

Message

**From:** Lannum, Cole [Lannum, Cole]  
**Sent:** 11/24/2010 6:03:38 PM  
**To:** Almeida, Joe; Anderson, Matthew (EbD VP strategy & portfolio mgmt); Andrulonis, Gregory; Ayoub, Kamal; Baillio, Jim; Bartlett, Doug; Berges, Patrick A; Bishop, Colin; Blazejewski, Steve; Boucher, Brent J; Broughton, Ann; Brown, Richard; Budden, Lauren; Burke, William (Finance); Christie, Gail; Clemmer, Jim; Cosgriff, Ned; Crisafi, Joe; Crowley, Dennis; DaSilva, Kevin; Deardorff, Dana L; DeCosta, Vicki; Demuth, Diane C; Diamante, Michael; Dobscha, Francis; Dockendorff, Charles; Dolan, Patricia; Dunford, Michael; Evans, Eric T; Farmer, Bruce; Flora, Scott; Ford-Serbu, Donna; Frazier, Randel; Frechette, Robert; Gattuso, Matt; Giarracco, David; Gilarde, Nino; Green, Eileen; Green, Eric; Griffin, John; Grover, Adam; Hacunda, Teresa; Hanson, Bryan - EbD President; Harbaugh, Matthew ; Haufler, Glenn; Herring, Scott; Hilkemeier, Terry; Hughes, Cindy; Hughes, Tim; Hurley, Jennifer; Hutchison, Chris; Jankowski, Bruce; Jansen, Joe; Kapples, Jack; Karpf, Beth; Katseroubas, Paul; King, Brian; Klein, Barbara; Kraus, Eric; Kriegh, C Stephen; Lafond, Gerald; Lamb, Bruce; Lannum, Cole; Liebrand, Jerome; Lytle, Rick; Martin, Peter Finance; Masterson, John; McAleer, Art; McAvoy, Paul; McEachin, Thomas; McManama, Steve; McMillan, Wayde; McNeill, Sandra ; Mecca, Roger S; Meelia, Rich; Miller, Kathy M; Mills, Ralph; Modder, John; Muse, Jim; Nee, Stephen; Nikopoulos, Angelo; Obata, Junichi; Olson, David; Pierro, Joseph A; Sgrignari, Mike; Shanley, Bill; Signoriello, Jacob; Simpson, Bob; Spears, Mike P (Boulder); Townsend, Trey; Ward, Cynthia; Weiss, Lawrence; Wendell, Amy; Wilsker, Roy; Wright, Tim R (Hazelwood); Young, David T.; Abbett, Erica ; Aguirrech, Jose; Andros, John; Arora, Sanjiv ; Balfe, Donal; Benavente, Mauricio; Blake, Joan; Blalock, Lee; Bloom Baglin, Rachel; Cai, LanLai; Campbell, Lori-Ann; Carey, Steve; Carpenter, Kim; Casey, Tim; Chaisson, Barbara; Chamoun, Nassib; Chapman, Jonathan ; Clemence, Lisa; Cline, Armin; Collard, Jonathan; Colleran, David; Connors, Mariann; Cooper, Liesl; Cournoyer, Emily; Cowhig, Michael; Crooks, Rodney; Crugnale, Alice; DHeldt, Nigel; Eklof, Mats; Emerson, Andrew (Mansfield); Farber, Mark; Franzi, Cristiano; Ghostlaw, Glenn; Gill, Max; Giorgio, Joseph; Girolamo, Sonia; Giuliani, Michael; Goldstein, Dan; Golod, Lisa; Grant, Julien A; Greaney, Alanna; Grossman, Scott; Gunning, Michael L; Hale, David; Hale, Whitney; Hamada, Shinetsu; Hansell, MD, MPH, Douglas M.; Healey, Keith; Heasley, Ralph A; Hermes, Paul; Holmes, Christie A.; Holton, Paul; Hoyt, Rick A; Hughes-Smith, Sherri; Inoda, Tomomi; Jamali, Vafa; Kalavritinos, Jack; Kanter, Ross; Kayata, Greg; Kerrigan, Bonnie; Klontz, Bryce; Kranz, Steven; Krauss, Adam; Kroboth, Otto; Kunz, Joerg; LaBarbera, Christian; Laplante, Roxanne ; Lesuer, Robert; Littlejohn, Stephen E; Lyall, Andrew; Mascioli, Stephen; McIntosh, Lisa; Miller, Michael H.; Miller, Robert W.; Moran, Tim; Morrison, Fiona; Nameth, Brian; Neustaedter, David; Noble, Nancy ; Núñez, Eduardo [=?utf-8?Q?N=C3=BA=C3=B1ez=2C\_Eduardo=?=]; Palermo, Chris; Palmer, David; Pelletier, Judy; Prakash, Mani; Preis, Colin; Puricelli, Chris J.; Stebbins, Justin; vanBerne, Olga; Abelman, Michael; Accardi, Tracy; Antos, Erik; Assante, Marc; Babcock, Leticia (Santos); Basra, Deepak; Berez, Aaron; Bonaguro, Mark; Bondar, Vitaly; Bonnet, Jean; Brendel, Diane ; Britt, Lisa; Byrne, Alma; Carpenter, Todd; Claypoole, Robert; Corbacioglu, Bulend; Corbin, Brian; Cowell, Elizabeth - VP Business Development & Licensing; Dell'Accio, Dennis; Devlin, Philip; deWit, Harry; Donlon, Ken; Edwards, Peter G; Elsebaay, Ahmed; Esch, Brady; Ford, Tom; Fyffe, Graham; Gander, Todd; Hameline, Jessica; Haynes, Elaine E; Holbrook, Kerr; Ivanyk, Oksana; Kaeller-Cox, Nicolas; Karabuk, Kiral; Kennedy, Chuck; Kneller, Michael; Kupferschmid, Geoffrey; Lefebvre, Xavier; Liedtke, John; Lormon, Dan; Love, Delicia; Luniak, Rhonda ; Marcoux, Deb; McBean, Ken R; McBride, Timothy J.; Meyer, Peter; Mullin, Thomas; Mulone, Tony; Newhart, Marta; Newton, Dan; Nicholls, Karl; Nicolella, Matthew; O'Kelly-Lynch, Kevin; Peck, Christopher - Corporate Accounting; Pleau, Scott; Resteghini, Carl; Reynolds, Bernadette; Robin, Jean-Marie; Roj, Martin; Rooney, Mark; Sahin, Kitty; Salefski, Kati (Koshak); Samawi, John; Sankalia, Nilay; Saras, Amy; Schooler, JoAnna S; Scovin, Connie; Segan, Dr. Ross D.; Shadan, Martha M.; Sheehan, Daniel; Shih, Michael; Shuster, Sandy; Sian, Melody ; Silver, David ; Sinclair, Tracie ; Singh, Pankaj; Smith, Jonathan; Smith, Stephen (Zurich); Smith, Wheeler; Solic, Boris; Sousa, Diana - VP Communications; Spanier, Eli; Stauder, Nancy R; Stefani, Michelangelo; Strandberg, Julia ; Streifer, Mark; Sullivan, Bill; Sykes, Lyndsay; Tallman, Jennifer R.; Tarnoff, Michael; Tersiguel, Remi; Toselli, Richard; Travers, Linda; Turley, Liam; Van Hoorebeke, Barend; Verrier, Brian; Vila, Leni; Walsh, Rebecca (Legal); Wang, David D. - Mansfield; Wehrly, Pete; Welch, Marc; White, Bob ; Whitecotton, Cheryl ; Willett, Jim ; Wirth, Christian; Wohler, David; Wolfe, Brian; Woody, Joe; Wuestner, Joe A; York, Richard; Young, Jim L  
**Subject:** IR Dist List: A few notes...  
**Attachments:** COVIDIEN\_PLC\_FY\_10\_10K\_R\_102655550.pdf; IND112159.pdf

All:

Please see notes below from Barclays, Lazard, and Merrill concerning us on a variety of topics.

In particular, the Lazard note is an interesting summary of the MIS panel that Ralph Corradi participated in last week at their HC conference.

Have a great Thanksgiving and let me know if you have any questions...



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**From:** Adam Feinstein, CFA [<mailto:adam.feinstein@barclayscapital.com>]  
**Sent:** Wednesday, November 24, 2010 12:10 PM  
**To:** Lannum, Cole  
**Subject:** Covidien Plc: FY'10 10K Review

EQUITY RESEARCH

24 November 2010

Healthcare | U.S. Medical Supplies & Devices

## Covidien Plc: FY'10 10K Review

Covidien (COV) filed its 10-K on November 22nd, after the market close. After our detailed review, we make the following observations:

**KEY POINT:** The filing contained a number of interesting disclosures: 1) The company provided operating margins by segment and we highlight sequential stability in Medical Devices but a sequential decline in Pharma. 2) COV provided geographic sales details for its key operating regions and we highlight decelerating operational growth in all regions in FY'10. 3) COV disclosed additional details about revenue trends, including US and OUS mix, the impact of FX and important drivers. 4) The company gave a breakdown of its manufacturing sites and production by geographic region. 5) COV provided a

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summary of its recent acquisitions (ev3 and Somanetics) and its recent divestitures (sleep therapy and specialty chemicals), including a preliminary determination of the fair value of identifiable assets acquired and liabilities assumed. 6) COV provided updates on outstanding legal and environmental issues. 7) The company provided additional details and an update relating to its tax liability through the legacy tax sharing agreement with Tyco. 8) COV provided a full cash-flow statement and we highlight operating cash flow and free cash flow both increasing from prior period levels. 9) COV repurchased ~6.6 million shares in the F4Q and continues to target returning 25% to 40% of its free cash to shareholders through dividends and repurchases. 10) COV disclosed that the US Department of Health and Human Services, Office of Inspector General, issued a subpoena to its ev3 subsidiary on October 13, 2010.

Read more:

**Covidien Plc: FY'10 10K Review »**

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## Minimally Invasive Surgery panel is positive on direction of market; strengthens our COV and ISRG theses

**Sean Lavin, Medical Technology**  
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- Last week, we hosted a minimally invasive surgery panel featuring representatives from Covidien, Intuitive Surgical, and Johnson & Johnson. The panel, titled "The Future of Minimally Invasive Surgery: Innovative Tools &

Methods," strengthened our thesis that minimally invasive surgery will continue to gain traction and eventually become the standard of care in many countries around the world.

- All three panelists believe the MIS market will continue to grow and innovation will be the primary driver. The consensus opinion on the panel was that the market will continue to grow as changes in the healthcare system take effect because MIS offers benefits to the patient and the hospital. For the patient, they enjoy the benefit of a less invasive surgery and quicker recovery time. The hospital experiences lower cost as the patient is able to leave the hospital sooner, opening up more beds. One panelist also mentioned that the market continues to change; with concerns today about medical waste and carbon footprints that were not considerations as recently as 3-5 years ago, they expect new dynamics to continue to emerge.
- The panelists agreed that while HC reform causes near-term uncertainty in the market, in the long term they expect it to benefit MIS. The panelists agreed that the near-term impact of HC reform is difficult to project with so much uncertainty surrounding the government but believe that in the long term it will benefit MIS since it takes costs out of the healthcare system. One panelist commented that MIS has offered and delivered on the promise of removing costs since its inception. All of the panelists expect comparative effectiveness to become a big part of future U.S. healthcare and believe MIS bodes well here.
- Emerging markets were highlighted as an opportunity for expansion and growth. All three companies believe OUS, particularly the emerging markets, are underpenetrated, and as demand for healthcare grows MIS will be an area of focus. One panelist commented that while the benefits of MIS are universal, access to it is not. The panelists believe that physician education and training will be the keys to drive adoption of MIS in underpenetrated markets. Additionally, cheaper tools, currently being developed, should help these market leaders penetrate new markets.
- We believe MIS will be an enticing market for JNJ, COV, and ISRG for many years to come. This is a key component of our BUY theses on ISRG and COV.

SEE FULL REPORT ATTACHED

<b>Covidien Plc</b>	Company Update	<b>BUY</b>
<b>Quick comment on COV, Ireland &amp; Taxes</b>	<b>Bank of America Merrill Lynch</b>	

Link to full report including important disclosures\*

[http://research1.ml.com/C/?q=3LDqV1TaowvltljEpgrEYA\\_\\_&r=lancco](http://research1.ml.com/C/?q=3LDqV1TaowvltljEpgrEYA__&r=lancco)

### COV's exposure "not material"

COV has underperformed the broader market and medtech the last two days, most likely due to fears that COV's decision to domicile in Ireland may put the company at greater risk of a higher tax rate should the corporate tax rate in Ireland rise as a condition of the country's bail out. According to our conversations with COV over the weekend, a higher corp tax rate in Ireland would not likely result in a material change to COV's overall taxes. COV sees its exposure as "nothing material".

### Tax rate a function of many things

Where a company is based is just one of many factors that could have an impact on a corporate tax rate. Among other things, a tax rate will be determined by where you manufacture and sell your products, where your IP is located and how you have structured your IP, and where and how your profits flow. According to COV, from that perspective, COV has only small exposure to Ireland. COV would not disclose to us what percentage of its global profits run through Ireland and we need to do more independent work (starting with a review of COV's 2010 10K, which should come out this week), but our quick take is that this should not be an overhang for COV. It is our sense that other companies in medtech may have

structured more meaningful tax savings around Ireland from a manufacturing and IP perspective (BSX), but we need to do more work. Today, we have no formally proposed plan out of Ireland on taxes to analyze and we would also assume companies could find alternative means to mitigate any damage. For now, all we can say is that COV views their exposure to potentially higher taxes in Ireland as immaterial. COV has done a great job with its tax rate and now enjoys one of the lower tax rates among medtech companies (medtech tax rates are generally btw 20%-30%, with JNJ, ABT, BAX, BSX, COV, and MDT at the low end or below).

#### **COV remains a top idea**

COV is one of the few medtech companies where we see growth improving in 2011 with upside to earnings. As such, it remains a top pick of ours. We reiterate our Buy rating and \$54 PO.

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