Investor Relations Commentary
Q3 FY15
February 17, 2015

Jeff Warren
Thank you, Vanessa. Good morning and welcome to Medtronic's third 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 Medtronic, Inc.'s fiscal year 2015 third quarter, which ended January 23rd, 2015. The acquisition of Covidien closed at the beginning of Q4 on January 26th and did not affect the Q3 operational results. Thus, our comments today on Q3 results cover legacy Medtronic only. After our prepared remarks, we will be happy to take your questions.

First, a few comments: Earlier this morning we issued a press release containing our financial statements and a revenue-by-business summary. We also updated our Combined Historical Covidien-Medtronic Financial Statement Presentation to include combined financials for Medtronic's third quarter. You should 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 Medtronic's 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 results increasing or decreasing are in comparison to the third quarter of fiscal year 2014, 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 third quarter revenue of $4.3 billion, which represents growth of 8 percent, and Q3 non-GAAP diluted earnings per share of $1.01, growing 11 percent. EPS on a cash basis, which we will be officially transitioning to in Q4, was $1.07 and grew 10 percent.

Q3 was a very strong quarter, with revenue growth well above our outlook range for the fiscal year and exceeding our mid-single digit baseline goal. All three of our groups contributed to our robust performance, with our largest group, Cardiac & Vascular, delivering impressive double-digit growth. Restorative Therapies and Diabetes also had solid quarters, both growing in the mid-single digits. Our Q3 results were balanced from a geographic perspective, with 8 percent growth in the US and 7 percent growth in International markets[1]. Our teams are executing on important product launches around the world, and our customers are responding to our differentiated healthcare solutions that seek to demonstrate both clinical and economic value. Looking ahead, while our results were especially strong this quarter, I want to emphasize that our goal remains to deliver strong and consistent mid-single digit revenue growth. We believe therapy innovation, globalization, and economic value are not only the right strategies to achieve growth, but that our diversification, differentiated approach, and competitive advantages will enable us to deliver dependable growth in healthcare.

Importantly, following the close of Q3, we completed the acquisition of Covidien, a significant milestone in Medtronic's history. We believe that the combination of our two companies meaningfully accelerates our strategies, diversifies our growth profile, and increases our financial flexibility. Over the long term, we feel that our collective organization can become the leading integrated health technology and solutions partner to healthcare systems around the world[2].

Looking now at our Q3 results, we continue to quantify, communicate, and execute on each of our independent growth vectors. Our new therapies growth vector contributed 550 basis points to our overall growth in Q3. This is 240 basis points higher than last quarter, and well above our previously stated expected range of 150 to 350 basis points. Our organization continues to develop and launch fundamental new therapies, innovative new products, and their related wrap-around programs, which are being received enthusiastically by our customers around the world. Gary will highlight these when he discusses our detailed business results later, but it is worth noting that CVG, RTG, and Diabetes all have significant ongoing product launches that are contributing to our results today, as well as strong innovation pipelines to fuel our future growth[3]. Our new therapy growth vector will be further bolstered with the addition of Covidien, which adds breadth in new, complementary clinical areas, and also provides two key strategic "tuck-ins" – peripheral vascular and neurovascular – which are expected to accelerate growth in our CVG and RTG portfolios.

Our next growth vector, emerging markets, contributed 150 basis points to our overall growth, just within our expected range. Greater China, Middle East & Africa, Central & Eastern Europe, and Latin America all delivered double-digit growth. The Middle East & Africa region, in particular, had another impressive quarter with 22 percent growth. This region's performance is driven in part by execution on our channel optimization strategy, as we continue to connect directly with customers and align our priorities to the urgent challenges of the local healthcare systems. In Turkey and Saudi Arabia, we are serving more patients as these countries rapidly develop and fund healthcare infrastructure. Other countries in the region are also taking large steps to improve their healthcare systems, and are looking for partners like Medtronic to help them achieve better quality and value. Overall, we remain confident and enthusiastic in the long-term outlook of emerging markets. We are focused on developing new public and private partnerships, as well as executing on our channel optimization strategies. We also expect Covidien to further strengthen our presence in emerging markets as we leverage our combined infrastructure, customer relationships, and breadth of products and services[4]. This should enhance our ability to consistently contribute 150 to 200 basis points to Medtronic's overall growth from emerging markets.

Finally, Services and Solutions, our third growth vector, contributed 50 basis points to our overall growth, within the 40 to 60 basis point annual range that we have targeted. We have more than doubled our Services & Solutions revenue over the past year, with strong growth in Cardiocom and Cath Lab Managed Services. Cardiocom grew over 20 percent, as we continue to develop and offer solutions to manage the broad population of heart failure patients, resulting in clinical and economic benefits for the healthcare system. Cardiocom has multi-year customer agreements that produce an attractive stream of high-quality, recurring revenue.

In Cath Lab Managed Services, we continue to generate rapid growth in Europe as we are fast becoming an ideal partner for hospitals that seek to drive operational efficiency[5]. In addition, we are actively expanding our Cath Lab Managed Services business model globally, with several new accounts in the Middle East & Africa, Latin America, and India. As of the end of Q3, we had over 50 long-term

agreements with hospital systems representing $1 billion in revenue over the life of the contracts, which have an average span of 5 to 6 years. As we look ahead, we are working on converting a full pipeline of Cath Lab Managed Services contracts with hospital providers around the world.

Turning to the P&L, Q3 non-GAAP diluted EPS grew 11 percent, or 13 percent on a constant currency basis, which was above our baseline expectation to grow EPS 200 to 400 basis points faster than revenue growth. Year-to-date, we have grown EPS by 9 percent on a constant currency basis, 400 basis points above our constant currency revenue growth. Our organization delivered a strong operational quarter, and our bottom line was further enhanced by the tax rate benefit from the extension of the US R&D tax credit for 2014. Gary will walk through some of these dynamics in greater detail shortly.

Our growth continues to fuel strong free cash flow generation, delivering $1.7 billion in Q3. The acquisition of Covidien gives us increased financial flexibility, providing an opportunity to assess our mix of dividends and share buybacks going forward, which our Board typically evaluates in June. In addition, it solidifies our ability to deliver on our commitment to return 50 percent of our free cash flow to shareholders[6]. We have a strong balance sheet, and disciplined capital allocation remains extremely important. We will prioritize potential M&A investments that are aligned with and strengthen one or more of our three growth strategies, while at the same time offer high return metrics minimizing near-term shareholder dilution.

Before turning the call over to Gary, I would like to discuss the integration of Covidien. We were excited to complete the acquisition in early Q4, and immediately began executing the comprehensive integration plans that our two companies have developed over the past seven months. Throughout the planning process and now into the integration, we have had four clear priorities that are guiding our two organizations. These priorities are: preserve, optimize, accelerate, and transform.

Our first and highest priority is to **Preserve**. Both Medtronic and Covidien have been consistently executing and meeting our individual growth commitments. We must preserve the ability of both companies to continue to deliver reliable, mid-single digit constant currency revenue growth, as well as EPS leverage. Medtronic and Covidien are highly complementary in terms of the customers we call on, the products we sell, and the markets we serve. Our customer-facing commercial and R&D organizations will therefore not be affected by the integration. We will be focused on minimizing unnecessary disruptions and delivering on our commitments as we come together as one company.

Our second priority is to **Optimize,** to optomize our non-customer facing functions' cost structure. Specifically, we will target facility duplication, administrative redundancies, indirect costs, and other back office functions. We have structured detailed cost saving plans, which we have already started implementing. Gary will provide more details later in the call.

Our third priority is to **Accelerate**. While there are numerous potential revenue synergies we are currently assessing and prioritizing, we are focused on realizing two immediate opportunities. First, we intend to leverage Covidien's peripheral vascular salesforce to drive sales of the recently approved IN.PACT Admiral drug-coated balloon, in addition to the entire breadth of our collective CVG peripheral vascular platform including directional atherectomy. This group will also continue to develop clinical evidence to support this growing area of medicine, building upon the Medtronic IN.PACT SFA and Covidien's DEFINITIVE AR studies. Second, we expect that combining Covidien's Neurovascular business with our Restorative Therapies Group will significantly enhance our Neuroscience strategy, creating a

comprehensive product portfolio for neurosurgeons, interventional neurologists, and interventional neuro-radiologists. One of Covidien's Neurovascular products worth noting is the Solitaire™ revascularization device. During the International Stroke Conference last week, four significant stroke trials were presented that tested Solitaire™. The trials – Mr CLEAN, EXTEND-IA, ESCAPE, and SWIFT PRIME – confirmed the effectiveness of stent thrombectomy and were noted by some to be the most significant advancement in this space in over two decades. The findings of three of these studies have been published in the New England Journal of Medicine, providing evidence that the standard of care for the treatment of stroke should be changed to include stent thrombectomy as primary treatment in addition to IV tPA.

Finally, our fourth priority in combining Medtronic and Covidien is to ultimately **Transform** healthcare. This applies to both how we innovate and develop new value-based offerings for the market, as well as how we partner with key stakeholders throughout the global healthcare industry to drive new, transformative business models and solutions. We believe we have an opportunity to truly meet the universal needs of healthcare – improving clinical outcomes, expanding access, and optimizing cost and efficiency – in a way that no other company can[7]. Our industry-leading products, clinical and economic expertise, global footprint, and financial strength position us to be the preferred partner for physicians, hospital systems, patients, payers, and governments around the world.

I have confidence in our team's ability to execute on these four priorities[8], and am truly excited about the potential for the collective talent and expertise of our new organization to live and fulfill the Medtronic Mission[9]. Together with our partners, we can alleviate pain, restore health, and extend life for millions of people around the world.

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

Gary Ellis
Thanks, Omar.

Third quarter revenue of $4 billion, 318 million increased 3.7 percent as reported or 7.5 percent on a constant currency basis after adjusting for a $158 million unfavorable impact from foreign currency. On an organic basis, revenue growth was 7.0 percent after adjusting for the impact of acquisitions and divestitures.

Q3 revenue results on a geographic basis were as follows:

- growth in the US was 8 percent and represented 57 percent of our overall sales;
- Non-US Developed Markets grew 5 percent and represented 30 percent of our overall sales; and
- growth in Emerging Markets was 12 percent and represented 13 percent of our overall sales.

Q3 diluted earnings per share on a non-GAAP basis were $1.01, an increase of 11 percent. Q3 GAAP diluted earnings per share were $0.98, an increase of 31 percent. This quarter's GAAP to non-GAAP adjustments on an after-tax basis included:

- a $66 million charge for acquisition-related items, primarily associated with transaction costs in connection with the Covidien acquisition;
- a $25 million gain on the MicroFrance divestiture within our Surgical Technologies division;

- a $62 million gain on the sale of our remaining equity investment in Weigao, which was earmarked to fund the Medtronic Foundation in a payment that occurred back in Q2; and
- $49 million in interest expense related to debt issued in advance to finance the Covidien transaction.

It is worth noting that on a non-GAAP cash basis, Q3 diluted earnings per share were $1.07, an increase of 10 percent.

In our Cardiac and Vascular Group, revenue of $2 billion, 224 million grew 10 percent. Results were driven by strong, double-digit growth in Low Power, Structural Heart, and AF & Other, along with mid-single digit growth in High Power and Aortic & Peripheral Vascular, partially offset by a modest decline in Coronary.

In the Cardiac Rhythm and Heart Failure division, revenue of $1 billion, 269 million grew 12 percent. High Power revenue of $650 million grew 4 percent. We estimate the global High Power market is growing modestly, with low-single digit growth in International markets offsetting low-single digit declines in the US. In the US, we estimate we have gained several percentage points of high power share since launching our Attain® Performa™ quadripolar CRT-D system. Our CRT-D implant volumes, which were flat prior to this launch, grew nearly 20 percent in Q3, as the US market continued to show strong preference for the combination of our AdaptivCRT® algorithm and next-generation quadripolar technology, which includes steroid on every electrode to reduce capture thresholds, short middle electrode spacing to reduce peripheral nerve stimulation, and fast VectorExpress® programming. In the quarter, the FDA approved two additional versions of our quadripolar leads, the Straight and S-shape, giving even more options to electrophysiologists. US High Power growth also benefitted from accelerating adoption of the TYRX® anti-infection envelope technology for use in high risk implant procedures. We have signed our first TYRX® risk-sharing agreement and have a strong pipeline of US hospitals interested in partnering in this innovative business model. In January, we started enrollment in our seven thousand patient WRAP-IT trial, which is assessing the clinical and economic effectiveness of TYRX®. We expect results from this trial in FY18. In Japan, we launched our Evera MRI® SureScan® ICD in the quarter. Evera MRI®, which allows for full-body MRI scans, is garnering strong adoption in the Japanese market, resulting in 13 percentage points of ICD share gain in Japan this quarter.

Low Power revenue of $489 million grew 17 percent, driven by the continued strong global launch of Reveal LINQ™. We continue to see strong adoption of this innovative diagnostic, with daily implant growth up in the high-single digits sequentially. Looking at the US pacing market, we were pleased to see improvements in both initial implant volumes and our overall market share, driven by the continued mix shift toward Advisa MRI™ and growing pacemaker pull-through from the expanded use of Reveal LINQ™ in patients with unexplained syncope. In Japan, we continue to see good traction of our Advisa MRI™ pacemaker, where our share remains over 250 basis points above pre-launch levels despite competitive entrants. Looking ahead, we have completed the enrollment phases of our US and CE Mark clinical trials for our Micra® transcatheter pacing system and expect CE Mark by the end of this quarter, with U.S. approval to follow in FY17.

AF Solutions grew over 30 percent globally driven by continued robust growth of our Arctic Front Advance® CryoAblation System. Leveraging the increasing body of clinical and economic evidence on

safety, efficacy, and procedural efficiency of Arctic Front®, we continue to take AF ablation share, growing nearly twice as fast as the overall AF market despite new competitor product introductions.

Turning to our Coronary & Structural Heart division, revenue of $737 million grew 8 percent. Our Coronary business declined 2 percent, with our global drug-eluting stent revenue share declining slightly as we begin to enter our next new product introduction cycle. The international launch of our Resolute Onyx™ DES occurred late in Q3 and is off to a good start. Resolute Onyx™ builds on the superior deliverability and proven clinical performance of Resolute® Integrity®, with thinner struts to improve deliverability even further. It is the first stent to feature our CoreWire technology, which markedly enhances visibility. In our broader Coronary product portfolio, Q3 saw the continued roll out of our new NC Euphora™ non-compliant PTCA balloon family, as well as strong sequential growth in US revenues from our FFR co-promotion alliance with ACIST Medical Systems.

In Renal Denervation, we remain confident in our leadership in this field. Since the results of HTN-3, we have analyzed confounding factors of that trial, performed ground-breaking pre-clinical research, and engaged numerous expert clinicians and stakeholders. In the coming days, we plan to formally submit the US IDE for our Global Clinical Program, and we look forward to providing further details in the future.

Our Structural Heart business grew 22 percent, driven by another strong quarter in transcatheter valves, which grew over 60 percent. Our US launch of CoreValve® continues to drive growth, and we estimate this resulted in US sequential share gains. In addition, hospital customers are reacting positively to the new TAVR DRG's, which were established in October and in general resulted in improved reimbursement and hospital economics for institutions looking to establish TAVR programs. Enrollment in our CoreValve® Evolut® R US study is well underway, and we continue to plan for US launch in mid-FY16. Evolut® R is our next-generation recapturable system with a differentiated 14-French equivalent delivery system. In international markets, we received CE Mark for the Evolut® R 26 and 29 millimeter valves, broadening our size offerings for this innovative platform into the largest segments of the market. Looking ahead, we expect the global TAVR market to grow in the 20-25 percent range over the next year.

In our Aortic & Peripheral Vascular division, revenue of $218 million grew 5 percent. Aortic revenue grew 3 percent, led by strong growth in Thoracic. In AAA, the launch of Endurant® 2S, a unique 3-piece version of our market-leading Endurant® platform, is off to a good start. Revenue for our Peripheral business grew 16 percent in Q3. During the quarter, we received US FDA approval for our IN.PACT® Admiral® drug-coated balloon for use in the upper leg, though this did not contribute revenue in Q3 as first commercial US implants occurred earlier this month. In addition, 12-month results of the landmark IN.PACT® Admiral® DCB study were published online in the journal Circulation in December, showing the highest rate of primary patency and lowest rate of clinically-driven TLR ever reported from a study of interventional treatments for peripheral artery disease in the upper leg. We expect our IN.PACT® Admiral® DCB to drive growth in Peripheral in the coming quarters, and we plan to broaden the launch and have our Covidien peripheral salesforce start selling the product later this month.

Now, turning to our Restorative Therapies Group, revenue of $1 billion, 645 million grew 5 percent, with all three divisions contributing to growth. Results were driven by double-digit growth in Surgical Technologies, mid-single digit growth in Neuromodulation, and low-single digit growth in Spine.

Spine revenue of $740 million grew 2 percent. Both the global and US spine markets grew in the low-single digits, the third quarter in a row of modest sequential improvement. Our Core Spine business grew 1 percent in Q3. We are seeing good adoption of our recently launched Pure Titanium Coating interbody fusion devices, the Prestige LP™ artificial cervical disc, and our new Divergence® anterior cervical fusion system. We recently received FDA approval for our Divergence® stand-alone system and Zevo™ anterior fixation system. FY15 is an important year for product launches in our Core Spine business, and as we have noted all year, we expect this to support a return to modest growth for our overall Spine business in FY15. In addition to working with surgeons to develop leading, differentiated technologies in Spine, our business continues to focus on procedural innovation. Sales of products to perform our OLIF25™ Procedure grew nearly 30 percent. This innovative minimally invasive procedure utilizes an oblique trajectory to avoid nerve bundles in the psoas muscle, providing an alternative to lateral approaches that are dependent on nerve monitoring. We also continue to develop and deploy our differentiated Surgical Synergy™ program, which integrates our enabling technologies, surgical tools, spinal implants, and expertise to improve surgical outcomes and efficiencies. We now estimate that 16 percent of our thoracolumbar procedures use our proprietary Powerease® System of powered surgical instruments and over 20 percent use our StealthStation® surgical navigation technology.

Interventional Spine, which primarily consists of our balloon kyphoplasty product line, had stable sales in Q3. The business had low-single digit growth in the US and mid-teens growth in Japan, offset by declines in Europe, where the business experienced pricing pressure in Germany.

BMP sales of $122 million grew 9 percent, with stable underlying demand. We do believe we have turned the corner and would expect BMP sales growth to be slightly positive going forward.

Turning to Surgical Technologies, revenue of $418 million grew 11 percent. Surgical Technologies had solid, balanced growth contributions from all three of its businesses: Neurosurgery, ENT, and Advanced Energy. Neurosurgery had double-digit growth, with strong sales of Midas Rex® power equipment and the O-arm® Surgical Imaging System. ENT grew in the upper-single digits, driven by the recent launches of the StraightShot® M5 Microdebrider and the NuVent™ sinus balloon. In Advanced Energy, strong adoption of our proprietary Aquamantys® tissue sealing and PEAK PlasmaBlade® technologies drove solid mid-teens growth.

In Neuromodulation, revenue of $487 million increased 5 percent, led by upper-single digit growth in our Gastro/Uro and DBS businesses. Gastro/Uro had a strong quarter of InterStim® sales worldwide. In DBS, our global focus on neurologist referral programs, and the strength of the EARLYSTIM data in international markets continues to drive solid growth. In Pain Stim, we estimate the US market is declining in the mid-single digits as slower trialing activity is affecting new implant growth. However, we estimate we gained modest US market share and maintained our global share on the strength of our RestoreSensor® SureScan® MRI spinal cord stimulation system, with its proprietary AdaptiveStim® automatic stimulation adjustment feature and access to MRI scans anywhere in the body.

In our Diabetes Group, revenue of $449 million grew 6 percent. However, after adjusting for the $23 million in deferred revenue that was recognized in Q3 last year, the Group grew 12 percent. Diabetes had a strong quarter in International, growing 12 percent, including growth of 36 percent in Emerging Markets. In the US, we continue to see strong adoption of our MiniMed® 530G System with the Enlite® CGM sensor. We recently announced the results of a retrospective analysis from over 20,000 MiniMed® 530G users in the journal of Diabetes Technology and Therapeutics, which found that the pump's

Threshold Suspend feature reduced hypoglycemia by 69 percent, with an even greater benefit at night, without significantly increasing hyperglycemia. We were also pleased that the US FDA lifted their warning letter on our Diabetes business in late December. In international, we began the limited launch in select markets of our next-generation MiniMed® 640G System with the Enhanced Enlite® CGM sensor. In addition to incorporating a brand new insulin pump design and user interface, the MiniMed® 640G System features SmartGuard™ technology, which automatically suspends insulin delivery when sensor glucose levels are predicted to approach a low limit and then resumes insulin delivery once levels recover. We continue to make progress in bringing this technology to the US and plan to submit the PMA for this system later this calendar year. The predictive low glucose management clinical study associated with this PMA is underway, which is studying our next-generation insulin pump and fourth generation CGM sensor. This sensor has new intelligent diagnostics that are expected to result in enhanced accuracy, and it is 80 percent smaller than the Enlite® sensor currently sold in the US.

Turning to the rest of the income statement, in addition to commenting on our Q3 results, I will also make some forward looking comments, which are based upon the combination of both Medtronic and Covidien's P&Ls, and also reflect a number of reclassifications that we have made to the Covidien P&L in order to be consistent. Information on these reclasses is available in the footnotes section of the Combined Historical Covidien-Medtronic Financial Statement presentation on our Investor website.

The Q3 gross margin was 73.9 percent and included 20 basis points of negative impact from foreign currency. The gross margin continues to include significant spending related to resources diverted to address quality issues in Neuromodulation. The Q3 gross margin was also negatively affected by product mix shift toward Diagnostic and AF products in CRHF and our acquisition of NGC Medical. NGC Medical, which we acquired in Q2, has a gross margin that is similar to our existing Cath Lab Managed Services business and significantly below our corporate average. However, NGC and Cath Lab Managed Services have operating margins that are close to the corporate average due to lower spend in SG&A and R&D. Looking ahead for the newly combined company, after taking into account the Covidien reclassifications I mentioned earlier, we would expect gross margins to be more in the 69 to 71 percent range on an operational basis. This outlook does not include the impact of the Covidien inventory step-up arising from purchase accounting rules.

Third quarter R&D spending of $373 million was 8.6 percent of revenue. We are pleased that our past R&D investments are resulting in faster organic revenue growth, and we continue to invest in new technologies as well as generating clinical and economic evidence to drive future growth. When you combine Medtronic and Covidien, we would expect R&D expense to be more in the range of 7.0 to 7.5 percent.

Third quarter SG&A expenditures of $1 billion, 487 million represented 34.4 percent of sales. Q3 SG&A on a constant currency basis was 34.3 percent. Looking ahead, in addition to the reclassifications, this is the line item that will reflect most of the benefits from our cost synergy initiatives. Taking this into account, as well as the pre-existing leverage initiatives of both Medtronic and Covidien, combined SG&A in the range of 32 to 33 percent on an operational basis seems reasonable in Q4.

Amortization expense for the quarter was $89 million. For Q4, we would expect the combined company Amortization Expense to be in the range of $450 to $600 million, reflecting the impact of the Covidien acquisition. This is a wide range as the preliminary purchase accounting and related amortization of intangibles have not yet been determined and likely won't be until the end of the quarter. It is worth

noting that we will be shifting in Q4 to cash EPS, and thus will exclude this expense from our Non-GAAP earnings.

Net Other Expense for the quarter was $24 million, including net gains from our hedging program of $54 million. We hedge the majority of our operating results in developed market currencies to reduce volatility in our earnings from foreign exchange. However, a growing portion of our profits are unhedged, especially emerging market currencies, which can create some modest volatility in our earnings. As I will talk about in a moment, the mix of our earnings that are unhedged will increase further with the addition of Covidien. Based on current exchange rates, as well as the reclassifications of the combined company, Net Other Expense in the fourth quarter for the combined company is expected to be in the range of $35 to $60 million.

Q3 Net Interest Expense on a non-GAAP basis was $4 million, after adjusting for the $77 million incremental net interest expense related to our December 2014 $17 billion bond offering used to fund the Covidien acquisition. While we excluded this incremental interest expense from our non-GAAP earnings this quarter because of the difference in timing between the debt issuance and the closing of the acquisition, we will include the incremental interest expense in our non-GAAP earnings going forward. At the end of Q3, we had approximately $31.1 billion in cash and investments and $28.8 billion in debt. Subsequent to Q3, there are a number of items that will affect our year-end cash and debt balances, including:

- the addition of a $3 billion term loan;
- the approximate $16 billion cash consideration paid for Covidien;
- the addition of approximately $5.5 billion in previously held Covidien debt at fair value and $2.0 billion in cash; and
- the $1.2 billion in debt maturing in March, which we will retire using existing cash.

Based on current rates, we would expect Q4 Net Interest Expense for the combined company to be in the range of $195 to $215 million.

Our non-GAAP nominal tax rate in Q3 was 17.1 percent. Included in our third quarter tax rate is a $29 million benefit associated with the extension of the U.S. R&D tax credit. It is worth noting that on a combined company basis, the non-GAAP nominal tax rate, excluding amortization, has been running in the range of 18 to 19 percent. And, as we have noted in the past, the combined tax rate going forward could be approximately 2 percentage points better.

In Q3, we generated $1.7 billion in free cash flow. We remain committed to returning 50 percent of our free cash flow to shareholders. In Q3, we paid $300 million in dividends and there were no share repurchases, given restrictions related to the Covidien acquisition. As of the end of Q3, we had remaining authorization to repurchase approximately 34 million shares, and we intend to restart our share repurchase program later in Q4 pending Irish Court administrative approval, which is expected in early March. Third quarter average shares outstanding, on a diluted basis, were 996 million shares. It is important to note that we expect that the cash we receive from stock option redemptions, which was $165 million in Q3, 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 Q4, we would expect diluted weighted average shares outstanding to be approximately 1,440 million shares, reflecting the shares issued in the Covidien acquisition.

Next, I would like to comment on our revenue outlook for the fourth quarter, which will be our first quarter reporting combined Medtronic-Covidien results. For the fourth quarter, we believe constant currency revenue growth of 4 to 6 percent on a combined pro forma basis is reasonable, and we expect to be in the upper part of the range. 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, our Q4 revenue would be negatively affected by approximately $420 to $480 million, which would result in reported revenue on an actual FX basis of approximately $7.0 to $7.1 billion.

Taking into account our revenue and P&L comments that I have already covered, it would be not be surprising to see models for our Q4 Cash EPS somewhere in the broad range of $1.08 to $1.13.

Next, I would like provide some high-level framing comments on fiscal year 2016. While we intend to give our revenue outlook and EPS guidance per our normal practice on our Q4 call, given the changes resulting from the addition of Covidien, here are some items to keep in mind as you think about our next fiscal year:

- First, on revenue growth, while we are not formally providing our FY16 revenue outlook, we believe it is reasonable to think about our revenue growth in the mid-single digit range on a constant currency basis, consistent with our baseline expectations.

- Next, keep in mind that we will have an extra selling week in the first quarter of FY16, which we would estimate to have an impact of approximately 100 to 150 basis points of incremental revenue growth for the full fiscal year, or approximately 400 to 600 basis points in Q1. This gives us increased confidence that we could be in the upper half of the mid-single digit revenue growth baseline expectation in FY16.

- Regarding foreign exchange, the significant strengthening of the US dollar represents a strong potential headwind in FY16. Even though our legacy Medtronic businesses continue to realize the benefit of our hedging program on major developed market currencies, it is not possible to completely hedge FY16 at FY15 rates given today's exchange rates. This would result in our legacy Medtronic businesses experiencing a negative impact from foreign currency, albeit somewhat mitigated by the benefit of our hedging program. At the same time, the legacy Covidien business does not have this same benefit today. Taken together, if exchange rates were to remain similar to yesterday throughout FY16, our combined FY16 revenue would be negatively affected by approximately $1.2 to $1.4 billion. On the bottom line, based on today's rates, this could translate into a $0.30 to $0.40 negative impact to EPS.

- Turning to our focus on cost synergies, as Omar mentioned, cost synergy activities are underway and we are in the process of finalizing our FY16 targets. We are targeting over $850 million dollars in cost synergies through FY18. In terms of timing, it is reasonable to straight-line these savings over the 3 years, and our organization will be working hard to exceed this goal.

Also, looking ahead, I would like to note that we anticipate holding our Q4 earnings call before market open on June 2nd. This is two weeks later than our normal timing, as this will be the first quarter where

Covidien results will be combined in our financial reports. However, we do believe we will have an earlier view on our revenue results, and will plan to pre-release revenue on May 19th.

I will now turn the call back over to Omar.

Omar Ishrak
Thanks, Gary.

Before opening the lines for Q&A, let me briefly conclude by reiterating that Q3 was a strong quarter for Medtronic. As we look ahead, we are excited to welcome Covidien into our organization. The operational momentum of both organizations is moving in the right direction, giving us increased confidence in the future. This does not happen without a lot of hard work and discipline. I want to take a moment to express my appreciation to both the Medtronic and Covidien teams for staying focused, avoiding any distractions, and delivering on their commitments during this transition period.

While there are a number of moving parts in the financials as we combine the two companies, and we are facing increased headwinds in the near-term from foreign currency, our priority is to sustain the operational performance of the company, striving to reliably deliver on our baseline financial model: mid-single digit constant currency revenue growth, constant currency EPS growth 200 to 400 basis points faster, and returning 50 percent of our free cash flow to our shareholders. To achieve these goals, we continue to execute on our three primary growth strategies – therapy innovation, globalization, and economic value. We believe our acquisition of Covidien will meaningfully complement and accelerate all three of these strategies, strengthening our long-term market competitiveness, as well as driving further sustainability and consistency in our long-term financial performance[10].

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, Chris O'Connell, President of our Restorative Therapies Group, and Hooman Hakami, President of our Diabetes Group, to join us. In the future, we intend to have Bryan Hanson, the new leader of the Covidien Group, on our earnings call. We are rarely able to get to everyone's questions, so please limit yourself to only one question and, if needed, only one related 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. With that, on behalf of our entire management team, I would like to thank you again for your continued support and interest in Medtronic. We are obviously excited about the future. We look forward to updating you on our progress on our Q4 call, which, as Gary mentioned earlier, we anticipate holding on June 2nd. Thank you, and have a great day.

The Divergence stand-alone system, the Zeve anterior fixation system, and Kyphon Balloon Kyphoplasty incorporate technology developed by Gary K. Michelson, M.D.