



**COVIDIEN**

## **Acquisition of Newport Medical Instruments, Inc.**

March 22, 2012

# Forward-Looking Statements

This presentation contains certain “forward-looking statements” that are not historical facts. These statements are based on management’s current expectations and are subject to risks, uncertainty and changes in circumstances, which may cause actual results to differ materially from anticipated results. All statements contained herein that are not clearly historical in nature are forward-looking and the words “anticipate,” “believe,” “expect,” “estimate,” “plan,” and similar expressions are generally intended to identify forward-looking statements.

The forward-looking statements in this presentation may include statements addressing the following subjects: the expected timing of the completion of the transaction, the effect of the transaction on Covidien’s business and competitive position, future innovation and market growth, Covidien’s future financial performance, financial condition and operating results, and economic, business, competitive and/or regulatory factors affecting our business. Any of the following factors may affect our future results:

- Uncertainties as to the timing of the transaction
- The risk that competing offers will be made
- The possibility that various closing conditions for the transaction may not be satisfied or waived, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the transaction
- The effects of disruption from the transaction making it more difficult to maintain relationships with employees, customers, vendors and other business partners
- The risk that stockholder litigation in connection with the transaction may result in significant costs of defense, indemnification and liability

# Forward-Looking Statements (con't)

- Other business effects, including the effects of industry, economic or political conditions outside of Covidien's and Newport Medical's control
- Transaction costs

and other risks and uncertainties discussed in Covidien's filings with the U.S. Securities and Exchange Commission, including the "Risk Factors" sections of Covidien's most recent annual report on Form 10-K and subsequent quarterly reports on Form 10-Q. In addition, our historical combined financial information prior to June 29, 2007, is not necessarily representative of the results we would have achieved as an independent, publicly-traded company and may not be a reliable indicator of our future results. Neither Covidien nor Newport Medical Instruments undertakes any obligation to update any forward-looking statements as a result of new information, future developments or otherwise, except as expressly required by law. All forward-looking statements in this announcement are qualified in their entirety by this cautionary statement.

# Non-GAAP Financial Information

**This presentation contains a non-GAAP financial measure. This non-GAAP financial measure, which is used as a measure of Covidien's performance, should be considered in addition to, not as a substitute for, or superior to, measures of Covidien's financial performance prepared in accordance with GAAP. Covidien's non-GAAP measures may be defined differently than similar terms used by other companies, and accordingly, care should be exercised in understanding how Covidien defines its non-GAAP financial measures.**

**Specifically, the Company defines free cash flow as net cash provided by continuing operating activities excluding class action and shareholder settlements minus capital expenditures.**

**This non-GAAP financial measure is also used by Covidien's management in their financial and operating decision-making because management believes it reflects the underlying economics of Covidien's ongoing business in a manner that allows meaningful period-to-period comparisons. Such comparisons may be more meaningful because operating results presented under GAAP may include, from time to time, items that are not necessarily relevant to understand Covidien's business and may, in some cases, be difficult to forecast accurately for future periods. Covidien's management believes that this non-GAAP financial measure provides useful information to investors and others in understanding and evaluating Covidien's current operating performance and future prospects in the same manner as management does if they so choose. Non-GAAP financial measures have limitations, however, because they do not include all items of income and expense that affect Covidien's operations. Covidien's management compensates for this and other limitations by also considering Covidien's financial results as determined in accordance with GAAP.**

# Acquisition of Newport Medical Instruments

## Newport Medical Overview

- Business:** Focused on the design and manufacture of dependable, life improving ventilators that are affordable for caregivers worldwide
- Key Products:** e360 ventilator; HT50<sup>®</sup>, HT70<sup>®</sup>, HT70 Plus<sup>®</sup> transport / portable ventilators
- Ownership:** Venture-backed and privately-held
- Go-to-Market:** Primarily through distributors
- Annual Sales:** Approximately \$40 million; about 20% in U.S.; significant presence in emerging markets
- Employees:** About 160

# Acquisition of Newport Medical Instruments

## Strategic Rationale

- **Excellent addition to Covidien's product portfolio**
  - Complements existing portfolio of acute care and home care ventilation solutions and will broaden our ventilation platform
  - Newport Medical's products are known for their innovation, ease-of-use, dependability and low cost of ownership
  - Newport Medical's products are used in more than 115 countries and will help Covidien meet growing customer demand, particularly in emerging markets
  - Together, the two companies will offer a more comprehensive line of ventilation offerings to serve the varied needs of patients around the world
- **Straightforward limited integration**

# Acquisition of Newport Medical Instruments

## Key Deal Terms

- **Approximately \$108 million upfront consideration**
- **Financed with cash on hand**
- **Closing expected by June 30, 2012**
- **Covidien does not expect this transaction to have a material impact on its fiscal 2012 sales, operating margin or earnings per share**

# Financial Overview



- **The combination of Covidien and Newport Medical Instruments is expected to enhance our operating profile in the next several years**
  - Accretive to revenue growth and operating margins
  - Strong OUS business and good pipeline to drive future growth
- **Expected financial impact**
  - Neutral on a cash basis<sup>1</sup> in the first full year post close
- **Committed to maintaining our current strong investment grade rating while retaining balance sheet flexibility**
  - Expect to manage our cash balance in the \$1 Billion to \$2 Billion range
  - Continue targeting returns of 25% to 40% of free cash flow to shareholders *every year* through dividends and share repurchases
  - Balance sheet remains strong after concluding transaction

1. Excluding one-time costs and deal-related amortization

# Newport Medical Product Line



E360



HT50®



e500



HT70®



HT70 Plus®



Breeze E150

# Critical Success Factors



- **Newport Medical**
  - Good portfolio of ventilators complement existing product line
  - Help Covidien meet growing customer demand in faster-growing emerging markets
  
- **Augmented by Covidien capabilities**
  - Leverage global sales and marketing infrastructure
  - Capitalize on emerging markets opportunities
  - Potential product cost savings through supply chain and manufacturing expertise
  - R&D focused on creating innovative solutions to improve patient care and outcomes



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