Ryan Weispfenning

Good morning. I’m Ryan Weispfenning, Vice President and Head of Medtronic Investor Relations, and I appreciate that you’re joining us today for Medtronic’s fiscal year 2022 fourth quarter earnings video webcast.

Before we go inside to hear our prepared remarks, I’ll share a few details 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 fourth quarter and fiscal year 2022, which ended on April 29, 2022, and our outlook for fiscal year ’23. 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 program 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 program, 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, which this quarter includes only adjustments 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 third quarter of fiscal 22 and are made on an “as reported” basis, and all references to share gains or losses refer to revenue share in the first calendar quarter of 2022 compared to first 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. This morning we reported our Q4 results. Now there were parts of the quarter that played out as anticipated, and there were also some unexpected challenges, more than I would have liked, which caused us to come up short of our expectations. As we anticipated, procedure volumes in most of our markets reached pre-COVID levels by the end of the quarter. We also executed and delivered on recent product launches. However, we faced challenges related to supply chain and China that impacted some of our businesses and were the largest contributors to our shortfall. Now I’ll get into more detail on these challenges shortly, but you should take away that we understand the root causes and we are well down the path to addressing them. And to be prudent, however, we’ve assumed that these challenges will persist for the next quarter or two in the guidance that Karen’s going to walk you through shortly.

What Happened
So, let’s first focus on what happened this quarter. The shortfall to our revenue guidance was primarily due to two factors: China, where the extended COVID lockdowns affected our results in the quarter, particularly in April. And global supply chain challenges.
Over the past few quarters, global supply chain challenges have impacted many of our businesses. And as they arise, our teams have worked quickly to resolve them, and prior to this quarter, we had largely mitigated their financial impact. However, this quarter, one of our largest businesses, Surgical Innovations, was adversely affected by certain raw material shortages. And this resulted in large backorders and caused our SI revenue to come in well below our expectations. Several of our other businesses also faced supply challenges in the quarter, but to a lesser extent.

Now we’re down the path of improving our supply chain capabilities. We’re leveraging the expertise that Greg Smith, our new global ops and supply chain leader, brings from the retail, consumer product, and automotive industries. Greg and his team are making progress addressing areas where we can improve, including the management and resiliency of our critical suppliers and manufacturing network. The recent stress of these global supply chain issues has further illuminated the need for the enhancements. We have a new global structure in place that consolidates operations and supply chain functions, which were previously fragmented throughout the organization. Now this is a big move for us, and there is still a lot of work to be done, but I am confident we will come out of this with a more resilient end-to-end global supply chain that we believe will be a competitive advantage in our industry.

While some of our Q4 challenges will persist in the near term, we expect strong improvement in the back half of our fiscal year, and we remain focused on delivering our long-term strategies. We’ve made significant changes over the past two years to position the company for accelerated and sustained innovation-driven growth. Our pipeline is robust and continues to advance, with a number of upcoming catalysts in fast-growing MedTech markets. We’re committed to creating strong returns for our shareholders, and we’re making progress with our enhanced portfolio management and our capital allocation processes. We’re investing in future growth drivers, while at the same time returning capital, primarily through our meaningful and growing dividend, which we just increased again today by 8%.

**Portfolio Management**

Regarding portfolio management, we are continuing to advance the robust process we began talking about earlier this year. And within that – and as a smaller initial step – we are pleased to announce that we’ve reached an agreement where we will contribute our Renal
Care Solutions business into a new company, which we will jointly own with DaVita. In return, we’ll receive up to 400 million dollars in value from them, and we expect this transaction will close in calendar 2023.

This new company is going to develop a broad suite of novel kidney care solutions, including home-based products. I’m excited about this for a couple of reasons. First, this business is going to have the focus that it needs. Second, DaVita is a global leader in kidney care and will be a great partner to commercialize and scale this innovative technology. And finally, both Medtronic and DaVita will participate in the expected upside.

Market Share
Now, turning to market share, product availability affected our performance in the quarter, with our overall company share down about half a point. On the bright side, even with our challenges, half of our businesses held or gained share. And as you know, market share is an important metric for us at Medtronic, as it is a driver of our annual variable compensation, along with revenue growth, profit, and free cash flow. While I won’t go through market share business-by-business in the interest of time, we will be happy to take questions in Q&A.

Pipeline Discussion
Now, let’s cover our product pipeline, where we’re advancing several meaningful technologies that can create new markets, disrupt existing ones, and accelerate the growth profile of Medtronic. We made great strides with our organic pipeline in fiscal ‘22, conducting over 300 clinical trials and receiving over 200 regulatory approvals in the US, Europe, Japan, and China. Our recent product launches are starting to make an impact across our businesses. And as we look ahead, we have increasing visibility to upcoming catalysts in the back half of the calendar year, that we expect will help accelerate our growth as we go through fiscal ’23 and beyond.

Starting with our Cardiovascular Portfolio and Cardiac Rhythm Management, recently launched leadless pacemakers - including our Micra™ AV in Japan and Micra™ VR in China - led to above market growth again this quarter. We just received approval for Micra™ AV in China earlier this month, and we expect geographic expansion to continue to drive strong Micra™ growth. In ICDs, we’re preparing to disrupt the single chamber market with our Aurora™ extravascular ICD. We continue to drive toward CE Mark approval for Aurora later
this calendar year, and US approval next year. With Micra™ and EV-ICD, we expect continued strength in CRM.

In Cardiac Ablation Solutions, we’ve been assembling a number of technologies to increase our impact in the $8 billion dollar EP ablation market, building on our leadership in cryoablation. We’re continuing the rollout of our DiamondTemp™ RF system and exclusive cryoablation first-line indication for paroxysmal AF. And we’re advancing our PulseSelect™ anatomical pulsed field ablation system, having fully enrolled our global pivotal trial. We’re also expecting to fill competitive gaps in Cardiac Ablation with our recent announcements to add a differentiated mapping and navigation system and left-heart access portfolio, including a transseptal access system that can perform both mechanical and RF crossings.

In renal denervation, data from our SPYRAL HTN-ON MED pilot study were presented last month at ACC and simultaneously published in *The Lancet*. These data demonstrated durable and clinically significant blood pressure reductions through three years. And last week, additional data were presented at EuroPCR, which showed those receiving RDN spent significantly more time in target blood pressure range, adding to our robust body of evidence. In Q4, we also announced that we completed enrollment in the full cohort of patients in the ON MED study, which we expect to complete the six-month follow-up in the second half of this calendar year. We’ll then look to present the data and submit for FDA approval, as ON MED is the final piece of our submission.

In Structural Heart, differentiated durability data for our TAVR valves were presented as a late-breaker at ACC last month. The data showed that our TAVR platform is the only one to outperform surgical valves in durability at 5 years as measured by SVD, or structural valve deterioration. And less SVD was associated with better clinical outcomes, including mortality and heart failure hospitalization. Additionally, durability data were presented from a separate UK registry, the first to look at TAVR data past 10 years. And it showed CoreValve had one-third the rate of structural valve deterioration compared to Sapien and Sapien XT. And data at EuroPCR last week reinforced our excellent clinical outcomes with our cusp overlap implant technique, including 1-day hospital discharge, single-digit pacemaker rates, and the absence of moderate or severe PVL.
In the quarter, we also continued to launch Evolut Pro+ in Europe, and began the launch of Evolut™ Pro in China, our first entry into this large and underpenetrated market. In the US, we’re planning to start the limited market release of our next-generation TAVR valve, Evolut™ FX, here in our first fiscal quarter, and move into full market release later in the fiscal year. We’re also looking to expand our TAVR indications. We had first enrollment earlier this month in our EXPAND TAVR II pivotal trial, evaluating our TAVR platform in patients with moderate, symptomatic aortic stenosis. Overall, TAVR represents a large growth driver for Medtronic, as we expect this roughly $5 and a half billion market to exceed $7 billion within the next 3 years and reach $10 billion in the next 5 years.

Moving to our Medical Surgical Portfolio and Surgical Robotics, we remain focused on the limited market release for our Hugo™ robot while we scale production. We completed Hugo installations in Denmark, France, and Italy. We also continue to increase our installed base of Touch Surgery™ Enterprise, our AI-powered surgical video and analytics platform.

In our Patient Monitoring business, we just received FDA clearance earlier this month for our next generation Nellcor™ OxySoft™ pulse ox sensor. Now this sensor includes a special silicone adhesive, designed to protect fragile skin while enhancing adherence. It’s low profile and brighter LEDs improve accuracy and responsiveness for the most challenging neonatal and adult critical care patients.

Now turning to our Neuroscience Portfolio and our Cranial & Spinal Technologies business, we’re seeing strong adoption of our UNiD™ AI-enabled surgical planning platform, with a mid-thirties sequential growth in our US user base. The ongoing launch of our Catalyft™ expandable titanium interbody system, and the rollout of our enabling technologies continues to differentiate us in Spine. Customer demand for our capital equipment remains strong, and we had record quarters for our Mazor™ robotic system and StealthStation™ navigation system.

In Neuromodulation, we’re building our commercial teams and have started the initial launch of our Intellis™ and Vanta™ spinal cord stimulators to treat Diabetic Peripheral Neuropathy. We believe DPN is one of the largest opportunities in MedTech, and we expect the market to reach $300 million by FY26, with an annual total addressable market of up to $2 billion. And we’re also excited about our Inceptiv™ ECAPS closed-loop spinal cord stimulator, which we
submitted to the FDA late last calendar year. We expect Inceptiv’s™ closed loop therapy, which optimizes pain relief for patients, to revolutionize the SCS market. In Brain Modulation, our ongoing launch of the Percept™ PC neurostimulator and Sensight™ directional leads is driving new implant share in both Europe and the US. And this is the only system that can stimulate and sense brain signals.

In Pelvic Health, we received FDA approval of our next-gen InterStim™ recharge-free device, InterStim X™, and that happened in the fourth quarter. InterStim X™ features our proprietary 5th generation battery chemistry that provides 10 to 15 years of battery life without the need to recharge.

And in ENT, we announced earlier this month that we had completed the acquisition of Intersect ENT. We’re excited to add their attractive, high growth, complementary products into our existing business. We believe we can grow Intersect’s products in the double digits over the next several years, as we expand use of both the Propel™ and Sinuva™ sinus implants globally.

In Diabetes, our MiniMed™ 780G insulin pump, combined with our Guardian™ 4 sensor, continues to be extremely well received in markets where it’s available. This system has a very positive user experience, with no fingersticks and more time in range. This is due to its near real-time basal insulin and auto correction boluses every 5 minutes to address underestimated carb counts and occasional missed meal doses. Very strong data on 780G and Guardian™ 4 were presented at ATTD last month showing improved time in range with less user interaction. Additional datasets on this differentiated system will be shared at ADA next month. And we also announced that Germany and France began reimbursement of our system in the quarter, which helped drive high-teens sequential international growth in Diabetes. In the US, we’ve made substantial progress in meeting our observation and warning letter commitments and continue to have regular communication with the FDA. In our CGM pipeline, we expect to submit our next-generation sensor, Simplera™, for CE Mark and FDA approval this summer. In addition, we’re advancing multiple next-gen sensor and pump programs, including patch pumps. We’re making considerable investments in our Diabetes pipeline, with line-of-sight to restoring strong growth in this business over the coming years.
And with that, I’ll turn it over to Karen to discuss our fourth quarter financial performance and our new guidance for the next fiscal year. Karen?

Karen Parkhill
Thank you, Geoff.

Q4 Financial Recap
Our fourth quarter organic revenue increased 1.4%, below our guidance and consensus. Compared to consensus, about 15% of the difference can be attributed to China given recent COVID shutdowns and slowing distributor purchases in Spine ahead of a potential national volume-based tender. About 10% of the difference is a result of changes in foreign exchange rates over the course of the quarter. The remaining difference, and the largest driver, is due to supply chain issues that Geoff discussed. Despite revenue coming in roughly $350 million less than we expected, we reduced the impact that this would have had on our bottom line, resulting in EPS of $1.52, four cents below our guidance range.

From a geographic perspective, our U.S. revenue declined 2%, non-US developed markets grew 4%, and our Emerging Markets grew 7%. Within Emerging Markets, China declined 10%, given the impact of the COVID lockdowns. But we had very strong growth in many other Emerging Markets, including high-teens growth in Eastern Europe, low-twenties growth in Latin America, low-thirties growth in the Middle East & Africa, and mid-thirties growth in South Asia. In fact, excluding China, Emerging Markets grew in the low-twenties.

Turning to our margins, our fourth quarter adjusted gross margin improved by 30 basis points year-over-year, driven by product mix, with lower sales of ventilators and higher sales of products like Micra. While we were impacted by inflation with increased freight expense, it’s worth noting that the full impact from inflation on raw material and direct labor cost will be realized over the next couple of quarters, as our inventory rolls off our balance sheet, negatively affecting our gross margin. Moving down the P&L, we also drove additional and continued improvement in our adjusted operating margin, which increased by 40 basis points excluding the benefit from currency.

We also ended the year with free cash flow at $6 billion, representing year-over-year growth of 22% and meeting our goal of 80% conversion from adjusted net income.
Our balance sheet remains strong, and we continue to allocate our capital to investments that we expect will generate solid future growth and shareholder returns. We’re investing heavily in R&D, with programs especially targeted for faster growing MedTech markets or where we have an opportunity to create new markets. We’re also using our balance sheet to complement our innovation-driven growth strategy with tuck-in M&A, utilizing our very active Capital Committee process that was developed as a part of our new operating model. In fiscal ’22, we announced 4 acquisitions totaling over $2.1 billion in total consideration. As Geoff mentioned, we closed on our acquisition of Intersect ENT earlier this month and also announced our intent to acquire a left-heart access portfolio last month. At the same time, we’re investing in promising earlier stage ventures to keep our fingers on the pulse of new products and technologies – incubated by companies that one day could become future acquisitions.

We’re also actively providing strong return to our shareholders, returning $5.5 billion in fiscal ’22 through our dividend and net share repurchase. And, this morning, we announced that we are increasing our dividend by 8%, reflecting the confidence we and our board have in our financial strength and future earnings power. We are an S&P Dividend Aristocrat, having increased our dividend for 45 years now, and our dividend is an important component of the total return we generate for our shareholders. This past year we paid $3.4 billion in dividends. And we’re supplementing that through opportunistic share repurchase, particularly in periods where we see share price dislocation. In fact, we repurchased over $2.5 billion of our stock in fiscal ’22, including $1.4 billion in the fourth quarter.

**FY23 & Q1 Guidance**

Now, turning to our guidance and starting with revenue...

We continue to expect our recent launches and product pipeline to make a difference in many of our businesses, and Geoff covered many of them earlier.

We expect organic revenue growth in fiscal ’23 of 4 to 5%. While the impact of currency is fluid, if recent exchange rates hold, foreign currency would have a negative impact on full year revenue of $1.0 to $1.1 billion. By segment, we expect Cardiovascular to grow 5.5-6.5%, Medical Surgical to grow 3.5-4.5%, Neuroscience to grow 5-6%, and Diabetes to
decline 6-7%, all on an organic basis. While we are hopeful that we can receive approval for 780G and Guardian 4 sensor in the United States, we’ve elected not to include it in our guidance.

In the first quarter, we would have you model organic revenue to decline in the range of 4.5 to 5.5%, which conservatively assumes no near-term improvement in our supply chain and no major change to underlying fundamentals. Assuming recent exchange rates hold, the first quarter would have a currency headwind between 350 and 400 million dollars. By segment, we expect Cardiovascular to decline 1-2%, Medical Surgical to decline 7.5-8.5%, Neuroscience to be down 5-6%, and Diabetes down 8-10%, all on an organic basis.

Moving down the P&L, I provided early color for fiscal ’23 on the last quarterly earnings call, where I talked about the expected impact of inflation, wages, acquisition dilution, and foreign exchange headwinds. These still hold, but we’ve also seen environmental changes since late February. Inflation and foreign exchange rates have become larger headwinds, and we’re now factoring in continued supply chain challenges early in the year.

Inflation and FX pressures also create near-term challenges on our margins, although we continue to look for opportunities to offset them. At the same time, we continue to prioritize our long-term investments in organic R&D, with a focus on large opportunities in future growth markets, like renal denervation, robotics, diabetic peripheral neuropathy, and transcatheter mitral valves.

Taking this all into account, on the bottom line, we expect non-GAAP diluted EPS in the range of $5.53 - $5.65 in fiscal ’23, which includes an unfavorable impact of 20-25 cents from currency at recent rates. For the first quarter, we expect EPS of $1.10 to $1.14, including an FX headwind of about 5 cents at current rates.

Before I send it back to Geoff, I want to thank our employees around the globe, who are working hard to overcome the macro challenges we face. Thanks for all you do to fulfill our Mission every day.

Back to you, Geoff.
Geoff Martha

Thank you, Karen.

Closing Remarks

While we spent a lot of time covering the fourth quarter, it’s worth briefly reflecting on what we’ve accomplished in fiscal ’22. It’s certainly been a difficult environment, and our organization has enacted big changes in such a short period of time and under unique circumstances to better position the company. It was our first full year in the new operating model, and with our enhanced Medtronic Mindset of acting boldly, competing to win, moving with speed and decisiveness, fostering belonging, and delivering results the right way.

We’ve also made strides to becoming a more diverse and inclusive organization, and I was very proud that Medtronic was recognized earlier this month as #10 on Diversity Inc’s Top 50 US Companies for Diversity. Even with that, we’re committed to improving through innovative programs to attract, develop, and retain top talent from all gender and ethnic backgrounds. Along those lines, we’ve made notable hires in fiscal ’22, recruiting great talent from the Healthcare Technology industry and beyond.

While we’ve implemented a number of changes, this past year has been choppier than I would have liked, with some of our growth drivers being pushed out, and the impact from the pandemic, quality challenges, and supply chain affecting our results. But we have a clear direction... a clear direction of where we’re headed as we transform the company.

Let’s start with the top line. We remain laser-focused on accelerating the growth through robust capital allocation and portfolio management. You’re seeing our efforts to enhance our future growth through greater investment in organic R&D, as well as portfolio moves. We’ve already spoken of the organic growth catalysts in front of us... many coming later this fiscal year. We’re also executing a healthy cadence of tuck-in acquisitions in faster-growing markets, and we’re focused on reducing our footprint in lower growth and lower margin businesses. We continue to work on additional portfolio moves, with the goal of creating a portfolio where we have distinct expertise, synergies across the company, and ultimately, higher growth and higher margins. To aid this effort, we’ve assembled a dedicated team that is 100% focused on our integrations and divestitures.
At the same time, we have the opportunity to improve our global supply chain and operations by centralizing these activities, allowing us to leverage our scale, invest in new technology, and ensure we have world-class supply chain experts responsible for our global operations. And this isn’t something new that we’re just starting now. Although recent challenges have given us a greater sense of urgency, we’ve been on this journey for over a year. And while it will take time, I fully expect our efforts to drive lower costs and lead to consistent and reliable quality along with greater product availability... all on a sustainable basis.

Now well beyond healthcare, our world is facing a lot of economic uncertainty, with questions around inflation, global supply chain challenges, the continued impacts from the pandemic, and a potential recession. But our business – the business of healthcare and the delivery of essential, lifesaving technology – is something that continues in good times and uncertain times like these. And demand for our products continues to increase with the aging and growing of our global population. When you look at Healthcare Technology, Medtronic is uniquely situated - particularly in these uncertain times - given our diversified businesses with leading market positions in growth markets, a robust product pipeline, solid free cash flow, strong balance sheet, and a very attractive and growing dividend to add to our return to shareholders.

We have near-term challenges that we are overcoming, and the opportunities in Healthcare Technology and at Medtronic are immense. We are fully focused on continuing on our transformation journey, and making our opportunities a reality as we alleviate pain, restore health, and extend life for millions of people around the world.

Finally, I want to thank our exceptional Medtronic employees. I get to see the outcomes of their efforts to fulfill our Mission every day. It’s inspiring. In addition, their willingness to lean into our new operating model and embrace our new culture have been key to the ongoing transformation of the company. I also want to thank our partners in healthcare, the frontline workers who are at that final step in ensuring patients get our therapies and are dedicating their lives, day in and day out. Their incredible efforts to continue care delivery and get all of us through the pandemic will be noted as one of the great accomplishments in history.
Now let’s now move to Q&A. We’re going to try to get as many analysts as possible, so we ask that you limit yourself to just one question, and only if needed, a related follow-up. If you have additional questions, you can reach out to Ryan and the Investor Relations team after the call.

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

**Brad Welnick**
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 former head of the Diabetes Operating Unit;
- Bob White, EVP and President of the Medical Surgical Portfolio; and
- Brett Wall, EVP and President of the Neuroscience Portfolio

We’ll pause for a few seconds to assemble the queue…

We’ll take the first question from [FULL NAME] at [FIRM]. [FIRST NAME], please go ahead.

The next question comes from [FULL NAME] at [FIRM]. [FIRST NAME], please go ahead.

Our final question comes from [FULL NAME] at [FIRM]. [FIRST NAME], please go ahead.

**FOLLOWING Q&A**

**Ryan Weispfenning**
Thanks, [ANALYST NAME]. Geoff, please go ahead with your closing remarks.
Geoff Martha

OK. Thanks for the questions. We appreciate your support and continued interest in Medtronic. I realize there is a lot to sort through, including the macro issues of the supply chain and China that surprised us this quarter. But we’ve conservatively factored these into our guidance going forward, and most importantly… there is a clear direction with where we’re headed, with our innovation-driven growth, capital allocation, portfolio management, and operational excellence strategies to drive strong returns for the company. We look forwarding to update you on our progress on our Q1 earnings program, which we anticipate holding on August 23. So, with that, thanks for tuning in today, please stay healthy and safe, and have a great rest of your day.