

Medtronic 4Q profit and 2012 estimate fall short

MARLEY SEAMAN - AP Health Writers - Associated Press

Medtronic said Tuesday its profit dropped 19 percent in the fourth-quarter and the device maker predicted lower-than-expected growth for the year ahead due to a continuing slump in sales of its implants.

The Minneapolis company's quarterly profit fell short of Wall Street estimates, as did its outlook for the new fiscal year. Its shares lost \$1.01, or 2.5 percent, to fall to \$40.13 in morning trading.

Medtronic, the world's largest medical device maker, has struggled to maintain earnings growth amid sluggish sales of its two leading products: heart defibrillators and spinal implants. In February the company announced 2,000 layoffs to bolster its financial position.

Analysts hoped the restructuring and improving market trends would result in higher earnings expectations for the coming year, but company management said sales would continue to be pressured by headwinds. In particular, the company's heart-pacing defibrillators have been hurt by a medical paper suggesting the devices are overused and a federal investigation into doctors who implant the devices.

Medtronic said it earned \$776 million, or 72 cents per share, in the fourth quarter. That was down from \$954 million, or 86 cents per share, a year ago. Excluding \$198 million in charges related to employee terminations, asset write-downs, and other costs, the company earned 90 cents per share.

Sales rose 2 percent to \$4.3 billion from \$4.2 billion.

Analysts polled by FactSet expected earnings of 93 cents per share for the quarter on sales of \$4.29 billion, on average.

Medtronic forecast revenue growth of 1 to 3 percent for the next fiscal year, or \$16.1 billion to \$16.41 billion. The company expects to earn \$3.43 to \$3.50 per share. That includes 4 to 6 cents per share in costs related to its acquisition of blood pressure treatment maker Ardian.

Both earnings and revenue projections fell below analysts' profit expectations of \$3.62 per share and \$16.7 billion in revenue.

The company's performance and projections underscore the challenges that Medtronic's incoming chief executive will inherit. Earlier this month the company announced it had selected Omar Ishrak, the head of General Electric's Healthcare unit, to serve as its new chairman and CEO. The company spent a half-year searching for a new chief executive after announcing in December that Chairman

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and CEO Bill Hawkins planned to retire. Ishrak will take the CEO title on June 13.

Medtronic and other device makers face a combination of factors that have curbed performance: sluggish sales due to safety concerns, reduced reimbursement from insurers and tighter regulation by the federal government.

For the fourth quarter, sales of implantable heart rhythm products fell 7 percent to \$1.32 billion as fewer surgeons implanted the heart-pacing devices. Sales of the company's biggest business, called implantable cardioverter defibrillators, fell 16 percent to \$760 million as U.S. sales continued to slump. Sales of stents and other cardiovascular devices grew 16 percent to \$879 million.

The company's spinal revenue fell 1 percent to \$875 million. However, sales of diabetes treatments, surgical technology, and neuromodulation devices, which to treat pain and other conditions by stimulating the nervous system, all improved.

Medtronic said its international sales rose 12 percent on better sales in emerging markets like China, Latin America, India, and the Middle East and Africa.

Medtronic's annual profit was nearly unchanged at \$3.1 billion in the year ended April 29. A lower share count meant Medtronic earned \$2.86 per share, up from \$2.79 per share. Revenue edged up 1 percent to \$15.93 billion from \$15.82 billion.

Medtronic acquired Ardian in January for \$800 million. The company makes a catheter system that is designed to treat high blood pressure by deactivating nerves around the kidneys, a therapy called renal denervation. Its Symplicity Catheter System has been approved in Australia and Europe, but is not yet cleared for sale in the U.S.

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