Investor Relations Commentary
4th Quarter FY08
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Jeff Warren

Good morning and welcome to Medtronic's fourth quarter Conference Call and Webcast. During the next hour, Bill Hawkins, Medtronic President and Chief Executive Officer, and Gary Ellis, Chief Financial Officer, will provide comments on the results of our fourth quarter and fiscal year 2008, which ended April 25, 2008. After our prepared remarks, we will be happy to take your questions. Also, joining us for the question and answer session will be Scott Ward, President of our CardioVascular business.

A few logistical comments: this call is being webcast via our website, www.medtronic.com. Our press release, earnings statement, balance sheet, cash flow, revenue-by-business-summaries, non-GAAP to GAAP reconciliations, as well as a transcript of the prepared remarks will be posted on our website. The transcript will remain available on our website until our next earnings call. Today's commentary should be considered and evaluated in light of the important disclosures and reconciliations contained within our press release, as filed with the Securities and Exchange Commission. Please telephone Medtronic Investor Relations or Corporate Communications if you are unable to access the press release or the transcript.

Today's webcast includes statements regarding Medtronic's anticipated financial results, market growth, acquisitions, divestitures, product acceptance and regulatory approvals, as well as other forward-looking statements based on management's current expectations. It's important to note that our actual results may differ materially from those anticipated. Information on factors that could cause actual results to differ materially from these forward-looking statements is contained in Medtronic's Form 10-K for the year ended April 27th, 2007, filed with the Securities and Exchange Commission. We encourage you to review this carefully. All statements are made as of today's date, and we undertake no duty to update the information provided in this call.

Unless we say otherwise, the comparisons we make today will be on an "as reported" basis, not on a constant currency basis, and references to quarterly results increasing or decreasing are in comparison to the fourth quarter of Fiscal Year 2007.

With that, I am now pleased to turn the call over to Medtronic President and Chief Executive Officer, Bill Hawkins.

Bill Hawkins

Good morning and thank you Jeff.

This morning we released our fiscal 2008 full year and fourth quarter financial results. Fourth quarter revenue of $3 billion, 860 million increased 18% and revenue for the fiscal year increased 10% to $13 billion 515 million. Fourth quarter earnings and diluted earnings per share on a non-GAAP basis were $884 million and $0.78, respectively. Fiscal year earnings and diluted earnings per share on a non-GAAP basis were $2 billion 973 million and $2.60, respectively.

Our annual and quarterly performance reflected the benefits of Medtronic's diversified businesses focusing on multiple chronic diseases across a range of increasingly important global markets. Our quarterly results also demonstrate that our leadership team is taking a more disciplined approach to not

only achieving sales growth but also delivering growth in operating income. Highlights of our quarterly performance included:

- Double digit revenue growth in six of our seven businesses including: Spinal 35%, CardioVascular 22%, Neuromodulation 17%, Diabetes 20% and Surgical Technologies Group, formerly known as ENT, 18%
- Over $800 million in ICD revenue
- $174 million in DES revenue split $81 million in the US and $93 million in OUS markets
- Revenue growth outside the US of 22%
- And, on a non-GAAP basis, operating income grew 27% reflecting improved margins from the reduction in operating overhead from 43.4% of sales in the prior year fourth quarter to 42.6%
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I'll touch on each of these items in more detail as I discuss the segment results, beginning with our CRDM business.

Fourth quarter CRDM revenue of $1.4 billion grew 6% driven by balanced growth across both the high-power and low-power product lines. Fourth quarter global ICD revenue grew 5% to $806 million reflecting the successful recovery in the marketplace following the Fidelis field action. We estimate the worldwide ICD market grew over 7% during the quarter and we were encouraged to see our worldwide market share rebound to over 50%. Availability of the Quattro lead in Japan for the entire quarter helped us return to our historical share position in that market. Revenue in some geographies continued to be impacted by the lack of a single coil Quattro lead, which we anticipate launching in the first quarter of fiscal year 2009.

Turning to Pacing systems, worldwide revenue in the fourth quarter grew 7% to $540 million driven by positive implant trends and sequential gains in worldwide market share. We estimate our OUS market share now exceeds 50%, its highest level in recent history.

During the quarter we continued to extend our lead in remote patient management and recently passed the milestone of having over 250,000 patients enrolled on the CareLink® system around the world.

Other highlights for the quarter included the continuing enrollment of the EnRhythm MRI™ clinical trial which we have now enrolled more than 350 patients. We anticipate launch of the MRI SureScan technology in markets outside the US later this fiscal year and the US launch early in fiscal year 2010. We continue to believe this unique capability will ultimately change the basis of competition.

Looking ahead, our CRDM business should benefit from a robust pipeline of new products, extending what is the strongest device portfolio on the market. At the Heart Rhythm Society meeting last week we announced the FDA approval and pending launch of the first of over 20 models in the Vision® 3-D portfolio of devices. This platform offers unparalleled clinical benefits that are built into our industry leading pacing and ICD exclusives such as: Conexus wireless, Painfree, MVP®, Optivol® and the industry's first ICD's with complete automaticity. Vision 3-D gives us the flexibility to meet a wider range of customer needs across a broader mix of price points. We also continue to advance our leadership in lead technology. In the first quarter, we intend to launch the Attain Starfix® left ventricular lead with deployable lobes which will set a new standard for steerability and fixation.

Finally, while the CRDM market appears to have stabilized, we continue to aggressively realign resources to protect and improve our overall operating margins. One of the focal points of this effort is

the continuing realignment of our global workforce, which in the case of our CRDM business started more than a year ago. Changes in the CRDM global workforce alone are expected to produce annual savings of more than $150 million.

Turning to our Spinal business, revenue of $869 million grew 35% in the quarter, driven by the addition of $150 million in Kyphon revenue. Strong performance in Biologics continued again this quarter with growth of 16%. Taken together, Kyphon and Biologics helped to partially offset continued competitive pressures on our Core Spinal products in the US. We remain committed to our strategy of raising the bar of competition through continuous innovation and supporting the safety, efficacy and cost effectiveness of our products with robust clinical data. We also remain committed to enforcing our portfolio of intellectual property. During the quarter, we had a positive Markman hearing against one of our competitors. This case is the first significant assertion of key intellectual property, including Michelson patents, against a growing number of competitors who we believe infringe on our intellectual property.

In regards to Kyphon, combined revenue in the third and fourth quarter of $298 million was at the low end of our previously stated projections. While fourth quarter results were disappointing, I remain confident about the strategic fit and ultimate contribution coming from this business. We believe an unusual set of circumstances help explain the softness of the Kyphon business this quarter. The four month period between January and April represented kind of a “bridge period” between Kyphon’s historical fiscal year end in December and Medtronic’s fiscal year end in April. We did not optimally structure and align sales force compensation during this time period which is reflected in the fourth quarter results. I have to say, I was out in Sunnyvale a couple of weeks ago and came away confident that we are well positioned for reaccelerating growth in this area. The pipeline is full and we are making good progress in our reimbursement pefforts.

Going forward, our focus will be on continuing to execute on our integration plan, including further refining our sales training and incentive programs, leveraging the combined sales management teams, building and developing our OUS operations, continuing to optimize and integrate our back office functions and further utilizing the core spine sales organization to drive X-Stop®. We recently established new leadership in both Memphis and Kyphon who are focused on leading our combined Spinal franchise to the next level. We remain confident about the long-term potential of the aging spine market and the fundamental health of this business.

Fourth quarter revenue in our overall CardioVascular business grew 22% driven by the successful launch of the Endeavor® drug eluting stent in the US market. Coronary growth of 41% was fueled by $174 million in total DES revenue. International DES revenue of $93 million reflected ongoing market share gains from Endeavor and Endeavor Resolute™. US DES revenue of $81 million reflected the launch and acceptance of Endeavor. Our sustained success in Europe and OUS reinforces our confidence that Endeavor has become and will be a significant product with traction going forward.

Endeavor is the first new drug eluting stent approved for use in the US market in over four years and customer reaction has been very positive. Since the launch, I have personally visited many accounts that clearly recognize Endeavor’s safety, deliverability and overall strong clinical benefits. Endeavor’s compelling safety and efficacy profile was further validated last week when four year data from the Endeavor II pivotal trial and one year data from the 8,000 patient eFive registry were presented at the EuroPCR conference. Endeavor’s safety profile is now undeniable – even out to four years, and its efficacy has been validated once again – even in real world patients.

Physician acceptance is reflected in the market share that Endeavor gained in its first three months on the US market. We estimate Endeavor captured an average of 19% of the US market during the fourth

quarter and exited the quarter above 20% market share. Despite some reports and competitor comments to the contrary, we have maintained a disciplined pricing strategy. Endeavor's average selling price is consistent with the current US market average. Customer feedback has been very positive and physicians continue to report that Endeavor is clearly the most deliverable DES on the market. Our MX® (multi-exchange) system accounted for more than 50% of total Endeavor units sold in the US during the quarter. We feel the Endeavor launch helped to strengthen the ongoing recovery in the DES market and we estimate the US DES penetration rate recently increased to approximately 65%.

Outside the US, the strength of our broad coronary stent portfolio - including Endeavor and Endeavor Resolute – allowed us to continue to gain share. Excluding the Japanese DES market, during the quarter we achieved total coronary stent unit market leadership in markets outside the US with total stent revenue of $153 million and 28% market share. As we announced last week, we have initiated enrollment of the RESOLUTE III trial, a 2,300 patient randomized pivotal trial comparing Resolute to Xience with a primary endpoint of Target Lesion Failure at 12 months. The results of this trial will serve as the basis for US regulatory approval.

Our Endovascular business grew 6% in the quarter, including 17% growth in OUS markets driven by the strong performance of our thoracic product line. We continue to advance the strongest endovascular product pipeline in the industry. During the quarter we obtained FDA approval for the Talent™ AAA Stent Graft which we will launch next month. We anticipate FDA approval of the Talent thoracic product later this spring. Availability of the two Talent systems in the US market will accelerate Endovascular revenue in fiscal 2009 and beyond. Finally, we completed enrollment of the CE mark trial of our Endurant™ next generation abdominal stent graft and we anticipate regulatory approval and launch of this product in OUS markets by the end of calendar year 2008.

Now I'll turn to our Neuromodulation business. In this past quarter, overall revenue grew 17% to $381 million. Adjusting for the impact of the divestitures of our diagnostics related product lines earlier in the fiscal year, Neuromodulation revenue grew 22% in the quarter. Our Pain Management product lines, the largest component of the Neuromodulation franchise, continued to see healthy market growth. Revenue grew over 20% in the quarter and we regained market share primarily driven by the launch of RestoreULTRA™ in March coupled with continued momentum from the launch of our 5-6-5 surgical lead. With RestoreULTRA, we are the only company that gives patients the freedom and flexibility to control their stimulation to optimize their therapy through the exclusive TargetMyStim™ feature.

Our movement disorders product lines grew 23% in the quarter driven by adoption of our Activa® therapy for Parkinson's disease. We continue to pursue activities to help drive patient referrals, including strengthening Neurologists' understanding of the growing body of compelling clinical evidence. During the quarter positive initial clinical data for Deep Brain Stimulation for both Obsessive Compulsive Disorder and Depression was presented at a major medical meeting. We have received FDA approval for the initiation of a randomized control trial evaluating DBS for depression and anticipate enrollment commencing during the second half of the calendar year. Finally, our Gastro/Uro product lines had another strong quarter driven by revenue from our InterStim® product line, which had its eighth consecutive quarter of greater than 25% growth.

Our Diabetes business grew 20% in the quarter, fueled by strong performance across the entire business. Growth was driven by continued strong adoption of insulin pump therapy, as well as our rapidly-expanding continuous glucose monitoring business that more than doubled compared to the prior year and is currently annualizing at over $80 million. Sales of consumables were also particularly strong around the globe. Pump growth was highlighted by sales to new patients and strong performance in many international markets where the Paradigm® Real-Time system has been more

recently introduced, offset by a modest slowdown in our U.S. replacement business as we complete the initial wave of upgrades to our latest technology among our installed base of pump patients.

Looking at Diabetes revenue for the full fiscal year, we recognized a number of major milestones: global revenue for the year grew to over $1 billion, cumulative sales of glucose sensors passed the 1 million unit point, and we celebrated our 25th year of market leadership in insulin pumps. While we do not break out operating income by business, we have invested to grow our Diabetes business and we have also worked extremely hard to improve margins. These efforts have paid off, and over the last five years Diabetes sales have grown at a 17% compounded annual growth rate and during this time operating margins improved from the low single digits to over 20%. These collective achievements reflect the consistent market leadership and the financial strength of our Diabetes franchise.

Going forward, we will continue to leverage the two co-marketing meter agreements we entered into with Johnson & Johnson Lifescan and Bayer. Joint sales calls, co-marketing events and other patient focused initiatives are beginning to generate positive momentum.

Turning to our Ear, Nose and Throat business, revenue grew 18% in the fourth quarter driven by the successful launch of Fusion, an advanced Image Guidance Surgery System to facilitate sinus surgeries. Strong global performance in nerve monitoring and growth in power systems outside the US continued to contribute to revenue growth for the year. We recently announced the integration of our surgical navigation franchise into ENT and in order to more accurately reflect the expanding scope and the focus of this franchise, we have renamed this business Surgical Technologies.

Turning to Physio-Control, during the quarter we announced that we had reached an agreement on a consent decree with the FDA addressing issues raised by the FDA during inspections of Physio-Control's quality systems. The consent decree outlines actions we must take in order to resume unrestricted distribution. Although we are clearly disappointed at the delay, we are encouraged to now have a plan in place that formalizes the path to resuming full operations and we are confident we have the resources in place to execute the plan. Needless to say, we will work with the FDA to expedite the process. Our intent to spin off this business remains unchanged.

Looking at our fourth quarter performance below the revenue line, I am pleased with the increasingly broad efforts underway to identify and capture meaningful cost synergies that will allow us to improve our margins while funding new products. Across the enterprise there is a renewed focus on optimizing our cost structure and delivering leveraged earnings growth.

I will now turn the call over to Gary and then I will conclude with a few closing remarks.

Gary Ellis
Thanks Bill.

As Bill mentioned earlier, fourth-quarter revenue of $3 billion, 860 million grew 18%. Breaking this out geographically, revenue in the US was $2 billion, 332 million, up 15%. Outside the US, revenue of $1 billion, 528 million increased 22% including a $160 million positive impact of foreign currency.

After adjusting for restructuring and purchased in-process research and development charges, fourth quarter earnings and diluted earnings per share on a non-GAAP basis were $884 million and $0.78, respectively, reflecting EPS growth of 18%. GAAP earnings and diluted Earnings Per Share were $812 million and $.72, respectively. On a non-GAAP basis, our operating income grew 27%, reflecting the operating leverage we had been projecting.

As adjusted for special, restructuring, certain litigation and IPR&D charges, fiscal year 2008 earnings and diluted earnings per share on a non-GAAP basis were $2 billion 973 million and $2.60, respectively. GAAP earnings for the fiscal year were $2 billion 231 million or $1.95 per diluted share.

The Kyphon acquisition was dilutive to our fiscal year 2008 EPS in the fourth quarter and total fiscal year by approximately $.03 and $.08, respectively, which was in line with our previous estimates. This dilution was the result of required purchase accounting adjustments and we continue to believe that Kyphon will be earnings neutral in fiscal year 2009.

I will now provide additional details on the charges that impacted our quarterly results, each of which is listed as a separate income statement line item:

- First, we recorded restructuring charges of $31 million related to a Global Realignment initiative that we began in the fourth quarter. This initiative, which is part of our ongoing efforts to eliminate unnecessary costs, focuses on shifting resources to those areas where we have the greatest opportunities for growth, and streamlining operations. This initiative, which will include charges in both the fourth quarter and the first quarter of fiscal year 2009, impacts most businesses and will result in the involuntary elimination of approximately 1,100 positions. We recorded $4 million of the $31 million within Cost of Goods Sold related to inventory write-offs and asset impairments associated with these restructuring activities.
- Second, we recorded IPR&D charges of $47 million comprised primarily of a $42 million charge related to the acquisition of NDI Medical, a privately held development stage company developing a urinary urge incontinence therapy.

Collectively, these charges, including the respective tax impacts, had a $0.06 negative impact on our fourth quarter diluted earnings per share.

Turning to the rest of the income statement, the gross profit margin was 75.5% compared to 73.6% in the fourth quarter of last year. Gross margin was positively impacted by favorable foreign currency, overall efficiencies in manufacturing of product due to increased volume and ongoing initiatives to reduce product costs.

Fourth quarter R&D spending of $349 million increased 7% compared to $327 million in the fourth quarter of 2007. For the full fiscal year, R&D spending of $1 billion, 275 million represented 9.4% of revenue. We remain committed to investing in new technologies to drive future growth.

Fourth quarter SG&A expenditures of $1 billion, 296 million represented 33.6% of sales compared to 33.4% of sales in the prior year fourth quarter. Kyphon had a 100 basis point negative impact on the current quarter and SG&A without Kyphon would have been 32.6%. SG&A was also a little higher than we expected due to increased incentive payments driven by the strong revenue and EPS results. We have several initiatives underway to further leverage this cost structure by approximately 100 basis points in fiscal 2009 when compared to 2008. We will provide more details on these initiatives and their impact at our Institutional Investor and Analyst Meeting on June 2.

Net Other Expense for the quarter was $188 million compared to $52 million in the prior year fourth quarter. This large increase is primarily due to $88 million in currency losses from our hedging programs. As you know, we hedge our operating results so that during periods when the dollar is weakening, the benefit of higher translated revenues is offset by currency contract losses. In addition to currency losses, the change in Net Other Expense in the quarter was also impacted by amortization from intangible assets related to the Kyphon acquisition, an increase in Endeavor royalty expense and

the inclusion in the prior year of accelerated deferred income from a product supply agreement. These factors were partially offset by income recognized in the Diabetes business in conjunction with the meter co-marketing agreements with JNJ and Bayer.

Net Interest Expense for the quarter was $5 million compared to $41 million income in the prior year period which reflects the impact of cash utilized to finance the Kyphon acquisition as well as lower interest rates. As of our fiscal year end, we had approximately $3.7 billion in cash and cash investments and debt of $7.0 billion. We continue to generate approximately $750 million of free cash flow per quarter, defined as operating cash flow minus capital expenditures.

Let's now turn to our tax rate. Our fiscal 2008 effective tax rate, exclusive of non-GAAP reconciling items, was 21% for the year. This represents a 22% tax rate on our profit before tax, reduced by a $37 million tax benefit related to the finalization of certain fiscal 2007 tax returns and the reversal of our reserves for uncertain tax positions. At the beginning of fiscal 2008 we lowered our effective tax rate to 23.25% and maintained that rate through the first three quarters. However, the tax benefit from our OUS operations was more favorable than we anticipated and resulted in our adjusting the tax rate of 22%. In the fourth quarter, the collective impact of restructuring and IPR&D charges, along with the catch-up benefit from lowering the effective tax rate to 22% had a tax impact of $40 million resulting in an effective tax rate of 19%.

Fourth quarter weighted average shares outstanding, on a diluted basis, were 1 billion, 130 million shares. During the fiscal year, we repurchased $1 billion 544 million of our common stock, which represents over 30 million shares. As of April 25, 2008, we had remaining capacity to repurchase over 30 million shares under our Board authorized stock repurchase plan.

As before, we have attached an income statement, balance sheet and cash flow statement to this quarter's press release, and I direct your attention to these statements for additional financial details.

Let me conclude by providing our 2009 fiscal year guidance.

As you recall, at the beginning of fiscal 2008, we decided to provide guidance one year at a time and more directional in nature. By way of background, current Wall Street fiscal 2009 revenue consensus is $15.1 billion and Earnings Per Share consensus is $2.96.

We anticipate our fiscal 2009 revenue to fall in the range of $15.0 billion to $15.5 billion at today's foreign exchange rates. We anticipate our fiscal 2009 Earnings Per Share to fall in the range of $2.94 to $3.02. Based upon current market conditions, we are more comfortable with the lower end of these revenue and EPS ranges.

This guidance reflects the following major assumptions:

- The inclusion of Physio Control for the full year. Although as Bill stated we still intend to spin-off Physio-Control, we are providing guidance with Physio-Control included as the timing of the eventual spin-off remains uncertain.
- Gross margins of approximately 76%.
- R&D spending of approximately 10% of revenue.
- SG&A expenses of approximately 33.8% of revenue. This estimate reflects the 100 basis point improvement I discussed previously.

- Net Other Expense of approximately $150 million per quarter at today's foreign exchange rates. This estimate reflects a reduction in our currency losses from the fact that we have more favorable hedging rates, Endeavor royalty expenses and amortization of Kyphon intangible assets.
- A reduction in Net Interest Income given our reduced cash balance and lower interest rates.
- An effective tax rate in the range 22% to 23%. This estimate reflects our expectation that some of the one time benefits of fiscal year 2008 will not continue, nor can we be assured of the renewal of the R&D tax credit.
- Finally, opportunistic, but disciplined stock repurchasing activities reflecting our ongoing commitment to continue to return capital to shareholders while ensuring a sufficiently strong balance sheet to execute on our strategies.

As in the past, all of my comments on guidance do not include any unusual charges or gains that might occur during the fiscal year.

I'll now turn things back over to Bill who will conclude our prepared remarks.

Bill…

Bill Hawkins

Thanks Gary.

Before we open it up to Q&A I'd like to make a few closing remarks. Our solid performance during the fourth quarter was a positive end to a fiscal year that was characterized by a myriad of challenges. The 10% growth we achieved in the face of these obstacles reflects the strength of our diversified business model and the perseverance of our global organization. Looking ahead to fiscal 2009, while much work remains and the environmental uncertainties have never been greater, I feel we are well positioned to execute on a number of near term opportunities including the ongoing Endeavor launch, the stabilizing global ICD market, the increasing momentum in Diabetes and Neurmodulation, the emerging potential of our Surgical Technologies business and an ongoing emphasis on our OUS markets.

As many of you know, we recently made some organizational changes designed to better align our senior leadership team and global workforce with our strategic priorities and I believe these changes position us well for solid execution. We continue to identify and execute on a broad set of restructuring and cost reduction initiatives that will allow us to fund new products, serve more patients and generate leveraged earnings growth. Our financial strength will allow us to generate increasingly significant capital and we will focus on continuing to strike the right balance between reinvesting for growth and returning capital to our shareholders.

I'd now like to open things up for Q&A. Operator, first question please.

Following Q&A:

Bill Hawkins
As we look ahead to the new fiscal year, I am confident we can deliver top tier performance. I look forward to seeing many of you in New York at our Institutional Investor and Analyst Meeting coming up on June 2 where we will have an opportunity to further update you on our plans and strategies for delivering sustainable top and bottom line growth.

On behalf of our entire team, we look forward to seeing you in New York.

BRYAN® TCD Instruments and INFUSE® used with LT CAGE®, INTERFIX™ or INTERFIX™ RP devices incorporate technology developed by Gary K. Michelson, M.D.