

Message

**From:** Young, Jim L (Hazelwood) [Jim.Young@covidien.com]  
**Sent:** 6/2/2011 12:24:43 PM  
**To:** Basore, Bob O [Bob.Basore@Covidien.com]  
**Subject:** FW: IR Dist List: Two notes this morning on us...  
**Attachments:** mlbull.gif

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**From:** Lannum, Cole

**Sent:** Thursday, June 02, 2011 7:24:25 AM

**To:** Almeida, Joe; Anderson, Matthew (EbD VP Global Marketing);  
Andrulonis, Gregory; Ayoub, Kamal; Baillio, Jim; Bartlett, Doug;  
Berges, Patrick A; Bevilacqua, Richard; Bishop, Colin; Blazejewski, Steve;  
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Herring, Scott; Hilkemeier, Terry; Hughes, Cindy; Hughes, Tim;  
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Kapples, Jack; Karpf, Beth; Katseroubas, Paul; King, Brian;  
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Mecca, Roger S; Meelia, Rich; Miller, Kathy M; Mills, Ralph; Modder, John;  
Muse, Jim; Nee, Stephen; Nikopoulos, Angelo; Olson, David;  
Pierro, Joseph A; Sgrignari, Mike; Shanley, Bill; Signoriello, Jacob;  
Simpson, Bob; Spears, Mike P (Boulder); Townsend, Trey; Ward, Cynthia;  
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Young, David T.; Abbett, Erica ; Aguirrechu, Jose; Andros, John;  
Balfe, Donal; Benavente, Mauricio; Blake, Joan; Blalock, Lee;  
Bloom Baglin, Rachel; Cai, LanLai; Campbell, Lori-Ann; Carey, Steve;  
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Hoyt, Rick A; Hughes-Smith, Sherri; Inoda, Tomomi; Jamali, Vafa;  
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Laplante, Roxanne ; Lesuer, Robert; Littlejohn, Stephen E; Lyall, Andrew;  
Mascioli, Stephen; McIntosh, Lisa; Miller, Michael H.; Miller, Robert W.;  
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Baker, Kenneth D; Basore, Bob O; Basra, Deepak; Berez, Aaron;  
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Corbacioglu, Bulend; Corbin, Brian; Cordell, Kevin;  
Cowell, Elizabeth - VP Business Development & Licensing; Cumbul, Gokhan;  
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Edwards, Peter G; Elsebaay, Ahmed; Enxing Seng, Stacy; Esch, Brady;  
Feller, Rick; Ford, Tom; Fyffe, Graham; Gallego, Julio; Gander, Todd;  
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Verrier, Brian; Vila, Leni; Wang, David D. - Mansfield; Wang, Henry;  
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Willett, Jim ; Wiperman Heine, Lisa; Wirth, Christian; Wohler, David;  
Wolfe, Brian; Woody, Joe; Wuestner, Joe A; Wysocki, Jeff ;  
Yanovskaya, Olga; York, Richard; Young, Jim L (Hazelwood);  
Zirovnik, Natasa

**Subject:** IR Dist List: Two notes this morning on us...

**Auto forwarded by a Rule**

All:

Please see below for a note on us from Merrill Lynch highlighting performance of our PED product so far and Merrill's belief that earnings estimates for us are far too low. I have also included a note from Goldman this morning highlighting opportunities in Brazil. I have attached the full Goldman note as well as a slide deck surrounding the Brazil note. Finally, I have also attached the June FDA calendar for your information.

Let me know if you have any thoughts or questions...



**Coleman N. Lannum, CFA**  
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**From:** BofAML-Bob Hopkins [mailto:feedback@mlresearch.ml.com]  
**Sent:** Thursday, June 02, 2011 4:05 AM  
**To:** Lannum, Cole  
**Subject:** COV US: Covidien Plc : Pipeline feedback strong; COV a buy - BUY - Ireland - 10pp

<b>Covidien Plc</b>	Company Update	<b>BUY</b>
<b>Pipeline feedback strong; COV a buy</b>	<b>Bank of America Merrill Lynch</b> 	

[Click here for full report including important disclosures\\*](#)  
(intended for Cole Lannum)

### COV well positioned

As we spoke to in a recent industry note, we believe the bar is now higher for what it will take to drive additional outperformance in medtech. Simply hitting numbers will no longer be enough of a catalyst as worst case fears have subsided. In our view COV remains one of the best positioned companies in medtech to clear the higher bar as COV has what medtech investors value the most in our view - new product driven top line upside.

### Ev3 deal looking good

One example of a COV division well positioned to drive revenue upside is Ev3 with its Pipeline stent for wide necked and fusiform aneurysms. The early feedback we are getting on the recent launch of Ev3's Pipeline device has been very strong. At roughly \$10,000 per device and 2-4 devices being used per case, our math suggests a \$150mm-\$200mm market opportunity. Our checks indicate some solid pent up demand and opportunities for Pipeline to pull through other Ev3 products such as coils, balloons and catheters. While not a game changer for COV given COV's size, Pipeline could help growth in COV's core device business accelerate by a full point or more in our view. More broadly the success of the Ev3 deal, which was driven by COV's soon to be new CEO Joe Almeida, is another data point suggesting COV will soon transition from one strong leader to another.

### Q3 expectations too low

The next catalysts for COV will be its fiscal Q3 call in July and 2012 guidance in September. Our math suggests Q3 #s are too low. Consensus expectation for Q3 organic rev growth is less than 2% on similar comps and better product flow than Q2 when COV grew over 4%. Regarding 2012, COV should return to driving SG&A leverage, and buybacks should kick back into normal levels. At 13.1x 2012E, COV continues to trade at almost a full point discount to the average large cap medtech stock, which we view as an unwarranted discount especially given the \$0.15 - \$0.20 of EPS upside we see to consensus 2012 numbers. We see upside for COV to at least the low \$60s over the next 6-12 months. For some quick takes on Pipeline & Q3 revenue expectations see below.

To reply to Bob Hopkins directly, [click here](#) or call +1 646 855 3131

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Goldman Sachs Global Investment Research



### Multi-national device companies poised to benefit from expanding market in Brazil

In contrast to our trip to China last year (see our note "Sizing up China for Devices and Tools" – dated November 10, 2011) where we found the environment to be challenging for MNCs given the strength of China-based companies, we think Brazil represents a significant opportunity. Local companies are for the most part under-capitalized to support meaningful expansion, lack scale, and do not present compelling enough technological differentiation to participate in the high-end segment of the market. Within our coverage universe, we see companies with local manufacturing, direct sales presence, and exposure to Equipment & Supplies as best positioned: **Baxter (BAX/CL-Buy), Becton Dickinson (BDX/Buy), Covidien Plc (COV/Buy), Hill-Rom (HRC/Neutral), and Stryker (SYK/Buy).**

### Medical Equipment and Supplies group best positioned

Among therapeutic categories, we think the greatest near-term opportunities reside in the Medical Equipment and Supplies Categories, as the key focus for the market is currently on infrastructure build and general surgical procedures. The focus today is very much so on improving the country's healthcare infrastructure, namely in private hospitals. We see Orthopaedics as a major market with trauma at the forefront followed by hips and knees. Cardiovascular devices (stents, catheterization technologies, cardiac rhythm disease management) are the most nascent of any of the MedTech markets, but we see this segment emerging over time, largely as the result of epidemiologic trends and recent investments.

### Window remains open for MNCs to penetrate market

Given that local companies are likely to represent little more than regional players, we think MNCs still have the opportunity to establish meaningful franchises in Brazil. The domestic market for devices approximated US\$5 billion in 2010 and is expected to grow in the 11%-12% range for the foreseeable future. Favorable demographics support growth, as industry experts expect the population over age 65 to increase 10X in the next twenty-five years. At the same time, wealth and personal incomes are increasing, driving demand for higher-end medical services. **The key for MNCs is to act quickly in building out local manufacturing and R&D and to remain ahead of local players, in our view.** Strategic activity is also a potential vehicle, but we did not see broad strategic fit between MNCs and local players.

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