Ryan Weispfenning

Good morning. Welcome to a crisp, fall morning here in Minnesota. I’m Ryan Weispfenning, Vice President and Head of Medtronic Investor Relations, and I appreciate that you’re joining us this morning for Medtronic’s fiscal 24 second quarter video earnings 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 second quarter, which ended on October 27, 2023, and our outlook for the remainder of the fiscal year. After our prepared remarks, the executive VPs covering our 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 the impact of foreign currency and second quarter revenue in the current and prior year reported as “Other,” which stems from prior business separations. There were no acquisitions 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 first quarter of fiscal ‘24 and are made on an “as reported” basis, and all references to share gains or losses refer to revenue share in the third calendar quarter of 2023 compared to third 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**
Hello everyone and thank you for joining us today. Q2 was another good quarter for us, as we executed and delivered mid-single digit revenue growth. The underlying fundamentals of our business are strong, and our growth was broad-based across multiple businesses and geographies, with Cardiovascular, Neuroscience, and Medical Surgical all growing mid-single digits, and Diabetes accelerating to high-single digit growth. Our new product launches are performing well and driving growth across many businesses. And when we look ahead to the back half of our fiscal year, those launches, combined with several recent regulatory approvals, give us confidence in our ability to continue delivering dependable growth.
At the same time, we’re executing on our comprehensive transformation, including enhancing our global operations, quality, and supply chain. And we’re decisively allocating capital into fast-growth medtech markets and fueling innovative technologies in areas like robotics, AI, and closed loop systems that will drive our growth over the next decade. We’re forging the path to durable growth, as we execute on the actions needed to create long-term value for our shareholders.

So now let’s get into the details behind our Q2 results. We continue to look at our portfolio of businesses in three categories: Established Market Leader businesses, Synergistic businesses, and Highest Growth businesses. Looking first at the Established Market Leaders, we had very strong performances across Cranial & Spinal Technologies, Surgical, and Cardiac Rhythm Management. Combined, they made up just under half of our revenue and grew 6% organic again this quarter.

Starting with Cranial & Spinal Technologies… continued adoption of our AiBLE™ ecosystem is driving consistent, above-market growth. In Q2, we grew 7%. Digitalization is transforming the competitive landscape in Spine, and we’re leading the way with AiBLE™. With our global footprint of over 10 thousand systems… over 10 thousand systems… we’re over 4 times greater than the nearest competitor. We are the first and only solution with integrated, AI-based surgical planning with UNiD™ Adaptive Spine Intelligence. Our Mazor™ robotic system is the first and only to offer bone cutting, a feature that was well received when we unveiled it at the North American Spine Society conference in Los Angeles just last month. And we remain the clear leader in the intra-operative imaging and navigation space with our O-arm™ and StealthStation™ technologies, both of which grew double digits in the quarter. As surgeons adopt AiBLE™, and we continue to expand our sales teams and invest in future innovation, we expect to maintain our leadership and extend our share gains in Spine.

Now moving to Surgical, we grew 6% here. There was broad-based strength across our Surgical franchise. Hernia and Electrosurgery both grew in the double digits on
strong sales of our ProGrip™ and Dextile™ mesh and Valleylab™ smoke evacuation systems. Advanced Stapling and Wound Management both grew mid-single digits.

**Cardiac Rhythm** grew 4%, with high-single digit growth in Cardiovascular Diagnostics and Cardiac Pacing. In Pacing, our Micra™ leadless pacemaker franchise grew 13%, driven by our U.S. launch of our next-generation Micra™ AV2 and VR2 devices. We’re also seeing strong growth in Conduction System Pacing, an alternative to traditional single or dual chamber pacing. Our 3830 lead, the only approved lead for this novel form of pacing, grew strong double digits again this quarter.

And late in the quarter, we received FDA approval for our Aurora EV-ICD™ system, a gamechanger for the single chamber ICD space. Now we’re ramping up our training of implanting cardiologists on the Aurora technology. So Aurora delivers the benefits of a traditional ICD – including similar size, longevity, and pacing features – but without the leads in the heart or veins. And these benefits can be realized with one device... and only one implant procedure.

And just to drive this point home on size, there’s a big difference here versus the competitor’s device, and I mean big. Here’s an X-ray of an Aurora EV-ICD™ patient with the competitor’s right next to it just for comparison. So in addition to all the clinical benefits of our EV-ICD, you can see that it’s meaningfully smaller... and of course lighter... than the competitor’s. And here’s the model that we’re giving our reps to explain the difference to customers. Now this is the size of the competitor’s device. And we can actually pop out the Aurora to show how much smaller it actually is. So, so it’s like those nesting dolls, except here, you just pop out, you got to start with a big guy, and then we go right to the small guy. So let me pop this out. So you see inside the model, here’s Aurora. Much smaller. Much lighter. And speaking of weight, we actually had to put a series of weights inside of here to get the bigger device to exactly replicate the weight of our competitor’s. So we’re really excited about this as we’ve got a meaningfully better option for patients. Our advantages will
not only displace the competitor’s device, but will expand the population far beyond the existing segment. We think this can grow to become a billion dollar plus segment.

Turning to our Synergistic businesses… Combined, they grew mid-single digits in Q2, and we had several standout performances. **Aortic** grew 9% on strong momentum in our Endurant™ AAA franchise following the 10-year real-world durability data, presented at the Charing Cross Symposium earlier this year. Our **Coronary** business grew 6%, as we gained share in international markets on the continued rollout of our Onyx Frontier™ drug-eluting stent. **Cardiac Surgery** grew 9%, driven by strength in perfusion and cannulae, as well as the Nautilus™ ECMO oxygenator.

Our **Endoscopy** business grew 13%, driven by continued adoption of GI Genius™. GI Genius™ uses the power of artificial intelligence to detect polyps in real-time during a colonoscopy, integrating seamlessly into a GI doc’s existing workflow. GI Genius™ results in a 50% reduction in missed polyps versus a standard colonoscopy, which plays an important role in the prevention of colon cancer.

Turning to businesses in our Highest Growth Markets, **Cardiac Ablation Solutions** grew 6% on strong market procedure growth. Now over the coming years, we expect this business to be a very meaningful growth driver for Medtronic. We are leading the way in bringing pulsed field ablation catheters to market in both the focal and single-shot segments. In focal PFA, we continue to ramp manufacturing of the Sphere-9™ catheter and remain in limited market release in Europe. Sphere-9™ can perform both PFA and RF ablation, and drives high density mapping, all from the same catheter. And it integrates seamlessly with our differentiated Affera™ mapping system. In the US, we expect to complete the 12-month follow-up in the pivotal trial for Sphere-9™ in the coming weeks, and then we’ll prepare for FDA submission.

In single-shot PFA, we just received CE Mark for our PulseSelect™ catheter, and it will be commercially available early next calendar year. We are now the only company
with approved catheters for both single shot and focal PFA. And in the US, the FDA is reviewing our PulseSelect™ submission, and we expect to be one of the first companies with a PFA catheter in the US market. Now with our PFA catheters and the Afferamap/nav system, combined with our leading Arctic Front™ cryo solution and differentiated FlexCath Cross™ transeptal system, we expect to drive strong, long-term growth in the fast-growing, $8 billion EP ablation space.

Now turning to Structural Heart... overall, the TAVR space continues to grow in the high-single/low-double digit range. In Q2, we grew mid-single digits, which was below the market. Now we declined slightly in the US, comping difficult prior year comparisons when we initially launched Evolut™ FX and customers purchased for stock. Yet, we grew 4% sequentially - evidence of the strength of our product. In Europe, we grew high-single digits, and received CE Mark for Evolut™ FX at the end of the quarter. And in Japan, we continued to win share and grew in the mid-30’s on the continued adoption of Evolut™ FX and expanded ESRD indication.

Our Evolut™ platform has now shown superior valve performance compared to surgery in randomized trials that extend to 5 to 10 years after initial procedure. And last month, our landmark Evolut Low Risk trial was presented at TCT and published in JACC. The trial randomized patients to Evolut™ or ‘best in class surgery.’ As you can see in this chart, Evolut™ - which is the blue line - had a lower rate of death or disabling stroke, and the difference continues to diverge each year, going from a 2% difference at 2 years, to 2.9% at 3 years, and growing to a 3.4% difference at 4 years. This resulted in a 26% reduction in death or disabling stroke with Evolut™ at 4 years. And no other transcatheter valve has shown better valve performance and outcomes compared to surgery. Valve design matters, and this differentiates us competitively. Physicians understand this data. This is compelling to them, and it’s compelling to patients. So as we look ahead, we expect the combination of this data, coupled with the global rollout of Evolut™ FX, to drive our TAVR growth above market.
In **Neurovascular**, we grew high-single digits when you exclude sales in China where the coils market is subject to volume-based procurement. We continue to see very strong growth in Flow Diversion, which was up low-twenties globally. This is being driven by our innovative Shield Technology™ for treating brain aneurysms, which is available on both the Pipeline™ Flex and Pipeline Vantage™ flow diverters.

In **Robotic Surgical Technologies**, we increased our installed base as we continued the international launch of our differentiated Hugo™ robotic system. In the US, our Expand URO pivotal trial continues to enroll and is on plan. And we’re happy to announce that we have FDA approval to start our U.S. hernia indication pivotal trial for Hugo™.

Adoption of Hugo™ is positive, with surgeons appreciating features that are core to the system, including Touch Surgery™ Enterprise digital technology. This AI-powered video solution, currently available for both robotic and laparoscopic surgery, creates a new paradigm for case review and performance improvement. We’ve already deployed it in over 20 countries. We’re continually developing our connected digital ecosystem, and we’re excited about the upcoming launch of Touch Surgery™ Live Stream to enable live streaming and sharing of procedures securely and seamlessly.

We expect Hugo™, equipped with advanced digital capabilities, to be a meaningful growth driver for us in the years ahead. We believe surgeon preference with our open console and modular design, our leading position in minimally invasive surgery and instrumentation, our connected digital ecosystem and data-enabled insights, along with our world-class surgical training program and partnerships, will meaningfully advance the low penetration of robotic surgery around the world.

And in **Diabetes**, our customer base is expanding sequentially as users around the world purchase the MiniMed™ 780G system. 780G is the only AID system to make correction boluses every 5 minutes, offer flexible glucose targets as low as 100, and
feature Meal Detection™ technology. This combination is resulting in high time-in-range. Users are achieving or exceeding their glycemic targets, and importantly, realizing the relief that comes from burden reduction in their diabetes management.

In Q2, our Diabetes business grew 7%, its highest growth in 10 quarters, or 5 years when you exclude the COVID-comp in Q4 of FY21. In international markets, we continue to see robust, mid-teens growth, driven by the recurring revenue from CGM and consumable sales to customers that have adopted our AID technology. And in the US, this was our first full quarter of the 780G launch, and we’re meeting or exceeding our launch goals. Our US pump sales increased over 30% sequentially. The number of unique 780G prescribers has increased over 20% since last quarter, with many returning to Medtronic as they learn about the differentiated outcomes users are getting with 780G. And we also continue to see very high CGM attachment rates in our 780G install base, meaningfully above the rates prior to launch. All of these leading indicators give us confidence that we’ll see a significant ramp in our CGM and consumables sales in the US, and return to year-over-year growth in the back-half of this fiscal year.

We’ve been driving this turnaround, and as we look ahead, we expect Diabetes to drive even more meaningful growth for us. We expect the majority of the Intensive Insulin Management space to move to Smart Dosing through either AID systems or Smart MDI. And we’re well positioned to take advantage of this trend, as we’re the only company investing in a complete ecosystem of differentiated technology for people living with diabetes, including next-generation durable pumps, smart pens, patch pumps, sensors, and algorithms.

With that, let’s go to Karen for a deeper look at our Q2 financial performance and our fiscal ’24 guidance raise. Karen?
Karen Parkhill

Thanks, Geoff.

Looking at our financials, overall it was another good quarter. Our revenue grew 5%, ahead of expectations. And, adjusted EPS was $1.25, 7 cents above the midpoint of our guidance range, with about 3 cents from stronger than expected revenue, 3 cents from better gross margin, and approximately 1 cent coming below the operating profit line.

As Geoff mentioned, we remain focused on delivering durable growth. Based on the changes we’ve made, including our operating model, incentives, and capital allocation, we’ve positioned the company to deliver sustainable, mid-single digit growth on the top line. And you are seeing that play out for four quarters in a row now.

Looking at our second quarter revenue growth, you can see the diversification coming through, which is important to driving long-term durability. As Geoff stated, our 3 portfolios each grew mid-single digits, and Diabetes accelerated to high-single digit growth. The broad-based growth also came through on a geographic basis. Western Europe grew high-single digits, with strength across many Cardiovascular businesses, Diabetes, Neurovascular, and Pelvic Health. And Japan grew mid-single digits and was also driven by strong results in many Cardiovascular businesses, as well as Surgical and Neurovascular.

Emerging Markets grew 9%, or 13% when excluding Russia given the sanctions. We had low-twenties growth in the Middle East & Africa, high-teens growth in South Asia, mid-teens growth in Southeast Asia, and low-double digit growth in Latin America. China grew high-single digits, as some of the VBP that we expected was delayed until later in the fiscal year.
While our adjusted gross and operating margins declined in the quarter, both were ahead of expectations. With gross margin, about a third of the year-over-year change was due to currency, and the remainder was driven by inflation. And our adjusted op margin decline was entirely driven by currency. On a constant currency basis, it increased 40 basis points. We’re executing to implement efficiencies in our expense structure, and you can see this in the 90 basis point improvement in SG&A.

Below the operating margin line, we benefitted from higher global interest rates on our investments. And this was partially offset by a higher-than-expected tax rate, mainly due to jurisdictional mix of profits, as well as a lower benefit from stock-based compensation.

Turning to capital allocation, we continue to prioritize investments in innovation to fuel and sustain our long-term growth. We’re disproportionately investing in some of the fastest growth markets in MedTech. And, we have a long-standing track record of returning capital to our shareholders, primarily through our strong and growing dividend. And to the extent that we don’t find high growth, high return tuck-in M&A, we would expect to return additional capital to our shareholders by retiring shares.

Now, turning to our guidance…

Given our second quarter outperformance and continued strength in our underlying fundamentals, we’re raising our full year guidance today on both the top and the bottom line. We now expect fiscal ’24 organic revenue growth of 4.75%, an increase from the prior 4.5%. For the third quarter, we’re expecting organic revenue growth to be in the range of 4.0 to 4.5%. And while the impact of currency is fluid, based on recent rates, foreign currency would have an unfavorable impact on full year revenue of $100 to $200 million, including an unfavorable impact of $0 to $50 million in the third quarter.
On a comp adjusted basis, our third quarter guidance represents acceleration from the second quarter. And we expect this trend to continue into the fourth quarter as we’re ramping a number of recent product launches in the back half of the year. In Diabetes, we’re projecting the US to return to growth in the second half of the year on the continued adoption of 780G and the associated CGM and consumable sales. In Medical Surgical, we have the continued rollout of the Hugo surgical robot and GI Genius. In Neuroscience, there’s our AiBLE™ ecosystem in Spine, our Inceptiv™ closed-loop pain stim device in Europe, and we’re awaiting FDA approval for both Inceptiv™ and our Percept™ RC DBS device. In Cardiovascular, we’re ramping our TAVR and PFA launches in Europe, starting the rollout of EV-ICD in the US and Europe, and we are now starting our RDN sales in the US. This all gives us confidence in the continued durability of our topline growth.

Moving down the P&L, our margins this year continue to reflect the impact of currency and inflation. And some of the volume-based procurement tenders in China that were expected in the first half have shifted to later in the year. That said, we’re focused on continuing to drive efficiencies in our expense base, and we’ve got our global operations and supply chain centralized to take advantage of our scale. As you know, stabilizing our margins and then improving from there remains a top priority.

On the bottom line, we’re raising our fiscal ’24 non-GAAP diluted EPS guidance to a new range of $5.13 to $5.19, an increase from the prior range of $5.08 to $5.16. While we expect FX and tax to be a few pennies more unfavorable in the second half, we are pleased with the momentum we have demonstrated and our pipeline from here. For the third quarter, we expect EPS of $1.25 to $1.27. And on foreign currency, based on recent rates, we’re seeing an unfavorable impact of 6% on full year EPS, including an unfavorable 5% impact in the third quarter.

Before sending it back to Geoff, in the spirit of Thanksgiving, I want to extend my gratitude to our 95,000 employees around the world who come to work every day to
deliver on our Mission. You all play important roles in alleviating pain, restoring health, and extending life for two patients every second, which makes this world a far better place.

Back to you, Geoff.

**Geoff Martha**

OK. Thank you, Karen.

Now I know GLP-1s have been on your mind, as the promise of these drugs has certainly had an outsized impact on medtech stocks, including ours, over the past 4 months. So I thought it would be helpful to share with you our view on their potential impact on our markets. Now GLP-1s are clearly an exciting class of drugs for patients, and the SELECT data presented at AHA suggest the potential for a large market. That said, the key takeaway from our analysis is that outside of a modest impact on the bariatric surgery market – which we believe will be temporary – we don’t see these drugs impacting Medtronic’s growth outlook, even long-term.

This expectation is based on our extensive, science-based work. Like many of you, we’ve modeled potential uptake and impact based on epidemiology, based on what we’ve seen historically with other drugs, and based on the relative risk reductions and adherence rates seen in SELECT.

So given the SELECT results showed smaller impacts on the more obese patients, we believe that bariatric surgery will remain the gold standard for addressing obesity. We also know that many of patients that try these drugs do not stay on them for more than a year, likely due to durability, side effects, or affordability, which creates opportunities for new patients to consider surgery. For these reasons, we believe the current headwinds on U.S. bariatric procedures will stabilize over the next several quarters, and return to growth by calendar year 2025. And this is modest and manageable within our broader diversified Surgical business.
Now with Diabetes, our customers are primarily type 1, with only 10% of our installed base in type 2 insulin-dependent patients. We do expect growth in our type 2 business going forward, but type 2 pump penetration rates are so low that even using aggressive GLP-1 modeling assumptions, we don’t see any meaningful change in our Diabetes growth outlook through 2030.

Now we’d be happy to discuss this in more detail in Q&A, including our view on the SELECT trial and its potential implications for medtech.

Now before we go to the analysts’ questions, I’d like to close with a few brief concluding thoughts on our progress. You’re seeing in our results that many of the challenges that have held back our growth have largely been mitigated, whether that’s Diabetes, China, or the issues in our supply chain. And we’ve established a track record of delivering durable, mid-single digit revenue growth, which we expect to continue in the back half of the fiscal year. We have some really compelling product approvals that drive our growth not only in the back half, but for years to come. There’s been a number of things that have happened recently, big things, in the last four weeks in particular… with our TAVR data that gives us just such an advantage in the marketplace, new product approvals like EV-ICD, geographic and indication expansions, and last Friday, we got RDN approval. This opens up a multi-billion dollar market opportunity for us. And with over 1 billion people worldwide with hypertension, the opportunity is massive. In fact, just one percent penetration of the target market represents over $1 billion of revenue.

So we’re focused on executing to deliver the top line, and at the same time, we’re taking action to run our businesses more efficiently to counter the impacts that inflation and currency are having on our margins. And we’ve been implementing an extensive transformation to improve the durability of our growth. We’ve changed our operating model, brought in extensive new leadership, increased capital allocation to
our highest growth opportunities, and are implementing a culture based on
execution, speed, and playing to win. And now we’re positioning the company to
take advantage of our scale in areas of operations and supply chain, core technology,
and how we go to market with large customers around the globe.

You’re already seeing results from this today, and as we go forward, our focus is on
translating the durable revenue growth that we’ve established... into durable
earnings power. This is a winning formula for creating value for shareholders, and we
are laser-focused on making that happen.

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

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:

- Que Dallara, EVP and President of Diabetes;
- Mike Marinaro, EVP & President of the Surgical & Endoscopy Businesses;
•  Sean Salmon, EVP and President of the Cardiovascular Portfolio;
•  Brett Wall, EVP and President of the Neuroscience Portfolio; and
•  Bob White, EVP and President of the Medical Surgical Portfolio.

We’ll pause for a few seconds to assemble the queue...
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. We look forward to updating you on our progress on our Q3 earnings broadcast - which we anticipate holding on Tuesday, February 20th. With that, thanks for joining us today, and for those in the US, I’d like to wish you and your families a very Happy Thanksgiving this week!