

Q4 FY21 EARNINGS CALL COMMENTARY

MAY 27, 2021

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Medtronic

Ryan Weispenning

Good morning and welcome to Medtronic's fiscal year 2021 fourth quarter earnings video webcast. I'm Ryan Weispenning, Vice President and Head of Medtronic Investor Relations.

Before we start the prepared remarks, I'm going to share with you a few details to keep in mind about today's webcast:

- Joining me today are Geoff Martha, Medtronic Chairman and Chief Executive Officer and Karen Parkhill, Medtronic Chief Financial Officer. Geoff and Karen will provide comments on the results of our fourth quarter and fiscal year 2021, which ended on April 30, 2021. After our prepared remarks, we'll take questions from the sell side analysts that cover the company, and today's event should last about an hour.
- Earlier this morning, we issued a press release containing our financial statements and divisional and geographic revenue summaries. We also posted an earnings presentation that provides additional details on our performance. The presentation can be accessed from the link in our earnings press release or on our website at InvestorRelations.Medtronic.com.
- As we mentioned last quarter, the fourth quarter marks the first time that we are using the new nomenclature and reporting structure of our new operating model. For more information on these changes, please see the relevant slides in our earnings presentation.
- During today's webcast, many of the statements we make may be considered forward-looking statements, and actual results may differ materially from those projected in any forward-looking statement. Additional information concerning factors that could cause actual results to differ is contained in our periodic reports and other filings that we make with the SEC, and we do not undertake to update any forward-looking statement.
- Unless we say otherwise, all comparisons are on a year-over-year basis, and revenue comparisons are made on an organic basis. Fourth quarter organic revenue comparisons adjust only for foreign currency, as there were no acquisitions or divestitures made in the last four quarters that had a significant impact on total company or individual segment quarterly revenue growth. Full fiscal year organic revenue comparisons exclude the impact of foreign currency, the benefit in the first 12 months of our Titan Spine acquisition, and the benefit of the extra week in our first quarter.
- References to sequential improvement compare to the third quarter of fiscal 21 and are made on an "as reported" basis.

- All references to share gains or losses are on revenue and calendar quarter bases, unless otherwise stated.
- Reconciliations of all non-GAAP financial measures can be found in the attachment to our earnings press release or on our website at InvestorRelations.Medtronic.com.
- And finally, our EPS guidance does not include any charges or gains that would be reported as non-GAAP adjustments to earnings during the fiscal year.

With that, let's get started.

Geoff Martha:

Introduction and Key Messages

Hello everyone and thank you for joining us today. We reported a strong quarter this morning. The expectations that we set for Q4 on the last earnings call were seen by many in the financial community as aggressive, yet we executed and delivered, beating Street estimates on revenue, margins, and EPS. Most of our end markets are returning to near-normal, pre-COVID growth. While some geographies are lagging due to COVID's persistence, momentum built throughout the quarter and we feel confident about the year ahead.

Karen will give you more color on our guidance later in this call, but the key takeaway is that we're guiding above Street estimates on the top line, while simultaneously accelerating our investments at the front end of major product launches in surgical robotics and renal denervation. Now in robotics and renal denervation, we're investing in our marketing, customer service, and support capabilities to maximize these product launches. We're also investing in R&D broadly, with meaningful programs across the company.

As we talked about at our Investor Day last year, we have a packed pipeline across our businesses, with a number of meaningful opportunities. And our top priority is to invest in our business and pipeline to take advantage of those opportunities. As a result, we plan on increasing our R&D spend by more than 10% in FY22 – the biggest dollar increase in R&D spend in our company's history – all while delivering strong EPS growth. We're ultra-focused on accelerating our top line growth, and we're making incremental investments to put us in a place to drive a sustainable, higher level of growth than you've historically come to expect from Medtronic.

Recap of FY21

Before I get into some details on the fourth quarter, I'd like to reflect on the past year, my first as CEO. It's certainly been a difficult environment with the pandemic, but our organization has risen to the challenge, and achieved so much in such a short period of time and under unique circumstances.

Now it's become cliché for companies to say that they're expecting to emerge from the pandemic stronger, as I've heard this phrase echoed from many of our competitors. But

you've been hearing this from us from Day 1. And I think you'll find it hard to name another company in our space that has done more to emerge from this pandemic stronger than Medtronic. Whether it was investing in our employees, helping our customers and patients, sustaining our R&D programs... or changing our operating model, and putting in place our new "Medtronic Mindset" culture... this past year was transformational for us.

In fiscal 2021, customers eliminated the vast majority of their quarter-end bulk purchases, resulting in a more balanced order flow across the quarter. This has improved our predictability and our pricing, made our businesses easier to manage, and reduced stress on our operations.

This past fiscal year, we also accelerated our tuck-in acquisitions, adding key technologies like AI-driven spine planning tools from Medicrea, and market leading smart pen technology from Companion Medical, among others. We also advanced our organic pipeline, with more than 230 regulatory approvals in the US, Europe, Japan, and China in FY21.

FY21 was also the year that we stepped up and helped our customers and communities during the pandemic. As a leading manufacturer of high-acuity ventilators, we significantly increased our production and open sourced our IP to allow others to produce our ventilators around the world. We continue to support communities in need, most recently as a key member of the Global Task Force on Pandemic Response, which was organized by the US Chamber of Commerce and supported by the Business Roundtable. With the help of the other Task Force members, we're working to supply 1,000 ventilators to India. Medtronic and the Medtronic Foundation also just announced an additional \$3 million for COVID relief efforts in underserved areas of India, Brazil, and the US, and other regions, which brings our combined support of COVID-19 efforts to \$56 million.

And in FY21, we announced our goal of becoming carbon neutral in our operations by the end of the decade. We've set aggressive targets to reduce our environmental footprint, as we focus on creating a sustainable future for our business, our communities, and our planet.

We've always had a strong Mission to guide this company, which includes integrating a strong corporate purpose into our strategy and maintaining good citizenship. And this year we've enhanced our corporate culture to emphasize our commitment to being bold, more competitive, and moving with greater speed and decisiveness – which we believe will help drive the execution of our Mission.

We're also focused on becoming a more diverse and inclusive organization, and I was very proud that Medtronic was recognized earlier this month as #11 on Diversity Inc's Top 50 US Companies for Diversity, one of the biggest jumps by any company. We know we have room to improve, and we're striving to be a company that attracts, develops, and retains top talent from all gender and ethnic backgrounds.

To sum up F21, it was a year marked by progress and accomplishments that will propel us into FY22 with a stronger foundation for growth and a greater ability to execute, deliver, and exceed our own expectations. We have momentum, energy, and a pipeline that gives our team optimism about what we can accomplish this year.

Q4 Market Share Discussion – Share Gains

Now, let's turn to the fourth quarter results – and start with a look at market share – as we've been doing the last few earnings calls.

We continue to gain share in an increasing number of our businesses, driven by our differentiated product offerings. And we've put in place operating mechanisms to ensure that we continue to drive this competitive culture across the organization. Market share is one of the key metrics that we will hold our teams accountable to deliver in evaluating performance, and in FY22, it will be included as a metric in annual incentive compensation. While the impact of COVID on procedures – along with the timing of our quarter – does mask some of the underlying market dynamics, we are seeing a growing trend of share gains for Medtronic.

Leading the list for share gains this quarter is one of our largest businesses, Cardiac Rhythm Management, which has gained share over the past several quarters. We estimate that our CRM business has gained two to three points year-over-year, and CRM is now at the highest share level in more than a decade, with strong gains from around the globe. Now these gains have been driven by Micra™, our leadless pacemaker, which grew 74% in Q4 and is now annualizing at nearly \$400 million. Micra is a great example of the innovation and disruption that we're driving at Medtronic – but it's not just Micra generating our share gains. Our Cobalt™ and Crome™ high power devices are also contributing, driving our CRT-D product line to 74% growth in Q4.

In TAVR, our share was up over a point year-over-year and was stable sequentially. We reached an all-time record of US TAVR implants in the quarter. Late last month, we announced interim results of our OPTIMIZE PRO study, which showed that our new implant technique is resulting in single-digit pacemaker rates. In addition, last week at EuroPCR we announced very strong low risk data, which showed that the advantages of our Evolut™ TAVR system are maintained – over surgical valves – at two years post-procedure. Importantly, our data showed no convergence of the TAVR and SAVR curves for death or disabling stroke, as well as continued low valve thrombosis rates out to year 2. This stands in contrast to our competition's PARTNER 3 data, and we'll leverage this data with implanting physicians as we continue to go on the offensive and win share in this important growth market.

In our Gastrointestinal business, we estimate that we gained share, both year-over-year and sequentially. Our GI Diagnostics product lines grew in the low-fifties, driven by high-sixties growth of PillCam™. Last month, we received FDA clearance for our GI Genius™ Module, which uses artificial intelligence to assist physicians in detecting both pre-cancerous and cancerous growths during colonoscopies. GI Genius can highlight lesions

real-time and identify polyps that might otherwise go undetected by the human eye, improving the quality of colonoscopies.

In our Cranial & Spinal Technologies business, we estimate that we gained share in both Spine and Neurosurgery, both year-over-year and sequentially. Our strategy of bringing a digital ecosystem of enabling technology to Spine procedures is working. We had record sales of our StealthStation™ navigation systems, O-arm™ imaging systems, Midas Rex capital, and advanced energy products. And we estimate that our Mazor™ robotics system continues to outpace our closest competitor.

In ENT, we estimate that our share is up over a point year-over-year. The ongoing launches of our NIM Vital™ neuromonitoring system and StealthStation FlexENT™ navigation system, coupled with share gains in disposable sinus blades, are driving our above-market performance.

In Pelvic Health, share gain continued with the momentum created by the launch of InterStim™ Micro and the SureScan™ leads. Our sales growth outpaced Axonics in the calendar first quarter, and we did this despite having a far larger sales base. While the European sacral neuromodulation market remains sluggish due to COVID resurgence, the US market continues to accelerate.

Turning to Neuromodulation, we estimate that we have gained about a point of Pain Stim share year-over-year, and even more sequentially. Our SCS product line grew 73% in Q4, and we continued to outpace the competition in the calendar first quarter. The market continues to show strong enthusiasm for our DTM™ SCS therapy – which now carries a superiority label from the FDA – and our strategy of going after competitive account conversions is yielding great results. Our DTM trial adoption remained robust and grew sequentially, a good leading indicator for future growth in our Pain Stim business.

In Brain Modulation, while we estimate we lost a couple points of share year-over-year, we continued to gain sequential share on the back of the Percept™ PC launch. Percept has resulted in 10 points of new implant share gains in the US since its launch last summer.

Q4 Market Share Discussion – Share Losses

So there are a number of businesses where we are gaining share, but there are still some businesses where we've got some work to do.

In Cardiac Diagnostics, as we discussed last quarter, we continued to be supply constrained with our new LINQ II™ system in Q4, as we ramp our unique wafer scale manufacturing. We estimate we lost about a point sequentially and mid-single digit share points year-over-year, primarily to Boston Scientific. We're working through the supply ramp up, and expect to have improved supply in the back half of the fiscal year. In addition, we implemented a product ship hold on the LINQ II last week as we analyze an issue. In the meantime, customers are continuing to use our Reveal LINQ™. Once we resolve the issue,

we're confident that the proven market leadership of Reveal LINQ and the competitive differentiation of LINQ II will allow us to continue to win in this space.

In our Aortic business, we announced the voluntary recall of our Valiant Navion™ thoracic stent graft system in February. We also announced that we would be working to ramp production of our previous generation product, the Valiant Captivia™, but that we would not be at full production until September. The loss of Navion had a \$35 million impact to revenue in Q4, and resulted in us losing high-teens share in the thoracic stent graft market. That said, our customers have expressed strong interest in using the Valiant Captivia product when inventory is available. And looking ahead, we're estimating that the quarterly revenue impact will decrease as we go through FY22, from \$30 million in Q1 to \$15 million in Q4.

In Neurovascular, we estimate we lost a couple of points of share year-over-year, driven primarily by new competitive flow diverters from Stryker and Terumo. That said, we saw our share stabilize sequentially, as we launched our Solitaire™ X 3mm stent retriever in the US and started the limited launch of our Pipeline™ Vantage flow diverter in certain CE Mark countries. We expect our new products to drive sequential share gains going forward.

In Diabetes, we continue to execute on our turnaround strategy, growing 9% this quarter. This is still below market, and we estimate we lost about 5 points of share year-over-year. However, our share was stable sequentially. Our new MiniMed™ 770G and 780G insulin pumps are giving us momentum, resulting in very strong, double digit global insulin pump growth.

Pipeline Discussion

Next, let's turn to our product pipeline. We're launching a number of products across the company, and even more are coming. We expect our robust pipeline to be the key driver of accelerating our top line growth, as we're at the front of some large opportunities to win share, create new markets, and disrupt existing markets. And, as I noted earlier, we're continuing to fuel our R&D investments, such that our pipeline can be a continuous source of sustained revenue growth over the coming years.

Starting with Cardiovascular, one of our largest future drivers is Renal Denervation, as we develop our solution to go after the multi-billion dollar addressable market in hypertension. We're expecting to present our ON MED pivotal trial results later this year, likely at the TCT conference in November, and these results are likely to be one of the most highly anticipated events in MedTech this year.

In Cardiac Rhythm Management, we're planning to file for CE Mark for our disruptive Extravascular ICD technology this quarter. Let me repeat that: I said this quarter. And in our Cardiac Ablation Solutions business, we're expecting a first line therapy indication for our Arctic Front™ cryoballoon in the US this coming quarter. We also continue to make good progress on bringing our disruptive pulsed field ablation system to market, with strong enrollment in our PULSED AF pivotal trial.

In Structural Heart, we received FDA approval in Q4 for our Harmony™ transcatheter pulmonary valve, the first of its kind and a breakthrough treatment for patients with congenital heart disease. In TAVR, we received low risk Shonin approval in Japan, and are expecting reimbursement approval later this fiscal year. We also expect the U.S. rollout of our next-generation TAVR valve, the Evolut™ FX, later this calendar year, which will feature enhanced deliverability and ease of use.

Turning to our Medical Surgical portfolio, another very important program is our Hugo™ robotic-assisted surgery platform. At the end of March, we reported that we had submitted Hugo for CE Mark and US IDE approval. Well today, I'm happy to report that the FDA has granted the IDE approval, and we're preparing to commence our Expand URO trial in the US to study Hugo in urologic procedures. We also had our first revenue from Hugo placements at hospitals outside the US in Q4. These systems will collect clinical data to support regulatory approvals in the US and around the world. As you think about modeling the revenue from our Surgical Robotics business, we're expecting \$50 to \$100 million in FY22, and that's likely to roughly double or triple in FY23. We expect soft-tissue robotics to be a meaningful growth driver going forward, not just for MedSurg, but for overall Medtronic.

In our Neuroscience Portfolio, we have some exciting near-term milestones coming in our Neuromodulation business. We're expecting to launch our Vanta™ recharge free spinal cord stimulator in the first half of this fiscal year. This is a big opportunity for us to gain additional share in Pain Stim, given our low share in the recharge free portion of the market. We're also on track to submit our ECAPS device to the FDA later this calendar year, which has the potential to be a disruptive technology in the spinal cord stim space. And in Brain Mod, we're expecting FDA approval for our SenSight™ directional lead later this calendar year. This will close a key competitive gap and further differentiate our Percept™ PC system, which I mentioned earlier was already taking a lot of share in DBS.

And in Pelvic Health, we received IDE approval last month to start our TITAN 1 feasibility study. This trial will evaluate our implantable tibial system, a device that we think could substantially increase our ability to serve overactive bladder patients, many of whom do not seek therapy or remain on current therapy.

In Neurovascular, in addition to the Solitaire™ X 3mm stent retriever and Pipeline™ Vantage flow diverter that I mentioned earlier, we're rolling out 5 additional products this calendar year. This includes meaningful innovation for the stroke market, like our Pipeline™ Shield flow diverter in the US and RIST™ Radial Access System.

In Diabetes, we recently received CE Mark approval for our Zeus CGM sensor, which we will be marketing as the Guardian™ 4 sensor. The no calibration data that was used to support this CE Mark approval will be presented next week at the virtual ATTD conference, and the abstract is available on the ATTD website. We're pleased with the accuracy of Guardian 4, and that it has now been labeled for dosing without fingersticks. Starting this fall,

Europeans will not only have access to the 780G – with the highest reported time-in-range of any insulin pump – but also our Guardian 4 sensor, with no fingersticks required; and our Extended infusion set, with an industry-leading 7-day wear. We think this is a highly differentiated product offering, and one that we can't wait to bring to other markets. In the US, the 780G and Guardian 4 sensor are under active review with the FDA. Finally, we're making progress on our Synergy sensor, which is disposable, easier to apply, and half the size of our current sensor. We intend to submit the sensor to the FDA in the first half of the fiscal year, once we complete our manufacturing module.

<PAUSE>

I'll now turn it over to Karen to discuss our financial performance and guidance. Karen?

Karen Parkhill

Q4 Financial Recap

Thank you, Geoff.

Our fourth quarter organic revenue increased 32%. And adjusted EPS increased 159%, significant growth as we anniversary the downturn we experienced at the start of the pandemic last year. Our end markets continue to recover from the impact of COVID, and we continue to execute on our strategy and launch new products, resulting in a sequential revenue increase of 5% and sequential adjusted EPS growth of 16%. Our adjusted EPS was 8 cents better than consensus, with 2 cents on higher operating profit and 6 cents from a lower than estimated tax rate.

Our recovery from the COVID resurgence in December and January improved throughout the quarter, as expected. March was stronger than February, and April was stronger than March. We were particularly pleased with the strength of the last several weeks of the quarter, which we believe sets us up nicely for the start of our new fiscal year.

From a geographic standpoint, we had strong 47% growth in the United States. Outside of the US, our developed markets grew 11%, with continued pockets of COVID resurgence in parts of Western Europe, Japan, and Canada. Our Emerging Markets grew 41%, driven by China growth in the low 90's.

Our adjusted margins continued to improve sequentially, with 120 basis points on our gross margin and 190 basis points on our operating margin. Our adjusted nominal tax rate was 9.6%, better than initially estimated given a favorable jurisdictional mix of profits along with certain one-time benefits.

We've said throughout this past year that the actions we were taking during the pandemic to not only support our employees and our customers, but also continue investing, would impact our free cash flow. That said, we were pleased that we generated \$4.9 billion of free cash flow, converting 81% of our non-GAAP earnings into cash, just above our long-term conversion target of 80%.

During the quarter, we repaid in full a 300 billion yen term loan that was issued earlier in the fiscal year. And, our year end cash position remains above \$10.5 billion. You can be assured that, despite the pandemic, Medtronic continues to be in a strong financial position to drive our long-term strategies.

Reflecting the confidence that we and our board have in the future growth of this company, this morning we announced that we are increasing our dividend by 9%. We are an S&P Dividend Aristocrat, having increased our dividend now for 44 years, and the dividend is an important part of the total return we generate for our shareholders. We also restarted our share repurchase program in the fourth quarter, with a focus on covering dilution from our stock-based compensation.

FY22 and Q1 Guidance

Now, turning to our guidance.

We're confident in the continuing procedure recovery around the globe, and the resilience of our end markets, and, as a result, today reinstate giving formal guidance.

We expect strong organic revenue growth acceleration in fiscal 22 to 9%, plus or minus, a point above current Street consensus. And, while the impact of currency is fluid, if recent exchange rates hold, foreign currency would have a positive impact on full year revenue of 400 to 500 million dollars. By segment, we expect Cardiovascular and Neuroscience to grow 10-11%, Medical Surgical to grow 6-7%, and Diabetes to grow 3-4%, all on an organic basis.

You'll remember that last year we had an extra week in our fiscal calendar, and these growth rates have not been adjusted for that extra week, given the offset that we had from customer bulk purchases. As a result, we do not intend to adjust our organic growth in fiscal 22 for the extra week in fiscal 21.

In the first quarter, we're comfortable with Street consensus on revenue, which implies organic growth of 17-18%, and a currency tailwind between 200 and 250 million dollars at recent rates. By segment, we expect Cardiovascular to grow 14-15%, Medical Surgical to grow 18-19%, Neuroscience to grow 25-26%, and Diabetes to be flat.

With so many big opportunities in front of us, we're prioritizing R&D and commercial investments, with growth above and beyond what you would see in a normal year, and we're allocating this capital across our businesses to our best opportunities. As you know, two of our largest opportunities are surgical robotics and renal denervation. We're purposely making significant investments in them – to ensure we fully capitalize on the multi-billion dollar opportunities ahead. Just to give you a sense, when you combine the facts that it is early in the revenue cycle of these two programs with our heavy investment, we are planning for an operating loss of approximately \$400 million next fiscal year from these combined programs. Yet, it is important to note that – even with these kind of investments – we're still expecting operating margin expansion. This is the power of

Medtronic's business model: that we can simultaneously make large scale investments in some of the most important future technology areas in MedTech, cover the dilution, **and** deliver strong profitability and returns for our shareholders.

On the bottom line, we expect non-GAAP diluted EPS in the range of \$5.60 - \$5.75 in fiscal 22, which includes a benefit of 10 to 15 cents from currency at recent rates. For the first quarter, we expect EPS of \$1.31 - \$1.34, above current Street consensus of \$1.29-\$1.31. And first quarter EPS would include a currency tailwind of about 3 cents at recent rates.

Before I hand it back over to Geoff, I'd like to take a moment to recognize all of the employees across Medtronic who scaled mountains this year, leaning in to deliver a great year under difficult circumstances. I'm proud to be part of such a terrific team, and I couldn't be more excited about the opportunities ahead of us.

Back to you, Geoff.

Geoff Martha
Closing Remarks

OK. Thank you, Karen.

Now I'd like to close by emphasizing that there is a lot of energy here at Medtronic and our momentum is building. You're seeing us perform better than our competition. We've executed in the short-term, and we're investing for the long-term.

We've accomplished a lot in FY21, and this is a good start... but our expectations are higher. What will truly differentiate us is accelerating and delivering sustained revenue growth, at or above our markets. Not just over a year or two – but over the next decade. We have incredible programs in our development pipeline, with robust expected financial returns. We're developing the next generation of medical devices that incorporate technologies like artificial intelligence, big data, and miniaturized electronics. These programs have the potential to truly change the future of medicine. When we look at the opportunities ahead of us, and how we expect to translate these into strong returns for our shareholders, the future is bright.

And finally, to our 90,000 employees around the world – thank you for everything that you have accomplished this past year! I'm sure they would agree with me when I say... if there's one thing you should take away from today's call... it's that at Medtronic... we're just getting started.

With that, let's now move to Q&A. We'll try to get to as many analysts as possible, so we ask that you limit yourself to one question. If you have additional questions, you can reach out to Ryan and the Investor Relations team after the call. By the way, it's worth noting that IR Magazine recently recognized our Investor Relations as the best of all companies in the United States, an award we're very proud to receive, as it was the result of voting from

hundreds of investors and analysts. We look forward to continuing to provide you with transparent communication and a high level of service.

With that, Francesca, can you please give the instructions for asking a question?

Francesca DeMartino

For the sellside analysts that would like to ask a question, please select the "Participants" button and click "Raise Hand." If you're using the mobile app, press the "More" button and select "Raise Hand." Your lines are currently on mute. When called upon, you will receive a request to unmute your line, which you must respond to before asking your question. Lastly, please be advised that this Q&A session is being recorded.

For today's session, Geoff, Karen, and Ryan are joined by:

- Sean Salmon, EVP and President of the Cardiovascular Portfolio and the Diabetes Operating Unit;
- Bob White, EVP and President of the Medical Surgical Portfolio; and
- Brett Wall, EVP and President of the Neuroscience Portfolio

Following Q&A:**Ryan Weispfenning**

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

Geoff Martha

OK. Thanks for the questions. We appreciate your support and continued interest in Medtronic. We hope you'll join us for our Q1 earnings webcast – which we anticipate holding on August 24 – where we'll update you on our progress. So, with that, thanks for tuning in today, please stay healthy and safe, and have a great rest of your day. Thank you.