruptive products for these markets, too, with our portable hemodialysis system, as well as a next-generation capsule endoscopy product, called PillCam™ Genius. Overall, we expect to launch more than 90 products over the next 5 years in MITG.

- In Diabetes, I hope you saw our announcement this morning that the FDA has granted “Breakthrough Device” designation to our Personalized Closed-Loop System. This system will feature real-time personalized algorithms that are designed to automate insulin delivery on a personalized basis that continuously adapts to the user. The system will also provide insights and predictive diagnostics unique to the individual, all of which will dramatically simplify diabetes management for the patient. In addition to this product, we are also advancing our CGM sensor pipeline by reducing the need for calibration and making the sensors smaller and longer lasting, all while using cognitive computing to enhance personalized insights.

Of course, our pipeline is deeper than the few highlights I’ve mentioned today. But the key takeaway is that we’re executing well on the strongest and most exciting pipeline in Medtronic’s near 70 year history.6
Let me now ask Karen to take you through a discussion of our third quarter financials. Karen?

Karen Parkhill
Thank you, Omar.

Our third quarter revenue of 7 billion, 546 million dollars represented organic growth of 4.4 percent. Foreign currency had a negative 149 million dollar impact. And, adjusted diluted earnings per share was one dollar and 29 cents and grew 10.3 percent.

Adjusted operating margin was 29.2 percent, increasing 140 basis points in the quarter and 120 basis points through the first 9 months of the year, including a tailwind from currency. We continue to drive underlying operating margin improvement, as we execute on our company-wide Enterprise Excellence program, driving improved efficiency, cost savings, and generating leverage on solid sales growth. As a result, our SG&A this quarter improved by 70 basis points.

Our adjusted nominal tax rate was 13.4 percent, which was better-than-expected due to the increased benefits associated with the finalization of taxes owed on certain returns. For fiscal 19, we expect our tax rate to be in the range of 13.5 to 14 percent, including the non-recurring tax benefits that we have received year-to-date. Excluding those benefits, our full year adjusted nominal tax rate would be approximately 15 percent. And, with the addition of changes associated with U.S. tax reform, we continue to expect a tax rate of 16-17 percent in fiscal year 20.

Third quarter free cash flow was 1.8 billion dollars. Improving cash generation is a priority for all of us at Medtronic, from the top of the company on down, and you have seen the results of our increased focus on cash flow in our performance over the last several quarters.

We remain committed to disciplined capital deployment, balancing reinvestment with returning a minimum of 50 percent of our annual free cash flow to our shareholders. Year-to-date, we have returned 3.9 billion dollars to shareholders, including 1.8 billion dollars of net share repurchases, resulting in a total shareholder payout of 77 percent on adjusted net income. We also remain focused on increasing our return on invested capital through strong execution with our disciplined investment process around R&D and tuck-in acquisitions, including three we recently announced – Mazor, Nutrino, and EPIX. We believe that this focus, combined with our strong and growing dividend, can create long-term value for our shareholders.

Before turning the call back to Omar, I would like to update our guidance.

For fiscal year 19, we are raising our organic revenue growth guidance to 5.25 to 5.5 percent, which is the top half of our prior range. This reflects continued strength in MITG and RTG, offsetting the second half headwinds in CVG and difficult comparisons in Diabetes. For the year, we now expect RTG to grow 5.5 to 6 percent, up from 5 to 5.5 percent, and MITG to grow 5.5 percent, plus or minus, up from 5 percent, plus or minus. We continue to expect CVG to grow 3 to 3.5 percent, and Diabetes to grow in the low-to-mid teens.

For the fourth quarter, we would expect growth for MITG and RTG to be between 3.5 and 4 percent, for CVG to look similar to the third quarter, and for Diabetes to look roughly flat year-over-year. I would highlight that our expected fourth quarter growth for Diabetes is a bit of an anomaly given the prior year comparison when we were able to finally clear our large backlog for 670G and sensor orders. And, on two-year stacked basis, the fourth quarter growth from Diabetes
should look more normal. Most importantly, as we move into next year, we believe fourth quarter growth represents a likely bottom, and, as such, would expect growth to improve for both Diabetes and the company.

Turning to margins, we continue to forecast 50 basis points of full year underlying operating margin expansion, as we deliver to more than absorb the impact from product mix headwinds, China tariffs, and the dilution from the Mazor acquisition.

With respect to earnings, given our operational performance through three quarters, including our ability to offset the headwinds I’ve just mentioned, we are increasing our fiscal year 19 adjusted EPS guidance to $5.14-5.16, up from $5.10-5.15.

While the impact from currency is fluid, if recent exchange rates hold, our full year revenue would be negatively affected by approximately 425 to 475 million dollars. And, despite the headwind on the topline, given the benefit of our hedging program, FX is expected to be a modest positive to fiscal 19 operating margin, earnings, and free cash flow.

Finally, on the heels of strong free cash flow performance over the last nine months, we are increasing our expected fiscal 19 range to 5 to 5.2 billion dollars, up from 4.7 to 5.1 billion dollars. And, in fiscal year 20, we expect to make additional progress on improving our conversion of non-GAAP earnings into free cash flow as we continue to drive increased focus across the organization.

Now I will return the call back to Omar.

**Omar Ishrak**

Thanks, Karen. Before we go to Q&A, I want to take a moment to thank all of our employees around the world for executing to deliver another strong quarter and fulfilling the Medtronic Mission.

As I mentioned at the start, this was another solid quarter, where we delivered the top-line, along with strong adjusted operating profit and EPS growth. You are also seeing our ability to generate strong free cash flow. This is important as it enables us to both reinvest and return to our shareholders. As a reminder, we continue to allocate our capital to our biggest growth opportunities as we focus on driving our WAMGR, our weighted average market growth rate, upwards and to the right.

Our investments are resulting in a pipeline of numerous growth opportunities that has never been stronger. We expect to develop and bring to market innovations that will improve the lives of millions of people around the world, help healthcare systems become more efficient, and ultimately, grow the intrinsic value of Medtronic. And when we do this, we expect our shareholders will benefit as well.

We know there is much work to be done, but I am excited about where Medtronic is headed.

With that, let’s now move to Q&A. In addition to Karen, our four group presidents, Mike Coyle, Bob White, Geoff Martha, and Hooman Hakami, are also here to answer your questions. We want to try 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:

Omar Ishrak
OK. Thanks for your questions. On behalf of our entire management team, I would like to thank you again for your continued support and interest in Medtronic. We look forward to updating you on our progress and the results of our full year on our Q4 earnings call, which we currently anticipate holding on Thursday, May 23rd. Thank you.