Investor Relations Commentary
Q1 FY16
September 3, 2015

Ryan Weispfenning

Thank you, Maria. Good morning and welcome to Medtronic's first 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 fiscal year 2016 first quarter, which ended July 31, 2015. 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-division summary. We also updated our Combined Historical Covidien-Medtronic Financial Statement Presentation. 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, and 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. Unless we say otherwise, references to quarterly results increasing or decreasing are in comparison to the first quarter of fiscal year 2015. In addition, unless we say otherwise, all year-over-year revenue growth rates, including revenue growth ranges, given on today's call are adjusted for the extra selling week in the first quarter and given on a comparable, constant currency basis, which adjusts for the negative effect of foreign currency translation, and includes Covidien plc in the prior year comparison, aligning Covidien's prior year monthly revenue to Medtronic's fiscal quarters. These adjustment details can be found in the reconciliation tables included with our earnings press release. In addition, all foreign currency translation calculations are done on a comparable 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, Ryan, and thank you to everyone for joining us. This morning, we reported first quarter revenue of $7.3 billion, which represents growth of 12 percent, at the upper end of the mid-single digit range, after adjusting for the extra selling week in our first quarter. Q1 non-GAAP diluted earnings per share was $1.02.

Q1 was another strong quarter, where our employees around the world executed and delivered results that were at the high end of our objectives. The underlying fundamentals of our business remain solid with robust contributions from all four of our groups.[1] CVG and Diabetes grew in the high-single digits, while RTG and MITG grew in the mid-single digits after adjusting the growth rates for the extra selling week this quarter. From a geographic perspective, our performance in the US was particularly strong, with high-single digit revenue growth, again after adjusting for the extra week. Our teams continue to execute on important product launches, and our customers around the world are responding to our differentiated healthcare solutions that seek to demonstrate both clinical and economic value.[2]

We remain focused on our three growth strategies: therapy innovation, globalization, and economic value. These strategies aim to create a competitive advantage for Medtronic by capitalizing on three long-term trends we see playing out in healthcare: namely, the continued desire to improve clinical outcomes, the growing demand for expanded access to healthcare, and the optimization of cost and efficiency in healthcare systems, including the move to value-based healthcare. We believe our three growth strategies are the right ones to achieve long-term growth, and the resulting diversification, differentiated approach, and competitive advantages will enable us to deliver on our baseline financial expectations. We have translated each of our strategies into three independent growth vectors, with clearly stated near-term objectives for each one. We continue to quantify and communicate our performance against these goals on a regular basis.

In Therapy Innovation, we delivered above-goal performance again in Q1, with the New Therapies growth vector contributing approximately 1,020 basis points to our total company growth, including the benefit of the extra week. But, even after adjusting for the extra week, this result was well above our goal of 150 to 350 basis points of growth. We are seeing strong acceptance of our new therapies across all groups; in addition, our pipeline remains full, with a number of new therapies and services expected to come to market over the next few years.

In our Cardiac & Vascular Group, the recent launches of our CoreValve® Evolut® R transcatheter heart valve, IN.PACT® Admiral® drug-coated balloon, and Micra® transcatheter pacing system, combined with the continued growth of Reveal LINQ®, as well as the upcoming US launch of the Evera MRI® ICD, are all expected to drive strong growth this fiscal year. Our Minimally Invasive Therapies Group is driving growth with its differentiated Endo GIA™ Reinforced Reload and LigaSure™ Maryland Jaw, and also has a full pipeline of minimally invasive innovations that are expected to launch over the coming quarters. In Restorative Therapies, we are building momentum from new products in Neurovascular, such as the Pipeline™ Flex device for intracranial aneurysms and Solitaire™ FR stent thrombectomy device. In RTG's Surgical Technologies division, a number of new imaging and navigation products are expected to drive growth over the coming quarters. Our Diabetes Group is realizing growth from its MiniMed® 530G and 640G Systems and has a number of advancements in the pipeline as they continue to drive toward an artificial pancreas. Taken together, we feel confident we can deliver sustained growth from New Therapies, contributing significantly to our baseline goal of mid-single digit revenue growth.[3]

Turning to our Globalization strategy, our Emerging Markets growth vector contributed approximately 190 basis points to our Q1 total company growth, including the benefit of the extra week. After adjusting for the extra week, this result fell below our baseline goal of 150 to 200 basis points for the Emerging Market growth vector. This was due largely to a planned delay in distributor sales in Saudi Arabia in preparation for a channel optimization move. We have a controlling interest in a newly-formed joint venture with our largest distributor in Saudi Arabia. Starting in the second quarter, this joint venture is expected to deliver incremental revenue and improved margins over our historical performance in Saudi Arabia. While the Middle East & Africa region was weaker this quarter owing to the delayed distributor sales, we did see notable improvements in China, India, and Russia. Mainland China grew in the low-double digits, above our estimated growth of the China medical device market. Our China results benefitted from the initial implementation of our channel optimization strategy in the region, which is focused on transitioning our distribution channel to include consolidated platform distributors. We also saw improvements in India, which grew in the mid-teens, and Russia, which grew in the upper-teens. Over the long-term, we believe strongly that the penetration of existing therapies into Emerging Markets represents the single largest opportunity in MedTech.[4] In addition to standard market development activities, our differentiated approach of local channel optimization, government contracts, and private partnerships are all aimed at unlocking this opportunity.

Turning to Economic Value, our Services & Solutions growth vector contributed approximately 50 basis points to our growth in Q1 on a legacy Medtronic basis, or 30 basis points on an overall Medtronic basis.

While this overall result was below our goal of 40 to 60 basis points, we intend to grow into our goal as Services & Solutions are adopted by the legacy Covidien businesses. In Cath Lab Managed Services, we are generating rapid growth as we are fast becoming the ideal partner for hospitals that seek to drive operational efficiency.[5] We are now expanding our Cath Lab Managed Services business globally, with new accounts in Eastern Europe, Turkey, and Saudi Arabia. Since the program's launch two years ago, we have completed 59 long-term agreements with hospital systems representing $1.3 billion in revenue over an average span of 6 years, and we have a large number of potential contracts at various stages of negotiation with providers around the world. In addition, we have now signed the first 3 Operating Room Managed Services deals in Europe, each spanning 9 years. ORMS applies the CLMS business model to an operating room setting, utilizing the breadth of MITG's products and expertise. In Diabetes, Q1 was the first full quarter of operating Diabeter, a Netherlands-based diabetes clinic and research center that we intend to expand across Europe. With Diabeter and our continued strong progress with partnerships, such as IBM, we continue to transform our Diabetes Group from a market-leading pump and sensor company to a leading provider of holistic diabetes management solutions that we believe will expand access, integrate care, and improve outcomes, so that people living with diabetes can enjoy greater freedom and better health.

We continue to focus on providing solutions to providers that go beyond purely medical devices, including taking a leadership position in aligning our solutions to new value-based payment models that are emerging in healthcare. We were pleased to see the US Center for Medicare and Medicaid Services' proposed bundled payment initiative for hip and knee replacements. While Medtronic does not participate in hips and knees, CMS may well broaden these bundled payment initiatives to other care pathways where we have leadership positions. Proposals like this from CMS demonstrate that a move to value-based healthcare is underway. The proposal mandates that participating hospitals be at risk for the cost and quality of the joint replacement surgery and 90 days of post-acute care. As bundled payments take hold, we expect to offer unique, comprehensive solutions to healthcare providers, encompassing our devices, associated diagnostics, and home-based patient monitoring programs, all wrapped in risk-sharing business models.

Next, turning to our integration efforts, the integration of Covidien into Medtronic continues to go extremely well. As I have mentioned before, we have organized our activities in four clearly defined areas: preserve, optimize, accelerate, and transform. We have been successfully achieving our first and highest priority, **Preserve**, as evidenced by the continued revenue growth across all of our groups and geographies. We continue to monitor talent retention and overall employee satisfaction, both of which remain strong. Our second priority, **Optimize**, is focused on achieving the expected minimum of $850 million in cost synergies by the end of FY18. As planned, we have already completed over half of our value capture initiatives for the fiscal year, and these savings are expected to build as we go through the year, with an FY16 goal of achieving $300 to $350 million in savings. We are executing on our indirect sourcing plans, where we are using best-case contracts and improved purchasing power to achieve meaningful savings. We are also realizing significant real estate savings, having already closed over 60 facilities, most of which were redundant field offices or distribution centers. Our third priority, **Accelerate**, is related to our disciplined process of assessing and prioritizing the numerous revenue synergy opportunities, which include leveraging the legacy Covidien's peripheral vascular salesforce to drive sales of drug-coated balloons, and leveraging Covidien's Neurovascular division to enhance our Neuroscience strategy in RTG. In accordance with our plans, we have aligned the sales forces and integrated the back offices expeditiously in both of these areas, including moving the North American commercial operations of both businesses onto Medtronic's enterprise system, SAP. Our fourth and final priority is **Transform.** We are positioning the company to play an increasingly larger role in delivering higher value in healthcare,[6] aligning our solutions to the emerging value-based payment models, and partnering with new stakeholders to lead and succeed in the transforming healthcare marketplace.[7] An early example is our Operating Room Managed Services initiative in MITG, where we take over the management and operations of hospital operating rooms.

While we had a number of successes in Q1, we also faced some challenges, including underperformance in our US Core Spine business. Some of our recent product rollouts are taking longer to reach scale, but we are seeking to actively address our performance through a series of near-, medium-, and longer-term actions. In the near-term, we intend to sign more large system deals to drive procedural volume share by using our new integrated RTG commercial organization. Over the medium-term, we will translate our Surgical Synergy™ initiative into a more specific commercial offering and focus the efforts of our new integrated commercial organization in promoting it. Over the long-term, we expect to see the impact of the changes we are making to our product development processes, which include incorporating several methods that have been successful in other parts of the company.

Turning to the P&L, Q1 non-GAAP diluted EPS was $1.02. Foreign currency translation continues to be a significant headwind, affecting our Q1 EPS by 13 to 14 cents. On a constant currency basis, our non-GAAP diluted EPS growth represented over 400 basis points of leverage, above our baseline expectation of 200 to 400 basis points.

We delivered $1.1 billion of free cash flow in Q1 after adjusting for certain litigation payments and non-recurring tax payments. We remain disciplined in allocating our capital, with a focus on creating long-term shareholder value. As a result of the Covidien acquisition, we have increased ability to deploy our cash in the US, solidifying our commitment to return 50 percent of our free cash flow to shareholders.[8] In June, we announced a 25 percent increase in our dividend, our 38th consecutive year of increasing our dividend. We expect to not only grow our dividend over time with earnings growth, but increase our dividend payout ratio to 40 percent on a non-GAAP basis within the next few years. As an S&P Dividend Aristocrat, we remain focused on delivering dependable, long-term dividend growth. In addition, we remain disciplined when evaluating potential M&A opportunities. Any investment we make must be aligned with, and ultimately strengthen, one or more of our three growth strategies, while at the same time offer high return metrics and minimize near-term shareholder dilution.[9]

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

Gary Ellis
Thanks, Omar.

First quarter revenue of $7 billion, 274 million increased 70 percent as reported, 12 percent on a comparable, constant currency basis after adjusting for a $529 million unfavorable impact of foreign currency and including the favorable impact from the extra week, or at the upper end of the mid-single digit range after adjusting for the extra week. Our first quarter results included an extra week due to our 52/53 week fiscal year. While the exact benefit of the extra week is difficult to estimate, based on our analysis, we calculate that it added approximately 6 percentage points of growth on the quarter, or approximately 1.5 percentage points of growth for the full fiscal year. Legacy acquisitions and divestitures from both Medtronic and Covidien contributed 30 basis points net to Q1 growth.

Q1 diluted earnings per share on a non-GAAP basis was $1.02, an increase of 3 percent. Q1 GAAP diluted earnings per share were $0.57, a decrease of 34 percent. In addition to the $372 million after-tax adjustment for amortization expense, this quarter had several GAAP to non-GAAP after-tax adjustments, primarily related to the Covidien transaction: a $165 million charge related to amortization of the remaining inventory purchase price step-up; a $53 million charge for acquisition-related items; and a $52 million net restructuring charge.

Our Cardiac and Vascular Group, which accounted for 35 percent of our total company revenue, grew in the high-single digits. This was a result of strong, low-double digit growth in Cardiac Rhythm & Heart Failure and mid-single digit growth in both the Coronary & Structural Heart and Aortic & Peripheral Vascular divisions.

Cardiac Rhythm & Heart Failure, or CRHF, had strong, above-market, low-double digit growth again in Q1. We estimate the overall CRHF market continues to grow in the low- to mid-single digits. The market is showing strong preference for our leading, differentiated technologies, including our Viva® XT CRT-D with its AdaptivCRT® algorithm and Attain® Performa® Quadripolar Lead, Arctic Front Advance® CryoAblation System, Evera MRI® ICD in Japan, and Reveal LINQ® insertable cardiac monitor in the US and Europe. Strong demand for our Reveal LINQ® resulted in Diagnostics growth in the high-twenties, and is also resulting in meaningful pacemaker pull-through. In Europe, the launch of our premium Micra® transcatheter pacing system is off to a great start. Micra® is one-tenth the size of a traditional pacemaker and is placed directly inside the heart. Looking ahead, the robust productivity of our CRHF pipeline will continue, as we expect to launch the Evera MRI® ICD in the US imminently. In addition, the MRI-safe version of the Viva® CRT-D in the US and Europe, the full market release of the Arctic Front Advance® cryoablation system in Japan, and the full market release of the third-generation Arctic Front ST cryoballoon in Europe are all expected by the end of this fiscal year.

Coronary & Structural Heart, or CSH, grew in the mid-single digits, driven by growth in transcatheter heart valves, drug-eluting stents, and balloons. Transcatheter heart valves grew in the low-thirties globally and in the high-thirties in the US. In Q1, we received US FDA approval for Evolut® R, the first and only recapturable heart valve in the US, and the first commercial implants started late in the quarter. Our team is focused on training US centers on this next-generation valve with its differentiated 14-French equivalent delivery catheter, and we expect to be in all of our current US accounts by the end of the calendar year. In Europe, Evolut® R is driving strong growth, helping us gain share in Western Europe, and we estimate we now hold the number one TAVR position in eleven European countries. In Japan, we received PMDA approval for CoreValve® and are anticipating reimbursement approval and launch in our third quarter. Last week, we announced that we have entered into an agreement to acquire Twelve, a development stage company that is executing first-in-human clinical evaluations of a unique transcatheter mitral valve replacement design that we believe represents leadership technology in the space and accelerates our time to market in this important new growth area. In drug-eluting stents, we grew in the low-single digits and are holding global share on the strength of Resolute Onyx™ in CE Mark countries and Resolute® Integrity® in the US. It is worth noting that we continue to grow our US DES share as an increasing percentage of US DES sales are included in multi-line CVG customer agreements that leverage our broad cardiology product lines, innovative therapies, and wrap-around programs and services. In Q1, we also commenced enrollment in two important clinical trials: our first-in-human trial for our drug-filled stent, and our SPYRAL HTN-OFF & ON MED study in renal denervation.

In our Aortic & Peripheral Vascular division, or APV, revenue grew in the mid-single digits, with low-double digit growth in Peripheral Vascular partially offset by low-single digit declines in Aortic. In Peripheral, we continue to execute a strong US launch of our IN.PACT® Admiral® drug-coated balloon and maintain our leading market position on the strength of our exceptional clinical data. Q1 was the first full quarter of launch utilizing our combined Medtronic and legacy Covidien peripheral salesforce. We expect to file for expanded indications for IN.PACT® Admiral®, with a PMA-S US filing in the second half of this fiscal year for an in-stent restenosis indication, as well as a CE Mark filing by the end of this fiscal year for an AV Fistula indication. In atherectomy, we continue to see strong growth in new accounts from our HawkOne™ 7 french directional atherectomy system, which has helped us stabilize share and see share gain above the knee. Last month, we started the US launch of the Entrust™ delivery system, which is used to place our EverFlex™ self-expanding peripheral stent. In our Aortic business, while we faced increased competitive pressure outside the US and felt the impact of market reimbursement cuts in Japan, the business grew in the US, driven by the continued market adoption of our Endurant® IIs AAA stent graft, which resulted in sequential share gains. During the quarter, our Aortic business announced a number of important developments in both its organic and inorganic product pipeline, including: first implants of our next generation Endurant® EVO AAA stent graft platform; initiation of a US feasibility clinical study for the Valiant® LSA branch thoracic stent graft platform; acquisition of the Aptus EndoAnchor® product line; and the initiation of a joint development and staged acquisition agreement with Arsenal Medical to commercialize the company's novel aneurysmal sac-filling foam technology in AAA stent grafting applications.

Now, turning to our Minimally Invasive Therapies Group, revenue grew in the mid-single digits and accounted for 34 percent of total company revenue. MITG's revenue performance was driven by high-single digit growth in Surgical Solutions and low-single digit growth in Patient Monitoring & Recovery. The group benefitted from strength in surgical volumes in the US, which has been occurring now for the past 3 quarters.

Surgical Solutions grew in the high-single digits, with high-single digit growth in Advanced Surgical, low-single digit growth in General Surgical, as well as low-double digit growth in Early Technologies. Advanced Surgical's strong quarter was driven by balanced low-double digit growth in both Advanced Stapling and Advanced Energy, as the business benefitted from new products, the continued trend of surgical procedures moving from open to minimally invasive, and the underlying strength of surgical volumes in the US. Early Technologies was driven by strong growth in GI Solutions and Interventional Lung Solutions.

Patient Monitoring and Recovery grew in the low-single digits. Respiratory & Patient Monitoring, Nursing Care, and Patient Care & Safety all grew in the low-single digits. Respiratory & Patient Monitoring growth was driven by strong US patient monitoring sales. Nursing Care had strong sales in enteral feeding.

Now, moving to our Restorative Therapies Group, revenue grew in the mid-single digits and accounted for 25 percent of total company revenue. Results were driven by mid-twenties growth in Neurovascular and high-single digit growth in Surgical Technologies, with low-single digit growth in Spine and Neuromodulation.

Spine grew in the low-single digits, in-line with the global market. However, in the US, our Core Spine business underperformed the market. We recently realigned our RTG commercial sales management, and we expect these changes to result in better alignment of incentives and an improved focus on cross-selling in our Surgical Synergy™ program, which integrates our spinal implants and Surgical Technologies' imaging and navigation equipment. We also expect the Core Spine business to improve as its numerous recent and upcoming product launches reach scale, including our Elevate™ expandable cage and Solera® Voyager® system in Thoracolumbar, as well as our Divergence® standalone interbody cage, Zevo® anterior cervical plate system, Prestige LP™ cervical disc, and Anatomic PEEK PTC interbody spacer in Cervical.

In Neuromodulation, revenue increased in the low-single digits, driven by mid-single digit growth in Gastro/Uro and DBS, and low-single digit growth in Pain Stim. Our US Pain Stim business grew in the mid-single digits, in-line with the market. In pumps for pain and spasticity, we have implemented the required changes to distribution processes and are executing against our commitments under the consent decree we received in late April. Following an initial decline in Synchromed® II implants, we saw stabilization in the back half of the quarter.

In Surgical Technologies, revenue grew in the high-single digits, driven by mid-teens growth in Advanced Energy, high-single digit growth in Neurosurgery, and mid-single digit growth in ENT. Surgical Technologies continues to benefit from diversified growth coming from disposables, service revenue, and the strong adoption of new products, including the StraightShot® M5 Microdebrider and NuVent® sinus balloon.

Our Neurovascular division posted strong revenue growth in the mid-twenties. New products, such as our Pipeline™ Flex device for the treatment of intracranial aneurysms and Solitaire™ FR 4 x 40 revascularization device for stent thrombectomy, are driving solid, double-digit growth in Flow Diversion and Stents. We are also seeing increased pull-through of our neurovascular access products given the strength of Pipeline™ and Solitaire™. Earlier this week, we acquired Medina Medical and its aneurysm embolization mesh technology for hemorrhagic stroke, which we believe can disrupt the coil market.

Now, moving to our Diabetes Group, revenue grew in the high-single digits and accounted for 6 percent of total company sales. Low double-digit growth in the Intensive Insulin Management division was driven by continued strong adoption in the US of the MiniMed® 530G insulin pump system with the Enlite® CGM sensor. Growth was also driven by the continued international launch of the next-generation MiniMed® 640G insulin pump system with the Enhanced Enlite® CGM sensor. We continue to make progress in bringing this technology to the US and plan to submit the PMA for this system to the FDA later this calendar year. In our Non-Intensive Diabetes Therapies division, revenue growth in the high-sixties was driven by sales of professional CGM and infusion ports for Type 2 diabetes. In our Diabetes Services & Solutions division, high-single digit growth was driven by strong consumables sales in the US.

Our Diabetes Group announced several new partnerships in the quarter, including Samsung, Becton Dickinson, and Glooko. We also received FDA approval in Q1 for the MiniMed® Connect, which allows users to view their insulin pump and CGM data on a smartphone, and provides remote monitoring and text message notification for their caregivers. This product is expected to launch in the second quarter.

Turning to the rest of the income statement, after adjusting for certain non-GAAP items mentioned earlier, the Q1 operating margin was 27.2 percent, which included a 110 basis point negative impact from foreign currency. On a comparable, constant currency basis, this represents a 40 basis point improvement in operating margins versus the prior year, reflecting a relatively stable gross margin, a 110 basis point improvement in SG&A expense as a percent of sales, and a negative 60 basis point change in Net Other Expense due to one-time items, all on a comparable, constant currency basis.

Included in the Q1 operating margin were non-GAAP gross margin, SG&A as a percent of sales, and R&D as a percent of sales of 69.3 percent, 33.7 percent, and 7.7 percent, respectively. It is worth noting that the non-GAAP gross margin, SG&A, and R&D were negatively affected by 130 basis points, 30 basis points, and 40 basis points from foreign currency, respectively.

Also included in the operating margin was Net Other Expense of $61 million, including net gains from our hedging program of $64 million. We hedge the majority of our operating results in developed market currencies to reduce volatility in our earnings from foreign exchange. In addition, a growing portion of our profits are unhedged, especially emerging market currencies, which can create some modest volatility in our earnings. Assuming current exchange rates for the remainder of the fiscal year, which include a $1.12 Euro and 122 Yen, we expect FY16 Net Other Expense to be in the range of $185 to $235 million, which includes an expected impact from the US Medical Device Tax of approximately $210 million. For Q2 FY16, we expect Net Other Expense to be in the range of $55 to $65 million based on the previously mentioned exchange rates.

Overall, we continue to expect the full year FY16 operating margin to be in the range of 28 to 29 percent on an as reported basis, which includes over 100 basis points of margin improvement on a comparable, constant currency basis, offset by a similar amount of negative FX impact. This results in approximately 400 basis points of operating leverage on a comparable, constant currency basis related to cost synergies, the majority which are expected in SG&A as a result of our Covidien acquisition, as well as continued execution on the legacy leverage initiatives of both Covidien and Medtronic. We continue to expect operating margins in the first half of the year to be below the full year range, improving in the back half of the year as the foreign exchange headwinds lessen and cost synergies accelerate.

Below the Operating Profit line, Q1 Net Interest Expense was $191 million, a significant increase from the prior year comparable quarter, but consistent with Q4 FY15, as we are including the incremental interest expense from our December 2014 $17 billion bond offering. At the end of Q1, we had approximately $18.0 billion in cash and investments and $35.6 billion in debt. Based on current rates, we would expect Q2 Net Interest Expense to be in the range of $175 to $185 million.

Our non-GAAP nominal tax rate on a cash basis in Q1 was 18.1 percent. On a full year basis, we continue to expect our FY16 non-GAAP nominal tax rate on a cash basis to be in the range of 16.0 to 18.0 percent, and we expect to be at the higher end of this range until the presently expired US R&D tax credit is reinstated.

In Q1, free cash flow was $592 million, which includes $92 million of certain litigation payments, as well as $407 million of non-recurring tax payments that primarily relate to an IRS settlement. We remain committed to returning 50 percent of our free cash flow, excluding one-time items, to shareholders and also continue to target an A credit profile. In Q1, we repurchased $750 million of our ordinary shares and paid $538 million in dividends. As of the end of Q1, we had remaining authorization to repurchase approximately 100 million shares. First quarter average daily shares outstanding, on a diluted basis, were 1 billion, 436 million shares. For FY16, we continue to expect diluted weighted average shares outstanding to be in the range of approximately 1 billion, 433 million to 1 billion, 437 million shares, including approximately 1 billion 433 million shares in Q2.

Let me conclude by providing our fiscal year 2016 revenue outlook and earnings per share guidance. We continue to believe that full-year revenue growth in the range of 4 to 6 percent on a comparable, constant currency basis, plus the incremental approximate 150 basis point benefit from our Q1 extra selling week, remains reasonable. This operational revenue growth expectation is consistent with our stated baseline financial goal of consistently delivering mid-single digit revenue growth. Our revenue outlook assumes that CVG, MITG, and RTG grow in the mid-single digits, and Diabetes grows in the upper-single to low-double digit range, all on a comparable, constant currency basis and including the benefit of the extra week.

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 the beginning of this week for the remainder of the fiscal year, then our FY16 revenue would be negatively affected by approximately $1.3 to $1.5 billion, including a negative $425 to $475 million impact in Q2.

Turning to guidance on the bottom line, we continue to expect cash earnings per share in the range of $4.30 to $4.40, which includes an expected 40 to 50 cent negative foreign currency impact based on current exchange rates and approximately $300 to $350 million of targeted value capture synergies from the Covidien acquisition. As you think about your FY16 models and quarterly gating, it is worth noting again that a higher percentage of the negative FX impact is in the first half of the year, while more of the value capture synergies occur later in the fiscal year. While we don't give quarterly EPS guidance, I would note that Q1 and Q2 are often similar, but this year Q1 profitability was favorably affected from the extra week, and thus we would expect Street models to adjust Q2 down a few pennies from Q1.

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, I would like to briefly conclude by reiterating that Q1 was a strong quarter, and we feel good about the remainder of the fiscal year. We remain focused on reliably delivering on our baseline financial model: mid-single digit constant currency revenue growth; EPS growth 200 to 400 basis points faster than revenue on a constant currency basis; and returning 50 percent of our free cash flow to shareholders.

As the world continues to move toward value-based healthcare, Medtronic is well positioned to provide medical technology solutions that improve outcomes while lowering cost.[10] In fact, using biomedical engineering to improve outcomes is the essence of the Medtronic Mission that our founder, Earl Bakken, crafted 55 years ago: to alleviate pain, restore health, and extend life. This is something I am extremely passionate about and dedicated to, as are our more than 85,000 employees. We are confident that our three growth strategies – therapy innovation, globalization, and economic value – are the appropriate strategies to achieve our Mission. The focus on these three strategies is expected to result in both revenue diversification and sustained revenue growth. We expect to further leverage this revenue growth with our productivity initiatives, which have been significantly improved by our transformational acquisition of Covidien. We expect to deliver consistent and reliable results, which, when combined with our solid underlying fundamentals, strong secular growth drivers, and disciplined capital allocation, will enable us to create long-term, dependable value in healthcare.[11]

With that, we will now open the phone lines for Q&A. In addition to Gary, Geoff Martha, who recently replaced Chris O'Connell as President of our Restorative Therapies Group, is here. Geoff is a proven leader, who has had responsibility for developing Medtronic's growth strategies, executing the Covidien transaction, and overseeing the Covidien integration, and I am confident in his ability to leverage the opportunities within RTG. Also joining us today to answer your questions is Mike Coyle, President of our Cardiac and Vascular Group, Bryan Hanson, President of our Minimally Invasive Therapies Group, Hooman Hakami, President of our Diabetes Group, and, given the growing important of our Cath Lab Managed Services business, Rob ten Hoedt, President of our Europe, Middle East, and Africa region. 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. 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 look forward to updating you on our progress on our Q2 call, which we currently anticipate holding on December 3rd. Thank you, and have a great day.

The Zevo anterior cervical plate system, Elevate expandable cage, Divergence stand-alone interbody cage, and Anatomic PEEK PTC incorporate technology developed by Gary K. Michelson, M.D.