Investor Relations Commentary
Q4 FY14
May 20, 2014

Jeff Warren
Thank you, Lori. Good morning and welcome to Medtronic's fourth quarter conference call and webcast. During the next hour, Omar Ishrak, Medtronic Chairman and Chief Executive Officer, and Gary Ellis, Medtronic Chief Financial Officer, will provide comments on the results of our fourth quarter and fiscal year 2014, which ended April 25, 2014. After our prepared remarks, we will be happy to take your questions.

First, a few logistical comments: Earlier this morning we issued a press release containing our financial statements and a revenue-by-business summary. You should also note that some of the statements made during this call may be considered forward-looking statements, and that actual results might 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 filed with the SEC; therefore, we do not undertake to update any forward-looking statement. In addition, the reconciliations of any non-GAAP financial measures are available on the Investors portion of our website at Medtronic.com. Finally, unless we say otherwise, references to quarterly or annual results increasing or decreasing are in comparison to the fourth quarter and full fiscal year 2013, respectively, and all year-over-year revenue growth rates are given on a constant currency basis. With that, I am now pleased to turn the call over to Medtronic Chairman and Chief Executive Officer, Omar Ishrak.

Omar Ishrak
Good morning and thank you, Jeff, and thank you to everyone for joining us today.

This morning, we reported fourth quarter revenue of $4.6 billion, which represents growth of 3.3 percent, and Q4 non-GAAP diluted earnings per share of $1.12.

Before providing more detail on our Q4 performance, I would like to recap fiscal 2014. We grew our FY14 revenue 4 percent, which was in-line with our revenue outlook for the year, and just within our mid-single digit baseline goal. It represented another year of delivering consistent results. We made solid progress in a number of areas over the past year, including quantifying, communicating, and executing on each of our independent growth vectors[1]. Our first growth vector, new therapies, contributed 180 basis points of growth in FY14 as we launched several significant new products that provide tremendous patient benefit and will serve as important future growth platforms. In our emerging markets, we sustained double-digit growth, which contributed nearly 150 basis points to our overall revenue growth and represented 12 percent of our global business in FY14. Finally, on our third growth vector, services and solutions, we sharpened our focus on economic value, translating our efforts into new value-based business models, including our Cath Lab Managed Services and Cardiocom® offerings, which combined, contributed 30 basis points of growth and $51 million of incremental revenue. Healthcare payment and delivery systems are changing and evolving around the world. Through these efforts, we feel we are well positioned not only to respond to these system changes, but to demonstrate the role medical technology and related services can play in making these healthcare transformations successful[2].

Looking at the P&L, while we delivered a modest amount of SG&A leverage on an operational basis, we failed to meet our SG&A leverage goal for the year due to our Q4 spending, which I will address in a minute. However, on an operational basis, we did deliver 50 basis points of

operating leverage in FY14. Looking at our FY14 EPS, we were in the middle of our guidance range for the year, covering for the incremental pressure from the medical device tax.

Looking at free cash flow, we had a very strong year in FY14, generating $4.6 billion as we continued to deliver on our working capital improvement program. This translated into strong shareholder returns, as we met our goal of returning over 50 percent of our free cash flow to shareholders in the form of dividends and share buybacks.

Achieving these financial metrics ultimately reflect the dedication and passion of over 49,000 employees living our Mission every day, collaborating with our partners in healthcare to deliver therapies and services to millions of patients around the globe, alleviating pain, restoring health, and extending life[3].

Looking at our Q4 performance, while our 3 percent revenue growth was in-line with our full year revenue outlook, it fell just short of our mid-single digit growth baseline goal. However, it is worth noting that this performance was against a difficult comparison of 5 percent growth last year. Strong performances from some of our key high growth businesses – including the AF Solutions business in CRDM, DBS business in Neuromodulation, Surgical Technologies, and Diabetes – helped to offset challenges in other areas[4]. In Core Spine, the business showed stability again in Q4, consistent with our results all year. We also saw solid growth in our new services and solutions businesses: Cardiocom® and Cath Lab Managed Services. At the same time, our recently introduced new products continued to drive growth. The MiniMed® 530G System with the Enlite® sensor is taking meaningful share, resulting in strong U.S. Diabetes growth. In CRDM, we had a very successful global launch of Reveal LINQ™, a differentiated, miniaturized cardiac diagnostic monitor. This technology has been extremely well received by both patients and physicians and promises to be an important new tool in cardiac and stroke diagnostics. In Structural Heart, our U.S. launch of CoreValve® is off to a good start as we treat patients at extreme risk for surgery with this unique technology. We are excited about the momentum we see in all of these areas and the future growth that they represent.

We also faced some challenges in Q4. The U.S. Pacemaker and ICD markets were both a little slower than we were expecting. In addition, share gains in U.S. Pacing Systems were offset by share pressure in U.S. Defibs. In Spine, while our Core business excluding BKP posted modest growth, BMP and BKP declined, though both continued to show sequential stability. We are continuing to implement our plan to broaden our BKP product line, including adding new products in Interventional Spine. Chris O'Connell will share details of this with you at our upcoming analyst meeting. In BMP, as we pointed out on our last earnings call, we faced a difficult year-over-year comparison following the resolution of a supply disruption last year. In Neuromodulation, our Gastro/Uro business saw weaker than expected new patient demand in early calendar year 2014, which we believe was due in part to insurance changes for elective procedures in the U.S. We also continue to face some challenges from non-device alternatives. We have seen some recent improvement in new patient trends, and remain confident in our ability to demonstrate the unique value of InterStim® therapy as the basis for attractive growth in this business.

We had four major U.S. clinical data presentations in Q4: CRYSTAL AF, CoreValve for High Risk, Symplicity HTN-3, and IN.PACT Admiral DCB.
CRYSTAL AF was presented at the American Stroke Association's International Stroke Conference in February, where its compelling data demonstrated that our Reveal® cardiac

diagnostic monitor detected AF better in patients with recent cryptogenic strokes than standard care.

At ACC in late March, impressive results from our CoreValve High Risk U.S. pivotal trial were presented, showing superiority over surgical valve replacement at one year. In addition, the low mortality rates of our differentiated CoreValve® System in patients considered high risk for surgery exceeded expectations. I was at ACC, and many physicians shared with me their personal excitement regarding these groundbreaking results.

Also at ACC, we shared our analysis of the HTN-3 data for treatment resistant hypertension. While HTN-3 met its primary safety endpoint, it was disappointing that it did not meet the primary efficacy endpoint. We convened an independent panel of expert physicians and researchers to advise us on next-steps for our RDN program. Based on their input, we decided to continue to provide access to Symplicity® in countries where it is approved, and continue to enroll patients in the Global SYMPLICITY Registry. We are not abandoning the renal denervation opportunity. We will continue to glean insight from the HTN-3 trial and map a clinical and commercial path forward in collaboration with the FDA.

One week after ACC, the extremely positive results of our IN.PACT Admiral drug-coated balloon U.S. pivotal study were presented at the Charing Cross Symposium in London. This study showed patients with peripheral artery disease in the upper leg experienced significantly better outcomes at 12 months when treated with IN.PACT® Admiral® than those treated with standard balloon angioplasty. We are currently expecting FDA approval of the IN.PACT® Admiral® about this time next year, and believe the global market for DCBs could be a billion dollars by 2020, a driver of growth not only for our Endovascular business, but for overall Medtronic.

In Q4, our International business grew 5 percent and accounted for 47 percent of our total revenue. Emerging Markets delivered improved overall performance, growing 14 percent. Our Middle East & Africa region, in particular, had a very strong finish to the year, growing 29 percent. This was driven by strong execution on several tenders in a number of countries across all three business groups. Our channel optimization strategy also added to the performance in the region, as we recently became majority owners in a new collaboration with our largest distributor in Turkey. This transaction not only allows us to work more closely with providers in this important market, but also unlocks incremental margin. We intend to continue to identify and pursue similar channel opportunities to optimize our performance in Emerging Markets. Also, significant were our results in Greater China where we experienced a modest improvement in underlying market dynamics and grew 15 percent[5]. On the other hand, growth remained slow in our Central & Eastern Europe region, driven primarily by challenges in Russia. Healthcare spending has tapered in Russia, and did not improve as we expected due to the unforeseen geopolitical events. India, also, remained under severe pressure, declining 14 percent, as we continued to face challenges from the previously discussed termination of one of our largest coronary distributors. Going forward, we are focused on developing unique commercial and market development partnerships with different providers in order to drive rapid improvements in therapy access and improve our performance in India[6]. Despite the challenges in Russia and India, we are encouraged by the improved growth in Emerging Markets and remain confident in our long-term outlook.

Turning to the P&L, our SG&A expenses were higher than expected in Q4. Some of the additional spending was due to accelerated field investments that we decided to make given the strong new clinical data that was presented during the quarter. However, there was also a

component that was unexpected and, frankly, a surprise. This was clearly an execution issue, and something that should be controllable. I take execution misses of this nature very seriously, am disappointed with these results, and am taking immediate action with my management team to tighten up our spending control processes. Also in Q4, as in previous quarters, we had elevated levels of spending within Cost of Goods Sold to address quality system improvements in our Neuromodulation and Diabetes businesses. While we expect these costs to taper over time, we do expect them to continue in FY15. These efforts are costly, but they are non-negotiable and are critical to ensuring the highest level of quality and regulatory compliance. We will not curtail or minimize these needed investments to ensure our products meet their quality and performance obligations.

Finally, on a positive note, I am pleased with the way our global team executed on our working capital improvement programs, driving strong quarterly free cash flow of $1.2 billion.

As we look ahead to FY15, we remain focused on striving to reliably deliver on our baseline expectations. To achieve these goals, we need to continue the momentum we built in FY14 on our three primary strategies – therapy innovation, globalization, and economic value. We are confident that these strategies will further strengthen, diversify, and expand our market-leading competitive position. As I mentioned earlier, we are actively translating these conceptual strategies into three distinct growth vectors: developing new therapies, penetrating emerging markets with existing therapies, and building new independent services and solutions.

Starting with new therapies, we are poised to deliver a number of innovative products to the market, and expect them to generate 150 to 350 basis points of growth. In Structural Heart, the ongoing U.S. launch of CoreValve® and European launch of Evolut™ R will be significant contributors. We are pleased to announce today the global patent settlement with Edwards. This comprehensive agreement removes uncertainty for the next 8 years, allowing us to completely focus on providing access of our important CoreValve® technology to patients. We expect additional growth in our Cardiac and Vascular Group to come from Reveal LINQ™, TYRX®, and AF Solutions, as well as continued growth in Endovascular from our Aortic business and drug-coated balloons. In Spine, we are expecting a number of new Cervical and Interbody product launches, the ongoing adoption of Surgical Synergy℠, as well as continued stability in BMP and improvement in BKP. The RestoreSensor® SureScan® MRI in Neuromodulation, and new capital products in Surgical Technologies should also deliver solid growth performances in FY15. In Diabetes, the continued rollout of the MiniMed® 530G System in the U.S., and expected launch of the MiniMed® 640G in Europe, should result in another year of strong growth. It is worth noting that we are working collaboratively with the FDA to accelerate the U.S. timeline of our next-generation insulin pump system, and we are optimistic that we can bring this new technology to the market sooner than previously anticipated. We are mutually committed to advancing access to this important technology, with all of the requisite patient safety requirements being met, and we truly appreciate the agency's focus in this area. Finally, last week I appointed Hooman Hakami to lead our Diabetes group. Hooman is an outstanding leader, has a track record of driving growth, and I am confident that he will work to further strengthen our core insulin pump and CGM franchises, as well as realize the tremendous growth opportunities in the Type 2 market and in overall international expansion.

In our second growth vector, which is increasing the penetration of our existing therapies in emerging markets, we should see our momentum continue through not only our traditional market development activities, but also new business model innovation in the areas of channel optimization and broader partnerships with governments and private providers. We expect our

emerging market growth to accelerate in FY15, and contribute 150 to 200 basis points to our overall growth.

Our third growth vector, which is creating value-based services and solutions, is also expected to deliver incremental growth in the coming year, with a contribution in the range of 40 to 60 basis points. We are expecting Cardiocom® and Cath Lab Managed Services – which are reported in our CRDM results – to more than double in size in FY15.

Looking at our growth vectors, it is not unreasonable to expect a revenue growth acceleration of 50 to 150 basis points over what we delivered in FY14. However, given the dynamic nature of our marketplace, we feel that our revenue outlook of 3 to 5 percent is balanced and realistic. Ultimately, our goal is to build a business that is diverse and robust enough to absorb challenges, while still delivering on our baseline expectations, something that we feel we are beginning to do[7]. At our analyst meeting in a couple weeks, we will share in detail with you how we intend to deliver on our baseline goals. We will lay out for you our full pipeline of innovative therapies across all of our businesses, discuss the efforts we are making to develop and grow in emerging markets, and explain our innovative new business models and partnerships that we believe will help shape the future healthcare landscape. In addition, we will present a detailed look at our financials and update you on the progress we are making on our important product cost reduction and working capital initiatives.

Gary will now take you through a more detailed look at our quarterly results. Gary?

Gary Ellis
Thanks, Omar.

Fourth quarter revenue of $4 billion, 566 million increased 2.4 percent as reported or 3.3 percent on a constant currency basis after adjusting for a $39 million unfavorable impact of foreign currency. Q4 revenue results by region were as follows:

- Growth in the Middle East & Africa was 29 percent,
- Greater China grew 15 percent,
- Growth in Latin America was 13 percent,
- Other Asia Pacific grew 5 percent,
- Growth in Japan was 4 percent,
- Central and Eastern Europe grew 3 percent,
- Growth in the U.S. was 2 percent,
- the Western Europe and Canada region grew 1 percent, and
- South Asia declined 14 percent.

Emerging markets grew a combined 14 percent in Q4 and represented 13 percent of our total sales mix.

Q4 diluted earnings per share on a non-GAAP basis were $1.12, an increase of 2 percent. Q4 GAAP diluted earnings per share were $0.44, a decrease of 54 percent. This quarter's GAAP to non-GAAP adjustments included:

- an $85 million pre-tax net restructuring charge, primarily related to our renal denervation business, back office support functions in Europe, and global manufacturing consolidation;

- a $746 million pre-tax certain litigation charge, primarily related to our global patent settlement with Edwards and our INFUSE product liability settlement;
- a $13 million pre-tax charge related to acquisition-related items; and
- a $63 million benefit related to certain tax adjustments from the IRS resolution on certain items related to the FY09 through FY11 audit.

Regarding the Edwards litigation settlement, we recognized a $589 million non-cash, pre-tax charge, which is net of the amount previously accrued. This payment will be made using OUS cash. Our ongoing royalty rate will vary between geographies and periods of time depending on the applicable patents, with higher royalty rates in earlier years declining over time, and the minimum annual royalty payment is $40 million.

In our Cardiac and Vascular Group, revenue of $2 billion, 369 million grew 2 percent. Results were driven by growth in Structural Heart, Endovascular, and AF and Other – which included growth from Hospital Solutions and Cardiocom – partially offset by declines in Coronary and Defibrillation Systems.

CRDM revenue of $1 billion, 346 million grew 2 percent, and included $18 million of combined revenue from our Q2 acquisition of Cardiocom and Q3 acquisition of TYRX.

Worldwide High Power revenue of $734 million declined 2 percent. As we noted last quarter, we believe a better way to view the ICD and Pacing markets is on a rolling two-quarter basis given the variability in quarter-to-quarter dynamics. We estimate the global ICD market is flat to slightly down, a slight slowing from last quarter, with low-single digit declines in the U.S. offsetting low-single digit growth in International markets. We estimate we gained about a point of share internationally, offset by almost two points of U.S. share loss. In Europe and Japan, we continue to see strong adoption of our Viva™ XT CRT-D, with its AdaptivCRT™ algorithm and Attain® Performa™ quadripolar lead. In fact, in the two quarters since launching Attain Performa in Japan we have gained 12 points of CRT-D market share. Attain Performa improves on a competitor's first-generation quadripolar technology, and we expect to launch this product in the U.S. in FY15. Late in Q4, we received CE Mark for our Evera MRI™ SureScan® ICD, the first and only ICD system approved for full body MRI scans, and also began enrollment in the U.S. pivotal trial for this meaningful new technology.

Low Power revenue of $503 million was flat. On a rolling two-quarter basis, we estimate the global market is flat, a slight improvement from last quarter, with the U.S. market declining in the low-single digits, while the international market grew in the low-single digits. In Japan, Advisa MRI™ continues to perform well despite new competitive MRI product launches, as our share remains 500 basis points above our pre-launch level. Another positive driver of results this quarter was the strong global launch of Reveal LINQ™, which nearly doubled our diagnostics revenue. In Q4, we continued enrolling patients in our global clinical trial for Micra™, including enrolling the first patients in the U.S. and Japan. Data from this trial is expected to lead to CE Mark by the end of FY15, and will also be submitted for FDA approval. Micra™, the world's smallest leadless pacemaker, is a true innovation in pacing and features a novel delivery and fixation mechanism specifically designed for this new approach to prevent perforation and dislodgement, while still permitting repositioning and capsule retrieval.

AF Solutions grew over 20 percent, as we continue to gain share in the AF market. Results were driven by robust global growth of our Arctic Front Advance® CryoAblation System, which

grew over 30 percent. Our phased RF product line also returned to double-digit growth with the Q4 launch of PVAC® Gold in International markets, and we are enrolling our U.S. pivotal study.

Coronary revenue of $446 million declined 2 percent, driven by growth in DES offset by declines in bare metal stents and renal denervation. Worldwide DES revenue in the quarter was $288 million, including $99 million in the U.S. and $33 million in Japan. Our DES business grew 2 percent, outperforming the market as the Resolute® Integrity® drug-eluting stent continues to gain broad market acceptance. In the U.S., our DES share improved sequentially despite a competitor's ongoing product launch. We also saw strong DES growth in Japan as our long-length stents drove share gains.

In Structural Heart, revenue of $337 million increased 9 percent, driven by growth from our CoreValve® launch in the U.S. and continued growth of our transcatheter valve franchise in international markets. We estimate that the global TAVR market is growing in the high-teens. In the U.S., we have had a strong initial launch, with center activations tracking to our forecast. Now, with the Edwards legal matters behind us, we expect revenue to continue to ramp as we are able to open new centers and train physicians. High risk data from our CoreValve U.S. pivotal trial were presented at ACC and simultaneously published in the New England Journal in March, showing CoreValve® is the first and only TAVR system superior to open-heart surgery at one year. The FDA waived the need for a panel review, and we now expect U.S. approval for high risk patients this summer. In international markets, we are targeting the launch of the 26 and 29 millimeter versions of CoreValve® Evolut™ R, our next-generation recapturable TAVI system with a 14 french equivalent delivery system, next spring. We also just received IDE approval for our Evolut™ R U.S. pivotal study, which we expect to start enrolling this summer.

In Endovascular, revenue of $240 million grew 3 percent. Our Aortic business had mid-single digit global growth, with solid procedure growth in both AAA and thoracic. We also had sequential global share gains in both AAA and thoracic, driven by continued adoption of our market-leading Endurant® II and Valiant® Captivia® stent grafts. Our Peripheral business declined in the low-single digits as a result of the below-the-knee DCB voluntary product recall in Q3. After adjusting for the divestiture of our Pioneer® Plus reentry catheter product line, as well as the impact from removing our below-the-knee DCB product from the market, our Peripheral business grew in the mid-teens. At Charing Cross, positive results from our IN.PACT® Admiral® SFA drug-coated balloon U.S. pivotal study showed a clinically driven TLR rate of 2.4 percent at 12 months and 360 day primary patency of 89.8 percent for the treatment arm. IN.PACT® DCBs for the SFA had strong double-digit international growth in Q4, and we continue to target U.S. approval in Q1 FY16.

Now, turning to our Restorative Therapies Group, revenue of $1 billion, 737 million grew 2 percent. Results were driven by growth in Surgical Technologies and Neuromodulation, offset by declines in Spine.

Spine revenue of $786 million declined 2 percent. Core Spine revenue of $662 million was flat. Excluding BKP, our Core Spine business grew 1 percent. Both the global and U.S. Core Spine markets appear relatively flat on a year-over-year basis, a slight deceleration from the growth the market saw last quarter. This was principally driven by the U.S., where we believe some elective surgeries were pulled forward ahead of the changes from the Affordable Care Act at the beginning of the calendar year.

Our Spine business continues to differentiate itself from the competition through our leading technology and procedural innovation, enhanced by our Surgical Synergy™ program, which integrates enabling technologies, surgical tools, spinal implants, and our expertise. Hospitals are leveraging Surgical Synergy by adopting flexible, integrated procedural solutions for spine surgery. They see clear value from improved surgical precision and more efficient procedures. This is resulting in solid growth of capital equipment sales in our Surgical Technologies business, as well as increased spinal implant growth. In fact, in accounts that have adopted our Surgical Synergy™ program, Core Spine revenue growth is meaningfully higher. Outside the U.S., our Kanghui acquisition continues to deliver solid revenue growth in the value segment of orthopedics, both in China and in other emerging markets.

Turning to Surgical Technologies, revenue of $438 million grew 9 percent, with strong growth balanced across all three businesses. This was a solid performance off a very tough prior year comparison. ENT grew in the high-single digits, driven by upgrades of NIM® ENT nerve monitoring and strength in Core ENT Power Systems. In Neurosurgery, upper-single digit growth was driven by robust navigation sales of the StealthStation® S7, Midas Rex® power equipment, and Strata® valves. In Advanced Energy, strong adoption of our proprietary Aquamantys® tissue sealing and PEAK PlasmaBlade® technologies in the orthopedics, spine, breast, and CRDM replacement markets, drove solid double-digit growth.

In Neuromodulation, revenue of $513 million increased 4 percent, driven by solid growth in DBS and Pain Stim. In DBS, our referral development program in the U.S., and the strength of the EARLYSTIM data in international markets – which shows DBS provides superior benefits for patients with early motor complications from Parkinson's Disease – continues to drive strong new implant growth. In Pain Stim, the ongoing launch of our SureScan® MRI spinal cord stimulation system continues to garner positive feedback and drive sequential share gain. Our Gastro/Uro business declined in the low-single digits in Q4. As Omar mentioned earlier, we believe a number of procedures were delayed due to changes in patients' healthcare plans, but test and implant trends improved as we moved through the quarter.

In our Diabetes Group, revenue of $460 million grew 13 percent driven by the ongoing U.S. launch of the MiniMed® 530G System, which includes the Enlite® CGM sensor, a smaller, more comfortable, and more accurate sensor. This is the first and only system on the market that automatically stops insulin delivery if glucose levels fall below a predetermined threshold, an important step toward our goal of developing a fully automated artificial pancreas. Multiple peer-reviewed studies have demonstrated the value of our threshold suspend feature, including publications in the New England Journal of Medicine and JAMA. Since launching the MiniMed® 530G System, we estimate we have gained over 500 basis points of U.S. pump share and over 600 basis points of U.S. CGM share. It's worth noting that we recognized in Q4 the final $4 million of deferred revenue from our Technology Guarantee Program.

Turning to the rest of the income statement, the Q4 gross margin was 74.4 percent. After adjusting for the $10 million non-GAAP adjustment from the restructuring charge, as well as a 20 basis point negative impact from foreign exchange, the Q4 gross margin on a non-GAAP operational basis was 74.8 percent. Q4 was the first quarter to reflect the impact of the biennial R-zone pricing adjustments in Japan, which, as expected, negatively affected our gross margin. The gross margin also continues to include significant spending related to resources diverted to address quality issues in Neuromodulation and Diabetes, which negatively affected the gross margin by 20 to 30 basis points all year. Looking ahead, we would expect the gross margin for

fiscal year 2015 to be in the range of 74.5 to 75.0 percent on an operational basis due to the ongoing quality spend.

Fourth quarter R&D spending of $385 million was 8.4 percent of revenue. We continue to invest in new technologies and evidence creation to drive future growth. We would expect R&D expense in FY15 to be around 8.5 percent, as we continue to see the impact from shifting R&D resources to resolve certain quality issues, which gets recognized in Cost of Goods Sold.

Fourth quarter SG&A expenditures of $1 billion, 539 million represented 33.7 percent of sales. After adjusting for the 10 basis point negative impact from foreign exchange, Q4 SG&A was 33.6 percent. As Omar mentioned, this was higher than expected due to several one-time items, including higher levels of legal spending in Structural Heart and Spine, higher than expected incentive payments due to certain new product launches, and accelerated investments we made in the quarter to support future sales efforts of CoreValve, Reveal LINQ, and drug-coated balloons in the U.S. Given the one-time nature of this incremental spending in Q4, in FY15, we are planning on delivering not only the 30 to 50 basis points of normal expected leverage, but also the 20 basis points of missing leverage from FY14. Taken together, this would result in FY15 SG&A in the range of 33.7 to 33.9 percent and operating leverage of 50 to 70 basis points, both on an operational basis.

Amortization expense for the quarter was $87 million. In FY15, we expect Amortization Expense to remain in the range of $85 to $90 million per quarter.

Net Other Expense for the quarter was $59 million, including net gains from our hedging program of $6 million. We hedge the majority of our operating results in developed market currencies to reduce volatility in our earnings from foreign exchange. However, it is worth noting that there is a growing portion of our profits that is unhedged, especially emerging market currencies, which can create some modest volatility in our earnings. Based on current exchange rates, we expect FY15 Net Other Expense to be in the range of $390 to $430 million, which includes an expected $125 million impact from the U.S. Medical Device tax, an incremental $13 million over FY14, as well as increased royalty expense of $40 to $50 million from the Edwards agreement. For Q1 FY15, we expect Net Other Expense to be in the range of $95 to $105 million based on current exchange rates.

Net Interest Expense for the quarter was $10 million. At the end of Q4, we had approximately $14.2 billion in cash and investments and $11.9 billion in debt after issuing $2 billion of senior notes in February. Based on current rates, we would expect FY15 Net Interest Expense to be in the range of $50 to $70 million.

Our non-GAAP nominal tax rate in Q4 was 14.3 percent, translating into a full year non-GAAP nominal tax rate of 18.0 percent. This was lower than the 19 to 20 percent we expected due primarily to a favorable profit mix by jurisdiction, the impact of actual foreign exchange rate fluctuations compared to forecasts, and lower than projected effective tax rates of foreign subsidiaries on a U.S. dollar basis. For FY15, we expect an adjusted non-GAAP nominal tax rate to be back in the range of 18.0 to 20.0 percent, and we expect to be at the higher end of this range until the presently expired U.S. R&D tax credit is reinstated.

In Q4, we generated $1.2 billion in free cash flow. We remain committed to returning 50 percent of our free cash flow, excluding one-time items, to shareholders. In Q4, we paid $276 million in dividends and repurchased $400 million of our common stock. As of the end of Q4, we had

remaining authorization to repurchase approximately 59 million shares. Fourth quarter average shares outstanding, on a diluted basis, were 1 billion, 12 million shares. It is important to note that the cash we receive from stock option redemptions, which was $251 million in Q4, will also continue to be used to repurchase shares on the open market to partially offset the dilutive impact. These share repurchases are incremental to our commitment to return 50 percent of our free cash flow to shareholders. For FY15, we would expect diluted weighted average shares outstanding to be approximately 995 million shares, including approximately 1 billion 3 million shares in Q1.

Let me conclude by commenting on our initial fiscal year 2015 revenue outlook and earnings per share guidance. As Omar mentioned, we believe that constant currency revenue growth in the range of 3 to 5 percent is balanced and realistic for fiscal year 2015. While we cannot predict the impact of currency movements, to give you a sense of the FX impact if exchange rates were to remain similar to yesterday for the remainder of the fiscal year, then our FY15 revenue would be positively affected by approximately $50 to $90 million, including a positive $20 to $40 million impact in Q1.

Turning to guidance on the bottom line, we believe it is reasonable to model earnings per share in the range of $4.00 to $4.10. Based on current exchange rates, this implies EPS growth in the range of 6 to 9 percent on a constant currency basis after taking into account the currently expected 5 to 7 cent negative foreign currency impact to earnings.

As in the past, my comments on guidance do not include any unusual charges or gains that might occur during the fiscal year.

I will now turn it back over to Omar.

Omar Ishrak
Thanks, Gary.

Before opening the lines for Q&A, let me briefly conclude by stating that we continue to strive to reliably deliver on our baseline expectations, which are: consistent mid-single digit constant currency revenue growth; consistent EPS growth 200 to 400 basis points faster than revenue on an operational basis; and returning 50 percent of our free cash flow to shareholders. We believe our three growth vectors – new therapies, emerging markets, and our new independent services and solutions – will provide the fuel for mid-single digit revenue growth[8]. We expect our continued effort to deliver consistent and reliable performance, combined with disciplined capital allocation, will enable us to create long-term, dependable value in healthcare.

Medtronic is uniquely positioned to lead the shift to value-based healthcare, directing our products and solutions to help providers, payers, and governments achieve their goals in driving more value into health care systems around the world[9]. I am pleased with the early work we have done to establish our leadership position, and I look forward to sharing with you at our analyst meeting the opportunities we have ahead as we transform Medtronic from being primarily a device provider today into the premier global medical technology solutions partner of tomorrow.

With that, we will now open the phone lines for Q&A. In addition to Gary, I've asked Mike Coyle, President of our Cardiac and Vascular Group, and Chris O'Connell, President of our Restorative Therapies Group, to join us again. We are rarely able to get to everyone's questions, so please

limit yourself to only one question and only one follow-up. If you have additional questions, please contact our Investor Relations team after the call. Operator, first question please.

Following Q&A:

Omar Ishrak
OK. Thanks for your questions. Before concluding, I would like to remind you that we will host our investor conference in two weeks on June 5th in New York City. We look forward to discussing in more detail the progress we are making at Medtronic. I would also note that we anticipate holding our Q1 earnings call on August 19th. With that, on behalf of our entire management team, I would like to thank you again for your continued support and interest in Medtronic. Thank you.