Q1 FY17
EARNINGS CALL COMMENTARY
AUGUST 25, 2016

Medtronic

Ryan Weispfenning
Thank you, Jackie. 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 Karen Parkhill, Medtronic Chief Financial Officer, will provide comments on the results of our fiscal year 2017 first quarter, which ended on July 29, 2016. 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 issued an earnings presentation that provides additional details on our performance and outlook. You should note that many 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 and other filings that we make 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 our website, InvestorRelations.Medtronic.com. Unless we say otherwise, references to quarterly results increasing or decreasing are in comparison to the first quarter of fiscal year 2016, and all year-over-year growth ranges are given on a constant currency and constant weeks basis, which adjusts for the negative effect of foreign currency translation and the extra week that was in our prior year first quarter. As previously disclosed, we estimate the extra week had an approximate $450 million impact on revenue and $0.08 to $0.10 impact to earnings per share. The extra week impact for each business or region was estimated by adjusting Q1 FY16 revenue by the prorated total company impact. The constant currency adjustment details can be found in the reconciliation tables included with our earnings press release. 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 $7.2 billion and non-GAAP diluted earnings per share of $1.03, representing another quarter of strong top- and bottom-line growth.

All our business groups and regions delivered strong growth, resulting in company-wide revenue growth over 5 percent. In addition, our continued focus on both operating and financial leverage drove solid, double digit EPS growth and strong cash flow generation as we continue to strategically deploy our capital against our priorities of reinvesting with discipline in M&A and R&D, returning substantial cash to our shareholders, and deleveraging our balance sheet. We feel very good about our momentum to start our fiscal year, and we are confident in our ability to sustain this performance over the coming quarters[1].

Now, let's turn to the drivers of our revenue growth. We have three specific growth priorities stemming from our overall strategies: new therapies, emerging markets, and services and solutions, with quantified growth expectations for each.

In New Therapies, we delivered results at the upper end of our goal in Q1, contributing over 300 basis points to our total company growth.

In our Cardiac & Vascular Group, which grew in the mid-single digits, we continue to complement our steady cadence of differentiated products with market-leading breadth, scale, and technology innovation. In CRHF, our AF Solutions and Diagnostics businesses again delivered impressive growth. AF Solutions grew in the mid-thirties, well above market growth, on the strength of Arctic Front Advance® cryoballoon and our recent FIRE & ICE clinical data. In Diagnostics, which grew in the low-double digits, market acceptance of our Reveal LINQ® insertable loop recorder had strong momentum, resulting in increased pacemaker pull-through. In our core CRHF implantables businesses, revenues were flat in a global market that, in our estimation, was down in the low-single digits. In the US, low-single digit growth in initial implants, as well as our share gains in high power implants offset mid-single digit declines in device replacements. We continue to take share in the US with MRI-safe systems and our recently launched Visia AF™ ICD. In Q1, we started shipments of our Micra® Transcatheter Pacing System, the world's smallest pacemaker at one-tenth the size of a traditional device. Concurrently, we initiated physician training in the US, and we look forward to obtaining a National Coverage Decision from CMS for this transformative therapy by the end of the fiscal year. We also look forward to a number of new product launch catalysts over the balance of the fiscal year, including the Claria MRI™ CRT-D system with EffectivCRT™ pacing in the US and Japan, Visia AF™ in Japan, Reveal LINQ® in Japan, and our CRT-P quadripolar pacing system in Europe.

We closed our acquisition of HeartWare earlier this week, a leading innovator of miniaturized circulatory support technologies for the treatment of advanced heart failure. We are pleased to now significantly broaden our range of therapeutic options for Heart Failure patients with the addition of HeartWare, and we expect it to add meaningful revenue growth to CVG throughout the balance of the fiscal year and beyond[2]. Not only do we have complementary technologies and service capabilities – including infection control, physiologic sensors and algorithms, remote monitoring & patient management, and integrated diagnostics – but we also have experience with rechargeable battery technology and implantable controllers that can accelerate the development of reliable, fully implantable LVAD systems.

In CSH, our Resolute Onyx™ DES and Euphora® balloons are driving solid mid-single digit international growth in our Coronary business, but we experienced declines in the US from competitive product launches. We anticipate FDA approval and market release of Resolute Onyx™ in the US around the end of FY 17. In Structural Heart, the global TAVR market is robust, growing 40 percent. We continue to gain share in international markets with our CoreValve® and CoreValve® Evolut® R valves. However, the lack of a large size Evolut® R is limiting our share in the US market. We expect approval of our Evolut® R XL valve in early calendar year 2017. Earlier this month, Evolut® R was the first system to be granted CE Mark for intermediate risk patients, and we are on track to submit our SURTAVI data for US intermediate risk indication expansion approval in Q4 this fiscal year. In APV, we had strong high-single digit growth in our Aortic business, with the Endurant® IIs aortic stent graft, Heli-Fx® EndoAnchor® System, and Valiant® Captivia® thoracic stent graft technologies all fueling growth. In our Peripheral business, growth was driven by our IN.PACT® Admiral® DCB, which continues to outpace and lead the fast-growing drug-coated balloon market on the strength of its handling characteristics and differentiated clinical data.

Our Minimally Invasive Therapies Group grew in the mid-single digits, with consistent quarterly performance stemming from five key growth drivers: Open-to-Minimally Invasive Surgery, or MIS, Gastrointestinal Diseases, Lung Cancer, End Stage Renal Disease, and Respiratory Compromise. Open-to-MIS grew in the high-single digits in Q1, driven by the recent product introductions in our Advanced Energy portfolio, like the Valleylab™ FT10 energy platform, as well as the continued adoption of Endo GIA™ Reloads with Tri-Staple™ technology portfolio, specifically the Endo GIA™ Reinforced Reloads. GI Diseases and Lung Cancer also grew in the high-single digits, with solid growth in our GI Solutions business, resulting from the continued launch of the Barrx™360 Express RF ablation balloon catheter. Our focus on End Stage Renal Disease is benefitting from the fiscal Q4 acquisition of Bellco, a pioneer in hemodialysis treatment solutions. Respiratory Compromise grew in the low-double digits. We were pleased to return both the Puritan Bennett™ 980 ventilator and Capnostream™ 20 patient monitor to customers and patients following ship holds that were put in place last fiscal year.

We continue to supplement MITG with tuck-in acquisitions. Earlier this month, we closed on the acquisition of Smith and Nephew's fast-growing Gynecology business that will complement our existing global GYN product line. We also closed on our agreement to acquire a majority ownership position in the Netherlands Obesity Clinic, or NOK, which I will cover in more detail later. Across MITG, we are developing solutions that span the entire care continuum, aspiring to enable earlier diagnosis, better treatment, faster complication-free recovery, and enhanced patient outcomes through less invasive solutions.

In our Restorative Therapies Group, we are reinvigorating therapy innovation across all of our disease-focused businesses, delivering a consistent cadence of solutions across the patient care continuum, resulting in mid-single digit growth this quarter. In Spine, we grew in-line with the market, with mid-single digit growth in the US offsetting an international decline. Outside the US, we were mainly affected by the macro-economic challenges in the Middle East, where we have strong market share, and by the continued ship hold on BMP in Europe, which we believe should be resolved by the end of the fiscal year. In the US, we continue on an upward trajectory, delivering another quarter of sequential improvement in our growth rate. Our "Speed to Scale" strategy is producing tangible results, as we launch a steady cadence of procedural innovation, like our OLIF procedure, and new products, including the Solera® Voyager®, Elevate™, and PTC Interbodies for TLIF and MIDLF procedures. Last month, we obtained 2-level FDA approval for our Prestige LP™, which we expect will help drive adoption of cervical disc arthroplasty procedures in the US. In addition to "Speed to Scale", our focus on Surgical Synergy – which combines enabling technology with our spine implants to deliver integrated procedural solutions – is starting to show results. In fact, the combined growth of both our Spine business and our Spine imaging and navigation capital equipment in our Neurosurgery business was in the high-single digits in the US in Q1. We believe this is an indication of our overall growth in Spine procedures and a more relevant comparison of our Spine results against several of our competitors. We are also excited about our partnership with Mazor Robotics, which is generating significant surgeon interest, and together we are set to introduce the Mazor X at NASS later this year.

All our businesses in our Brain Therapies division delivered a strong quarter. In Neurovascular, our Solitaire™ FR mechanical thrombectomy device is delivering strong results, even after the anniversary of the *New England Journal of Medicine* articles last year, solidifying our leadership position in the rapidly expanding ischemic stroke market. In Brain Modulation, our DBS products had a solid quarter, and we just received CE Mark for SureTune2™, which provides patient specific visualization to aid in DBS programming. In Neurosurgery, we saw robust sales of the recently

launched O-arm® O2 surgical imaging system, as well as the StealthStation® S7 surgical navigation system.

While our Pain Therapies division declined in the low-single digits from continued competitive pressure in our Spinal Cord Stimulation products, our Drug Pumps grew in the mid-single digits. Our Interventional business showed continued strength, growing in the low-single digits, with our OsteoCool® RF Spinal Tumor ablation system driving solid growth and generating pull through of our balloon kyphoplasty products.

And, all of our businesses in our Specialty Therapies division – ENT, Pelvic Health, and Advanced Energy – collectively grew in the low-double digits.

Turning to our Diabetes Group, we delivered high-single digit growth in the quarter with solid growth in our Intensive Insulin Management division, driven by strong adoption of our MiniMed® 640G System outside the US. While the US market remains competitive, we were pleased to receive FDA approval for our MiniMed® 630G earlier this month, and we expect to see strong US growth with this platform, just like we have seen with the 640G outside the US. The 630G features a new, contemporary pump hardware platform, including a waterproof case, HD full color screen, and remote bolus capability directly from the meter, along with several enhancements to our Enlite® sensor. The new platform also fully integrates continuous glucose monitoring with SmartGuard™ technology, which is the only technology available in the US that not only takes specific action against lows, but also reduces the frequency of nighttime low episodes by a third. In addition to our current offerings, we submitted the PMA for our Hybrid Closed Loop System with the Enlite® 3 CGM sensor to the FDA in June of this year.

In our Non-Intensive Diabetes Therapies division, we saw another quarter of very strong growth as we continue to promote our iPro®2 professional CGM system to type 2 patients being cared for by primary care physicians, through our partnership with Henry Schein. Our NDT pipeline is centered on a steady cadence of product, applications, and informatics innovation to enable primary care physicians and patients to make better, more informed choices in the management of type 2 diabetes.

In our Diabetes Service & Solutions division, we saw solid growth from both our consumables business and from Diabeter, which I will cover in a moment. We are excited about the recent CE Mark approval for our Guardian® Connect standalone CGM system with the current Enhanced Enlite® sensor and expect initial product availability in fiscal Q3. In the US, we have submitted our PMA application to the FDA earlier this year and expect to launch Guardian® Connect together with the next-generation sensor in the second half of this fiscal year. Guardian® Connect allows us to provide both type 1 and type 2 patients on multiple daily injections with a standalone, real-time glucose monitoring solution. We also continue to make strong progress with our partnership with IBM and remain on track to launch our Sugar.IQ™ personal diabetes assistant, powered by Watson, in the next few months. When you combine our diabetes devices with the applications and cognitive computing capabilities that we will bring through our partnership with IBM, we expect to provide both type 1 and type 2 patients with not just a sensor, but a comprehensive diabetes management solution.

Across all of our four groups – CVG, MITG, RTG, and Diabetes – our new product pipeline is robust, and we are confident we can drive sustainable growth of our New Therapies growth vector within our 200 to 350 basis point goal[3].

Next, let's turn to Emerging Markets, which delivered double digit growth, contributing over 150 basis points to our total company growth, in-line with our expectations. We continue to execute against our strategies of channel optimization, government agreements, and private partnerships. We feel that these initiatives have the ability to accelerate growth and lead to sustained market outperformance.

In Q1, our businesses in South Asia, Latin America, Eastern Europe, and China all grew in the mid-teens or higher. In China, our largest emerging market, we continued to outperform the overall market, with our unit growth rates from all four business groups growing in the mid-teens. Latin America also had strong, broad-based growth across our major markets: Brazil, Colombia, Mexico, Chile, and Argentina. Brazil was particularly strong, from both recent distributor conversions and solid product growth in MITG. In South Asia, of which India is the largest market, we achieved low-twenties growth, with all of our groups delivering double digit growth[4]. We won important tenders in several product categories and are engaged in multiple public/private partnership opportunities across India. The only region with pressure in emerging markets in Q1 was the Middle East & Africa, where we had declines in Saudi Arabia, as a result of the macro-economic environment in that country that is causing government budget controls, product license delays, and tender delays.

Overall, however, the consistency of our Emerging Market performance benefits strongly from increased geographic diversification, reducing dependence on any single market. We continue to believe strongly that the penetration of existing therapies into Emerging Markets represents the single largest opportunity in MedTech over the long-term[5].

Turning now to our Services & Solutions growth vector, which contributed approximately 30 basis points to Medtronic growth. While this overall result was below our goal of 40 to 60 basis points, Services & Solutions continues to achieve strong revenue growth, mostly from CVG-related offerings. We expect to further improve our growth contribution as this model is expanded across all our business groups.

We continue to see success in our Hospital Solutions business, through which we provide expertise in operational efficiency, as well as daily administrative management of hospital cath labs and operating rooms. In Q1, our service revenue growth from Hospital Solutions was in the mid-forties. We have now completed a total of 97 long-term managed service agreements with hospital systems, representing more than $2.1 billion in contracted service and product revenue over an average span of 6 years[6]. While the majority of our activity is in Europe, we continue to expand into other regions, including Latin America and the Middle East & Africa.

Our Care Management Services business, which is primarily focused on remote monitoring of high cost and chronic disease patients with comorbidities, grew in the high-single digits in Q1, driven by strong interest and growth from payers, as well as providers moving toward value-based models. Care Management Services represents an important platform for us, especially as post-acute care services become even more critical in bundled payment models for different interventions.

We are now also managing chronic conditions in diabetes and obesity through our acquisition of Diabeter and majority stake in NOK[7]. Diabeter, our holistic diabetes care management organization that is currently operating four centers in the Netherlands, delivered revenue growth over 50 percent in Q1, and we are now treating over 1,700 patients. We are currently developing plans to expand the Diabeter model into other countries. NOK is a chain of clinics in the

Netherlands for morbidly obese patients undergoing bariatric surgery, offering an integrated, comprehensive care model, including extensive screening, pre-care program, bariatric surgery, post-surgery program and long-term follow-up. We plan to gain critical insights from NOK's methodology and expand into more countries, providing broader patient access to their multi-disciplinary teams of specialists, thereby improving patient outcomes.

We expect all of these new businesses will start to contribute significantly to the Services & Solutions vector, moving it to our expected range over the next few quarters.

<PAUSE>

Turning now to the Q1 P&L, we grew revenue more than 5 percent and non-GAAP diluted EPS approximately 14 to 16 percent, which resulted in EPS leverage of approximately one thousand basis points. Our strong revenue growth and high profitability is generating significant accessible free cash flow, and we remain committed to returning a minimum of 50 percent of our adjusted free cash flow through dividends and share repurchases.

Before turning the call over to Karen, I would like to note that we continue to refine our thinking on value-based healthcare solutions. As you know, CMS in the US is shifting payments for certain episodes of care from fee-for-service to bundled payments over a longer time horizon. Our recently formed Orthopedic Solutions business continues to refine, together with our surgeon partners, our compelling, comprehensive solution for CMS's first episodic bundle in joint replacement. Last month, CMS announced their plans to expand bundled payments beyond hips and knees to AMI and CABG procedures, where we have significant market presence and clinical expertise. We are analyzing the details of these proposed bundles, and intend to submit our comments to CMS as they move toward the expected finalization of these payment models.

While we are still early in the journey to value-based healthcare, we remain focused on fully understanding and leading the shift to healthcare systems that reward value and patient outcomes over volume. And we continue to develop partnerships and insights into how we can utilize our expertise to play a role in this evolution. We feel the appropriate application of medical technology can help address inefficiencies and improve outcomes in healthcare delivery, driving new forms of value creation – for both our customers *and* our shareholders[8].

With that, I will now turn the call over to our new CFO, Karen Parkhill, who I am pleased to welcome to Medtronic. She will take you through a more detailed look at our first quarter financial results. Karen?

Karen Parkhill
Thank you, Omar.

Our first quarter revenue of $7 billion, 166 million decreased 1 percent as reported, or increased over 5 percent on a constant currency, constant weeks basis. Foreign currency had a negative $7 million impact on first quarter revenue, and acquisitions and divestitures contributed approximately a net 70 basis points to revenue growth.

GAAP diluted earnings per share were 66 cents. Non-GAAP was $1.03. After adjusting for the 4 cent impact from foreign currency translation and the 8 to 10 cent estimated impact from the extra

week last fiscal year, non-GAAP diluted EPS grew approximately 14 to 16 percent. EPS came in slightly above our expectations, due to a 1 to 2 cent tax benefit.

In addition to the $376 million after-tax adjustment for amortization expense, non-GAAP adjustments to earnings on an after-tax basis were:

- a $79 million net restructuring charge and a $39 million charge for acquisition-related items, both stemming mostly from our continued integration of Covidien;
- a $52 million litigation charge; and
- a $31 million net benefit related to the resolution of several tax matters with the IRS, including a benefit from our Tyco tax issue and a charge for a proposed agreement resolving matters stemming from several acquisitions. The net tax benefit does not include any impact related to our Puerto Rico royalty rate dispute with the IRS, which has not yet been resolved.

Our operating margin for the quarter was 27.4 percent on a constant currency basis. Adjusting for the extra week, the operating margin showed an approximate 100 basis point improvement over the prior year. Our operating margin included a gross margin of 68.9 percent, SG&A of 34.0 percent, and R&D of 7.8 percent, all on a constant currency basis. While our gross margin was down slightly – mainly due to revenue mix – we drove improvement in SG&A, largely a result of execution on our Covidien synergies. We are pleased with the smooth completion of our SAP implementation in Europe in the first quarter and will continue with implementations across other regions over the next several quarters. Separately and collectively, these conversions help drive future synergies. We remain on track to deliver $225 to $250 million of synergy savings this fiscal year, and expect to deliver on our commitment of $850 million of savings by the end of FY18. Our efforts to realize the Covidien synergies are also serving as enablers to catalyze other leverage programs designed to deliver additional long-term margin expansion. Looking ahead at our operating margin, keep in mind that recent acquisitions, including HeartWare, while not expected to be dilutive to EPS on a net basis, could impact the operating margin percentage by an estimated 25 basis points in the second quarter and 35 basis points for the full year. However, we remain committed to our plans to generate 130 to 210 basis points of improvement in our operating margin this fiscal year as outlined at our Investor Day.

When we take into account currency, it is worth noting that Net Other Expense of $39 million, which is included in the operating margin, reflects about $55 million in reduced foreign exchange gains versus the prior year. However, the elimination of the US medical device tax offset that by an almost equal amount within Net Other Expense. While we hedge the majority of our operating results in developed market currencies to reduce earnings volatility from foreign exchange, a growing portion of our profits are unhedged, especially emerging market currencies. As we have said before, that can create modest volatility in our margins.

Below the operating profit line, Net Interest Expense was $179 million. At the end of the first quarter, we had $32.1 billion in debt and $12.8 billion in cash and investments, of which approximately $5 billion was "trapped". Our debt did increase by just under $1 billion as we issued short-term debt to manage minor timing differences between sources and uses of cash.

Our non-GAAP nominal tax rate on a cash basis was 15.7 percent. This was an improvement to our forecast, as it included the benefit from several operational tax adjustments for the quarter.

Free cash flow was $1.2 billion. We are deploying our capital strategically, consistently, and with discipline, with a balanced focus on reinvestment, debt reduction, and return to our shareholders. We paid $599 million in dividends and repurchased a net $1.5 billion worth of our ordinary shares in the first quarter. At quarter end, we had remaining authorization to repurchase approximately 51 million shares. First quarter average daily shares outstanding, on a diluted basis, were 1 billion, 407 million shares. We remain committed to returning a minimum of 50 percent of our adjusted free cash flow to shareholders and deleveraging our balance sheet. As an S&P Dividend Aristocrat, we expect to deliver dependable, long-term dividend growth. In June, our board approved another double-digit increase in our dividend, which brings our payout ratio to 40 percent. With regard to reinvestment, our investments, particularly M&A, must not only meet high financial return hurdles with minimal shareholder dilution, but also provide a line of sight to improving outcomes and allow for Medtronic to add value.

Before turning the call back to Omar, let me conclude by reiterating our outlook. Our revenue outlook and EPS guidance for fiscal year 2017 has not changed.

We continue to expect revenue growth to be in the upper half of the mid-single digit range at 5 to 6 percent on a constant currency, constant weeks basis, which excludes the estimated negative $450 million impact from the extra selling week we had in the first quarter of last fiscal year. While the impact from currency is fluid – and therefore not something we predict – if current exchange rates, which include a $1.13 Euro and 100 Yen, remain stable for the remainder of the fiscal year, our full year revenue would be positively affected by approximately $275 to $325 million.

With respect to earnings, we expect fiscal year 2017 non-GAAP diluted earnings per share to grow 12 to 16 percent after adjusting for the estimated 8 to 10 cent impact from the extra week last fiscal year as well as a negative foreign currency impact of 20 to 25 cents. This EPS growth implies non-GAAP diluted EPS of $4.60 to $4.70. All of this is in line with prior guidance.

Looking at the second quarter only, we expect our revenue growth to be within our full year growth range of 5 to 6 percent, and our EPS growth to be in the lower half of our full year growth range of 12 to 16 percent, both on a constant currency basis. Again, while currency impact is not something we predict, if exchange rates remain stable, we estimate our second quarter revenue would be positively affected by $25 to $75 million.

Other than as noted, our EPS guidance does not include any charges or gains that would be recorded as non-GAAP adjustments to earnings during the fiscal year.

We feel good about the performance of our operations, the overall state of our markets, the diversification of our portfolio and geographies, and our ability to execute, all of which give us confidence in our ability to deliver on our annual and long-term commitments. As you know, our focus is to consistently deliver revenue growth in the mid-single digits and EPS growth in the double digits on a constant currency basis. Our guidance for this fiscal year remains consistent with that long-term focus.

Omar?

Omar Ishrak

Thanks, Karen. We will now open the phone lines for Q&A. In addition to Karen, I've asked Mike Coyle, President of our Cardiac and Vascular Group, Bryan Hanson, President of our Minimally

Invasive Therapies Group, Geoff Martha, President of our Restorative Therapies Group, and Hooman Hakami, President of our Diabetes Group, to join us. We want to try to get to as many people as possible, so please help us by limiting yourself to only one question, and if necessary, a related follow-up. If you have additional questions, please contact Ryan and our Investor Relations team after the call. Operator, first question please.

Following Q&A:

Omar Ishrak
OK. Thanks for your questions.

To conclude, we are focused on consistently delivering on our three commitments: mid-single digit constant currency revenue growth, double-digit constant currency EPS growth, and returning a minimum of 50 percent of our adjusted free cash flow to our shareholders. As I noted earlier, we feel the appropriate application of medical technology can help address inefficiencies and improve outcomes in healthcare delivery, driving new forms of value creation. With our differentiated growth platforms and leadership in strong end markets, we believe we are well positioned to capture this to ultimately create long-term, dependable value for our shareholders.

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 Tuesday, November 22. Thank you, and have a great day.

The ElevateTM Spinal System incorporates technology developed by Gary K. Michelson, M.D."