Medtronic

FINAL

Q4 FY24
Earnings call commentary

Ryan Weispfenning

Good morning. I'm Ryan Weispfenning, Vice President and Head of Medtronic Investor Relations, and I appreciate that you're joining us this morning for our fiscal '24 fourth 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 fourth quarter and fiscal year 2024, which ended on April 26, 2024, and our outlook for fiscal year '25. 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 our 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, prior year revenue from a one-time IP agreement in Structural Heart, and fourth quarter revenue in the current and prior year reported as "Other," which stems

from prior business separations and exits. 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 third 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 first calendar quarter of 2024 compared to first calendar quarter of 2023, 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… and the year.

Geoff Martha

Hello everyone and thank you for joining us today. We delivered a strong finish to the fiscal year, with broad strength across our businesses. Each of our four segments delivered mid-single digit or higher revenue growth, and this was on top of a strong mid-single digit performance last year. Throughout fiscal '24, we delivered consistent mid-single digit revenue growth, with over 5% for the full year.

At the same time, we're making progress on our commitment to restore our earnings power, which is evident in our fiscal '25 guidance. We're executing COGS cost-out programs while maintaining pricing and maximizing efficiencies in our operating overhead. And we're translating our earnings into strong and improving cash flow, which we're investing to drive future growth and return to our shareholders.

We also continue to enhance our operating model to make the company even more resilient. And our global workforce is embracing a performance-driven culture that is translating into durable results.

We made solid progress in fiscal '24, and the momentum we're building into the new year has me very excited for '25. We're at the beginning stages of new product cycles. The runway from the differentiated technologies we've recently launched, along with the innovation we will launch over the next 12 months – give me significant confidence in our ability to drive durable growth. These launches put us in a strong position in some of MedTech's most attractive markets, like Afib, structural heart, robotics, neuromodulation, hypertension and diabetes. And this is further enhanced as we apply AI across our portfolio. All that to say, we are very optimistic about what we can achieve here in fiscal '25 and beyond.

Now, let's turn to the details of our Q4 results, where we had a number of standout performances.

We look at our businesses in three categories: Established Market Leaders, Synergistic, and Highest Growth. Our Established Market Leader and Synergistic businesses both grew mid-single digits, while our Highest Growth businesses delivered high-single digit growth.

Looking first at our Established Market Leaders… combined, they made up just under half of our revenue and grew 5%.

The highlight of the quarter was **Cranial & Spinal Technologies**. After growing 6% or higher every quarter this year, CST accelerated to 9% growth in Q4. I want to say that one more time: 9% growth in Q4. This was driven by an outstanding quarter for capital sales, with Neurosurgery growing 14%. We had double digit revenue growth in Mazor™ robotics, StealthStation™ navigation, O-arm™ imaging, and Midas Rex™ powered surgical instruments. And this pulled through spine implants and biologics, with high-single digit growth in Biologics and mid-single digit growth in Core Spine, including 8% Core Spine growth in the US.

We also continue to see strong adoption of UNiD™ Adaptive Spine Intelligence, our integrated, AI-enabled surgical planning solution. Here, we're taking data and building deep learning models that see patterns and create personalized outcomes for patients.

As I've been sharing for several quarters now, our strategy of combining best-in-class implants and biologics with our best-in-class enabling technology – and then adding our unique intelligence into the procedure – is a winning formula in Spine. We call it the AiBLE™ ecosystem, and it's a big competitive differentiator for us. AiBLE™ is creating value for patients. It's winning over surgeons all around the world. And it's changing the competitive dynamics of the Spine marketplace. And it's attracting the best reps to Medtronic to expand our business.

Next, in **Cardiac Rhythm Management**, Cardiac Pacing Therapies delivered another strong quarter of high-single digit growth. Our Micra™ leadless pacemaker franchise grew over 20%, driven by the adoption of our latest generation, Micra™ AV2 and VR2, which improve procedure efficiency and increase battery longevity by 40% to 16 or 17 years. Now we hold the vast majority of share in the leadless pacing space. We also continue to expand our pacing leadership as the only company to offer an approved lead for an innovative alternative form of pacing called Conduction System Pacing. Our 3830 conduction system pacing lead grew over 40%. In Defibrillation Solutions, we're seeing good early adoption of our innovative Aurora™ EV-ICD, which requires no leads in the heart. Now as more implanters complete their training, we expect EV-ICD sales to ramp and become a significant driver of CRM growth, taking share from the competitor's S-ICD system.

Next, in **Surgical**, we grew 5%. Our Advanced Energy product lines grew high-single digits on the continued launch of our Ligasure™ XP Maryland vessel sealer. We've now taken Energy share from our main competitor for six quarters in a row. Our Wound Management business also grew high-single digits, as strong sales of our V-Loc™ barbed sutures also resulted in continued share gains from our main competitor.

In Q4, we expanded the capabilities of our Touch Surgery™ digital ecosystem. Just as our AiBLE™ ecosystem is transforming Spine, Touch Surgery™ is transforming laparoscopic and robotic surgical procedures. We collect robust datasets from surgeries, including video, to create models that inject intelligence into these procedures. We launched 14 new AI-based algorithms on our Touch Surgery™ Performance Insights platform just at SAGES last month. These first-in-class algorithms automatically analyze surgical procedures from anatomy to critical structures, enabling surgeons to objectively assess performance. We also launched Touch Surgery™ Live Stream, which enables secure and seamless telepresence, including training and proctoring, from a procedure room to really anywhere in the world. Overall, adoption of our Touch Surgery™ ecosystem is accelerating, and it's becoming a very important differentiator for our Surgical franchise.

Now... turning to our Synergistic businesses… combined, they grew 5% in Q4. **Cardiac Surgery**, **ENT**, and **Endoscopy** all grew high-single digits. **Pelvic Health**, **Coronary**, **Peripheral Vascular**, and **Neuromodulation** all grew mid-single digits.

In Neuromod, Brain Modulation had an outstanding quarter, growing low-double digits. This was the first quarter of benefit from the launch of Percept™ RC with BrainSense™ technology, the only complete sensing-enabled DBS system on the market. Here we're seeing strong uptake and excitement for this exclusive technology, and it's extending our #1 leadership position in DBS in both Europe and in the US.

Our Neuromod business also received really great news at the end of Q4, with the US FDA approving the Inceptiv™ closed-loop spinal cord stimulator. The Inceptiv™ platform is a gamechanger in chronic pain therapy. The device automatically senses and adjusts stimulation, 50 times a second, 24/7, with no required interaction from the patient. And the therapy is delivered from the smallest and thinnest closed loop SCS device on the market, along with the best 3T and 1.5T full-body conditional MRI access. Given all these advantages will now be carried in the bags of our very large SCS salesforce, we expect Pain Stim to grow above market in the coming quarters.

Now let's cover the highlights from the businesses in our Highest Growth Markets. Combined, they made up 20% of revenue and grew high-single digits. And we expect that their contribution to overall growth will accelerate over the coming quarters as we launch new technology.

I'll start this quarter with **Cardiac Ablation Solutions**, which delivered 21% sequential growth in the quarter, including 23% in the US. This was driven by our Pulsed Field Ablation products, which are more than offsetting declines in our cryo product line. Q4 marked the first quarter of our PulseSelect™ PFA catheter launch. It's off to a great start, with strong adoption from both focal RF and single shot users.

As we expand the PulseSelect™ launch, we also continue to advance our robust pipeline of PFA technology. Last week, US pivotal data for our Sphere-9™ focal catheter were presented at HRS and published in *Nature Medicine*. These data were impressive, especially when you consider we were studying persistent AF patients, the most challenging to treat. We showed Sphere-9™ has an excellent safety profile, superior efficiency, and numerically higher freedom from recurrent Afib compared head-to-head with the market leading traditional RF ablation technology. Sphere-9 can perform both PF and RF ablation, as well as high density mapping, all from a single device. And we're looking forward to offering US clinicians this first-of-its-kind wide focal catheter.

The output of all of this is that we expect our CAS business to continue to accelerate its growth throughout the coming fiscal year as we increase our PFA account training and catheter production to meet the high demand. And over time, we expect our CAS business will reach market growth and then win share. And this will be driven by our PFA launches – and the pull through of our broader portfolio – treating the growing population of patients with AFib.

Next, in **Structural Heart**, TAVR continues to be a very important growth driver for Medtronic, and we grew high-single digits in the quarter. Structural Heart had two meaningful developments during Q4. First, data from our SMART trial was published in the *New England Journal of Medicine* and presented at ACC last month. SMART… well it clearly showed our valve was better than Edwards' Sapien™ in small annulus patients, who are primarily women. This is a large segment of the TAVR space, about 40%, which is larger than most realized. Now while it takes time to broadly change clinical practice and change customer contracting, we're seeing early signs from many loyal Sapien™ users that they expect to increase their usage of Medtronic valves, and we're building our business for that growth.

The second important development in Q4 was receiving US FDA approval for Evolut™ FX+, our newest TAVR valve. FX+ has large windows in the frame to allow easy coronary access, while providing the same exceptional valve performance of our Evolut platform. We've just started the limited launch now and are receiving really strong positive feedback from physicians. Full market release is expected in August.

When you consider our 4-year Low Risk data, our SMART data, and our new FX+ valve, we expect this combination to drive our TAVR growth at or above the market, especially as the FX+ launch ramps in our second fiscal quarter.

Turning to **Robotic Surgical Technologies**… we're establishing a strong foundation here, and we continue to expand the Hugo™ system install base. In the US, we are nearing completion of our Urology pivotal trial. We also have now started enrollment in two new indication studies: Hernia and Gynecology. In addition, our development teams are making progress bringing our advanced surgical technologies to Hugo™, such as ICG and our Ligasure™ vessel sealing technology.

In **Diabetes**, our team delivered another strong quarter, growing 11% globally. In the US, we grew 12%, as the rollout of the MiniMed™ 780G system continues. New US users doubled year-over-year again this quarter. And since launch, we've seen a significant increase in CGM attachment rates, resulting in high-teens growth in US CGM revenue in Q4.

Users are choosing our differentiated 780G system for the outcomes it delivers, all with less effort and less burden. 780G is the only AID system that provides both basal insulin adjustments and correction doses every 5 minutes. It offers flexible glucose targets as low as 100 and features our proprietary Meal Detection™ technology. This all leads to 780G users achieving a high time-in-range, as well as spending more time in automation with our SmartGuard™ technology.

In Europe, we began the limited launch of Simplera™ Sync with 780G, and we're preparing for commercial launch this summer. The early users and their healthcare providers are giving us fantastic feedback. Simplera™ Sync is half the size of our current sensor, is disposable, and it's a lot easier to put on. And in the US, I'm pleased to announce that we have now submitted Simplera™ Sync to the FDA.

Look, the turnaround in Diabetes is palpable and now becoming a sustained growth story. We are committed to getting the business back to market leadership. This is why we are investing heavily in expanding indications for 780G system and developing next generation, differentiated technology. This includes durable pumps, smart pens, patch pumps, CGM, and software and algorithms. You've seen us execute a steady drumbeat of submissions, product approvals, and expanded indications… and this is a cadence we expect to continue. We're the only company building out a complete ecosystem of leading technology for patients who require intensive insulin management. We believe this strategy positions us well and will drive our growth as the market continues to shift to Automated Insulin Delivery and Smart Dosing.

Finally, turning to **Hypertension**, we believe Symplicity™ will become an important growth driver for Medtronic. Since gaining approval last year, we've been training physicians, and we're getting very favorable feedback from both clinicians and patients. We've also been working very closely with both CMS and private payers in the United States, and expect to make significant progress on coverage and payment here in fiscal '25. With over 1 billion people worldwide living with hypertension, and every 1 percent penetration into the target market is over a billion dollars of revenue, our Symplicity™ procedure represents a massive opportunity.

Now with that, let's go to Karen for a deeper look at Q4 financial performance and our fiscal '25 guidance. Karen, over to you.

Karen Parkhill

Thanks Geoff. So recapping our financials, the fourth quarter was yet another where we delivered on our commitments, growing 5.4%, ahead of expectations. We continue to drive durable, mid-single digit revenue growth – as committed – with more than 5% in fiscal '24. Importantly, we accelerated our comp-adjusted growth every quarter. And, adjusted EPS in the fourth quarter was $1.46, at the upper end of our guidance range and exceeding consensus.

The strength of our global business was apparent, with broad-based growth around the world. As I noted last quarter, we expected our US growth to improve as we launched new products, and we delivered that with mid-single digit growth. Our non-US developed markets also grew mid-single digits, including 7% growth in Western Europe and 5% growth in Japan. And, Emerging Markets remained strong, growing 13% and now comprises 18% of our total revenue.

Looking down the P&L, our adjusted gross margin was roughly stable at 65.8%, as our cost-out programs offset inflation. And, our adjusted operating margin declined slightly more than expected, given higher sales incentives on the higher revenue, along with increased investments we've made in SG&A to support upcoming product launches. That said, we delivered operating profit in-line with expectations.

We also continued to drive strong improvement in our free cash flow during the quarter, as we focused across the organization on working capital. In fact, our free cash flow increased by 14% over last year to $5.2 billion, with a conversion rate well north of 100% in the back half of the year. Looking ahead to fiscal '25, we expect to continue to drive a year-over-year increase in both free cash flow and our conversion rate.

Turning to capital allocation, our robust balance sheet allows us to operate from a position of strength. As you know, we prioritize both investing in our future growth and returning capital to our shareholders. We continue to evaluate tuck-in M&A opportunities against a high bar as we prioritize profitable growth. And to our shareholders, we remain committed to returning a minimum of 50% of our free cash flow. In fact in FY24, we returned $5.5 billion through both dividends and share repurchases. And over the past few months, we've repurchased over $2.5 billion in the open market, reflecting the confidence we have, as we finalized our plan, in our ability to deliver ahead.

This confidence is also evident in the decision by our Board to increase our dividend for the 47th consecutive year, which we announced this morning. The yield from our growing dividend is an important component of the total return we generate for our shareholders. It's worth noting that we've been able to grow our dividend by 30% over the past 5 years and 130% over the past decade.

Now, turning to guidance…

After six quarters in a row, we've firmly established a track record of delivering durable, mid-single digit revenue growth. And as Geoff mentioned, we're at the beginning stages of many new product cycles that enable confidence in our topline.

Given this backdrop, we'd have you start the year modeling our fiscal '25 organic revenue growth at 4 to 5%, including 4 to 4.5% in the first quarter. Our product launches will be ramping through the year, so we expect revenue growth to accelerate through the quarters as well. By segment, we'd expect our three portfolios to be roughly aligned with the corporate average, and Diabetes to grow above the corporate average.

Our organic growth guidance continues to exclude revenue reported in Other, as well as foreign exchange, and I'd direct you to the Guidance slide in our earnings presentation for additional details.

Regarding currency, based on recent rates, we would see a full year unfavorable impact to revenue in the range of $275 to $375 million, including an unfavorable impact of $85 to $135 million in the first quarter.

Down the P&L, we expect expansion in our operating margin, as we drive efficiencies in our overhead spend. At the same time, we continue to appropriately invest in R&D to drive future growth. Taking all of this together, we're guiding our fiscal '25 non-GAAP diluted EPS in the range of $5.40 to $5.50, including $1.19 to $1.21 in the first quarter. This includes an unfavorable 5% impact from foreign currency for the full year, with an unfavorable 6% impact in the first quarter, based on recent rates.

Our fiscal '25 outlook reflects our commitment to restore our earnings power, with EPS growth at the midpoint of about 5%. Importantly, at current rates, the impact from currency lessens through the year, so we expect to be ending the year with high-single digit EPS growth on a reported basis, in line with our longer-term objective.

Now, as we close this important fiscal year, I want to take a moment to express my gratitude to the employees of Medtronic around the world. The important results we delivered this year are all due to your hard work, dedication, and commitment to Medtronic and our Mission. Thank you for being the driving force behind our success.

Geoff – sending it back to you.

Geoff Martha

Alright. Thank you, Karen. Now before we go to the analysts' questions, I'll close with a few brief remarks.

I hope you're feeling what we are… that the momentum at Medtronic is building. Momentum that was set in motion by the comprehensive transformation we embarked on a few years ago. We streamlined our operating model. We put in place a performance-driven culture, and we changed incentives. We brought in new leaders. We improved how we allocate capital. And we've started the work of driving significant operational efficiencies to leverage our scale.

This transformation is taking hold, and you're seeing it in our results… and just in time for a very important Medtronic milestone. We're celebrating our company's 75th anniversary this year! It was back in 1949 that a medical electronics repair business was started in a garage in Minneapolis. Now certainly a lot has changed over the past 75 years. But what hasn't stopped, from the humble beginnings in that garage, is our spirit of innovation, and our dedication to delivering life-transforming health technology that alleviates pain, restores health, and extends life.

As we celebrate our past, we are even more excited about our future! That legacy of invention and market creation continues today, and you see it. You see it with our PFA products in Afib, our sensing products in Neuromodulation, our 780G, and Simplera™ Sync system. You see it with our robotics, with our Evolut™ TAVR system, and our Symplicity™ hypertension procedure… and the dozens of new products across our businesses. Our pipeline of breakthrough innovation is impressive, and I'm incredibly excited about the impact that these products will have on patients, physicians… and our performance.

It's these new product cycles – combined with exposure to secular growth markets and an aging population – that put us in a great spot to continue delivering durable revenue growth. And when you add this to our improving earnings power, our strong free cash flow, and dividend growth… you have a great formula for creating shareholder value.

Finally, I'd like to join Karen in expressing my gratitude to our employees watching today. We've been through a lot of change, but through it all, your unwavering focus on our Mission and performance has propelled our company forward. Your contributions matter, not just for Medtronic, but for the millions of patients around the world that depend on us. And as we continue to innovate and grow, I'm confident that together, we will achieve even greater heights in fiscal '25.

So 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 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 and President of the Medical Surgical Portfolio;
- Sean Salmon, EVP and President of the Cardiovascular 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.

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 Q1 earnings broadcast – which we anticipate holding on Tuesday, August 20th – where we'll update you on our progress against our strategies and commitments. So, with that, thanks for spending time with us today and have a great rest of your day.