St. Jude Medical (STJ) Earnings Report: Q4 2014 Conference Call Transcript

The following St. Jude Medical conference call took place on January 28, 2015, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Dan Starks; St. Jude Medical; Chairman, President, CEO
- Don Zurbay; St. Jude Medical; CFO
- Mike Rousseau; St. Jude Medical; COO
- Eric Fain; St. Jude Medical; Group President

Other Participants

- Kristen Stewart; Deutsche Bank; Analyst
- Bob Hopkins; BofA Merrill Lynch; Analyst
- Mike Weinstein; JPMorgan; Analyst
- Josh Jennings; Cowen and Co; Analyst
- Tao Levy; Wedbush; Analyst
- Matt Taylor; Barclays; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the St. Jude Medical fourth quarter and full-year 2014 earnings conference call. Hosting the call today is Dan Starks, Chairman, President, and Chief Executive Officer of St. Jude Medical .

Before we begin, let me remind you that some of the statements made during this conference call may be considered forward-looking statements. The Company's 10-K for FY13 and 10-Q for the fiscal quarter ended September 27, 2014 identify certain factors that could cause the Company's actual results to differ materially from those projected in any forward-looking statements made this morning.

The Company does not undertake to update any forward-looking statements as a result of new information or future events or developments. The 10-K and 10-Q, as well as the Company's other SEC filings are available through the Company or online.

During the call, non-GAAP financial measures may be used to provide information pertinent to ongoing business performance. Tables reconciling these measures to most comparable GAAP measures are available on the Company's press release issued earlier this morning, or on the St. Jude Medical Web site at www.SJM.com.

At this time, all participants have been placed in listen-only mode, and the floor will be open for your questions following management's prepared remarks. It is now my pleasure to turn the floor over to Dan Starks.

Dan Starks (Chairman, President, CEO):

Thank you. Welcome to the St. Jude Medical fourth quarter and full-year 2014 earnings conference call. With me on the call today are Mike Rousseau, Chief Operating Officer; Eric Fain, Group President; Don Zurbay, Chief Financial Officer; and Rachel Ellingson, Vice President of Global Communications.

Our plan this morning is for Don Zurbay to provide a review of our financial results for the fourth quarter and full-year 2014 and to give sales and earnings guidance both for the first-quarter and full-year 2015. I will then address several topics and open it up for your questions. Go ahead, Don.

Don Zurbay (CFO):

Thank you, Dan. Sales for the quarter totaled $1.439 billion, up approximately 1% from the $1.422 billion reported in the fourth quarter of last year. Unfavorable foreign-currency translations decreased this quarter's sales by approximately $54 million. On a constant-currency basis, fourth quarter sales increased approximately 5% versus last year.

For the full year of 2014, net sales were $5.622 billion, up 2% from last year. Unfavorable foreign-currency translations decreased 2014'd net sales by approximately $74 million, resulting in constant-currency sales growth for the year of approximately 4%.

During the forth quarter, we recognized $65 million, or $0.22 per share, in after-tax special charges. For further information regarding these charges, please refer to details provided in our press release. Comments during this call referencing fourth quarter and full-year 2014 results, including EPS amounts, will be exclusive of these items.

During the forth quarter of 2014, the federal research and development tax credit was extended for 2014, retroactive to the beginning of the year. As a result, during the fourth quarter, we recorded a $12-million benefit to income tax expense, which increased earnings per share by $0.04, representing the cumulative catch-up adjustment of this credit for the first nine months of 2014. Comments during this call referencing fourth quarter 2014 EPS will be exclusive of this item.

Additionally, we would note that the federal research and development tax credit has not yet been extended for 2015. In this circumstance, GAAP requires us to estimate and record our effective income tax rate for 2015, assuming that the R&D tax credit is not extended.

For purposes of this conference call and our calculation of adjusted net earnings, however, we are assuming that the tax credit will ultimately be extended for 2015, as in past years. As a result, comments referencing our guidance for 2015, including EPS amounts, are presented based on an effective income tax rate that contemplates the extension of this tax credit.

Earnings per share were $1.03 for the fourth quarter of 2014, a 4% increase over adjusted EPS of $0.99 in the forth quarter of 2013. We estimate that on a constant-currency basis, fourth quarter EPS increased 11%.

For the full-year 2014, adjusted earnings per share were $3.98, a 6% increase over adjusted EPS of $3.76 for the full-year 2013. We estimate that on a constant-currency basis, full-year 2014 EPS increased 9%.

We recognize that many of our peers add back amortization expense when reporting EPS to investors. As a result, beginning in 2015, we plan to provide our P&L guidance and report our adjusted EPS on a basis that excludes the impact of amortization expense. We have provided a reconciliation of the impact of this change in our press release.

In 2014, the impact of amortization expense on our EPS was approximately $0.20. In 2015, we estimate the impact will be approximately 22% -- or $0.22.

Before we discuss our financial results for 2014 and offer our sales and earnings guidance for 2015, let me comment on foreign currency. As discussed on prior calls, the two main currencies influencing St. Jude Medical operations are the euro and the yen. In preparing our sales and earnings guidance for the fourth quarter of 2014, we used exchange rates which assumed that each EUR1 would translate into about $1.23 to $1.28, and each JPY105 to JPY110 yen would translate into $1. For the fourth quarter, the actual exchange rate for the euro was consistent with these assumptions, while the yen was slightly unfavorable.

In preparing our sales and earnings guidance for the first-quarter and full-year 2015, we are assuming that each EUR1 will translate into about $1.10 to $1.15, and for the yen, each JPY115 to JPY120 yen will translate into $1. Using these exchange rate assumptions, we estimate that the foreign-currency translations will reduce total reported sales for 2015 by approximately $325 million to $350 million versus 2014, including approximately $85 million to $100 million in the first quarter.

As a final comment regarding foreign currency, we have initiated a layered hedging program that will reduce the short-term impact of foreign exchange volatility and for future periods once it is fully implemented.

Finally, I would like to remind investors that due to our 52-, 53-week fiscal-year convention, the fourth quarter of 2014 included an additional week of sales and operations, resulting in 3 additional selling days compared to 2013. On our last earnings call, we estimated these selling days would increase our 2014 fourth quarter sales growth rate by as much as 3 percentage points.

For the full-year 2015, we estimated that this will negatively impact our year-over-year sales growth by approximately 100 basis points. Now for the discussion of sales by product category.

For the fourth quarter, total cardiac rhythm management sales were $685 million, a 3% decline from last year's fourth quarter, including $25 million of unfavorable foreign-currency translations. On a constant-currency basis, total CRM product sales for the fourth quarter increased 1%.

Total CRM product sales for the full-year 2014 were $2.793 billion, flat with last year. Unfavorable foreign-currency translations decreased 2014 CRM sales by approximately $32 million. On a constant-currency basis, total CRM product sales for the full-year 2014 increased 2%.

For the fourth quarter, ICD sales were $426 million, a 4% decline from last year's fourth quarter. US ICD sales were $247 million. International ICD sales were $179 million, including $14 million of unfavorable foreign-currency translations. On a constant-currency basis, total ICD sales for the fourth quarter were flat with last year.

For the full-year 2014, ICD sales were $1.746 billion, flat with last year. Unfavorable foreign-currency translations decreased 2014 ICD sales by approximately $15 million. On a constant-currency basis, ICD sales for the full-year 2014 increased 1%.

For low-voltage devices, sales for the fourth quarter totaled $259 million, a 2% decline from last year's fourth quarter. In the United States, pacemaker sales were $102 million. In our international markets, pacemaker sales were approximately $157 million, including $11 million of unfavorable foreign-currency translations. On a constant-currency basis, total pacemaker sales for the fourth quarter increased 3%.

For the full-year 2014, pacemaker sales were $1.047 billion, flat with last year. Unfavorable foreign-currency translations versus those in 2013 decreased 2014's pacemaker sales by approximately $17 million.

On a constant-currency basis, pacemaker sales for the first full-year 2014 increased 2%. We expect full-year 2015 CRM constant-currency sales growth to be in the range of negative 2% to flat with last year.

Atrial fibrillation, or AF, product sales for the fourth quarter totaled $283 million, up 12% over the fourth quarter of last year, including $12 million of unfavorable foreign-currency translations. On a constant-currency basis, AF product sales for the quarter increased 17%.

For the full-year 2014, AF product sales were $1.044 billion, an increase of 9% over 2013, including a $17-million decrease due to unfavorable foreign-currency translations. On a constant-currency basis, AF product sales increased 11% in 2014. We expect full-year 2015 constant-currency AF product sales growth to be in the range of 11% to 13%.

Total sales of cardiovascular products for the fourth quarter of 2014 were $347 million, a 1% decline from last year's fourth quarter, including $15 million of unfavorable foreign-currency translations.

Sales of our cardiovascular products in the quarter were negatively impact by a $6-million decline in our third-party sales in Japan versus the prior year, due to the termination of a distribution contract in the third quarter of 2014. Excluding the impact of these revenues, constant-currency cardiovascular product sales for the quarter increased 5%.

For the full-year 2014, cardiovascular product sales were $1.348 billion, up approximately 1% from 2013, including a $23-million decrease due to unfavorable foreign-currency translations. On a constant-currency basis, cardiovascular product sales increased 3% in 2014.

For the fourth quarter of 2014, within the cardiovascular category, sales of structural heart products were $159 million, a 1% decline from the fourth quarter of 2013 on a constant-currency basis. For the full-year 2014, sales of structural heart products were $639 million, an increase of 3% over 2013 on a constant-currency basis.

Sales of vascular products in the fourth quarter of 2014 were $188 million, up 7% from the fourth quarter of 2013 on a constant-currency basis. For the full-year 2014, sales of vascular products were $709 million, up 2% from 2013 on a constant-currency basis.

We expect full-year 2015 constant-currency cardiovascular product sales growth to be in the range of 6% to 8%. Included in this guidance are sales of our CardioMEMS product line, which we expect to be approximately $70 million in 2015.

Total sales of neuromodulation products in the fourth quarter of 2014 were $124 million, up 10% from the fourth quarter of 2013 on a constant-currency basis. For the full-year 2014, neuromodulation product sales were $437 million, up 3% over 2013 on a constant-currency basis. We expect full-year 2015 constant-currency neuromodulation product sales growth to be in the range of 12% to 14%.

Based on the sales guidance by product category we have outlined, we expect our full-year consolidated sales growth for 2015 to be in the range of 3% to 5% on a constant-currency basis, and we expect constant-currency sales growth in the first quarter of 2015 to be in the range of 2% to 4%.

The geographic break down of St. Jude Medical sales in the fourth quarter of 2014 is detailed in our press release. In total, 47% of St. Jude Medical sales in the fourth quarter came from the US, while 53% came from international markets.

The gross profit margin during the fourth quarter was 71.1%. For the full-year 2014, the gross profit margin was 71.7%, down 60 basis points from 2013, primarily due to the impact of excise taxes, which accounted for the entire 60-basis-point decline.

For the full-year 2015, we expect gross profit margin to be in the range of 70.3% to 70.8%, representing a decrease of 90 to 140 basis points versus 2014. This decline is principally driven by the negative currency environment, which we estimate will have a 120- to 130-basis-point impact on our year-over-year gross profit margin.

Our fourth quarter SG&A expenses were 32.7% of net sales. For the full-year 2014, SG&A expenses were [33.6]% of net sales compared with 33.9% in 2013. Excluding amortization expense, our 2014 SG&A as a percent of sales was 32.0%. For the full-year 2015, we expect this ratio to be in the range of 32% to 32.5%, which now excludes the impact of amortization expense.

We expect investments in the continued launch of our CardioMEMS technology and new ablation catheters to drive SG&A as a percent of sales to be higher in the first half of the year.

Research and development expenses in the forth quarter of 2014 were 12.2% of net sales, and for the full-year 2014 were 12.3% of net sales. For the full-year 2015, we expect R&D expenses as a percentage of net sales to be in the range of 12% to 12.5%.

Other expense was $22 million in the fourth quarter and $83 million for the full-year 2014. For the full-year 2015, we expect other expense of approximately $85 million to $90 million, primarily driven by interest expense on our outstanding debt.

For the full-year 2014, our effective income tax rate was 18%. Excluding the impact of amortization expense, our effective tax rate was 19.1%. For 2015, we expect the effective tax rate to be in the range of 17.5% to 18.5%, which now excludes the impact of amortization expense.

During the fourth quarter of 2014, we continued to treat spinal modulation as a variable interest entity and consolidated their results. The portion of their net losses that is not attributable to St. Jude Medical has been added back to our net profit on the line net losses attributable to non-controlling interest, and totaled $7 million in the fourth quarter. For the full-year 2015, we expect this item to total approximately $28 million to $33 million.

Moving on to the balance sheet, at the end of 2014, we had $1.4 billion in cash and cash equivalents and $3.9 billion in total debt. There were no borrowings outstanding under our $1.5-billion revolving credit facility with a group of banks.

Next I want to offer some comments regarding our EPS outlook for the first-quarter and full-year 2015. In preparing our EPS guidance, we have assumed that in the first quarter of 2015, the weighted average outstanding shares used in our diluted EPS calculation will be about 286 million to 288 million shares, and the weighted average outstanding shares for the full-year 2015 will be about $285 million to $287 million shares.

These share count assumptions take into account our recently announced $500-million common stock repurchase plan. The Company expects adjusted EPS for the first quarter of 2015 to be in the range of $0.90 to $0.92, which represents constant-currency growth of 4% to 6%.

For the full-year 2015, we expect adjusted EPS to be in the range of $3.95 to $4. This expectation includes the impact from negative currency translations, which we estimate based on our current exchange-rate assumptions will reduce our reported consolidated sales in 2015 by about $325 million to $350 million, and reduces our adjusted earnings per share by approximately $0.55 to $0.60.

On a constant-currency basis, our adjusted earnings per share guidance represents EPS growth of approximately 8% to 10%. As a reminder, this EPS guidance for 2015 excludes the impact of amortization expense. I will now turn it back to Dan.

Dan Starks (Chairman, President, CEO):

Thank you, Don. St. Jude Medical accomplished a number of major goals in 2014 that set the table for stronger growth in 2015. One accomplishment is that we completed our reorganization from four product divisions organized by clinical specialty, to our current organizational design we referred to as One St. Jude Medical . This reorganization helps us better leverage our scale, capture R&D synergies, and present ourselves more effectively to our evolving customers in an environment of healthcare reform.

A second accomplishment is that we improved our quality systems and product quality and resolved two FDA warning letters thereby facilitating the flow of new products that will impact 2015. A third accomplishment is that we strengthened our product portfolio with acquisitions that put in place multiple new growth drivers to help us deliver on our promise to offer innovative solutions that improve patient outcomes and reduce the cost of healthcare for some of the world's most expensive epidemic diseases, including heart failure, atrial fibrillation, and chronic pain.

One goal we did not accomplish in 2014 was that we did not accelerate our rate of sales growth in the second half of the year. We attribute this to a modest change in timing, due to the nature of innovation and believe that we are well positioned to accelerate sales growth on a constant-currency basis in 2015. We would like to spend the remainder of our prepared remarks this morning reviewing why we think we are well positioned to accelerate sales growth in 2015.

Constant-currency sales grew approximately 4% for full-year 2014. Of this growth, approximately 100 basis points was due to additional selling days in 2014, resulting from the 53-week fiscal year that we experience every five to six years.

The guidance we have issued this morning is that we expect revenue to increase approximately 3% to 5% on a constant-currency year-over-year basis in 2015. If we adjust for the extra fiscal year in 2014, we are guiding to approximately 4% to 6%, or solid mid-single-digit organic sales growth in 2015.

The key to accelerating sales growth in 2015 is executing well on three growth programs: our CardioMEMS program, our AF ablation program, and our neuromodulation program in the United States. First, I would like to review our CardioMEMS program.

For those on the call who do not follow St. Jude Medical closely, CardioMEMS is a new technology pioneered by St. Jude Medical that is designed to help improve both the cost and the quality of care for patients who suffer from Class III heart failure.

Data from the landmark CHAMPION trial reported at the American Heart Association scientific sessions in November 2014 shows that this technology can help reduce 30-day heart failure hospital readmission rates for Medicare-eligible Class III heart failure patients by as much as 78%.

Comparative 30-day hospital readmission rates for these patients are an important metric used to calculate total CMS reimbursement levels to United States hospitals in 2015. The reimbursement dynamics surrounding CardioMEMS in the US have become even more compelling over the last few months, given that CMS granted a new technology add-on payment for inpatient treatment that took effect October 1, 2014 and an additional pass-through payment for outpatient treatment that took effect January 1, 2015. Most patients who received the CardioMEMS heart failure monitoring system will be treated on an outpatient basis, so a number of medical centers waited until January 1 to begin to engage with CardioMEMS.

We will talk about the CardioMEMS program in more detail at our annual investor conference next week, but as a preview, we can confirm that commercialization of our CardioMEMS technology is off to a good start.

During the third-quarter earnings conference call, we said we already had signed contracts and received initial purchase orders from approximately 25 customers in the United States, and that we expected to generate approximately $12 million in revenue from our CardioMEMS heart failure monitoring system in the forth quarter. Actual revenue from CardioMEMS products was $11.9 million during the fourth quarter.

In his prepared remarks this morning, Don Zurbay said that we expect to generate approximately $70 million in revenue from CardioMEMS products in 2015. We already have signed CardioMEMS contracts with more than 90 customers and are well on our way toward accomplishing this goal.

As we have discussed previously, CardioMEMS is a break-through technology that we believe could be one of the most exciting innovations we have ever launched; however, as we also have discussed previously, this is a new market that needs to be developed and market development takes time.

We have the right product at the right time, and our early commercialization results reflect that customers recognize the value of integrating this technology into their heart failure practice. We look forward to providing you with a deeper dive on CardioMEMS in our 2015 plans at our annual investor meeting.

Next, I would like to review our AF ablation program as a catalyst to help accelerate sales growth in 2015. The ablation catheter segment of the electrophysiology market represents approximately $1.1 billion in annual revenue for 2015. Although we estimate that we have about a one-third share of the EP market as a whole, we have only a low double-digit share of the ablation catheter segment of the EP market.

St. Jude Medical acquired Endosence and its TactiCath line of contact-force sensing ablation catheters in 2013 as part of our strategy to develop a state-of-the-art ablation catheter program that could gain a leading share of the ablation catheter market. We think contact-force sensing ablation catheters may become the new standard of care in the field of AF ablation, due to the direct link between contact force and the creation of durable lesions that was demonstrated in the EFFICAS and EFFICAS II clinical trials.

Our TactiCath line of ablation catheters received FDA approval toward the end of October 2014. Even though we only had a partial quarter benefit from this new line of catheters in the United States during the fourth quarter, ablation catheter growth on a year-over-year basis in the United States increased from an average rate of 13% the first three quarters of the year to approximately 60% growth during the fourth quarter. This reinforces our confidence that our new ablation catheter program will be a significant catalyst to full-year sales growth in 2015. Inventory for our TactiCath line of ablation catheters is unconstrained.

We are also in the process of launching our new line of FlexAbility ablation catheters with improved handling characteristics and a unique flexible platinum tip. We received CE Mark for our FlexAbility line of ablation catheters late Q3, and yesterday, we announced FDA approval for the FlexAbility product line in the United States.

TactiCath and FlexAbility are two unique catheter product lines that offer innovative solutions, leading to effective outcomes, efficient procedures, and more productive EP labs. We expect customer preference for our ablation catheters to help pull through increased use of our entire portfolio of products used in the EP cath lab.

Next I would like to review our neuromodulation program in the United States as a catalyst to help accelerate our sales growth in 2015. Revenue from neuromodulation products in international markets grew 25% on a constant-currency basis for full-year 2014, compared with a decline of 5% in the United States.

We think the lifting of the warning letter FDA issued to our Plano facility, our launch of the Protege spinal cord stimulation product line in the United States, and our acquisition of NeuroTherm marked the beginning of a turnaround in our US neuromodulation business. We expect additional new products to help accelerate sales growth further in 2015. We will provide more details about our product pipeline for 2015 at our annual investor conference next week.

Next, I would like to offer an update on certain aspects of our CRM business. From a big-picture perspective, we think of our global CRM business as stable in 2014 and well positioned to be stable again in 2015.

Although we no longer expect growth from our global CRM franchise, this portion of our business provides significant synergy and leverage for all three of our highest-priority growth programs in 2015, given its overlap with CardioMEMS on the treatment of heart failure, its overlap with ablation catheters with a common EP call point, and its overlap with neuromodulation through commonality of low-voltage stimulation technology.

At the same time, our CRM program provides synergy and leverage. Supporting all three of our major sales catalysts for 2015, our CRM business continues to generate significant operating profit and cash that expands our ability to invest in new growth drivers, as well as continue to return cash to shareholders at an attractive level. As we look forward to 2015, we think St. Jude Medical's CRM revenue will roughly track with the market on a constant-currency total global basis for the full year.

To summarize, St. Jude Medical is well positioned to accelerate sales growth in 2015 on a constant-currency basis. We are committed to doing so, while continuing to leverage EPS on a constant-currency basis. We look forward to providing investors with more information on both of these initiatives at our annual investor conference next week.

Our prepared remarks this morning have been a little briefer than usual, since we are conducting our annual investor meeting next week. This gives more time for analysts to ask questions this morning regarding our fourth quarter results.

Ryan, would you please open the call for questions?

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Your first question comes from the line of Kristen Stewart from Deutsche Bank.

Kristen Stewart (Analyst - Deutsche Bank):

Hi good morning, everybody.

Dan if you could just maybe I know you just went through why you have conviction on accelerating sales growth, but I guess you're seeing a lot of your competitors out there doing larger transactions, you guys have really been doing some smaller tuck in deals. At what point I guess would you think that perhaps some of the organic growth opportunities are not materializing as expected, would you then be willing to consider maybe a little bit bolder move from an MA perspective?

Dan Starks (Chairman, President, CEO):

Well, you ask a good question, Kristen; however, the hypothesis that you raise is not a realistic scenario in our view. You suggest if the growth drivers that are currently within our program do not get traction and what we see is that our growth drivers are getting traction, so and we have very strong conviction that our growth drivers will continue to gain traction and that we will accelerate sales growth at an attractive level during 2015 with better visibility to that in Q2 and Q3.

So I think as people think about what does it take to be most effective with the type of customers that are making buying decisions in an environment of healthcare reform, we think about the necessity that a Company needs to be big enough to really have a material impact on the economics and success of a customer program and we are that big.

For us it's not a matter of just being a larger Company. It's a matter of how big are the problems we're addressing and how much impact can our technology have on the financial success of our customers and so we think about heart failure and how much of a priority the economics and patient outcomes of heart failure are.

Same for atrial fibrillation, same for chronic pain and we're uniquely positioned to have a major impact on the success of customer programs for all three of these disease states and we think that this makes us big enough to be relevant, big enough to have a seat at the table and sets us up for a superior level of sustainable sales growth on a long term basis, so the idea of talking about well what if none of that's true, then what would we do? That's a scenario that we really do not expect to face.

Kristen Stewart (Analyst - Deutsche Bank):

Okay, and then maybe just in terms of the guidance.

Don, would you be able to just break out for us what the underlying numbers are for like NeuroTherm, just from what's organic in the guidance versus just ongoing operations?

Don Zurbay (CFO):

I can offer to you, Kristen, I've got the numbers in mind. So first, I'll just I know that this but I'll just remind others on the line here that we estimated that the impact of NeuroTherm for the portion of the third quarter and for the full fourth quarter of last year was going to be in the range of 10-$15 million for just to get people calibrated.

Now our NeuroTherm contribution already in the fourth quarter includes organic contribution, so our global distribution and the leverage we get the synergy we get with our spinal cord stimulation salesforce now having the spinal nerve ablation product line already is yielding organic growth so but if you think about NeuroTherm at the point of our acquisition being about something in the ballpark of 40 million in annual revenue, maybe that will get you calibrated on that impact.

We think the NeuroTherm revenues in 2015 are going to be larger than that but the larger than that portion will really represent organic growth as a result of the synergies with our neuromodulation franchise.

Kristen Stewart (Analyst - Deutsche Bank):

Okay, thank you.

Unidentified Company Representative:

You're welcome.

Operator:

Your next question comes from the line of Bob Hopkins from Bank of America Merrill Lynch.

Bob Hopkins (Analyst - BofA Merrill Lynch):

Thanks and good morning. So a couple things. First just a clarification on the earnings guidance, Don. I just wanted to make sure I got the message here correctly on earnings. So the $3.95-$4 for 2015 is a cash EPS number that we compare to $4.18 in 2013 and a cash EPS basis and taking into account 55-$0.60 of FX headwind, and that's why you're able to say 8% to 10% underlying EPS growth. Am I getting the numbers right there?

Don Zurbay (CFO):

Yes, you are. That's right, Bob.

Dan Starks (Chairman, President, CEO):

Bob, let me just mention, you misspoke on the $4.18. I think you said 2013 and you meant 2014, so with that friendly amendment, we are tracking your calculations exactly.

Bob Hopkins (Analyst - BofA Merrill Lynch):

You're exactly right. So my more sensitive question has to do with the ICD market. Obviously the potential for share loss in ICD has been a concern for investors given Medtronics launch of quad Poland some of their comments recently.

So Dan, I was wondering if you could comment on what you're seeing from the quad pole launch for Medtronic and how much of a threat you think that is to your business as you look at 2015 and then any comments on how you felt the market for ICD was in Q4 would be appreciated as well, thank you.

Dan Starks (Chairman, President, CEO):

Sure. As I know you appreciate Bob we need to see the other companies forth quarter numbers to really update our market model but without having the benefit of knowing the other companies same quarter results, we estimate that we actually gained a small amount of CRM market share on a total global basis for the full year and that during the fourth quarter we held our CRM market share on a total global basis.

So underneath that, are a lot of pluses and minuses, different product lines and different Markets and this includes the benefit of our replacement market tail wind in the United States but this analysis of the market is what underlies my comments during the prepared remarks that we made that we consider our CRM business to be stable in 2014 and expect the CRM business to continue to be stable in 2015.

With respect to the quad CRT-D business in the United States specifically, we don't break out our CRT numbers but if you look at our I C did revenue as a whole, we think that we gained share in the ICD market as a whole on a sequential quarter basis during the fourth quarter compared with the third quarter. We think we gave up a little bit of share in the United States ICD segment.

But we more than offset that by ICD share gain in international Markets, so there's plenty that a person can dissect and be more specific about but we're encouraging investors to see the CRM portion of our business from a big picture perspective as being stable on the positive side. We really do not expect growth on the cautionary side and then we point out that we get significant synergy for our growth drivers as well as significant operating profit and cash contribution and contribution to our Balance Sheet from the CRM franchise in its current stable State so that's our assessment of the CRM market.

Kristen Stewart (Analyst - Deutsche Bank):

Much appreciated, thank you.

Dan Starks (Chairman, President, CEO):

You're welcome.

Operator:

Your next question comes from the line of Mike Weinstein from JPMorgan.

Mike Weinstein (Analyst - JPMorgan):

Thank you and good morning everybody. So let me just pick up from there.

So Dan, if we look at the fourth quarter your CRM business was up 1% in constant currency with let's call it down 2% so the flat to down 2% CRM guidance for the year 2015. Do you think that's the wide range given where you end up in your fourth quarter and given the dynamics heading into 15?

Dan Starks (Chairman, President, CEO):

Yes and again first to answer your question directly, Mike yes, we do think that that's the right way to think about it. And to volunteer more comments this gets to the product lines and all of the moving parts within the big picture numbers so there are parts of the market where we are gaining share at a meaningful rate.

There are parts of the market where we are I would say in the CRT-D segment of the US market in the fourth quarter we think that we gave up a little bit of share but this is very similar to what we experienced in Europe as other companies came into the CRT-D segment of the ICD market with their quadripolar product offerings, we found that we tended to lose a little bit of share early in other companies competitive product launches as customers would trial the product offerings of other companies.

But we found that after the initial experience with other companies product offerings that we found a number of those customers who tried competitive product offerings found our offering to be preferable and that we regained share after that a quarter or two of initial trialing experience, so there's a moving part that is a temporary dip.

We think it will strengthen here a couple of quarters down the road. On the CRTP side of the CRM business we're clearly gaining share with significant product offerings on the low voltage side of the CRM market generally. That's a strength in our business with the introduction of new products in the United States following the lifting of the FDA warning letter mid year 2014.

So there's a lot of moving parts and at the same time that a person thinks about something like a competitive product offering in quadripolar CRT-D and what level of stress does that create, one should immediately also think of the points that are on a favorable product cycle in our product line including the CRTP I've mentioned including low voltage stimulation generally and including in CE Mark countries, the multi-point piecing version of our quadripolar CRT-D product lines where that really is a good strong part.

So lots of moving parts but once you finish analyzing all the moving parts, it all boils down to just being a stable profitable no growth portion of our portfolio.

Mike Weinstein (Analyst - JPMorgan):

Okay, just one follow-up on that impact. So if we looked at it, FX is going to cost you 13% to 14% of your earnings power of your base from the decision not to hedge the currency exposure until now.

Can you just talk about that from a standpoint that the decision going back not to hedge and obviously the impact that you're dealing with this year and then what you're deciding to start putting hedges in place how long it's going to take to have those in place so that you actually will have some management there.

Dan Starks (Chairman, President, CEO):

Well let me start, Mike, and then let me put your question over to Don. On the point of philosophy, what casual observers and I don't even you here, Mike, at all, what casual observers sometimes miss is that the hedging strategies ultimately don't shield a companies long term growth profile from movements in FX.

It's really as the contracts get renewed, they get renewed at the obviously get renewed at the new level of FX exchange rates and so ultimately over the long term, the difference between hedging program and not having a hedging program is Nill.

In the short-term, there's obviously some expense and you notice here at the point where the FX rates have changed on the negative side as much as they are, it obviously influences the emotion on a short-term basis but over the long term over the last ten years, again and again, we would look at other companies results that where those companies had strong hedging programs.

And I remember seeing disclosures on very significant FX hedging contract losses that were being absorbed into their Income Statement so it depends on what ones investment horizon is and we as a leadership team and as a Board of Directors we have always been bias in favor of a long term perspective and so that's why we have not jumped on the band wagon of focusing on a hedging program.

That might lead to the question then well so why are we doing it now and really just the answer is that in this environment, we are realistic that a meaningful portion of our investor base would like us to hedge and so we are very shareholder and investor friendly and since we have strong request from our investor base for us to begin to include hedging in our program, we're doing it. So that's my comments are philosophical comments. On the topic of the more technical aspects of initiating a hedging program let me refer that portion of your question to Don Zurbay.

Don Zurbay (CFO):

Yes, hi, Mike. So we already have some significant hedges in place but I think really as we move forward and put this and layer this in, it's probably going to be toward the end of the Second Quarter before we fully have a full complement of the hedges we would normally have on a go-forward basis.

Mike Weinstein (Analyst - JPMorgan):

Okay. That's helpful, thanks, Dan as well.

Unidentified Company Representative:

You're welcome.

Next question?

Operator:

Your next question comes from the line of David Lewis from Morgan Stanley.

Unidentified Participant:

Hi, this is actually James in for David Urani. Thanks for taking the question.

Dan Starks (Chairman, President, CEO):

You're welcome.

Unidentified Participant:

First want to talk a couple questions on CardioMEMS. Is there any way to think about how much the 12 million in Q4 was driven by stocking or equipment sales and how much might represent underlying patient pull through and then second, how are we expecting that launch to phase through the years? It's still relatively measured and focused on champion centers and when do we see a broader launch?

Dan Starks (Chairman, President, CEO):

James, let me refer your question to our Chief Operating Officer, Mike Rousseau and ask Mike what would you care to comment about Mike?

Mike Rousseau (COO):

James, I think it may be best to give you a broad overview and we plan on getting into a higher level of detail next week. The experience with CardioMEMS as Dan mentioned continues to create a lot of excitement at the physician level really around the opportunity to create a better patient outcome and to manage a very difficult patient population.

At the same time the administrative side of the equation is also very engaged and excited about the technology as it addresses one of their key issues and key problems and that's the cost of managing heart failure in their centers so the point where we are is we are in the process of developing this market, so we have and are building organizational capability.

We are scaling the organization, aggressively hiring both technical talent and sales talent so we are in a position to scale through the year. As Dan pointed out I'd like to remind everybody that this process is more of a process as it takes time; however we feel we're on a very positive track and generating very strong results.

We are also working to refine the selling approach and to accelerate our contracting and our on Boarding process. We have recently hires Dr. Phil Adamson as Vice President of Medical Director for our heart failure portfolio. Dr. Adamson is a leading expert in heart failure and was the co-principal investigator of the Champion trial. He will help us evolve the standard of care to include managing patients to pressure.

Dr. Adamson will be presenting next week at the investor conference and shake his firsthand experience at installing CardioMEMS at University of Oklahoma and some of the work he has done with other centers. The detailed questions about ramp and burn are things that we can cover in detail as we fold out what it looks like. What I will say is that we remain confident in our strategy and that we are on track to deliver our current guidance and we will be getting into greater detail at the conference next week.

Dan Starks (Chairman, President, CEO):

And James, I can add a few points. You ask about the role of Champion centers in our start up program and so one way to think about that is that there were something in the ballpark of about 40 centers participating in the champion trial and we've provided an update this morning that we currently have contracts with more than 90 customers here in the United States.

So you can see that this is already even though we're still early this is already far beyond the scope of the centers that participated in the Champion trial so that's one point. Another point is on your question about initial order and then Mike's point about implant levels for after initial stocking order and the initial modest capital component that's necessary to get the program started, I think it's probably not the best way to think about it to really just sort that out with respect to Q4.

I think it's more let's wait and see what our Q1 number actually is. Let's get to the point of updating our guidance for the remainder of the year and then it will be, we're going to have a regular flow of new centers buying stocking orders but the centers that already came on in the fourth quarter and the number of centers that are come on in the first quarter reordering, so we need to get to the point of reorder rates to be more ambitious in the guidance that we give for full year.

So I realize that that doesn't exactly answer your question but that gives you some idea of how we're thinking about it and how we're looking forward to providing more updates here a quarter from now.

Mike Weinstein (Analyst - JPMorgan):

That's great. That's helpful color and certainly we look forward to next week.

Second, Dan if I could go back to Neuromod, I don't think you were perfectly transparent with respect to what is the impact of NeuroTherm in 2015 which is fine but it sounds like that's maybe 5-6% and in the context of total guidance of 12-14% suggests you're looking for mid to high single digit on an organic basis for the rest of the business and it's obviously in a business that's been relatively flat, so what gives you the confidence in the acceleration there and also any comments that you have on potential competition from some smaller players in that space would be helpful as well.

Dan Starks (Chairman, President, CEO):

Sure. Specifically when you talk about acceleration, James you're talking about the neuromodulation part of our business in particular?

Mike Weinstein (Analyst - JPMorgan):

That's right, yes.

Dan Starks (Chairman, President, CEO):

Yes, okay sure. Well the best answer to you on what the compelling dynamics are in our US neuromodulation business will come from our offering to you next week. A review of our line up of new products that we anticipate launching into the US during 2015 so that's enough of a discussion that we decided not to include it in our prepared remarks this morning but that will provide the answer to your question.

We've got a good line up of new products in 2015, and I'll steal a little bit of Eric's thunder to say that that will include our providing an update on the timing of our expected launch of our DBS product line in the United States before the end of 2015, so there's a lot of good information that we're looking forward to providing next week. That's point one.

Point two, when you mention new companies, I'm sure you're referring to Nevro in particular given some of the investor attention to Nevro last week, and so you've given me an excuse just to make sure that investors know that our guidance for 2015 takes into account the anticipated impact of Nevro receiving FDA approval during the Second Quarter of this year.

And then I'd point out that for us, this is not a new selling dynamic. We've been competing against Nevro in international Markets here for some time and the best way to think about what the impact of competing with new players like that is is to say in the international Markets our revenues up 25% constant currency for the full year so we aren't going to offer product detailing points for competitive reasons.

But you can see from our results that we're very familiar with new entrants into the neuromodulation market and that we've been very successful in selling against them and another thing with respect to new entrants that's worth keeping in mind is that although the chronic pain market already is $1.5 billion in size, it is a very, it's still a very new and significantly underpenetrated market.

So most of the growth opportunity in chronic pain will come not from share shift but from market development and so we think that it's good for market growth dynamics to have new entrants into the field and to have innovative groups offer new approaches to the physicians that are managing patients who have chronic pain.

We think that will help develop the market and we're confident that our own participation in the market will include ongoing market share gain due to the technology and product pipeline that we have but we actually look at new entrants into the market as being long term favorable development for market development dynamics.

Mike Weinstein (Analyst - JPMorgan):

Great, thanks very much.

Dan Starks (Chairman, President, CEO):

You're welcome. Next question?

Operator:

Your next question comes from the line of Josh Jennings from Cowen & Co.

Josh Jennings (Analyst - Cowen and Co):

Hi good morning, thanks a lot for taking the question. I just wanted to follow-up on the CardioMEMS platform. Can you talk about the plans for accrual clinical data build-out of clinical evidence, you essentially realized the full potential of the heart failure opportunity and does St. Jude have any plans or are there any centers going to generate further data and specifically any plan to prove or generate hard evidence there's a mortality benefit for patients or is that just going to be an intuitive outcome as it reduces hospitalization rates and has a high correlation with mortality and hospital and congestive heart failure patients?

Dan Starks (Chairman, President, CEO):

Josh, let me refer your question to our Group President, Eric Fain, as the clinical trial program comes under his umbrella.

Eric, I'm not sure how much information you're willing to offer, but let me put the question to you and offer what you care to say.

Eric Fain (Group President):

Sure, so absolutely. We're just getting in and launching a product now. There's a lot of enthusiasm in doing additional clinical trial work not only at the original clinical sites but as we roll this out more broadly as more people get exposed to it, there will be opportunity and we're already talking through different ideas.

Some of those are targeting more refinement in the Class 3 heart failure population. We have our post approval trial that we'll be running in the US which is significant in size and we'll have the opportunity for long term data.

And so as you know for the Champion trial the original endpoints were at six months so not really sufficient time to look at mortality in a real meaningful way but we'll have that as well and then also the opportunity to look at some other populations of patients of people are interested particular things that come to mind are patients with pulmonary artery hypertension and heart failure and other things.

So just as we have seen in other areas where there's new technology in this particular place this is really a new space with hemodynamic monitoring for heart failure, plenty of opportunities for additional clinical investigation.

Josh Jennings (Analyst - Cowen and Co):

Great, thanks for that. and then just wanted to follow-up on the low voltage side of the CRM business. Can you just talk about the quad CRTP system? Seems like that's been a driver of the success for the low voltage platform in 2014. How is it driving performance and maybe an update on MRI safe platform and any color directionally on expectations for the low voltage unit specifically for 2015? Thanks again.

Dan Starks (Chairman, President, CEO):

Okay, Josh let me start and then I've got colleagues who can add points here but first, although the quadripolar CRTP is a strength of our low voltage business, it would, I would not want to attribute the success of our low voltage product line in 2014 solely to the strength of quadripolar CRTP.

So you saw everybody saw a meaningful shift in our favorable shift in our low voltage sales trend in the United States when we launched our assure it and endureity products following here and I believe that was right around mid year of 2014 and right with that, investors could see an improvement to our low voltage growth profile in the United States.

And so quad CRTP is part of that but another big part of it is a new low voltage platform and a strong feature set there, so that's one point that I wanted to make. Now I think I did not take notes as you were asking different parts of your question. Let me ask Mike, anything you want to adhere.

And I'll ask Eric if there's anything he wants to add.

Eric Fain (Group President):

The outcome of the impact on CRTP as it relates to the portfolio in LV. As Dan mentioned the impact of a new family of products across the broad spectrum of the business has been impact full with the CRTP providing an opportunity for us for being the only player in the space in the US market, clearly leveraging the experience that we have in CRT-D its been a very successful launch but again I would say that it is a broad based move based on the total product portfolio.

Dan Starks (Chairman, President, CEO):

And Josh, you asked about the MRI compatible new products. I'm going to just ask in the interest of time here since Eric Fain will be providing next week an update on the CRM product line for 2015, let's just hold off until then and we'll provide more comprehensive comments. I notice we're running, starting to use up our time. Let's take two more questions. Ryan whose up next?

Operator:

Your next question comes from the line of Tao Levy from Wedbush great, thanks. Good morning.

Dan Starks (Chairman, President, CEO):

Good morning.

Tao Levy (Analyst - Wedbush):

So a quick question on the A-fib business. I was wondering if part of the expectations in 2015 is that result that you delivered on the Ablation catheter of around 60%. Is that kind of the pace that you're looking for this year?

Dan Starks (Chairman, President, CEO):

Well, directionally yes but we're not offering guidance on AF Ablation catheters specifically so that's why I paused a little bit before saying directionally, yes. What I would point out one thing I'd point out and I realize you didn't ask this Tao.

But one thing I'd point out is if people think about the AF part of our business in 2014 as growing for full year constant currency about 11% and look at the guidance we've given this morning of 11-12%, remember that if you adjust this for the Fiscal Year impact of different numbers of weeks in 2014 versus 2015, you would, the adjusted growth rate here on a year-over-year basis would be closer to in our guidance for 2015 would be closer to 12-14% for full year 2015 versus 11% on a constant currency basis for full year 2014 so that's one point I thought might be helpful for people to keep in mind.

And then more specifically as you ask how to think about the product lines in different parts of the product lines inside our EP portfolio, we will have an update on new product flow and the way that our AF portfolio holds together and synergy that we get from it at the annual investor meeting next week so we'll offer some more color commentary there.

But as a starting point before we get to that additional information next week, think of the AF business as already growing at a double digit rate with one of the cylinders of our EP business not yet really working for us.

Now we've got the last cylinder of that engine that beginning to kick in and clearly it does make a visible difference and we expect it to continue to make a visible difference in 2015, so we look to the AF part of our growth profile as being continuing to be a strong point in 2015 and being even stronger in 2015 than it was in 2014.

Tao Levy (Analyst - Wedbush):

I just had a quick second one. Sort of a big picture on the CRM side of the business. I know you're kind of describing or qualifying as a flat market in 2015 -- for market and yourselves. For 2016 are there any reasons to think that market can improve, either for your business or the overall market itself?

Dan Starks (Chairman, President, CEO):

Why don't we think about that and offer comments next week? I can tell you as a starting point that what you're really getting at here would be are there any other significant clinical trials that where we expect the day to be reported that would fall into the category of landmark and nothing comes to mind. really here on a multi-year basis as we expect to continue to see unit growth offset by ASP decline so that's, that for the foreseeable future I think that's what we would continue to expect and suggest you put into your model.

Tao Levy (Analyst - Wedbush):

Okay. Thanks.

Dan Starks (Chairman, President, CEO):

Sure let's take one more question.

Operator:

Your last question comes from the line of Matt Taylor from Barclays.

Matt Taylor (Analyst - Barclays):

Hi. Thanks for taking the question.

So one small one. Did you give us any update on Portico? And could you talk about your expectation there? And then also focus the last couple quarters has been on quad share, and can you just talk about how you think your quadripolar ICD share is going to hold up versus Medtronic and other launches that are coming here in the US?

Dan Starks (Chairman, President, CEO):

Okay so Portico, let me refer the question to our Group President Eric Fain. Any update on portico Eric?

Eric Fain (Group President):

Sure, Matt.

I think as we talked about previously in the last caller, we're on track for what our plans are for which is primarily submissions have been made to the various regulatory agencies in the Fourth Quarter and providing them the reports of our finding regarding the observed motion anomalies and as we discussed previously these motion anomalies we're seeing with comparable frequency in both the Portico and control valves and IDeach study on 3D CT and TEE studies.

So we're continuing to work with FDA. The European authorities and our notified body to restart the clinical trials internationally and in the US as well as restart our commercial sales in Europe and currently, we've had some clinical study implants resume in Australia and some select countries in Europe as we continue to work through the process.

Dan Starks (Chairman, President, CEO):

What I could just add to that, Matt, would be to make sure that investors realize that our guidance, our sales guidance for 2015 assumes no material contribution to revenue growth from Portico products and I would also point out that we find that once we pause a clinical trial program and once we pause commercial implants to review aspects of the product line that after we're ready to release the pause and resume program growth, that the regulatory process actually moves very slowly.

So that's something that we really probably have not run in before but run into before but we find with Portico that the regulatory process is moving very slowly as we work to restart the program, we're finding the same thing on the Nanostem side that the regulatory process really moves surprisingly slowly after we're ready to restart implants, so you're right.

You didn't ask about Nanostem, but I want to volunteer that our guidance assumes no material contribution of revenue from Nanostem products in 2015 as well as assumes no material contribution to revenue growth from Portico products in 2015. And so then on your point of quadripolar CRT-D, we have commented on this previously but I could just reiterate that a couple of points from today's call as well as points that Eric Fain made on prior calls.

The feedback we get from customers is that as they gain experience with our quadripolar CRT-D system and compare it with other companies quadripolar CRT-D systems, all quadripolar CRT-D systems are not the same so they are and so we can say more about that next week but once one realizes that all quadripolar CRT-D systems are not the same then that immediately helps build an appreciation that the clinical data generated with our quadripolar CRT-D program cannot be assumed to apply to other companies programs so we have a reduction and impact on readmission rates. We have benefit to mortality from our quadripolar CRT-D system.

Other companies are going to have to find out whether they can offer that same kind of benefit to customers or not and but we have a significant lead there in not only the details of our system but in the clinical evidence that proves that the details of our system provide meaningful benefits.

Another point would be that we already advanced now to our Next Generation of quadripolar CRT-D in the form of our multi-point pacing technology so particularly in CE Mark countries where we are now competing against other companies first generation quad CRT-D system we have already moved on and we're working with the Next Generation of quad CRT-D system with multi-point patient capability.

And we're making good progress working through the FDA process to bring the multi-point patient version of quad CRT-D into the United States here as well, so this will continue to be a competitive market. We'll win some and we'll lose some but we do tend to win more than we lose and we look at this as being a nice stable part of our business for some time to come.

Matt Taylor (Analyst - Barclays):

Great. Thanks a lot.

Dan Starks (Chairman, President, CEO):

You're welcome. Okay so that concludes our call. And I'll ask you, please, Ryan to read our closing statement and we look forward to talking with all of you again next week at our annual investor conference.

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Operator:

(Operator Instructions).

Thank you. That does conclude today's conference call. Please disconnect your lines at this time.