Ryan Weispfenning
Good morning and welcome to Medtronic’s fiscal year 2022 first 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 Chairman and Chief Executive Officer and Karen Parkhill, Medtronic Chief Financial Officer. Geoff and Karen will provide comments on the results of our first quarter, which ended on July 30, 2021, and our outlook for the remainder of our fiscal year. After our prepared remarks, our Portfolio Executive VPs will join us, and 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 summaries. We also posted an earnings presentation that provides additional details on our performance. The presentation can be accessed in 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 revenue comparisons are made on an organic basis. First quarter organic revenue comparisons adjust only for foreign currency, as there were no acquisitions or divestitures made in the last four quarters that had a significant impact on total company or individual segment quarterly revenue growth.

- References to sequential revenue changes compare to the fourth quarter of fiscal 21 and are made on an “as reported” basis, and all references to share gains or losses refer to revenue share in the second calendar quarter of 2021, unless otherwise stated.

- Reconciliations of all non-GAAP financial measures can be found in our earnings press release or on our website at InvestorRelations.Medtronic.com.

- And 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, let’s head into the studio and get started.
Geoff Martha:
Introduction and Key Messages
Hello everyone and thank you for joining us today. We started off fiscal 2022 with a strong first quarter, beating Street estimates on revenue, margins, and EPS. We drove market share gains across a number of our businesses, including three of our largest: Cardiac Rhythm, Surgical Innovations, and Spine.

Our results reflected the recovery of elective procedures during the quarter, with most of our businesses finishing at or above pre-COVID levels. Now while the Delta variant is having an impact on procedure volumes in certain geographies, we believe the effects will be manageable. Healthcare systems are really just better prepared and vaccination rates continue to increase.

Our new operating model and “Medtronic Mindset” culture enhancements are delivering results, as our first quarter performance demonstrates. Our employees are energized by the transformation of our organizational structure and the competitive culture. And our most recent employee engagement survey results were the strongest that we’ve ever had.

We continue to focus on accelerating and sustaining higher top- and bottom-line growth at Medtronic. In fact, we’ve already made a number of disciplined and targeted capital allocation decisions that drive that acceleration. We’ve increased our investments at the front end of major product launches in surgical robots and renal denervation, which represent large, new markets for Medtronic. We’re growing our R&D investments broadly across the company, complementing a long list of organic opportunities with disciplined tuck-in acquisitions, such as our recently announced intent to acquire Intersect ENT. Now we expect these actions to drive share gains in our markets today – which we’ve talked a lot about – and to increase our weighted average market growth rate, producing stronger returns for our shareholders.

Q1 Market Share Discussion – Share Gains
Now, turning to the details of our first quarter results – we’ll start again with a brief look at our market share performance. It’s an important metric that our teams are being evaluated against, along with revenue growth, profit, and free cash flow. We continued to see a number of our businesses winning share, driven by our innovation and increased competitiveness. And it’s worth noting that when we talk about our share dynamics, we’re referring to revenue share in calendar quarter Q2.

We gained share in our three largest businesses this quarter. Our Cardiac Rhythm Management business continued to perform well above the market, adding over 3 points of share, driven by our differentiated Micra™ family of pacemakers, Cobalt™ and Crome™ high power devices, and our TYRX™ antibacterial envelopes. In Surgical Innovations, we gained share as our endostapling and advanced energy technology continues to be the preferred and trusted instruments used by surgeons all around the world. And in Spine, the ecosystem that we offer of spine implants, biologics, and enabling technologies like the pre-operative planning software, robotics, imaging, and navigation, resulted in above market growth for Medtronic.
And it’s not just our largest businesses that are winning share. We also had share gains in some of our faster growing businesses, like TAVR, Pelvic Health, and Pain Stim, as new evidence, technology, and sales execution resulted in Medtronic outpacing our competition.

In Pain Stim, we did observe a gradual slowdown in permanent implants and trialing procedures in the latter parts of our quarter due to the Delta variant, and we do expect that this will affect the market during Q2. That said, we continued to win share and have a lot of momentum in our Intellis™ with DTM technology. And, with the launch of the Vanta™ recharge-free system, our portfolio is complete, highly competitive, and well positioned.

Q1 Market Share Discussion – Share Losses
Now while we’re winning share in a number of businesses, we still have areas where we have work to do. In Cardiovascular, we continued to lose share in our Cardiac Diagnostics business. However, we do expect these trends will reverse over the course of our fiscal year as we ramp up supply of our LINQ II™ insertable cardiac monitoring system.

Now we also lost share year-over-year in Neurovascular, but we were pleased with our momentum as we ramped our recent product launches. This included our two new flow diverters – the Pipeline™ Flex with Shield Technology™ in the US and the Pipeline™ Vantage in Europe – as well as our Solitaire™ X 3-millimeter stent retriever.

And finally, in Diabetes, we continue to execute our turnaround strategy, but as expected, we continued to lose share in the US as we wait for new product approvals. We understand the current challenges we face in Diabetes, and we believe our product pipeline and our differentiated technologies will return us to market growth as these products move through development, approval, and ultimately become available to patients.

Pipeline Discussion
Now speaking of new products, let’s now turn to our product pipeline. Today, you’re seeing the strong flow of new products launching across our businesses. We’ve launched over 190 products in the US, Western Europe, Japan, and China in just the last 12 months. We also continue to advance the innovation we have in development. We’re increasing our R&D spend by more than 10% this fiscal year. This is the biggest dollar increase in R&D spend in our company’s history. The investments we’re making in our pipeline will play a key role in accelerating our top line growth, and we’re at the front end of some large opportunities to win share, create new markets, and disrupt existing markets.

Starting with one of our largest future growth drivers, Renal Denervation: we’re making good progress on our solution to go after this multi-billion dollar hypertension opportunity. We expect that the results of our ON MED pivotal trial will be ready for presentation at the TCT conference in November, assuming the interim look at this Bayesian-designed study reaches statistical significance. The ON MED clinical trial represents the final piece of a large body of evidence that we intend to submit to the FDA for approval.
The progress in our Surgical Robotics business has been impressive in recent months, and we have momentum on a number of important milestones and initiatives. But most notable – and something that has energized our entire company and the Robotics team – the first procedures with Hugo were performed at Clinica Santa Maria in Chile by Dr. Ruben Olivares in June. And, as is said, a picture is worth a thousand words... so let’s watch this short clip detailing this important milestone.

It’s truly amazing to see our robotic technology in use, and I want to thank the hundreds of Medtronic employees that have worked tirelessly over many years, as well as the surgeon and hospital leaders whose partnership helped make Hugo a reality. We look forward to expanding the surgical robotics market by addressing the per procedure cost and utilization barriers that have limited robotic surgery to date.

And shortly after the first urological procedures in Chile, we had the first gynecological procedures performed last month at the Pacifica Salud Hospital in Panama. We’re receiving positive feedback from our early users for our approach to robotic surgery, including our thoughtful design choices. For example – as you can see by this picture – our open console design allows for natural interaction and participation of the entire surgical team, and it’s just one of the many important, differentiated features of Hugo.

Looking ahead, we remain on track for CE Mark approval of Hugo following our submission in late March. And we continue to make progress toward starting our US Expand URO pivotal trial, where the first procedures in the US will occur. Around the globe, a number of hospital systems have expressed interest in our “Partners in Possibility Program,” joining a group of pioneering hospitals that will be among the first to use Hugo.

In Cardiac Rhythm, we filed for CE Mark for our Extravascular ICD this quarter, and enrollment is going well in our US pivotal trial. EV ICD represents a disruptive technology in the implantable defibrillator space, as it can pace and shock without leads inside the heart. And it can do all this in a single device, with the same size and longevity of a traditional ICD.

In TAVR, we continue to advance our Evolut™ platform, and I am pleased to share with you the news today that we received FDA approval just last week for our next-generation Evolut™ FX TAVR system. Now this innovative system is designed to improve the overall procedural experience through enhancements in deliverability, implant visibility, and deployment stability. We’re planning to start rolling out this next gen system in the US market later this fall.

In Neuromodulation, in addition to receiving FDA approval in the quarter for our Vanta™ recharge free spinal cord stimulator, we also received FDA approval for our SenSight™ directional deep brain stimulation lead. Now SenSight, combined with our recently approved Percept™ PC system, is the only DBS system on the market that can sense and record brain activity, in addition to providing normal stimulation to treat diseases like Parkinson’s and essential tremor. We also remain on track to submit our ECAPS spinal cord stimulator to the FDA later this calendar year, which has the potential to be a disruptive technology in Pain Stim.
Now moving to our Pelvic Health business. As you know, we don’t reveal all development programs underway at Medtronic for competitive reasons. But I’m going to unveil a new one today. We’ve been working in stealth mode on our next-gen InterStim™ recharge-free device, and earlier this month, we submitted our PMA supplement to the US FDA seeking approval. Now this device has some very attractive specs: it’s designed with a 10-year battery, it’s got constant current, and it’s full body MRI compatible at both 1.5 and 3 Tesla. We’re expecting approval in the first half of next calendar year, and we can’t wait to have this best-in-class, recharge-free device available for patients.

In Diabetes, the international launch of our MiniMed™ 780G insulin pump continues to go well. The 780G has the highest reported time-in-range of any insulin pump. And starting this fall, people with Diabetes in many international markets will not only have access to the 780G, but also our no calibration, 7-day Guardian™ 4 sensor, and our 7-day Extended infusion set, the longest lasting set on the market. This complete offering will be highly differentiated and ease patient burden, and we’re working to bring this technology to other markets. In the US, the 780G and Guardian 4 sensor continue to be under active review with the FDA. And, we’re expecting to submit our next-generation Synergy CGM sensor to the FDA in Q3. Synergy is disposable, easier to apply, and half the size of our current sensor.

Karen Parkhill
Q1 Financial Recap
Thank you, Geoff.

Our first quarter organic revenue increased 19%. And adjusted EPS increased 127%, significant growth as we anniversary the downturn from the pandemic impact last year. Our end markets are recovering, and we continue to launch new technology and gain market share, which is reflected in our growth and profitability. Our adjusted EPS was 9 cents better than consensus, with the entire beat coming from higher revenue growth and operating profit.

As I noted on our last earnings call, we did not adjust our first quarter results for the extra week of sales last year, given the concurrent reduction of customer bulk purchases, as these two items roughly offset each other at the total company level. That said, not all areas of the company had large quarter-end customer bulk purchase activity. Diabetes for example. As a result, I would point out that our Diabetes growth rate would be roughly 6 points higher in the first quarter, had we adjusted for the extra week.

On our cadence of recovery, the monthly improvement trends continued. Average daily sales in June were stronger than May, and July was stronger than June. That said, we did begin to see a slowdown in certain businesses in the last few weeks of July related to the spread of the Delta variant in the United States. If not for the COVID impact in July, our first quarter performance would have been even stronger.
Turning to our P&L, we saw significant, year-over-year improvement in our margins, 670 basis points on gross margin and over one thousand basis points on operating margin. Our operating margin was better than expected, as investments we initiated in the first quarter took longer to ramp, but are expected to pick up starting in the second quarter.

Turning to capital allocation, we continue to balance our investment for future growth while returning cash to our shareholders, primarily through our strong and growing dividend. As we’ve noted for several quarters, we are increasing our level of tuck-in acquisitions, having announced 7 for a total of $2.3 billion since the start of fiscal 21. Less than three weeks ago, we announced our intent to acquire Intersect ENT. Our ENT business has quietly been a strong performer for us, led by a great team with a track record of consistently outperforming the market. With the addition of Intersect’s complementary products, we can accelerate the growth profile of this business for years to come. The deal is accretive to our weighted average market growth rate, initially neutral but quickly accretive to earnings, and has expected returns well ahead of our cost of capital.

**FY22 and Q2 Guidance**

Now, turning to our guidance.

As you know, it is still early in our fiscal year. We had a strong first quarter, and despite the current impact from COVID, we are optimistic about the outlook for year. Given how early it is in the year, we are maintaining our revenue guidance for the full year at 9%, plus or minus. If recent exchange rates hold, foreign currency would have a positive impact on full year revenue of 100-200 million dollars, down from the prior 400-500 million I gave last quarter. By segment, we continue to expect Cardiovascular and Neuroscience to grow 10-11%, Medical Surgical to now grow 8-9%, and Diabetes to be roughly flat, all on an organic basis.

On the bottom line, we are raising the lower end of our guidance by our first quarter beat, offset by a lower expected benefit from FX. We now expect non-GAAP diluted EPS in the range of $5.65-5.75, an increase from our prior range of $5.60-$5.75. This includes a currency benefit of 5-10 cents at recent rates, down from the 10-15 cent benefit we signaled last quarter.

Our second quarter is likely to reflect the current impacts from COVID, particularly in a handful of businesses in Cardiovascular and Neuroscience. So, we expect organic growth in the quarter of around 4% with a currency tailwind of zero to 50 million dollars at recent rates. Keep in mind that we are facing a particularly tough comp in our ventilator business, which peaked in the second quarter last year. Ex-ventilator sales, we expect organic growth in the quarter around 6%. By segment, we expect Cardiovascular to grow 5-6%, Neuroscience 6-7%, and both Medical Surgical and Diabetes to be flat to up 1%, all on an organic basis. Excluding ventilator sales, Medical Surgical is expected to grow 8-9%. We expect EPS between $1.28 and $1.30 with a current tailwind of about 4 cents at recent rates.

As previously mentioned, we do believe the near-term COVID impact to our business will be relatively less severe than prior waves, given hospital preparedness and increasing vaccination
rates around the globe. That said, to be conservative, our guidance does not assume that procedures cancelled in the near term will be rescheduled. So, to the extent these procedures are simply delayed, that should be upside. We are confident as ever in the strength of our underlying business, our execution, and the impact of our new products. We saw that in the first quarter. And, as we move past the current impact of COVID, we feel really good about our underlying strength for the rest of the year.

Before I send it back to Geoff, I’d like to step back and acknowledge how much our employees have accomplished over the last year since the pandemic started. And our results this past quarter reflect that unwavering focus by our global team to drive our business and fulfill our Mission. And for that, I’m incredibly proud.

Back to you, Geoff.

**Geoff Martha**  
Closing Remarks

OK, thanks Karen. Next, I’d like to cover a couple of ESG-related topics: Inclusion, Diversity, and Equity, as well as Product Quality.

First, Inclusion, Diversity, and Equity, something that is personally important to me, and important to our success at Medtronic. Now we best fulfill our Mission when we have a workplace where ID&E – for of all our employees – is championed. While we know there is much to be done, we’ve made a lot of progress, and this is being recognized by others. I mentioned our Diversity Inc award last quarter, and we were recently recognized by several other organizations for our innovative and inclusive work environment. We were named as one of Fast Company’s Best Workplaces for Innovators in 2021; as a best place to work for disability inclusion by the Disability Equality Index; and, we were one of the 15 companies awarded the Secretary of Defense Freedom Award, for our efforts to support our military veteran employees.

Next, I want to emphasize our continued focus on Product Quality. Striving without reserve for the greatest possible reliability and quality in our products is a key tenet of the Medtronic Mission, and core to our commitment to improved outcomes for patients. In fact, there is nothing more important than patient safety. In Q1, we made the decision to stop HVAD sales. We did this because of a growing body of clinical comparisons indicating that our device had a higher frequency of adverse events than a competitor’s product. This decision was consistent with our commitment to patient safety. Importantly, we remain committed to supporting current HVAD patients, their caregivers, and healthcare professionals.

At Medtronic, we have a purpose, deeply rooted in our Mission. And our employees translate this Mission into tangible, day-to-day actions, which in turn create an impact in our society. When I reflect on Product Quality and ID&E, we’ve made progress, but there’s always room for improvement. One step is ensuring that we have the right incentives in place to drive the actions that will elevate our impact. Our board and executive leadership have been evaluating our annual incentive plans. And as a result of this, we’re planning to further strengthen our
existing quality metrics. And, we intend to introduce new ID&E metrics into our incentive plans. These will help guide our plans and drive our work on a daily basis, and ultimately, hold us accountable to translate our actions into even greater impact.

For those of you that would like to learn more about our ESG efforts underway at Medtronic, I encourage you to save-the-date to virtually attend our first ever ESG Investor and Analyst Event, which we’re planning to broadcast on Wednesday, October 13th. You’re going to hear from leaders from across Medtronic covering important topics, including Inclusion, Diversity, and Equity, and Product Quality & Safety.

And I’ll close by noting that we are on track to accelerate our revenue growth, we are executing on our pipeline, and we are winning share in the marketplace with our leading technology. And we have some really big opportunities ahead of us, with near-term milestones in both renal denervation and surgical robotics businesses. And the energy across the organization is palpable… as we operate under a new model and instill our new cultural traits, including acting boldly, competing to win, moving with speed and decisiveness in everything that we do, and getting results, and getting them the right way.

And to our employees, many of whom I’m sure are watching today, thank you! I truly appreciate your efforts to deliver these results. Look, these are exciting times, and I’m really looking forward to all that we are going to accomplish over the coming months.

Momentum is building, and we’re creating value... and there is a lot more to come.

With that, let’s now move to Q&A. Now we are going to try to get to as many analysts as possible, so we ask that you limit yourself to just one question. If you have additional questions, you can reach out to Ryan and the Investor Relations team after the call.

With that, Francesca, can you please give the instructions for asking a question?

Francesca DeMartino
For the sellside analysts that would like to ask a question, please select the “Participants” button and click “Raise Hand.” If you’re using the mobile app, press the “More” button and select “Raise Hand.” Your lines are currently on mute. When called upon, you will receive a request to unmute your line, which you must respond to before asking your question. Lastly, please be advised that this Q&A session is being recorded.

For today’s session, Geoff, Karen, and Ryan are joined by:
- Sean Salmon, EVP and President of the Cardiovascular Portfolio and the Diabetes Operating Unit;
- Bob White, EVP and President of the Medical Surgical Portfolio; and
- Brett Wall, EVP and President of the Neuroscience Portfolio
Following Q&A:

Ryan Weispfenning
Thanks. Geoff, please go ahead with your closing remarks.

Geoff Martha
OK. Thanks for the questions. We appreciate your support and continued interest in Medtronic. We hope you’ll join us for our Q2 earnings webcast – which we anticipate holding on November 23rd – where we’ll update you on our progress. So, with that, thanks for watching today, please stay healthy and safe, and have a great rest of your day. Thank you.