Ryan Weispfenning

Good morning. I’m Ryan Weispfenning, Vice President and Head of Medtronic Investor Relations. Welcome to Minnesota, land of 10,000 lakes. I appreciate that you’re joining us today for Medtronic’s fiscal year 2023 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 2023, which ended on April 28, 2023, and our outlook for fiscal year ‘24. After our prepared remarks, the executive VPs from each of our four segments 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 excludes four things: 1) the impact of foreign currency, 2) revenue from our Q1 acquisition of Intersect ENT, 3) fourth quarter revenue in the current and prior year from our divestiture of our Renal Care Solutions business, and 4) a one-time contribution from an intellectual property agreement.
- References to sequential revenue changes compare to the third quarter of fiscal ‘23 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 2023 compared to first calendar quarter of 2022, 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 hear about the quarter.

**Geoff Martha**

**<INTRODUCTION AND KEY MESSAGES>**

Hello everyone and thank you for joining us today. We had a strong finish to our fiscal year, with our fourth quarter top- and bottom-line results coming in ahead of expectations. Our accelerating organic revenue growth was broad-based, with mid-single digit organic growth in Cardiovascular, Neuroscience, and Medical Surgical, and double digit growth in our Diabetes business in Western Europe, where we are selling our latest generation of products. Now across the company, our growth was driven by procedure volume recovery, supply improvements, and innovative product introductions. And despite continued margin pressures from macro-economic
factors like inflation and foreign exchange, we delivered adjusted earnings growth this quarter. And we reduced costs while also continuing to invest heavily in R&D to drive future growth. We’re confident in delivering durable revenue growth in the year ahead as our recent revenue headwinds dissipate, and we drive execution across our businesses.

So let’s turn to the details of our Q4 results. Our growth in the quarter started with a strong foundation from our largest businesses: Cardiac Rhythm, Surgical, and Spine plus ENT. These businesses have durable, established leadership positions. And combined, they made up half of our revenue and grew 5% organic.

**CRM** grew 5% and won share in the quarter, as we continue to see robust double-digit growth in our Micra™ leadless pacemaker franchise. Earlier this month, we received FDA approval for our next-generation leadless pacemakers, Micra™ AV2 and VR2, which extend the battery life by 40% to a projected 16 and 17 years, respectively. And in high power, we released data on our enhanced EV-ICD algorithm last weekend at HRS, and we’re preparing to launch our Aurora™ extravascular ICD later this year.

In **Surgical Innovations**, we grew 4%, or 8% when you exclude China given the provincial stapling VBP impacts in the quarter. Surgical procedures continued to recover, and we regained share on supply improvements. Our Advanced Energy products in particular benefitted from improving supply, growing high-teens, and we also launched our LigaSure™ XP and continued our rollout of the cordless Sonicision™ 7.

Now **Cranial & Spinal Technologies** continued to deliver solid growth as well, growing 5%, including 6% growth in US Core Spine. Look we’re seeing success from our market-leading ecosystem of Aible™ enabling technology and the associated pull-through of our best-in-class spinal implants. From our AI-enabled surgical planning platform; to our patient-specific spine implants; to our imaging, navigation,
and robotic technologies... spine surgeons around the world are increasingly attracted to our differentiated and innovative solutions.

So it was a solid quarter for our largest businesses. We also had a strong Q4 in our businesses that compete in high, secular growth MedTech markets. All combined, these businesses made up about 20% of our revenue and grew high-single digits organically. We’re feeding these businesses with the investments they need, and as they grow, we expect them to become a larger part of our revenue mix and drive our durable growth going forward.

So starting with **Neurovascular**, which is now annualizing at over $1.3 billion, we grew 13%. We saw broad strength across the business in both ischemic and hemorrhagic stroke, with double digit growth in several categories, including aspiration and flow diversion. Stroke is the #2 cause of death globally, and combined with low therapy penetration, we see a large opportunity for Neurovascular to make a difference in the treatment of stroke, driving meaningful growth with strong margins for years to come.

In **Structural Heart**, we grew 9% organic. We’re seeing improvements in the TAVR space, especially in the latter part of our quarter post-Spring holidays. We won TAVR share in the US on the strength of Evolut™ FX, which combines industry-leading durability with enhanced and predictable valve deployment. In Japan, our Structural Heart business grew low-double digits, driven by the mid-quarter launch of Evolut™ FX.

Next, in **Cardiac Ablation Solutions**, we grew 5% and made significant advances in our pipeline during the quarter. In March, the impressive results of our landmark PULSED AF pivotal trial, studying our single shot PulseSelect™ PFA catheter, were presented as a late-breaker at ACC and published in the journal *Circulation*. The trial had strong efficacy and safety results in both persistent and paroxysmal patients. We’ve filed our PMA with the FDA, and we expect to be one of the first companies with a PFA catheter in the US market.
We also received CE Mark in March for our Affera™ mapping and ablation system, including our Sphere-9™ catheter, and we began our limited market release. Sphere-9™ can perform both PFA and RF ablation, as well as high density mapping, all from the same catheter. So with our Sphere-9™ focal catheter, and our PulseSelect™ single shot catheter, we have the full breadth of PFA catheter technology. From PFA, to our Affera™ map/nav system, to our leading Arctic Front™ cryo solution and AcQCross™ transeptal access system, we’re assembling a leading ecosystem of technologies. And we’re poised to become a much more meaningful player in the fast-growing, $8 billion EP ablation space.

In Surgical Robotics, we continued to have positive momentum with the rollout of our differentiated Hugo™ robotic system in international markets. And we’re making progress bringing Hugo to the US as we execute our Expand Uro pivotal trial. We also saw a meaningful acceleration in sales of our Touch Surgery™ Enterprise solution, which is the first AI-powered surgical video and analytics platform for the operating room. With Hugo™ and Touch Surgery™, we’re bringing innovative solutions to surgeons around the world. And given the low penetration of robotic surgery, and our strong position as a global leader in the surgical space, we expect to deliver meaningful growth over the coming years.

And in Diabetes, it was a big quarter for us, as our warning letter was lifted, and we received FDA approval of our MiniMed™ 780G system with the Guardian™ 4 sensor. These products drove double digit growth in Western Europe, and we’re very excited to begin shipping them to US consumers next week. We expect our US Diabetes growth to ramp over time as our existing customers come up for renewal, and as consumers switch to Medtronic. Health care professionals and people living with diabetes are really going to appreciate the innovation we’re delivering, particularly the advanced Meal Detection Technology™.
And just this morning, we announced our intent to acquire EOFlow, the manufacturer of the EOPatch®: a tubeless, wearable, and fully disposable insulin delivery device. The EOPatch® is already available in Europe, South Korea, and the UAE. And this will accelerate our speed to market in the fast-growing patch pump space with a product that has demonstrated manufacturability. In addition, upon close, we’ll work quickly to integrate our clinically proven Meal Detection Technology™ algorithm, which is in the MiniMed™ 780G system, into the EOPatch® device, and seek marketing authorization.

Look we have not blinked when it comes to Diabetes, and we’re shifting to offense, as we continue to invest heavily in assembling our ecosystem of durable pumps, smart pens, patch pumps, sensors, algorithms, and customer service, with multiple programs under development. Having this ecosystem is really important because we believe the market will move from “CGM First” to automated insulin delivery, and we are well positioned for that trend. We look forward to updating all of you on these growth opportunities at our Diabetes analyst and investor briefing next month at ADA.

Turning to our Synergistic businesses, there were several strong performances in the quarter. Our Aortic business grew in the mid-twenties, as product availability and AAA share improved. Cardiac Surgery had a great quarter, growing 8% with strength in perfusion and cannula sales. Cardiac Diagnostics had a high-single digit growth on the continued adoption of our differentiated, AI-enabled LINQ II™ insertable cardiac monitor. And earlier this month our LINQ II™ AI technology, which we call AccuRhythm™ AI, was awarded the 2023 MedTech Breakthrough Award for the Best New Technology Solution in Monitoring.

Our GI business grew 16% on procedure volume recovery and continued strong adoption of GI Genius™, another one of our AI-enabled products. GI Genius™ uses AI during colonoscopies to help physicians detect polyps. We also announced a strategic collaboration in the quarter with NVIDIA and Cosmo Pharmaceuticals to
allow third party developers to train and validate AI models that can eventually run as apps on the GI Genius™ platform. We’re excited about the potentially game-changing solutions this could offer for GI physicians and their patients.

Now before I go to Karen, I want to note that we continue to focus on the transformation of Medtronic, as we reduce complexity, enhance our capabilities, drive efficiency, and improve portfolio management and capital allocation, all with the goal of positioning the company for delivering durable growth. And the progress we’re making is beginning to show up in our financial results.

I shared with you last quarter that we were planning for significant cost reductions. We began to execute those plans last month, which included reductions in our global workforce. While these are never easy decisions, and I am mindful of the personal impact across our teams, these actions were necessary and are allowing us to increase our investments in innovation. They also help us to mitigate the inflationary and foreign currency impacts on our profitability.

Look we’re making progress enhancing our global operations, supply chain, and quality systems, which is all yielding results. And we continue to advance our active portfolio management processes. We closed on the divesture of our Renal Care Solutions business during the quarter, and we continue to work on the separation path for our Patient Monitoring and Respiratory Interventions businesses.

Now there’s still work to be done, but we’re making progress setting up the company to deliver durable growth and strong returns. With that, I’ll turn it over to Karen to discuss our financial performance and give guidance for fiscal ’24. Karen?

Karen Parkhill
 Thanks, Geoff.
Our fourth quarter organic revenue increased 5.6%, ahead of expectations. And our non-GAAP EPS of $1.57 grew 3%, was at the upper end of our guidance range, and exceeded consensus.

Looking at our revenue by geography, our international markets remained strong. Non-US Developed Markets and Western Europe grew 8%. And Japan returned to growth following the COVID impacts last quarter, growing 5%. Emerging Markets, which make up 17% of our revenue, returned to double digit growth in the quarter, growing 11%. China also delivered growth of 3%, as procedures recovered from prior lockdowns and the impact to our growth from volume-based procurement improved. We had strong growth in many other markets, including low-30’s growth in Southeast Asia, low-20’s growth in the Middle East & Africa, mid-teens growth in Eastern Europe, and low-double digit growth in Latin America.

Turning to margins, our adjusted gross margin was relatively stable sequentially, but declined year-over-year, due to inflation and a 1 percentage point impact from currency. As I’ve noted in prior quarters, the impact to our gross margin from inflationary pressures is delayed by 2 to 3 quarters because our incurred manufacturing variances first go onto our balance sheet and then move into our P&L as inventory is sold. While the magnitude of these variances has begun to ease slightly, they do remain high, and as a result, we continue to expect pressure on our gross margins over the coming quarters.

Despite that pressure, we drove a 350 basis point sequential improvement in our adjusted operating margin. And on a constant currency basis, our operating margin improved 50 basis points year-over-year as we drove expense reduction, including reduced incentive compensation.

Below the operating profit line, our adjusted nominal tax rate was 15.8%. That was above our expectations – from incremental taxes owed on the IP agreement that Ryan mentioned upfront, along with our jurisdictional mix of profits in the quarter.
Our balance sheet remains strong. We continue to direct capital toward investment in future growth opportunities along with returning a minimum of 50% of free cash flow to our shareholders. We’re identifying high-return organic R&D opportunities and driving efficiencies across our business to free up capital to invest in them. We also continue to evaluate opportunities to supplement our organic investments with tuck-in acquisitions – to accelerate our long-term weighted average market growth rate. At the same time, you should expect us to be disciplined with a focus on maintaining or growing our returns on invested capital over the long-term.

We know our shareholders place strong value in our ability to return capital. In fiscal ’23, we returned 4 billion dollars through dividends and share repurchases. And just this morning, we announced that we are increasing our dividend for the 46th consecutive year, reflecting the board’s confidence in our balance sheet and our future earnings power.

Now, turning to guidance...

We’ve delivered a couple of back-to-back quarters of mid-single digit growth, growing 5% in the back half of the fiscal year, with 5.6% in the fourth quarter. We’re encouraged with the procedure recovery in many of our markets, our product availability is improving, we like our competitive position across our businesses, and we have many new, innovative products coming to the market.

At this point, we’re setting our fiscal ’24 organic revenue guidance at 4 to 4.5%. And given it’s the start of the year, we think it’s prudent for you to model at the lower end of that range. This guidance excludes the impact of foreign currency and revenue from our new “Other” segment, and I’d direct you to the Guidance slide in our earnings presentation for additional details.
In the first quarter, we’re guiding to the high end of our annual range, with organic revenue growth of 4.5%, which suggests a sequential performance in line with what we have seen historically from our fourth quarter to our first quarter.

By segment, there are puts and takes on each one, but they are all roughly aligned to the corporate average for both the first quarter and the year, with the exception of Diabetes, which we expect will start the year growing below the corporate average and ramp through the year with the US launch of 780G.

While the impact of currency is fluid, based on rates at the beginning of May, foreign currency would have a positive impact on full year revenue of $110 to $210 million, including an unfavorable impact of $50 to $100 million in the first quarter.

Moving down the P&L, I’ve been sharing for several quarters now that macroeconomic factors like inflation, foreign currency, and to a lesser extent interest and tax rates would impact our earnings power in fiscal ’24. And we’re continuing to prioritize investments in R&D. In fact, when we exclude the separation of our Renal Care Business, we expect R&D to grow above revenue, as we’ve signaled for a while now. At the same time, as Geoff mentioned, we’ve been executing our cost reduction plans across the company to lessen the impact of these macro factors on our earnings.

Taking all this into account, we expect continued pressure on our margins and are guiding fiscal ’24 non-GAAP diluted EPS in the range of $5.00 - $5.10. The range includes an unfavorable impact of roughly 6% from foreign currency based on rates at the beginning of May, and driven by the large benefit last year from our hedging program that we don’t expect will repeat this year. On a constant currency basis, our EPS guidance implies low-single digit growth this year.
For the first quarter, we expect EPS of $1.10 to $1.12. Excluding the approximate 8% impact from foreign currency based on rates at the beginning of May, this would imply constant currency growth of 5 to 7%.

To close, I want to recognize our outstanding employees around the world, who have been helping to drive significant change to transform our company. And they have done this while keeping the Medtronic Mission front and center. Thank you for everything you do to make our company stronger and to always put patients first.

Back to you, Geoff.

Geoff Martha
OK. Thank you, Karen.

Now before we go to the analysts’ questions, I’ll close with a few thoughts. It was a good quarter, with our broad-based growth. Our Surgical Innovations business is back to mid-single digit growth, tied to the improvement in our supply, and importantly, surgeon commitment to our differentiated products remains strong. We continue to see growth in Neurovascular and Structural Heart. And we’re nearing an inflection point in both Diabetes and Cardiac Ablation Solutions, and both businesses have an arsenal of technologies in their pipeline. At the same time, we’re seeing durable growth across our other businesses, and importantly, no business is losing momentum.

Behind the scenes, as I’ve shared with you since becoming CEO, we’ve really been pushing a comprehensive transformation to set-up Medtronic to deliver durable growth and create value for our shareholders. Now it hasn’t been a straight line – some of that’s market factors and some of that’s been on us – but we’ve made progress, and you’re starting to see this in our results.
We’ve been making the necessary improvements to ensure long-term durability of our growth. We’re investing in our key capabilities like global operations, IT, quality, and supply chain to turn our scale into an advantage. We’re picking the markets where we’re doubling down, and redirecting investments to our most important R&D programs. And we’re shaping the portfolio, adding tuck-ins and divesting non-core assets. All of these actions are establishing the strong foundation that will allow us to drive sustainable and consistent growth.

Now there’s still work to be done, but we are on the right path. And we’re confident in the choices that we’ve made and continue to make. We’re executing, and you’re starting to see all this come together with our steady improvement.

Finally, I’d like to join Karen in expressing my sincere gratitude for our employees around the world. You have played a huge role in creating some of the world’s most meaningful healthcare innovations and improving the lives of millions of people every year. Thank you, thank you for all that you do to serve our Medtronic Mission every day. And I’m confident that our best days are ahead of us.

Now let’s move to Q&A where we’re going to try to get as many analysts as possible, so we ask you to 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.

**Geoff Martha**

OK. Thanks for the questions. We really appreciate your support and continued interest in Medtronic. As I mentioned earlier, we’ll be coming to you from ADA on June 25th with an update on our Diabetes business. And we hope you’ll join us for
our Q1 earnings broadcast - which we anticipate holding on Tuesday, August 22nd - where we’ll update you on our progress across the company. With that, thanks for spending time with us today and have a great rest of your day.

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