Medtronic News

Medtronic Reports Third Quarter Earnings

Revenue of \$4.2 Billion Grew 4% on a Constant Currency Basis; 3% as Reported Non-GAAP Diluted EPS of \$0.91; GAAP Diluted EPS of \$0.75
Free Cash Flow of \$1.5 Billion; GAAP Cash Flow from Operations of \$1.6 Billion Reiterates FY14 Revenue Outlook; Tightens FY14 Diluted EPS Guidance

MINNEAPOLIS - Feb. 18, 2014 - Medtronic, Inc. (NYSE: MDT) today announced financial results for its third quarter of fiscal year 2014, which ended January 24, 2014.

The company reported worldwide third quarter revenue of \$4.163 billion, compared to the \$4.027 billion reported in the third quarter of fiscal year 2013, an increase of 4 percent on a constant currency basis after adjusting for a \$41 million negative foreign currency impact or 3 percent as reported. As reported, third quarter net earnings were \$762 million, or \$0.75 per diluted share, a decrease of 23 percent for both compared to the same period in the prior year. Third quarter net earnings and diluted earnings per share on a non-GAAP basis were \$916 million and \$0.91, a decrease of 3 percent and 2 percent, respectively, over the same period in the prior year. This decline was primarily driven by a difficult comparison due to a \$0.03 benefit the company received in the third quarter of fiscal year 2013 from the extension of the U.S. R&D tax credit, which has not yet been renewed this year, as well as higher levels of interest expense and U.S. medical device excise tax in the third quarter of fiscal year 2014 compared to the same period last year. The most significant third quarter GAAP to non-GAAP adjustment was a charge primarily related to the impairment of the company's renal denervation in-process research and development and related long-lived assets following the announcement that the HTN-3 trial did not meet its primary efficacy endpoint. While the company is still in the process of evaluating the long-term strategy for its renal denervation program, an impairment charge was deemed necessary as a majority of the value of the renal denervation intangible assets were tied to U.S. approval.

Third quarter international revenue of \$1.898 billion increased 4 percent on a constant currency basis or 2 percent as reported. International sales accounted for 46 percent of Medtronic's worldwide revenue in the quarter. Emerging market revenue of \$521 million increased 12 percent on a constant currency basis or 10 percent as reported and represented 13 percent of company revenue.

"In Q3, our overall organization once again delivered balanced growth, with strong performances in some areas offsetting challenges in other parts of our business," said Omar Ishrak, Medtronic chairman and chief executive officer. "We remain focused on building a track record of operational execution to deliver consistent and reliable results."

Cardiac and Vascular Group

The Cardiac and Vascular Group includes the Cardiac Rhythm Disease Management (CRDM), Coronary, Structural Heart, and Endovascular businesses. The Group had worldwide sales in the quarter of \$2.119 billion, representing an increase of 2 percent on a constant currency basis or 1 percent as reported. Group revenue performance was driven by growth in Structural Heart, Endovascular, Implantable Cardioverter Defibrillators (ICDs), and AF and Other, which included growth from Hospital Solutions and Cardiocom®, partially offset by declines in Pacing. Group international sales of \$1.211 billion increased 3 percent on a constant currency basis or 1 percent as reported.

CRDM revenue of \$1.184 billion grew 2 percent on a constant currency basis or 1 percent as reported. Third quarter revenue from ICDs was \$655 million, an increase of 1 percent on a constant currency basis. In international markets, strong adoption of the Viva(TM) XT CRT-D drove growth in Western Europe and Japan. Pacing revenue was \$439 million, a decline of 2 percent on a constant currency basis. AF Solutions grew over 20 percent driven by robust growth from the Arctic Front® CryoAblation System, which grew over 30 percent.

Coronary revenue of \$436 million was flat on a constant currency basis or declined 2 percent as reported. Sales of drug-eluting stents increased 5 percent on a constant currency basis, driven by global share gains of the Resolute® Integrity® drug-eluting stent.

Structural Heart revenue of \$281 million grew 4 percent on a constant currency basis or 3 percent as reported. Growth was driven by continued strong international results from the CoreValve® transcatheter aortic heart valve. The company received FDA approval for this product for extreme risk patients in the U.S. late in the third quarter.

Endovascular revenue of \$218 million grew 4 percent on a constant currency basis or 3 percent as reported. Q3 growth was negatively affected by the divestiture of a reentry catheter product line, as well as removing a peripheral below-the-knee product from the market. The Aortic business had mid-single digit revenue growth on a constant currency basis in the U.S. and Europe despite competitive pressure from new entrants.

Restorative Therapies Group

The Restorative Therapies Group includes the Spine, Neuromodulation and Surgical Technologies businesses. The Group had worldwide sales in the quarter of \$1.608 billion, representing an increase of 5 percent on a constant currency basis or 4 percent as reported. Group revenue was driven by growth in Surgical Technologies and Neuromodulation. Group international sales of \$521 million increased 6 percent on a constant currency basis or 3 percent as reported.

Spine revenue of \$744 million was flat on a constant currency basis or declined 1 percent as reported. Core Spine revenue of \$631 million was flat on a constant currency basis or declined 1 percent as reported. Excluding sales of balloon kyphoplasty, Core Spine grew in the low-single digits on a constant currency basis both globally and in the U.S. The company estimates the global and U.S. spine markets continued to show signs of stability. The Core Spine business continues to differentiate itself from competition through its Surgical Synergy(TM) program of enabling technologies, including imaging, navigation, and powered surgical instruments. BMP revenue of \$113 million declined 1 percent on a constant currency basis, as the business is seeing signs of sequential stability in underlying demand and faced a favorable comparison due to a supply constraint in the prior year period.

Surgical Technologies revenue of \$386 million grew 11 percent on a constant currency basis or 10 percent as reported. Revenue growth was driven by upgrades of the StealthStation® S7® Surgical Navigation System and NIM® ENT nerve monitoring capital equipment, robust U.S. sales of O-arm® imaging capital equipment, and continued strong adoption of the Aquamantys® Transcollation® and PEAK PlasmaBlade® technologies.

Neuromodulation revenue of \$478 million increased 7 percent on both a constant currency basis and as reported. Growth was driven by strong performance from Activa® deep brain stimulation systems and the RestoreSensor® SureScan® MRI spinal cord stimulator.

Diabetes Group

Diabetes revenue of \$436 million grew 16 percent on both a constant currency basis and as reported. The acceleration in growth was driven by the ongoing U.S. launch of the MiniMed® 530G with Enlite® continuous glucose monitoring sensor, which was approved late in the second quarter.

Revenue Outlook and Earnings per Share Guidance

The company today reiterated its revenue outlook and tightened its diluted earnings per share (EPS) guidance for fiscal year 2014. In fiscal year 2014, the company continues to expect revenue growth in the range of 3 to 4 percent on a constant currency basis, both for the full fiscal year and Q4. The company now expects fiscal year 2014 diluted EPS in the range of \$3.81 to \$3.83, which implies annual diluted non-GAAP EPS growth of approximately 6 percent after adjusting for certain tax

benefits the company received in fiscal year 2013, as well as higher levels of interest expense and U.S. medical device excise tax in fiscal year 2014.

"The U.S. approvals of CoreValve and the MiniMed 530G System marked important milestones and are part of an ongoing product launch cadence of innovative therapies," said Ishrak. "In addition, Medtronic is uniquely positioned to lead the shift to value-based healthcare, directing our products and solutions to help providers, payers, and governments achieve their goals in driving more value into healthcare systems around the world. We are seeing promising results from our early efforts, including both our Cath Lab Managed Services and Cardiocom businesses, and we believe that we have significant opportunities ahead as we transform our company from being primarily a device provider today into the premier global medical technology solutions partner of tomorrow."

Webcast Information

Medtronic will host a webcast today, Feb. 18, at 8 a.m. EST (7 a.m. CST), to provide information about its businesses for the public, analysts, and news media. This quarterly webcast can be accessed by clicking on the Investors link on the Medtronic home page at www.medtronic.com and this earnings release will be archived at www.medtronic.com/newsroom. Within 24 hours, a replay of the webcast and a transcript of the company's prepared remarks will be available in the "Events & Presentations" section of the Investors portion of the Medtronic website. Medtronic will also be live tweeting during the call on our Newsroom Twitter account, @Medtronic.

Financial Schedules

To view the third quarter financial schedules, click here or visit www.medtronic.com/newsroom.

About Medtronic

Medtronic, Inc., headquartered in Minneapolis is the global leader in medical technology - alleviating pain, restoring health, and extending life for millions of people around the world.

This press release contains forward-looking statements related to product growth drivers, market position, strategies for growth and leadership, and Medtronic's future results of operations, which are subject to risks and uncertainties, such as competitive factors, difficulties and delays inherent in the development, manufacturing, marketing and sale of medical products, the outcome of litigation matters, government regulation and general economic conditions and other risks and uncertainties described in Medtronic's periodic reports on file with the Securities and Exchange Commission. Actual results may differ materially from anticipated results. Medtronic does not undertake to update its forward-looking statements.

Earnings per share guidance excludes adjustments relating to acquisition-related items, charitable donations to the Medtronic Foundation, restructuring charges and credits, certain litigation charges, and any unusual charges or gains that might occur during the fiscal year. The guidance provided only reflects information available to Medtronic at this time.

Unless otherwise noted, all comparisons made in this news release are on an "as reported basis" and not on a constant currency basis. References to quarterly figures increasing or decreasing are in comparison to the third quarter of fiscal year 2013.

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View FY14 Third Quarter Financial Schedules

Contacts:

Cindy Resman
Public Relations
+1-763-505-0291

Jeff Warren Investor Relations +1-763-505-2696

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