Medtronic

FINAL

Q2 FY25
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 for our fiscal '25 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, chairman and chief executive officer, and Gary Corona, interim chief financial officer. Geoff and Gary will provide comments on the results of our second quarter, which ended on October 25, 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 second quarter revenue in the current and prior year reported as "Other."
- References to sequential revenue changes compare to the first quarter of fiscal '25 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 second fiscal quarter against our competitors' third 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. Our momentum is building as we keep executing on our commitments, delivering yet another quarter of strong results that came in ahead of expectations, and another guidance raise. This makes it eight quarters in a row now of solid, mid-single digit organic revenue growth. And we translated that 5% organic topline growth into 8% EPS growth on a constant currency basis, and we remain on track to deliver high-single digit EPS growth on a reported basis in the back half of the fiscal year.

We know that innovation matters, and innovation is what is really driving our growth today across multiple areas. We're seeing strong performance from franchises like

TAVR, PFA, Leadless Pacemakers, Diabetes, Spine and Neuromodulation – just to name a few. And we're confident that this diversified growth will keep going, especially with the strength of our pipeline in high-impact markets like hypertension, which is a big, exciting opportunity for us.

If you look at our recent performance, it's clear: the foundation of the company is much stronger. We've integrated a real performance mindset alongside our mission-driven culture, and it's making a difference. And as we continue to drive durable topline growth… use our scale to deliver leveraged earnings… generate strong free cash flow… pursue smart tuck-in M&A… and grow our dividend… we're setting ourselves up to create strong, long-term returns for our shareholders.

Now, let's turn to the details of our Q2 business results and discuss our performance. Looking first at our Highest Growth businesses… combined, they grew 8% again this quarter and made up 20% of our revenue.

Starting with **Structural Heart**… we grew high-single digits on the strength of our TAVR franchise. In the US, we launched Evolut™ FX+, and we're seeing strong customer adoption. We also received CE Mark for FX+ last month and began commercializing in Europe last week. FX+ is important not only for the lifetime management benefit it offers, but also because it creates an additional opportunity for us to reiterate our positive SMART trial results. Now you'll recall that SMART demonstrated our superior valve performance in small annulus patients, who are primarily women. And they make up about 40% of the TAVR segment. With this combination of FX+, low risk data, and now SMART data, we expect to continue to grow at or above market in the quarters ahead.

Next, in **Cardiac Ablation Solutions**, our technology is helping to drive the rapid shift of the market to Pulsed Field Ablation. We've been significantly expanding our manufacturing capacity to meet this growing demand, and we're well positioned as the only company with both single-shot and focal PFA catheters. We continue to drive our growth of our PulseSelect™ PFA single shot catheter. This is offsetting cryoablation declines, and our rate of cryo sequential decline significantly improved versus what we saw in Q1. With PFA this quarter, we nearly doubled the number of physicians using PulseSelect™. And we more than doubled the total number of patients treated with this catheter in Q2. That said, our overall CAS growth did not accelerate as expected this quarter, due to a third-party component supplier interruption. They've now expanded capacity, allowing us to continue to ramp PulseSelect™ availability and activate new accounts.

On top of PulseSelect™, we were pleased to receive FDA approval late last month for our Affera™ Mapping and Ablation System and Sphere-9™ focal catheter. This all-in-one catheter was designed from the ground up to perform high density mapping, as well as pulsed field and RF ablations. Sphere-9™ replaces competitors' mapping and RF catheters, allowing us to increase our revenue per case. We're ramping commercial availability now, having already entered some of the top US centers by volume, and this will accelerate over the coming weeks and quarters to meet the significant demand. And we continue to rapidly hire mapping specialists in advance of entering new centers, giving us confidence in our ability to accelerate account activations.

With the strong customer response to the breadth of our new PFA portfolio, we expect our overall CAS growth rate to accelerate through the back half of the fiscal year, including strong, double digit growth in Q3. And we expect to reach and then exceed market growth in this large and fast growing, $9 billion cardiac ablation space.

Next, in **Surgical Robotics**… we continue to invest in our Hugo™ platform, building a strong foundation for future growth. In the US, we've completed capturing the necessary data for our urology submission, and expect to file with the FDA in the first quarter of calendar '25. We're also seeing fast enrollment in our next two U.S. indication studies, Hernia and Gynecology. In Digital, we commenced commercial rollout of our Touch Surgery™ Live Stream remote connectivity solution across the US and Western Europe – as we continue to digitize operating rooms globally. And we're making progress bringing our advanced surgical technologies to Hugo. We expect ICG fluorescent imaging to be available in certain countries soon, followed by adding our market-leading Ligasure™ vessel sealing technology to Hugo next calendar year.

Next, in **Diabetes**, we delivered another quarter of double digit growth, growing 11% despite more difficult comparisons from the 780G U.S. launch last year. Our CGM sales grew over 20% in both the US and international markets, driven by the high CGM attachment rates to the 780G. In addition, our Simplera Sync™ sensor, which is half the size and much easier to apply than our previous sensor, is gaining strong acceptance in international markets. On the Smart MDI front, we just secured FDA clearance for our InPen™ App, which paves the way for a limited US release of our Smart MDI system with our Simplera™ CGM.

So we continue to add new patients with the 780G system. The majority are coming from MDI, and we're also seeing success from our competitive switch programs. Patients are attracted to 780G's highest time-in-range of any commercial AID system, and achieving this control with less burden. In the dQ&A survey of over 1,500 AID users in the US, the 780G had the highest user satisfaction of any AID system, including scoring 20 percentage points higher than the Tandem/Dexcom combination, and 25 points higher than the Insulet/Dexcom combination.

We're investing heavily in Diabetes to expand manufacturing capacity and advance our robust technology pipeline, including our partnership with Abbott on an integrated sensor. These activities support our strategy to be #1 in the fast-growing AID and Smart MDI space, with a technology ecosystem that is focused on achieving better control with less burden.

Now turning to **Hypertension** and the large future growth opportunity of our Symplicity™ blood pressure procedure… With a proven track record of long-term efficacy and safety, and unique design, this innovative solution is poised to transform hypertension management. We're pleased that CMS earlier this month finalized the outpatient transitional pass-through payment, which will take effect on January 1st. With coding and sufficient Medicare payment now in place, the key step for broader adoption is to establish standardized coverage. On this front, we continue to engage with CMS to facilitate access for patients to this important therapy. And we're working with private payers to advance coverage as well.

Hypertension is a global health challenge and the leading cause of cardiovascular disease and premature death worldwide. In fact, it impacts more than 1 billion people globally, including nearly half of all US adults. Despite the availability of numerous medications, only 1 in 4 adults with hypertension in the US have it under control. And the direct costs to the US healthcare system for hypertension are massive: somewhere between $100 and $200 billion a year. So our Symplicity™ procedure can play a very important role in cost-effectively improving public health.

Now, looking at our Established Market Leaders… combined, they made up nearly half of our revenue and grew mid-single digits. In many cases, we've innovated on the technology and business models to reinvent these businesses over the past few years. And we continue to invest in them to ensure durable growth. They are a key part of our financial model, helping us to consistently deliver on the top-line, and they contribute a disproportionate amount of profit and cash flow.

In **Cranial & Spinal Technologies**, we grew 6% worldwide, including 7% growth in US Core Spine and Biologics. In a market that rewards scale, we're continuing to win. This is driven by our leading AiBLE™ ecosystem of differentiated spine implants and enabling technologies, including AI-driven pre-op planning software, imaging, robotics, navigation, and powered surgical instruments. Our large, global AiBLE™ install base is changing the competitive dynamics in Spine, and we continue to expand its features and its capabilities. At the NASS conference in September, we announced a new partnership with Siemens Healthineers to co-market and integrate their imaging technologies for spine care.

We expect CST to continue to deliver sustained, above market growth, with AiBLE™ and its differentiated, best-in-class solutions attracting not only spine surgeons around the world, but also the best sales reps and distributors, who continue to leave the competition to join our winning team.

Next, in **Surgical**, we had flat results. As I mentioned last quarter, we had difficult year-over-year comparisons given the supply recovery last year, as well as the Korean market slowdown from the ongoing physician strikes. It's worth noting that on a sequential basis, Surgical had strong, high-single digit growth, both globally and in the US. We had outsized strength in Advanced Energy, driven by accelerated adoption of our LigaSure™ XP Maryland vessel sealer. Overall, we continue to expect Surgical to return to more normalized growth starting next quarter as these comparisons ease.

In **Cardiac Rhythm Management,** we had another strong quarter, growing in the mid-single digits, including high-single digit growth in both Defibrillation Solutions and in Cardiac Pacing Therapies. Our Micra™ leadless pacemaker franchise grew high-teens, with broad strength around the world.

Now, turning to our Synergistic businesses, which collectively grew mid-single digits and represented over 30% of our revenue. The highlight again this quarter was **Neuromodulation**, where growth accelerated to 12% and the business continues to grow well above the market. We're seeing broad-based growth across product lines, including Pain Stim and Brain Modulation. In Pain Stim, we grew 10%, including 12% growth in the U.S. on the continued launch of the Inceptiv™ closed-loop spinal cord stimulator. The innovation in Inceptiv™ is transforming the treatment of chronic pain for patients. It automatically keeps therapy at the optimal dose, and allows patients to focus on everyday life, not on managing their chronic pain. In addition, it has the best full body MRI conditional access on the market, and the competition really isn't even close. This is important given that over 80% of these patients need an MRI within 5 years, and nearly all of them need one within 10 years.

In Brain Modulation, growth accelerated to 17%, the third quarter in a row of double digit growth. This innovation-driven growth is built on the ongoing launch of our Percept™ RC with BrainSense™ technology. Percept™ is having a huge impact for patients with movement disorders like Parkinson's, essential tremor, dystonia, and epilepsy. It not only delivers therapy to specific brain targets, but it is the only DBS system that captures and records brain signals. Now this equips physicians with valuable data and the insights needed to personalize the therapy. And, just like in Pain Stim, our DBS devices have differentiated MRI advantages versus the competition.

In addition to Neuromod, we also had strong performances in other Synergistic businesses. **Cardiac Surgery** grew 10%, with the broad strength coming from innovative products like our Avalus Ultra™ surgical valve, Penditure™ LAA exclusion system, and VitalFlow™ ECMO system. **Acute Care & Monitoring** grew 3%, including 9% growth in Nellcor™ pulse oximetry. And **Pelvic Health** accelerated its growth to 5%.

Now with that, let's go to Gary, who will give you a deeper look at our Q2 financial performances and our outlook. Gary, over to you.

Gary Corona

Thanks, Geoff.

We delivered a strong topline performance again this quarter, with revenue growth of 5%, 50 basis points above our guidance. On the bottom line, adjusted EPS was $1.26, a penny above the midpoint of our guidance. We continue to invest in our pipeline and behind our emerging growth drivers, while also delivering bottom line growth, which was up 8% on a constant currency basis. The EPS beat was driven by 2 cents from greater operating profit on the revenue beat – partially offset by 1 cent from tax.

The sources of our revenue growth continue to be diversified, both by business and geography, which gives us confidence in its durability. From a segment perspective, we had double digit growth in Diabetes, high-single digit growth in Neuroscience, and mid-single digit growth in Cardiovascular. The low-single digit growth in our Medical Surgical Portfolio was expected, given the comparisons in Surgical that Geoff addressed. It's worth noting that MedSurg grew 7% sequentially, and we expect to return to more normalized year-over-year growth starting next quarter.

From a geographic perspective, our international markets grew revenue high-single digits, including mid-single digit growth in Western Europe and Japan, and low-double digit growth in Emerging Markets.

Moving down the P&L, our adjusted gross margin was 65.2%, down 70 basis points, but in line with our expectations. The decline was entirely driven by foreign currency, as our adjusted gross margin was up 40 basis points on a constant currency basis. Our adjusted operating margin was 24.3%, also in-line with our expectations. The 90 basis point year-over-year decline was entirely driven by FX. On a constant currency basis, operating margins increased 100 basis points.

The organization remains extremely focused on improving our margins. We're more than doubling our underlying productivity on the COGS line through centralizing operations, consolidating factories and suppliers, and driving the Medtronic Performance System across our manufacturing network. We're also laser focused on pricing discipline and optimization, particularly behind our new innovation. At the same time, we're very early in a number of new product launches that aren't fully at scale, including Affera™, Simplera™, and Hugo™, which can create a mix headwind for us. That said, on the SG&A line, we're focused on growing it less than sales, like we did again this quarter, as we drive efficiency and productivity gains, particularly in our back-office functions. Given all the levers we have, we have line of sight to improving our margins over time while continuing to prioritize and make significant investments in our organic pipeline and product launches.

Now, regarding capital allocation… we continue to make choices and invest to drive future profitable growth, while also returning capital to shareholders, primarily through our dividend, and from time-to-time, opportunistic share repurchases. As I mentioned last quarter, we've increased our focus on tuck-in M&A. We're also continuing work to evaluate our portfolio. Overall, we view active portfolio management as an important lever to delivering on our long-term strategic and financial objectives.

Now, turning to guidance…

Given our continued outperformance and positive momentum, we're raising our full year revenue and EPS guidance. We now expect fiscal '25 organic revenue growth of 4.75 to 5%, an increase from the prior range of 4.5 to 5%. For Q3, 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 4.75%. Based on recent rates, FX would have an unfavorable impact to fiscal '25 in the range of $225 to $325 million, including $100 to $150 million in the third quarter.

Moving down the P&L, we expect our third and fourth quarter gross margins to improve sequentially as currency becomes much less of an impact. We also continue to expect our full year operating margins to expand, as we balance driving efficiencies with investing behind our product launches and in our long-term pipeline.

On the bottom line, we're raising our fiscal ’25 non-GAAP diluted EPS guidance to a new range of $5.44 to $5.50, an increase from the prior range of $5.42 to $5.50. For the third quarter, we expect EPS of $1.35 to $1.37. The fiscal year ’25 guidance range continues to include an unfavorable 5% impact from foreign currency, including an unfavorable 1% impact in Q3. Further details on our annual guidance can be found in the Guidance slide in our presentation.

So to conclude, we remain focused on restoring our earnings power, having just delivered another quarter of leveraged EPS growth on a constant currency basis. We continue to expect to report high-single digit adjusted EPS growth in the back half of our fiscal year, in line with our long-term commitment to deliver durable, mid-single digit organic revenue growth with EPS leverage.

Geoff – back to you.

Geoff Martha
Thank you, Gary. Now before we go to analysts’ questions, I want to close with a few thoughts.

We’re delivering durable, mid-single digit revenue growth, which we’ve been doing consistently now for two years. This is the direct result of all the changes we’ve made to the company over the past few years… from the resiliency of our operations and supply chain… to our performance incentive plans… to our culture and our people. We’ve also been investing to position ourselves in high growth markets. This has led to a wave of recent product approvals across many of our businesses. Look it’s exciting, and it creates a tailwind that this company hasn’t had in a while. We’ve been working hard to put ourselves in a position to win, with revenue growth tailwinds on top of a strong foundation… and now it’s up to us, it’s just up to us to execute and deliver on these opportunities.

And then as we go down the P&L, the significant work that we've been implementing to drive cost savings and earnings power will start to show up in our reported results in the back half of this fiscal year. And when our organization delivers strong earnings, we translate this into strong free cash flow. This creates a virtuous cycle, with incremental firepower for investment and returning capital to our shareholders. When you combine all of this with the work that we've been doing with portfolio management… we expect to deliver significant, long-term value for our shareholders.

Finally, I want to thank all our employees around the world. I know many of you are watching today, and it's because of your efforts, and those that came before you, that Medtronic has accomplished so much in the 75 years since this company was founded. Your work directly benefits the lives of over 78 million people this year. That's an incredible accomplishment. And when I think about the work you're doing to create our future… the innovations that you are inventing, engineering, manufacturing, and preparing to sell… this work has the potential to alleviate pain, restore health, and extend life for hundreds of millions of people and create tremendous value for many other stakeholders. Thank you for everything that you do!

With that, let's move to Q&A where we're going to try to get to 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 to the analysts for the questions. And to all of you that joined us today, we appreciate your support and continued interest in Medtronic. We hope you'll join us for our Q3 earnings broadcast, which we anticipate holding on Tuesday, February 18th – 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, and for those of you in the US, wishing you and your families all a very Happy Thanksgiving next week.