

BN Medtronic Net Falls on Costs; Heart Device Sales Rise (Update2)
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(Adds chief executive's comment in 11th, 12th paragraphs.)

By Kerry Dooley Young

Aug. 17 (Bloomberg) -- Medtronic Inc. said quarterly profit dropped 39 percent, hurt by costs related to buying a developer of obesity treatments. Sales of the company's biggest product, implantable defibrillators, rose by almost a third.

Net income fell to \$320.6 million, or 26 cents a share, from \$529.7 million, or 43 cents, a year earlier, in the fiscal first quarter ended July 29, the Minneapolis-based company said in a statement. Total revenue climbed 15 percent to \$2.69 billion.

Medtronic is broadening its line of medical devices with acquisitions and licensing accords such as the July purchase of closely held Transneuronix Inc. The agreement gives Medtronic a potential treatment for obesity using electrical stimulation of the stomach. Medtronic, the world's biggest maker of implanted cardiac defibrillators, also gained during the quarter when No. 2 Guidant Corp. recalled 109,000 heart-regulating devices in June.

"They had a good quarter. A lot of that had to do with Guidant being on the sidelines for an entire month of Medtronic's quarter," said Thomas Gunderson, a Piper Jaffray & Co. analyst, in a telephone interview. He has a "market perform" rating on Medtronic shares and doesn't own them. "Medtronic went out and tried to grab Guidant share and now Guidant has to go and try to get their share back."

Medtronic's stock price fell 8 cents to \$54.57 at 4:01 p.m. New York time in New York Stock Exchange composite trading. The earnings were released after the close of regular trading.

Costs, Estimates

Pretax costs totaled \$363.8 million during the quarter. Chief Financial Officer Gary Ellis said on a conference call that \$169 million related to the Transneuronix purchase, \$20 million to a patent cross-licensing agreement with NeuroPace Inc. for neurological disorders, and \$175 million for a settlement with inventor Gary K. Michelson and Karlin Technologies Inc.

Excluding those costs, Medtronic had profit of 50 cents, exceeding the 49-cent average estimate of 31 analysts polled by Thomson Financial. Revenue for the year-earlier quarter was \$2.35 billion.

First-quarter sales of implantable defibrillators rose 30 percent to \$718 million, Medtronic said. The U.S. government's Medicare health-insurance program in January expanded the number of people eligible for the devices by a third.

Guidant had to stop selling 11 models of defibrillators,

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including its Contak Renewal brand with added features that treat heart failure, for part of June and all of July, said Mark Landy, an analyst with Susquehanna Investment Group, in a telephone interview before the earnings report today. That added to Medtronic's sales, said Landy, who has a ``positive'' rating on the company's shares and doesn't own them.

Guidant since has won U.S. and European approval to resume sales of the Contak Renewal devices.

Beyond 2006

Medtronic Chief Executive Art Collins said the company's defibrillator sales may continue to rise by more than 20 percent beyond fiscal 2006.

``We may be able to do that,'' Collins said in a telephone interview. ``We have not projected out other than to say that it is sustainable for a period of time. We have not given a time frame.''

Medtronic confirmed an earlier forecast that fiscal 2006 earnings would be in the range of \$2.10 to \$2.15 on revenue of as much as \$11.6 billion. The company also confirmed projections that profit excluding some items would be \$2.37 to \$2.47 for 2007 and between \$2.70 and \$2.90 for 2008.

European Approval

Medtronic also won European Union approval during the quarter for its drug-coated heart stent, intended to keep blood flowing through heart arteries cleared of obstructions. That may help the company take future sales from Johnson & Johnson and Boston Scientific Corp. in a \$5 billion market.

``For the first time in many quarters, they seem to be firing on all cylinders,'' said Michael Obuchowski, a principal at New York-based Altanes Investment LLC, which holds about 5,000 Medtronic shares, in an interview yesterday.

Sales of devices to treat arteries rose 5 percent to \$205 million for the first quarter. Medtronic lags Johnson & Johnson and Boston Scientific, which had heart-stent sales of \$700 million in their second quarter.

Stents, mesh tubes about the size of a ballpoint pen's spring, are used to prevent an artery from re-clogging after it's cleared by a procedure in which doctors push back the fatty deposits using a catheter inserted into the groin. The drug coating is intended to prevent excess tissue from growing around the stent and causing new clogging.

Stent Sales

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Medtronic may win U.S. clearance for its drug-coated stent, called Endeavor, by 2007. The device probably won't be enough to catch up with Johnson & Johnson and Boston Scientific, said Jon Fisher, who helps manage about \$22 billion at Fifth Third Asset Management, including Medtronic shares.

``You still have to have the sales force to penetrate the market and they have never been that competitive,'' Fisher said in a telephone interview today before Medtronic reported. ``They have always been behind the curve.''

Sales climbed 24 percent to \$504 million for spinal treatments, 19 percent to \$174 million in the diabetes business and 10 percent to \$290 million for neurological devices.

(To join Medtronic's conference call that started at 4:30 p.m. New York time, see {LIVE <GO>} or the company's Web site at <http://www.medtronic.com>.)

--Editor: Gienger

Story illustration: To compare Medtronic results with analyst estimates, see {MDT US <Equity> SURP <GO>}. To compare the company with competitors, see {MDT US <Equity> RV <GO>}. For Medtronic's Web site, see <http://www.medtronic.com>

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