Medtronic

FINAL

Q1 FY25
Earnings call commentary

Ryan Weispfenning

Good morning, and welcome to another Medtronic earnings day. 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 '25 first 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, chairman and chief executive officer, and Gary Corona, interim chief financial officer. Geoff and Gary will provide comments on the results of our first quarter, which ended on July 26, 2024, and our outlook for the remainder of fiscal year '25. 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, divisional and geographic revenue summaries, and non-GAAP reconciliations. 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 and first quarter revenue in the current and prior year reported as "Other."
- References to sequential revenue changes compare to the fourth quarter of fiscal '24 and are made on an "as reported" basis.
- All references to share gains or losses are on a revenue and year-over-year basis, and compare our first fiscal quarter against our competitors' second calendar quarter.
- 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 thanks for tuning in today. As you saw in our results, we're exceeding our commitments and increasing our outlook for the rest of the year. This is now our seventh quarter in a row of delivering mid-single digit revenue growth. And we drove earnings growth, increasing adjusted EPS to 3% on a reported basis and 8% constant currency. And we're tracking to delivering high-single digit EPS growth on a reported basis as we exit the fiscal year.

Our underlying markets are healthy, we're driving operating rigor, and new product innovation is fueling our diversified growth across many large, secular growth markets that matter. At the same time, we continue to invest in our pipeline, which we expect to drive growth in the short-, medium-, and the long-term. We're at the front end of many new product cycles, in markets like Diabetes, Pulsed Field Ablation, TAVR, Neuromodulation, Hypertension, and Robotics.

We're focused on driving scale across our manufacturing, technology, and commercial organizations, and making progress on our ongoing portfolio management work. Now as we deliver innovation – and continue to execute on our transformation – this will lead to strong returns for our shareholders.

Now, let's turn to the details of our Q1 results and discuss our performance. Looking first at our Highest Growth businesses… combined, they grew 8% and made up 21% of our revenue. We expect their contribution to our overall growth to increase in the coming quarters as we continue to launch new technology.

Starting with **Cardiac Ablation Solutions**… we're at one of those moments in MedTech where a new technology is causing a rapid shift in the treatment of a disease. In this case, PFA is that technology for Afib . We've been investing in and developing this technology over many years. We're well positioned here, and we're confident in our ability to execute and take advantage of this opportunity.

In-line with what we said last quarter, our CAS growth rate accelerated in Q1, growing over 6%. We're seeing rapid market adoption of our PulseSelect™ PFA catheters, and its growth is more than offsetting cryo declines. The PulseSelect™ launch has been successful, with more than 550 physicians in 20 countries having treated over 10,000 patients. To meet the strong market demand, we're dramatically increasing our PulseSelect™ catheter manufacturing capacity and expanding into new accounts. As a result, we expect PulseSelect to meaningfully accelerate our overall CAS growth rate through this fiscal year, including a strong acceleration in Q2.

And then, we have our highly differentiated Sphere-9™ focal catheter. This all-in-one catheter can perform high density mapping, as well as pulsed field and RF ablations.

We expect Sphere-9™ will allow us to capture more revenue per procedure, as it will take the place of other competitors' mapping and RF catheters. We're in limited launch in Europe, and we've submitted to FDA for approval earlier this calendar year. As we launch and scale Sphere-9™ and our Affera™ mapping system, we expect our CAS growth will accelerate even further over time, as we reach and then exceed market growth in this large and fast growing, $9 billion cardiac ablation space.

Next, in **Structural Heart**, we continued to deliver high-single digit growth, excluding the impact of our Harmony™ pulmonary valve that we re-launched last year. During the quarter, we started with the limited US launch of our Evolut™ FX+ TAVR valve, and have now begun full market launch this month. FX+ is important for two reasons. One, it allows for easier coronary access due to the large windows in its frame. And two, it creates an additional opportunity to reiterate our positive SMART trial results with our customers. SMART showed our superior valve performance in small annulus patients, who are primarily women, and this was just another proof point in our broader focus on health equity. The SMART patient population is sizeable, making up about 40% of the TAVR space. With this combination of FX+, our superior 4-year low risk data, and SMART data, we expect to continue to grow at or above market in the quarters ahead.

In **Surgical Robotics**… we're investing and building a foundation for future growth. In Q1, our install base continued to grow and utilization per system steadily increased. And in the US, we've now achieved the targeted enrollment for the EXPAND URO trial. This is a meaningful milestone. And beyond that, enrollment and procedures in our other two US indication studies, Hernia and Gynecology, are going well. We also continue to make progress bringing our advanced surgical technologies to Hugo™, such as ICG fluorescent imaging and Ligasure™ vessel sealing.

Next, in **Diabetes,** we had another strong quarter, growing 13%, with double digit growth in both the US and international markets. In the US, we've reached the one-year milestone of the launch of the MiniMed™ 780G AID system. We're driving high-single digit growth in pump revenue, and over 30% growth in CGM revenue with our high CGM attachment.

In international markets, we initiated the full market release of the Simplera Sync™ sensor, and we're getting… we're just getting great feedback on the ease of insertion and its usage. This adds to the already high satisfaction of our 780G system, where we've been the #1 rated AID system by dQ&A for the past two quarters.

So we're confident in Simplera™ and our CGM pipeline. And to add to this, two weeks ago, we announced our global partnership with Abbott, where we'll bring to market an integrated CGM based on Abbott's most advanced CGM platform. The sensor will integrate exclusively with our AID and Smart MDI systems. It will also allow us to offer more choice to patients, increase our installed base, and grow our Diabetes revenue. And we expect to do this while maintaining the same revenue per patient and being neutral to Diabetes gross margin. Look, we're committed to being #1 in the fast-growing AID and Smart MDI space, and this partnership will help ensure just that.

Now turning to **Hypertension** … securing broad reimbursement remains key to unlocking the opportunity to our Symplicity™ blood pressure procedure. We were pleased that CMS has finalized the inpatient payment, and has now proposed an outpatient payment. And we continue to engage with CMS at the national and local levels to establish coverage, a key enabler so that this therapy can reach patients.

Now this is important, as hypertension affects more than 1 billion people globally – and nearly half of all US adults. Despite the availability of numerous classes of pharmaceuticals, only 1 in 4 adults in the US have their hypertension under control. Furthermore, more than 700 thousand deaths in the US every year are directly attributable to hypertension. And the burden of hypertension costs the US healthcare system between $100 and $200 billion a year. So, you can see why there's just an important role for our Symplicity™ procedure to cost-effectively improve public health.

Now, turning to our Synergistic businesses, **Neuromodulation** was a highlight this quarter, growing 10%, well above the market. This is a business where the investments we've made over several years in sensing technology in the brain and the nervous system are now paying off. Sensing and closed-loop technology is becoming foundational for the Neuromod space, it's reinvigorating these markets, and we have a clear lead. First, in Pain Stim, we grew 11%. This was the first quarter of our Inceptiv™ launch in the US. Inceptiv™ is our first closed-loop spinal cord stimulator, and it's transforming the way we treat chronic pain. 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 the thinnest closed loop SCS device on the market. It also has the best full-body conditional MRI access.

The other big driver of Neuromod growth was our Brain Modulation business, which grew 14% on the continued launch of Percept™ RC with BrainSense™ technology. Percept™ transmits electrical signals to specific brain targets affected by debilitating neurological disorders, like Parkinson's. It then captures and records these signals, equipping physicians with the valuable data and the insights needed to personalize the therapy. And just last week, we became the first and only DBS company to receive FDA approval to offer DBS surgery while the patient is asleep. Now this innovation means a less stressful surgery for the patient, and potentially shorter procedure times. We look forward to continuing to advance our leadership position in Brain Modulation.

Now, looking at our Established Market Leaders… combined, they made up just under half of our revenue and grew 5%. Collectively, we can rely on this diversification not only for reliable revenue growth, but also their disproportionate contribution to our profits and cash flow that we can then invest in higher growth areas.

Cardiac Rhythm Management grew high-single digits, with high-single digit growth in Defibrillation Solutions and low-double digit growth in Cardiac Pacing Therapies. Our Micra™ leadless pacemaker franchise grew over 20%, as the market continues to adopt our latest generation of devices.

In **Surgical**, we grew low-single digits. This was lower growth than prior quarters, primarily driven by the difficult comparison from backorder fulfillments in the first half of the last fiscal year, as well as the Korean market slowdown from the ongoing physician strikes. Now we expect that Surgical will return to more normalized growth in the back half of the fiscal year as these comparisons ease.

And in **Cranial & Spinal Technologies**, we grew mid-single digits. Our Spine business continues to just really outperform the market, with 7% global and 9% US Core Spine growth. This sustained share capture is being driven by our AiBLE™ ecosystem. AiBLE's differentiated features, and the sheer scale around the world, it's a winning formula for our Spine business. It's good for patients and surgeons, and it's changing the competitive dynamics in Spine. AiBLE™ is helping us win share, and attract the best sales reps and distributors to join our Medtronic team.

With that, I now want to welcome Gary Corona, our interim Chief Financial Officer, to his first Medtronic earnings broadcast. Gary is taking over for Karen Parkhill, to whom we wish all the best as she starts her next chapter. Gary joined us a little less than 2 years ago after an impressive career with General Mills. He's been leading our Corporate Finance team and has been instrumental in enhancing both our capabilities and our rigor… which has been a key enabler to our beats and raises. And as he's stepped into the role, we haven't missed a beat. So I want to welcome Gary.

Gary Corona

Thanks, Geoff. And I, too, want to thank Karen for all her contributions to Medtronic and her support of me personally. I'm energized to step into this role and continue the momentum that we have as a company. I'm honored to lead our talented global finance team, and want to send a big thank you to the entire Medtronic organization for your support. I've been able to hit the ground running, and I'm excited to work together with Geoff and the leadership team to drive performance and achieve our financial commitments. I'm looking forward to having conversations with many of you in the investment community over the coming weeks.

Now, I'll recap our Q1 financials and give you some additional details on our outlook. We started this fiscal year by continuing to deliver on our commitments, with revenue growth at 5.3%, a full point above the midpoint of our guidance. This translated into EPS that was 3 cents ahead of our guidance midpoint.

We're driving diversified growth, and you can see this strength come through when you look by business or by geography, as both new product innovation and commercial execution is fueling our results. Our Cardiovascular portfolio accelerated to high-single digit growth, and we saw continued momentum in Neuroscience and Diabetes. Our US growth also accelerated on contributions from Cardiac Rhythm Management, PFA, and Neuromodulation. And our International markets grew in the high-single digits, including mid-teens growth in Emerging Markets.

Moving down the P&L, our adjusted gross margin was 65.9%, down 50 basis points, but ahead of expectations. As expected, the decline was entirely driven by the 80 basis point impact of currency. However, we continue to make progress on our underlying margin improvement activities. In Q1, pricing from our new innovation and our cost out programs offset inflation, resulting in a 30 basis point increase in our gross margin on a constant currency basis.

Our adjusted operating margin was 24.4%, in-line with expectations. This was a decline of 40 basis points versus last year, but up 60 basis points in constant currency.

Turning to capital allocation, our philosophy hasn't changed. We continue to balance investments for future growth, including tuck-in M&A, with returning capital to shareholders, primarily through our dividend, and from time-to-time, through opportunistic share repurchases. This calendar year, we've seen a significant value opportunity in our shares and allocated more capital to share repurchase. Since our Q4 earnings call in May, we repurchased an incremental $1.5 billion of our shares, and in total $4 billion over the past 2 quarters. We believe these buybacks will have an attractive return, given the conviction we have in growing our revenue, earnings and free cash flow. And as we go forward, we'll continue to focus on tuck-in M&A.

Now, let's cover guidance…

Given our Q1 outperformance and positive momentum, we're raising our full year revenue and EPS guidance. We now expect fiscal '25 organic revenue growth of 4.5% to 5%, an increase from the prior range of 4 to 5%. For Q2, we're expecting to deliver another quarter of mid-single digit growth on the top-line, and we'd have you model organic revenue growth of approximately 4.5%. Based on recent rates, FX would have an unfavorable impact to fiscal '25 in the range of $110 to $210 million, including $10 to $60 million in the second quarter.

Moving down the P&L, we continue to expect our operating margins to expand this year, as we drive efficiencies while also investing behind our product launches and in our long-term pipeline. And based on recent rates, currency becomes much less of an impact to our margins and bottom line after the second quarter.

Taking this all together, we're raising our fiscal '25 non-GAAP diluted EPS guidance to a new range of $5.42 to $5.50, an increase from the prior range of $5.40 to $5.50. For the second quarter, we expect EPS of $1.24 to $1.26. The fiscal year '25 guidance range continues to include an unfavorable 5% impact from foreign currency, including an 8% impact in Q2. Further details on our annual guidance can be found in the Guidance slide in our presentation.

To wrap up, I want to emphasize that we are laser focused on driving topline growth and restoring the earnings power of the company. You saw that in our Q1 results, and you see it in the outlook for the rest of the year. We expect our EPS growth to accelerate in the back half as the impact of currency lessens, exiting the year with high-single digit growth.

Geoff – back to you.

Geoff Martha

Thanks, Gary. Now before we go to the analysts' questions, I want to close with a few thoughts.

Since becoming CEO, we've made a lot of changes to this company ... all designed to improve performance. Chief among these strategies is how we allocate capital to disproportionately focus our R&D, our venture, and our M&A investments on the highest growth market opportunities, while still making sure our other businesses are competitive. And now you're seeing the payoff, as we are at the front end of some exciting new product cycles. You're seeing it in Diabetes and in Neuromodulation… in TAVR and PFA. And as I look at our pipeline, I expect this momentum to continue, as we invest heavily in future growth opportunities like Hypertension and Surgical Robotics.

We've also been working on the fundamentals. The foundation of this company is now much stronger. Quality and operations are in a better spot, and we're investing in enhancing our digital capabilities across the company to improve our speed. We're playing more offense. We're building capacity in strategic growth areas.

We're looking to further increase organic investments and are on the hunt for the right tuck-in M&A opportunities. We've integrated a performance-driven mindset and an incentive structure that reinforces this. And, in some cases, we've changed leadership, to add increased operating rigor to our Mission-driven culture.

Now taken all together, this is now translating into the top line growth momentum and improved earnings power that you're seeing in our results. And as we continue to execute, this will create meaningful value… for society and for shareholders.

Finally, I'd like to thank all of our employees around the world. I realize that we've driven a lot of change, and that can be uncomfortable. I appreciate all that you've done to embrace these changes… and it is rewarding to see your efforts paying off. As we look to the next 75 years of Medtronic, I'm excited about the possibilities before us. Together we're building a stronger and more resilient company. So thanks for all that you do to fulfill our Mission and to serve patients.

<PAUSE>

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, Gary, 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…

Ryan Weispfenning

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

Geoff Martha

OK. Thanks for the questions. We appreciate your support and continued interest in Medtronic. We hope you'll join us for our Q2 earnings broadcast, which we anticipate holding on Tuesday, November 19th – that's the week before Thanksgiving in the US this year – where we'll update you on our progress against our long-term strategies and commitments. So, with that, thanks for joining us and have a great rest of your day.