Earnings Preview: Medtronic reports 2Q earnings

The Associated Press

Medtronic Inc., the world's largest medical device maker, reports fiscal second-quarter earnings Tuesday morning, as investors continue to monitor weak demand, pricing pressures and other issues hurting the entire medical device industry.

WHAT TO WATCH FOR: Last quarter Medtronic reported declines for its two leading franchises, heart defibrillators and spinal implants, as tighter hospital budgets, reduced patient procedures and safety concerns led doctors to scale back use of the devices.

Industry competitors like Boston Scientific Corp. reported weaker-than-expected earnings last month, with noticeable declines in sales of defibrillators, which are heart-zapping implants used to treat heart failure. Leerink Swann analyst Rick Wise estimates the market for the devices declined 14 percent in the first nine months of the year, compared with 2010.

WHY IT MATTERS: Medtronic relies on defibrillators and spinal implants for more than 50 percent of its total sales. Medtronic and other device makers have seen profits drop since the Department of Justice began investigating alleged overuse of defibrillators in January.

Then in June Medtronic's spinal business took a major publicity blow after a medical journal alleged that the company downplayed the risks of its InFuse spinal repair protein. According to reports in Spine Journal, Medtronic also failed to disclose millions of dollars in payments to the authors who wrote the initial studies of InFuse. The implant, which is approved to treat degenerative spinal disk disease, accounted for 85 percent, or $750 million, of Medtronic's total spinal business last year.

Leerink's Rick Wise said the ongoing pressure could lead Medtronic to scale back its full-year earnings guidance.

"Though Medtronic seems well positioned to benefit from recent and upcoming product launches, incremental volume declines in both ICDs (implantable cardioverter defibrillators) and spine, with no clear signs of improvement, could prompt management to take an even more cautious stance on fiscal year 2012 guidance," Wise wrote in a note to investors. Medtronic has stated it expects fiscal year earnings per share between $3.43 and $3.50.

WHAT'S EXPECTED: Analysts polled by FactSet expect earnings per share of 82 cents on revenue of $4.07 billion for the company's fiscal 2012 second-quarter.

LAST YEAR'S QUARTER: In the second quarter last year Medtronic Inc. earned 82 cents per share on an adjusted basis on revenue of $3.9 billion.

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