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INTEGRATION OF A NEWLY ACQUIRED COMPANY:

A CHALLENGE FOR THE ACTUARIAL TEAM

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<https://www.youtube.com/watch?v=wCb50q0NNag>

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MEDTRONIC HIGHLIGHTS

85,000+
EMPLOYEES

7,500+
SCIENTISTS
AND
ENGINEERS

62
MILLION+
LIVES
IMPROVED



\$20,361M
NET SALES

53,000+
PATENTS

400+
CLINICAL
TRIALS

MEDTRONIC HIGHLIGHTS

Our therapies improve the lives of more than 2 people every second

Cardiac and vascular group	Restorative Therapies Group	Minimally Invasive Therapies Group	Diabetes Group
46% of revenue	33% of revenue	12% of revenue	9% of revenue
 <p>Implantable Cardioverter Defibrillators (ICDs)</p> <p>Transcatheter Heart Valves</p>  <p>Drug-Coated Balloons</p>	 <p>Deep Brain Stimulation Systems</p> <p>Revascularization Devices</p>  <p>Integrated Neurosurgery Solutions</p>	 <p>Navigation Systems</p> <p>Feeding Tubes and Systems</p>  <p>Tri-stapling Systems</p>	 <p>Injection Ports</p> <p>Mobile Monitoring Tools</p>  <p>Insulin Pumps with built-in Continuous Glucose Monitoring</p>

<https://www.youtube.com/watch?v=zTuyvJm0P74>

MEDTRONIC MISSION

ONE COMPANY, ONE MISSION



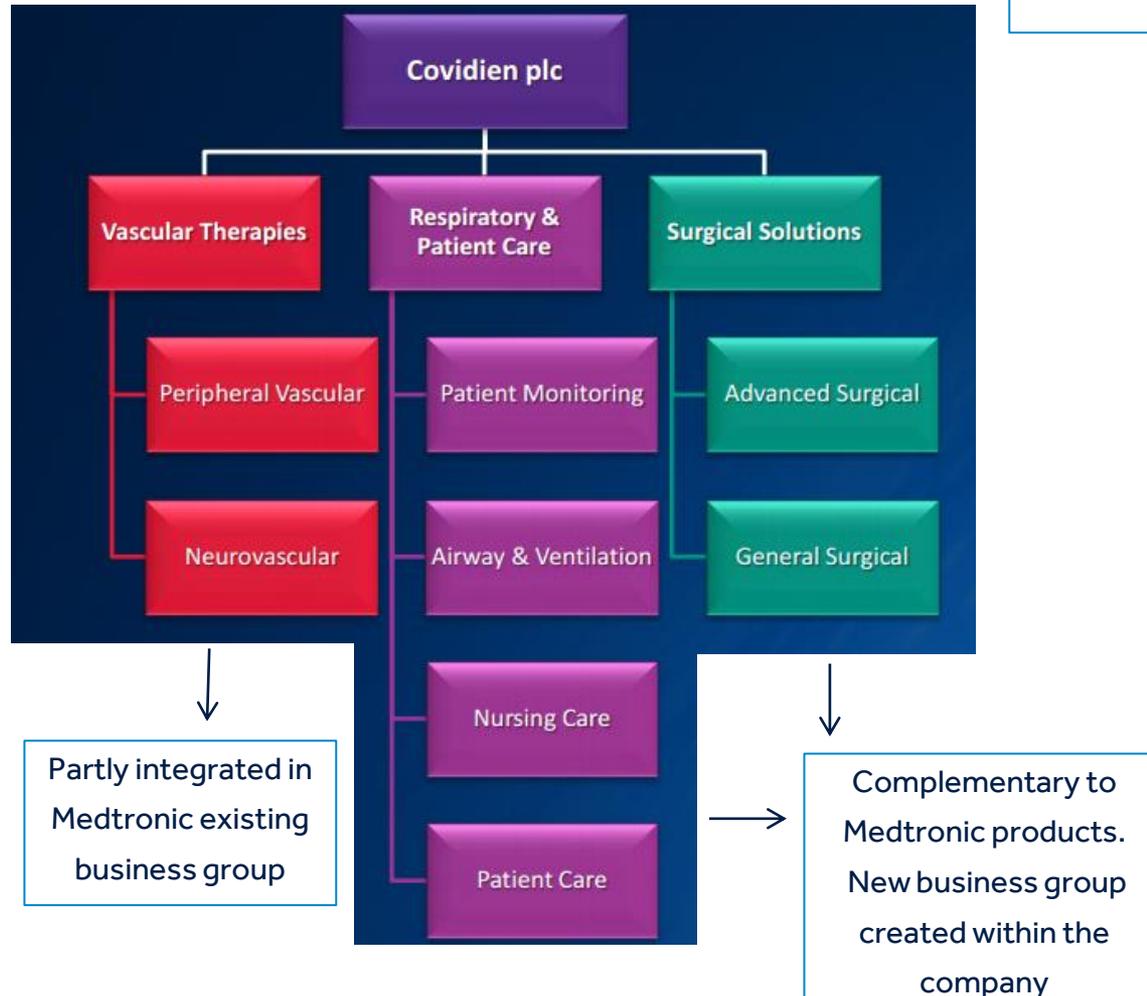
MEDTRONIC COVIDIEN ACQUISITION

Key data 2014 (pre-acquisition):

- **\$ 10.6b** in revenue
- **38,000** employees
- **Headquarter: Mansfield (MA)**

Key dates:

- **June 15, 2014:** Announce by Medtronic of intention to acquire Covidien
- **January 26, 2015:** Acquisition of Covidien plc successfully completed
- **May 2016:** Legal merger within EMEA region



MEDTRONIC

GLOBAL INTEGRATION OBJECTIVES

- **Therapy innovation:** Enhance existing portfolio
- **Globalization:** Emerging market R&D and manufacturing
- **Economic Value:** More value and efficiency in healthcare systems

INTEGRATION PILLARS



PRESERVE
Maintain business momentum at both companies.



OPTIMIZE
Exceed our announced synergy targets and reinvest.



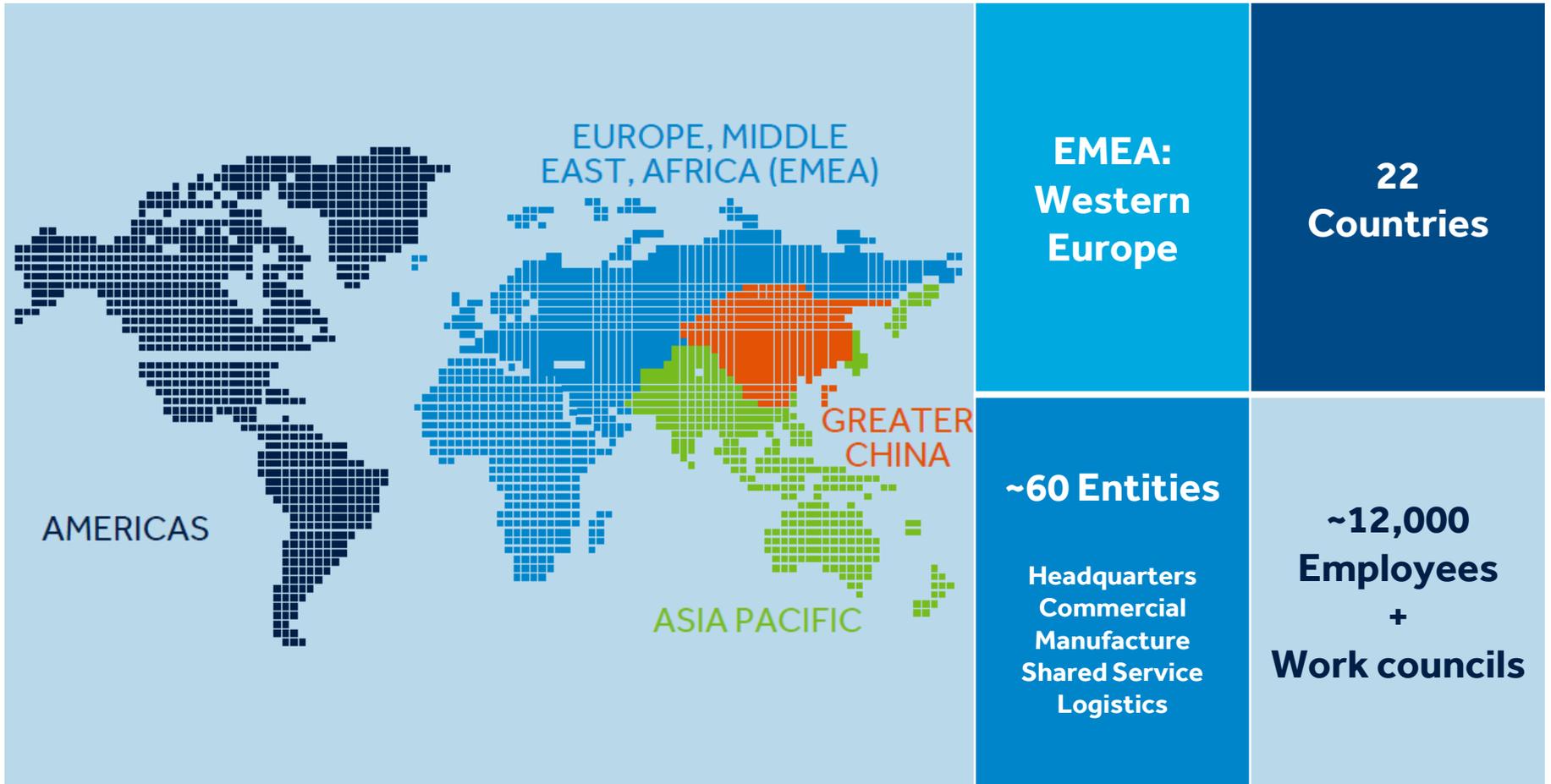
ACCELERATE
Significant near-term growth for the new Medtronic.



TRANSFORM
Technology-enabled transformation of health care.

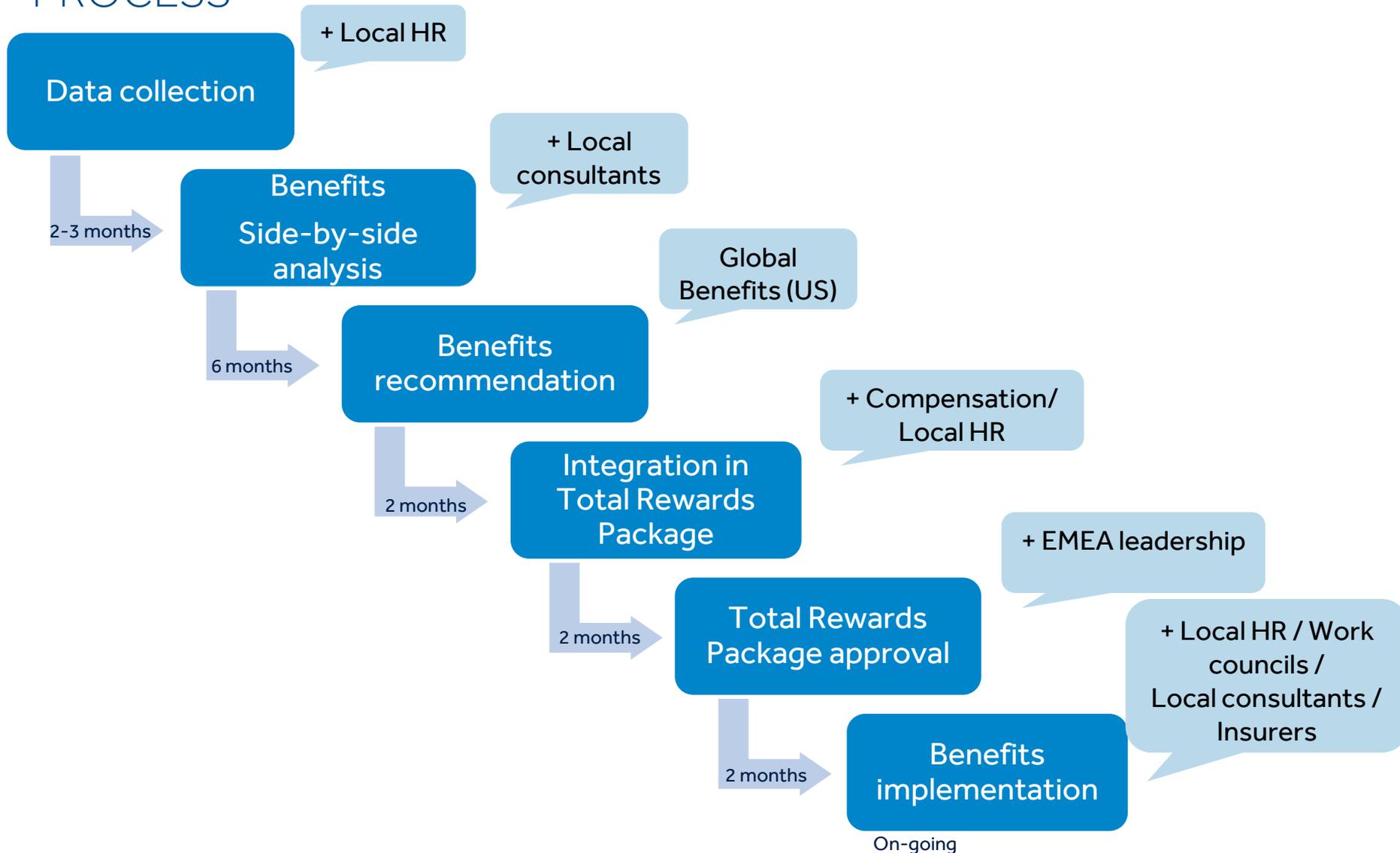
MEDTRONIC EMEA SCOPE

Our reach extends around the world



BENEFITS INTEGRATION

BENEFIT INTEGRATION PROCESS



BENEFIT INTEGRATION IMPLEMENTATION

Insurance contracts alignment

- Insurer
- Renewal date
- Premium rates

Work Councils discussion

- Employee consultations
- Work councils information
- Work councils formal acceptance
- Individual employee agreement

Legal merger of entities

- Policyholder change to Medtronic, adapt insurance T&C accordingly
- Transfer employees to Medtronic contracts
- Close plans
- New insurances start

Communication to employees

- Presentations /Webcast
- Brochure
- Individual meetings
- Individual statements

RETIREMENT

Legacy Medtronic	Legacy Covidien
<ul style="list-style-type: none"> • DB: Formula A 	<ul style="list-style-type: none"> • DB: Formula B

Situation	Challenge	Solution
<ul style="list-style-type: none"> • Different level of DB plans • Above current market practice • Local change in pension environment 	<ul style="list-style-type: none"> • New DC implies that many employees were negatively impacted, even with a generous DC plan (maximum fiscally allowed limits) 	<ul style="list-style-type: none"> • Close DB plans for all current employees • Set up a new DC plan aligned with market for all new hires • Offer a one-off choice for current employees to move to the new DC plan • Individual statements issue to each employee, with comparison of the 2 plans

Legacy Medtronic	Legacy Covidien
<ul style="list-style-type: none"> DB plan 	<ul style="list-style-type: none"> Closed DB plan Active DC plan

Situation	Challenge	Solution
<ul style="list-style-type: none"> Legacy Medtronic DB plan is above market Legacy Covidien DC plan is below market Legacy Covidien frozen DB plan with significant US-GAAP liabilities 	<ul style="list-style-type: none"> Medtronic corporate guideline: DC plan Complex pension legal environment in UK Short timeframe 	<ul style="list-style-type: none"> Set up a new DC plan (contract based) aligned with market; adjust life insurance accordingly <u>Legacy Medtronic</u>: Close current DB plan to new hires; offer non-members a last chance to join; offer DB members the choice to move to the new DC scheme <u>Legacy Covidien</u>: <ul style="list-style-type: none"> Frozen DB plan: Wind-up DC plan: Move active employees to the new Medtronic DC plan, which is more generous than their previous scheme

Legacy Medtronic

- DC plan
- Contribution level age-related, with « price based amount » intervals (formula A)
- Pensionable salary = Base salary

Legacy Covidien

- DC plan
- Contribution level age-related, with « price based amounts » intervals (formula B)
- Pensionable salary = Base salary

Situation

- Different pension plans (contribution formula)
- Age-related pension formula not market practice

Challenge

- Different insurers involved
- Single plan aligned with market had different impact on employees (losing/gaining)

Solution

- Close current DC plans
- Create a new DC plan with a standard level (not age-related) with « Income base amount » intervals
- Offer one-off option for current employees to move to the new DC scheme
- Review pensionable salary aligned with market in the new plan

GLOBAL BENEFIT MANAGEMENT ONLINE DATABASE

ONLINE DATABASE

- Update of the benefits, terms & conditions for each countries on our online portal
 - First step of the project, basis for side-by-side analysis
 - Clear view of the current employees Benefits and Terms&Conditions
 - Data available across HR teams / Consultants

This database needs continuous update and review, but this is essential for all current and future projects

GLOBAL BENEFIT MANAGEMENT

- Medtronic has set up a global agreement with an international consulting firm:

Global contract, working with local consultants of this firm in each country (few exceptions) for the integration work and future day-to-day brokerage

- Advantages:

- ✓ Global view on insurance contracts, renewals, brokerage fees
- ✓ Global view on project costs
- ✓ Standard local contracts in all countries
- ✓ Better Terms & Conditions with local consultants
- ✓ In case of issue with a local consultant, resolution on a global level

MULTINATIONAL POOLING

MULTINATIONAL POOLING

With insurance contracts in 50+ countries, it was essential to set up coherent pooling networks arrangement.

Situation:

- Medtronic / Covidien had different pooling network arrangements;
- Need to define the most suitable pooling networks for the new Medtronic considering combined organisation and future developments

Medtronic Pooling Objectives:

- Optimal pooling strategy for Medtronic, considering:
 - ✓ Optimal number of pools
 - ✓ Contracts to be included /excluded
 - ✓ Risk transfer approach/risk tolerance
 - ✓ Estimate potential savings
- Preliminary assessment of which countries / coverage are best suited for inclusion in pool;
- Determine what networks may present the best opportunity to pool
- Compare geographic spread of Medtronic/Covidien insurers, including current and expected future locations, against pooling networks

US GAAP PENSION ACCOUNTING

US GAAP – DEFINED BENEFITS PLAN ACCOUNTING

PURCHASE ACCOUNTING

- Fiscal year-end: Medtronic (30 April) / Covidien (30 September)

- Acquisition date: 26 January 2015

- US GAAP Purchase Accounting:
 - ✓ Scope: all Defined Benefits Plans of legacy Covidien included (ensure that all plans included)
 - ✓ Methodology: roll-forward from full valuation @ 30 September 2014
 - ✓ Assumption review: Discount rate @ Closing date
 - ✓ Projected P&L costs for remaining of fiscal year

- Timeframe: 1 month after transaction closing date

US GAAP – DEFINED BENEFITS PLAN ACCOUNTING

MEDTRONIC YEAR-END ACCOUNTING

- Medtronic Year-end Accounting:
 - 24 April 2015
 - First year-end including all plans from both legacy organisations

- US GAAP Year-end Accounting:
 - ✓ Scope: all Defined Benefits Plans included
 - ✓ Methodology: Covidien (roll-forward) / Medtronic (full valuation)
 - ✓ Assumption review:
 - Discount rate @ Closing date
 - Review all demographic assumptions aligning Covidien and Medtronic within country/region
 - Align accounting methodology
 - Projected P&L costs calculated for next fiscal year

- Challenges for future fiscal years:
 - ✓ Consider change in DB plan linked with Benefits integration
 - ✓ Review some demographic assumptions (turnover rates, salary increase)

OVERALL LESSONS LEARNED

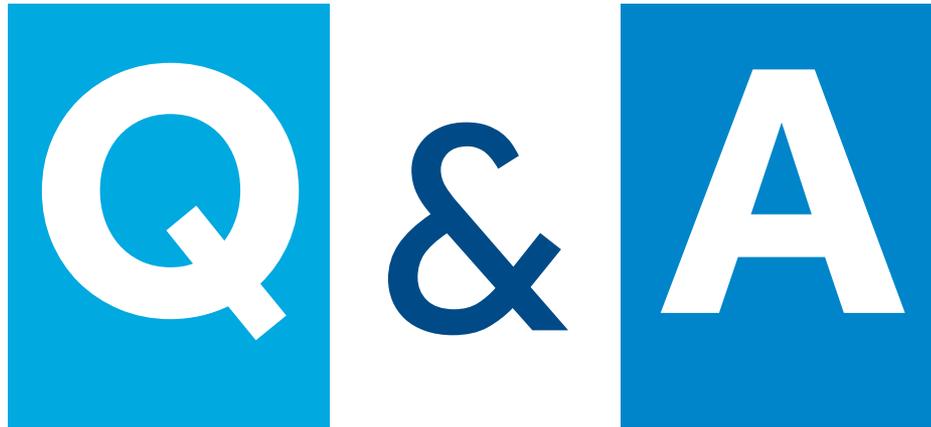
OVERALL LESSONS LEARNED

What we will improve for future projects:

- Assign our local consultant as broker as soon as possible
- Cross check data accuracy
- Define the side-by-side template and requirements before starting all local analysis

What went well:

- EMEA global cost overview of Total Rewards Package
- Monitoring of insurance contract renewal to better manage integration
- Template for side-by-side analysis
- Template for employee communication
- Close collaboration with local HR/Finance team, local consultant, Global Rewards team



THANK YOU

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