

Vision Expo East - 2009



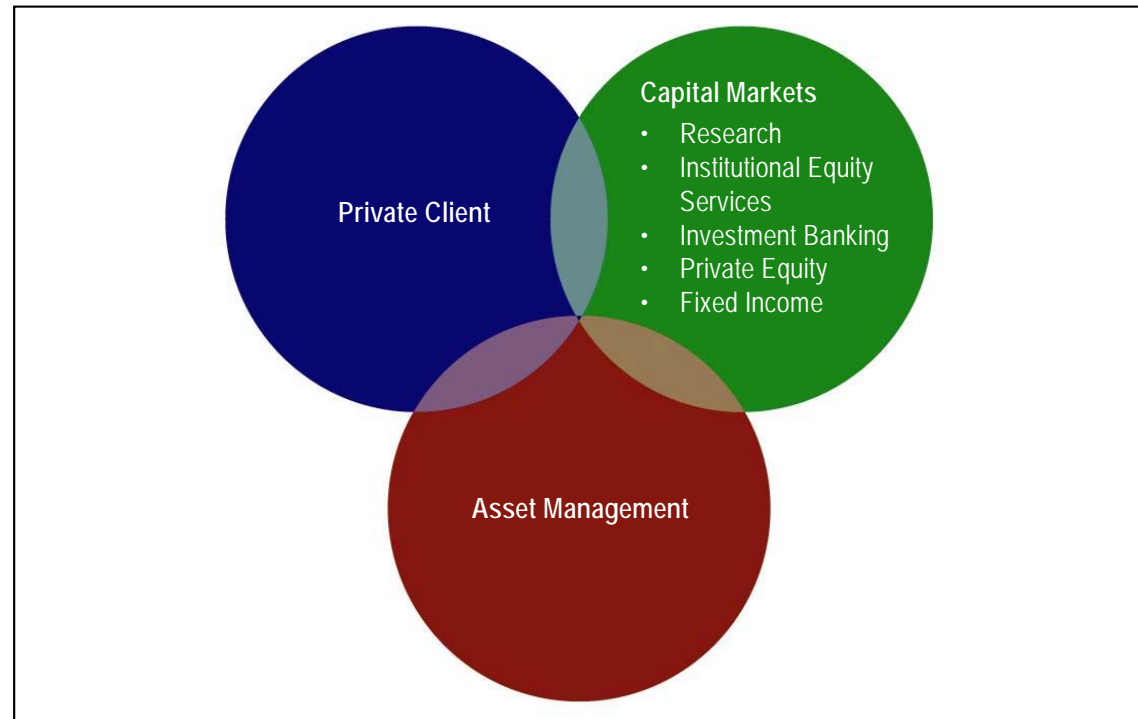
Jeffrey D. Johnson, O.D., CFA
Vice President, Senior Research Analyst
Robert W. Baird & Co. Inc.

Introduction

Robert W. Baird & Co. Inc.

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- Founded in 1919
- Global Investment Research and Banking Firm
- Employee-owned
- Research ranked #1 as “Most Trusted” in U.S. five years running by annual survey of leading small/mid-cap fund managers.



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Introduction

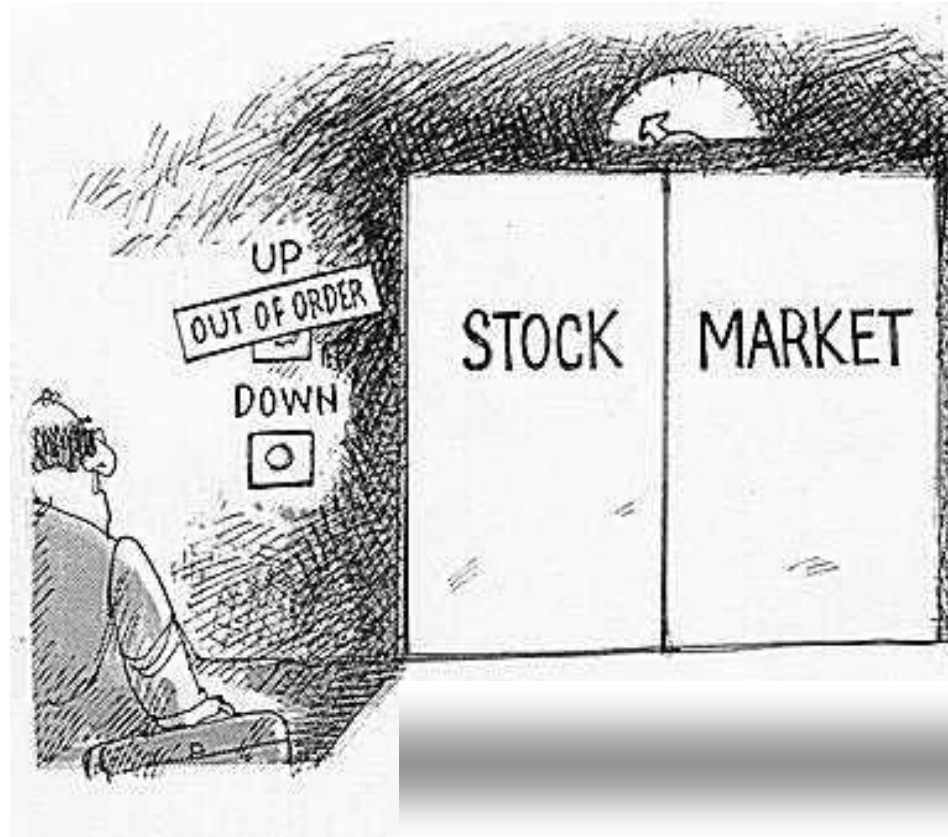
Jeffrey D. Johnson, O.D., CFA

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- Senior Medical Technology Analyst
- Focus on Ophthalmic, Dental, Orthopedic, Radiation Oncology, and Veterinary/Animal Health Spaces:
 - COO in Ophthalmic
 - SYK, ZMH, WMGI, and EXAC in Orthopedics
 - XRAY, SIRO, HSIC, PDCO, and YDNT in Dental
 - TOMO and AHII in Radiation Oncology and Animal Health
- Background:
 - ICO, Class of 1997
 - Residency – UMSL, Contact Lenses – 1998
 - Staff Optometrist/Director Optometric Services – Mass Eye & Ear Infirmary (Cornea/Refractive/CL clinics) – 1998-2001
 - Adjunct Assistant Prof. of Optometry – NEWENCO – 1999-2001
 - Instructor in Ophthalmology – Harvard Medical School – 1999-2001

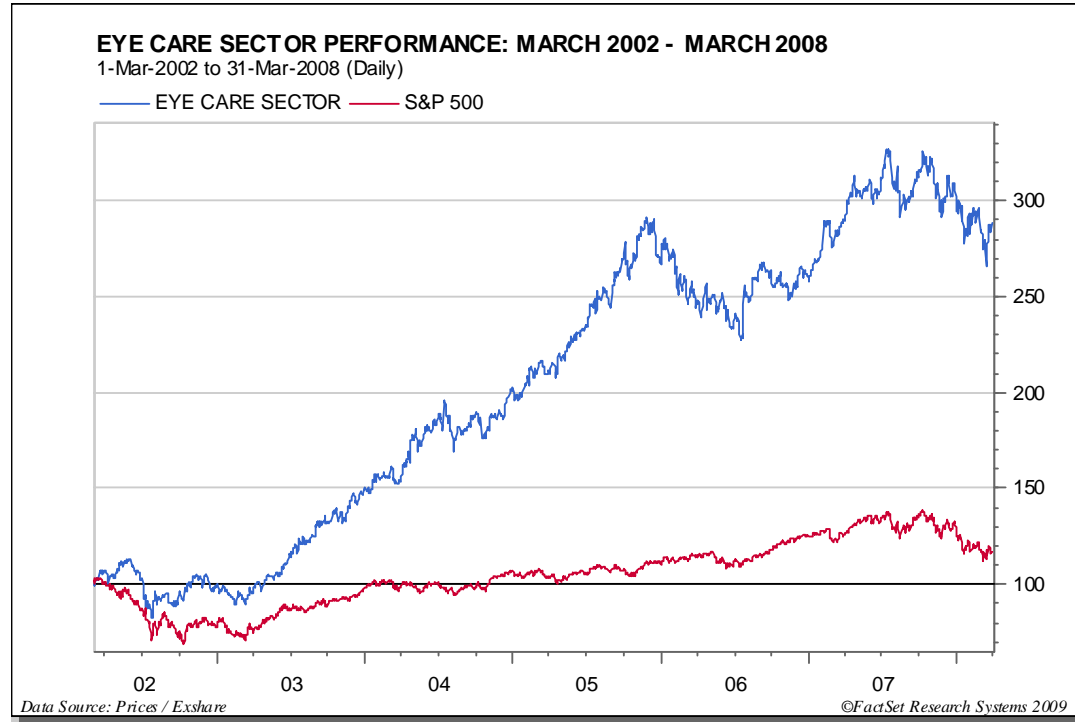
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Eye Care & Wall Street – A Good Combination?



Great 6 year run in ophthalmic space....

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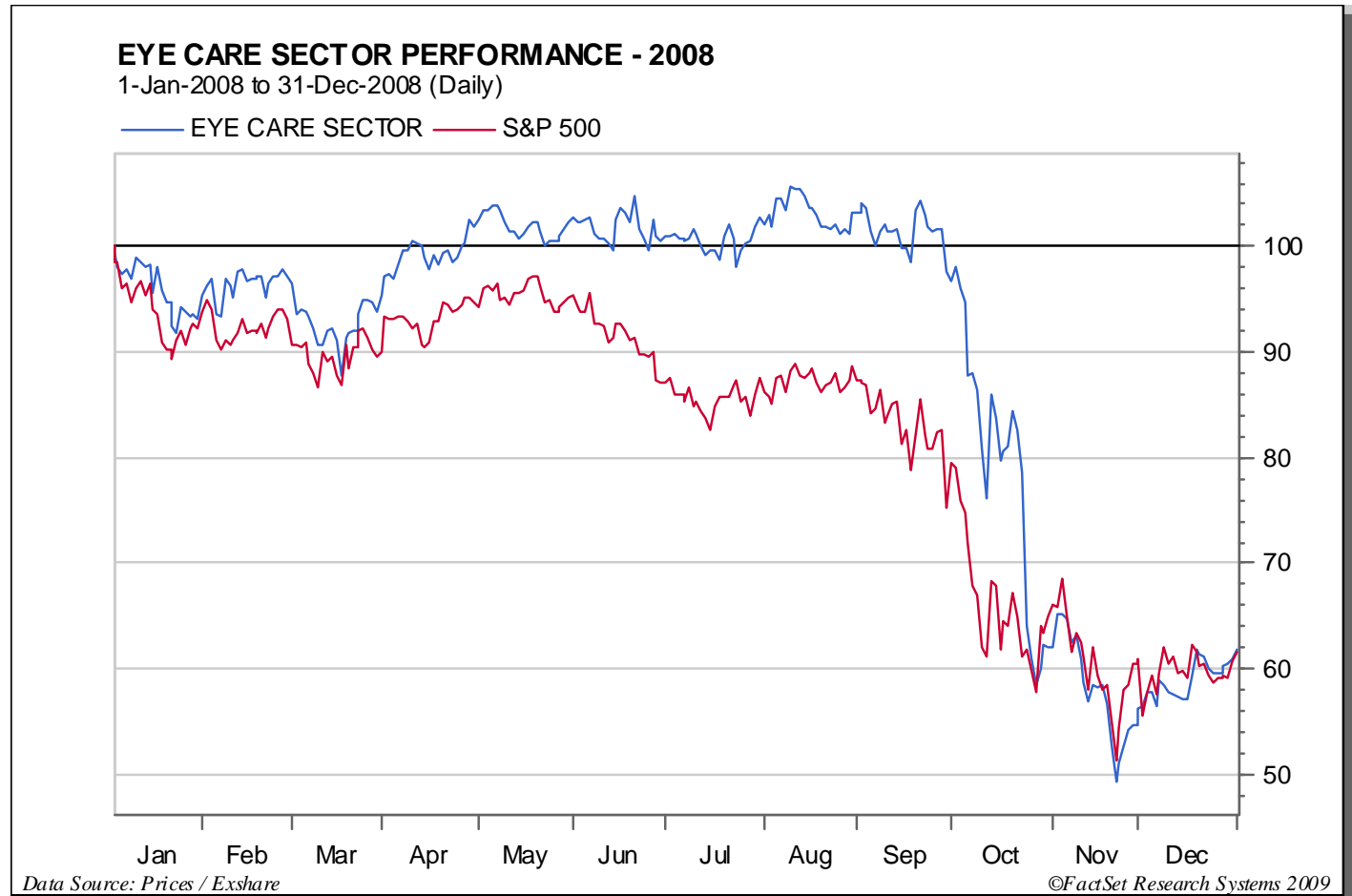
- **Spin-off** of Alcon and Advanced Medical Optics in 2002 added market cap
- Potential for **unmet needs** was/remains obvious (accommodating IOLs, back-of-eye therapeutics, etc.)
- **M&A** has helped fuel interest over years (SOLA, Ocular Sciences, VISX, Intralase, B&L, eyeonics, AMO)

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....But bear market takes no prisoners

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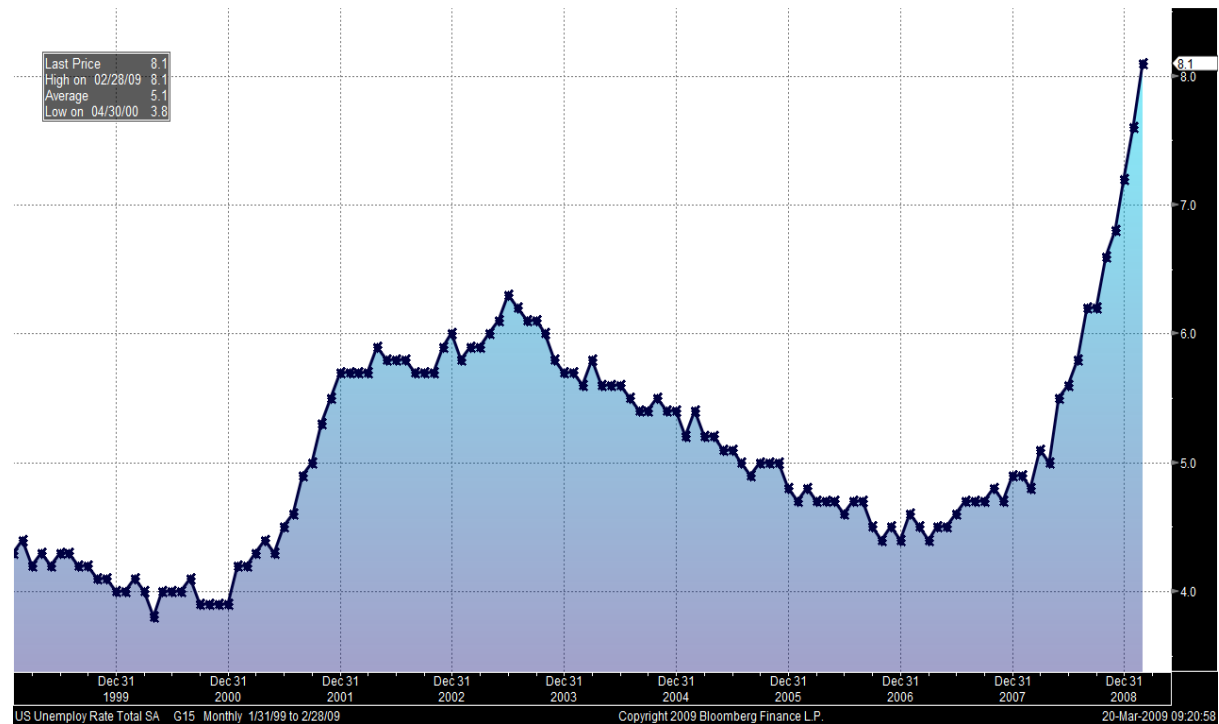


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What have been the concerns?

- Rising Unemployment = Reduced access to healthcare/vision care benefits.

Unemployment Rate



What have been the concerns?

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- **Rising Unemployment** = Reduced access to healthcare/vision care benefits.
- **Exposure to the Consumer** = Less consumer discretionary spending impacts not only LASIK, but also premium spectacles, contact lenses, pharma products (glc, allergy, etc.), PC/toric IOLs.

Consumer Confidence



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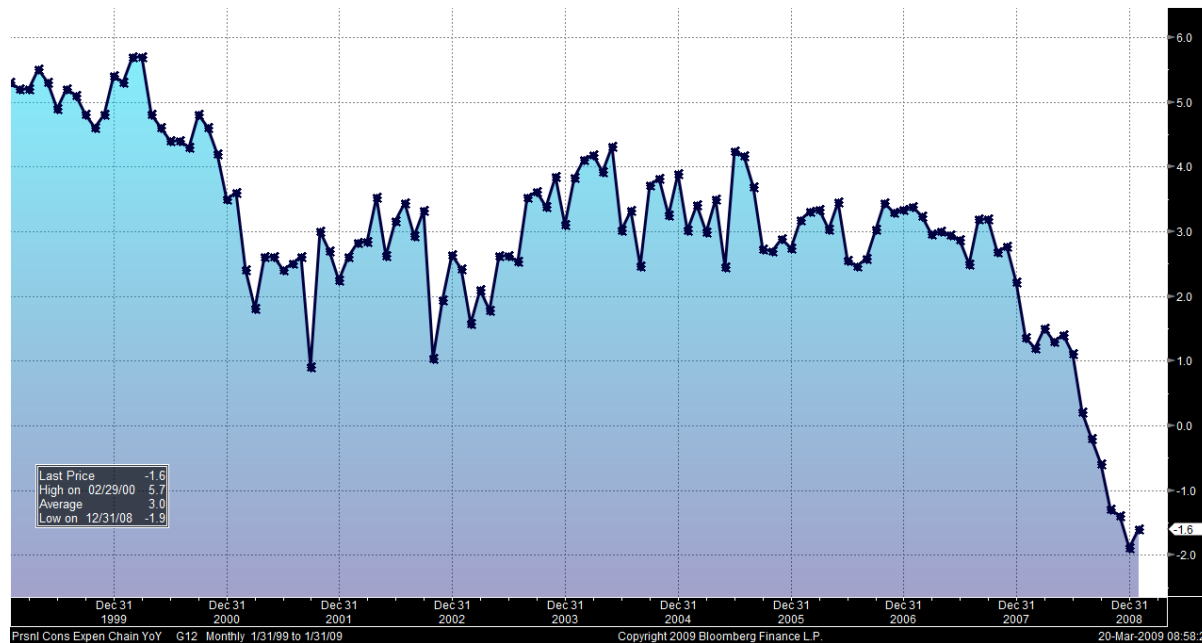
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Personal Consumption Expenditure Y/Y Growth

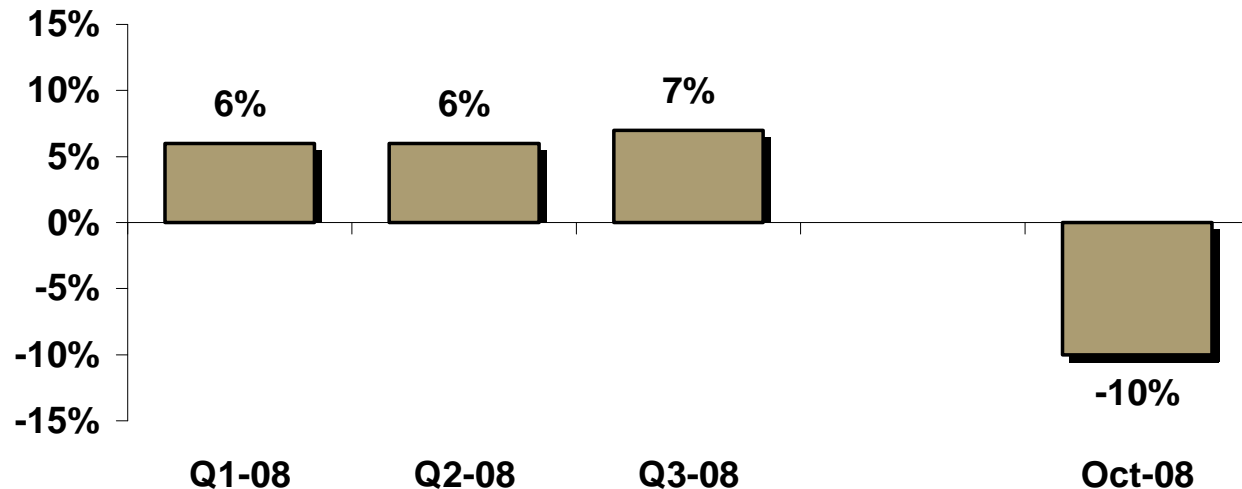


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Worldwide Soft Contact Lens Market

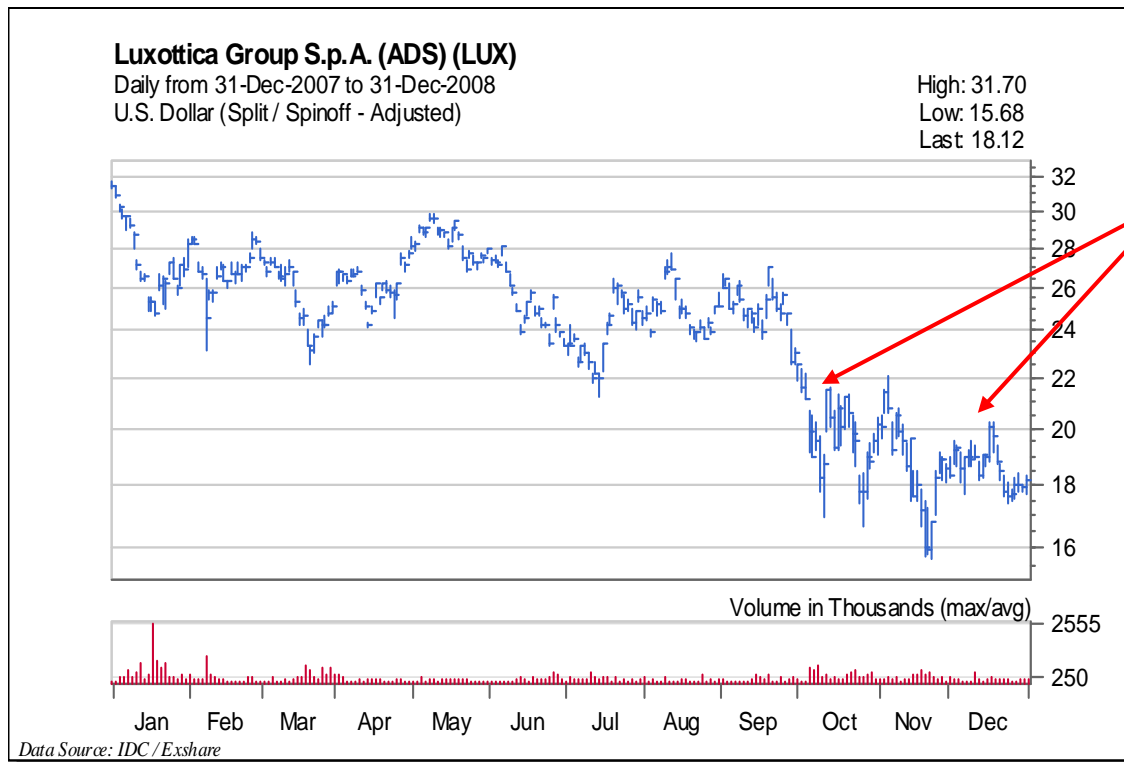


Source: Company Reports

What have been the concerns?

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-19%
10/1/08
to
12/1/08
and
~50%
peak to
trough
in 2008

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Essilor International S.A. (ADS) (ESLOY)

Daily from 31-Dec-2007 to 31-Dec-2008
U.S. Dollar (Split/ Spinoff - Adjusted)

High: 32.79
Low: 17.85
Last: 23.33



-24%
10/1/08
to
12/1/08
and
~45%
peak to
trough
in '08

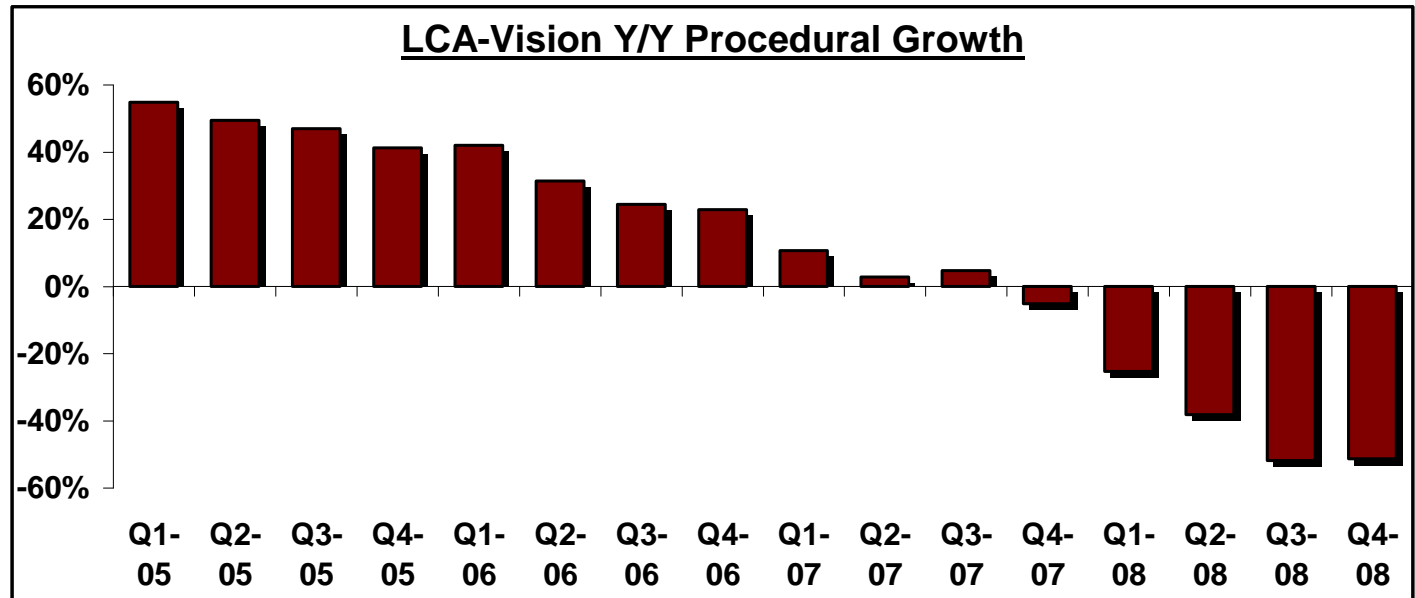
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Data Source: IDC/Exshare

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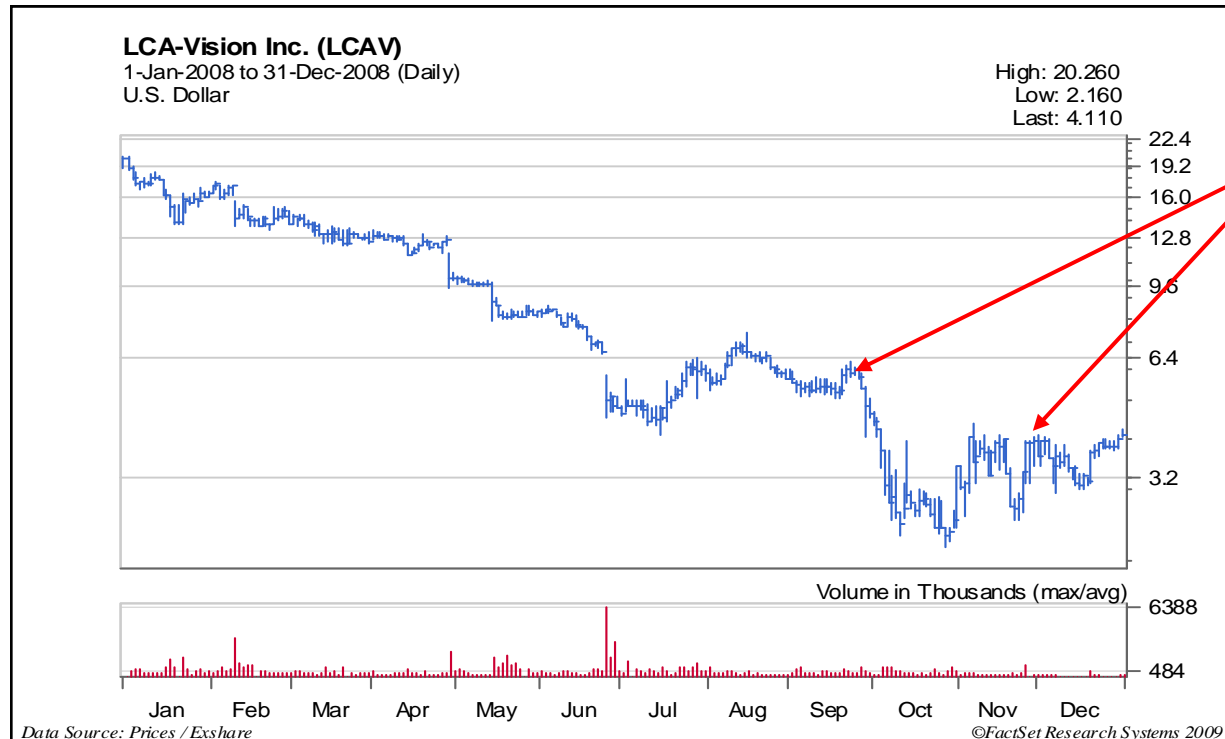


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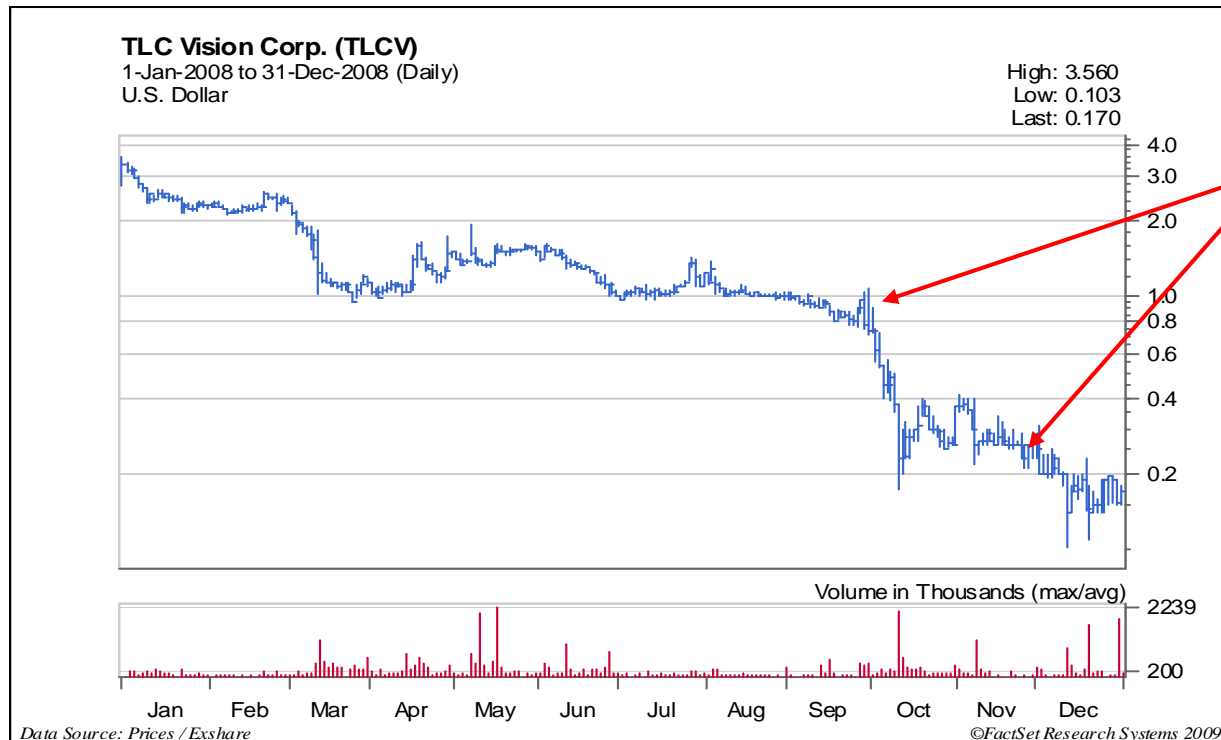
-18%
10/1/08
to
12/1/08
and
~80%
from
peak to
trough in
'08

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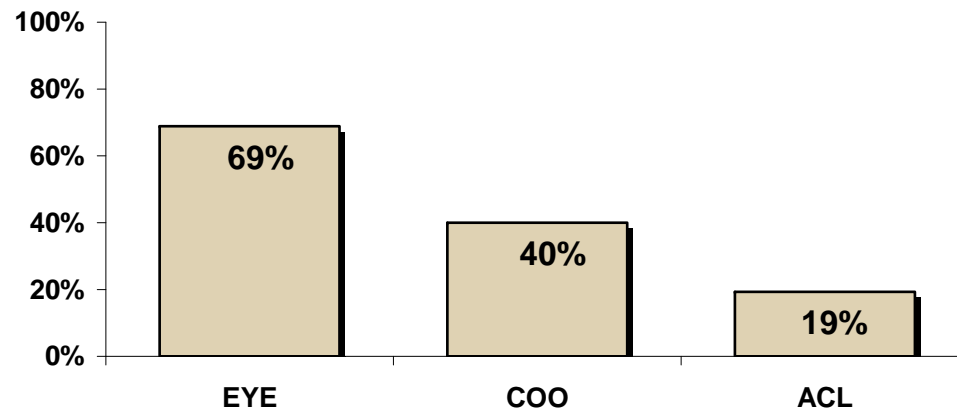
-66%
10/1/08
to
12/1/08
and
~98%
from
peak to
trough in
'08

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- **Exposure to the Consumer** = Less consumer discretionary spending impacts not only LASIK, but also premium spectacles, contact lenses, pharma products (glc, allergy, etc.), PC/toric IOLs.
- **Credit Market Freeze** = Refinancing/Debt Covenant concerns for highly leveraged companies; derivative issues include reduced access to funds for M&A, less use of cash for stock repurchases, etc.

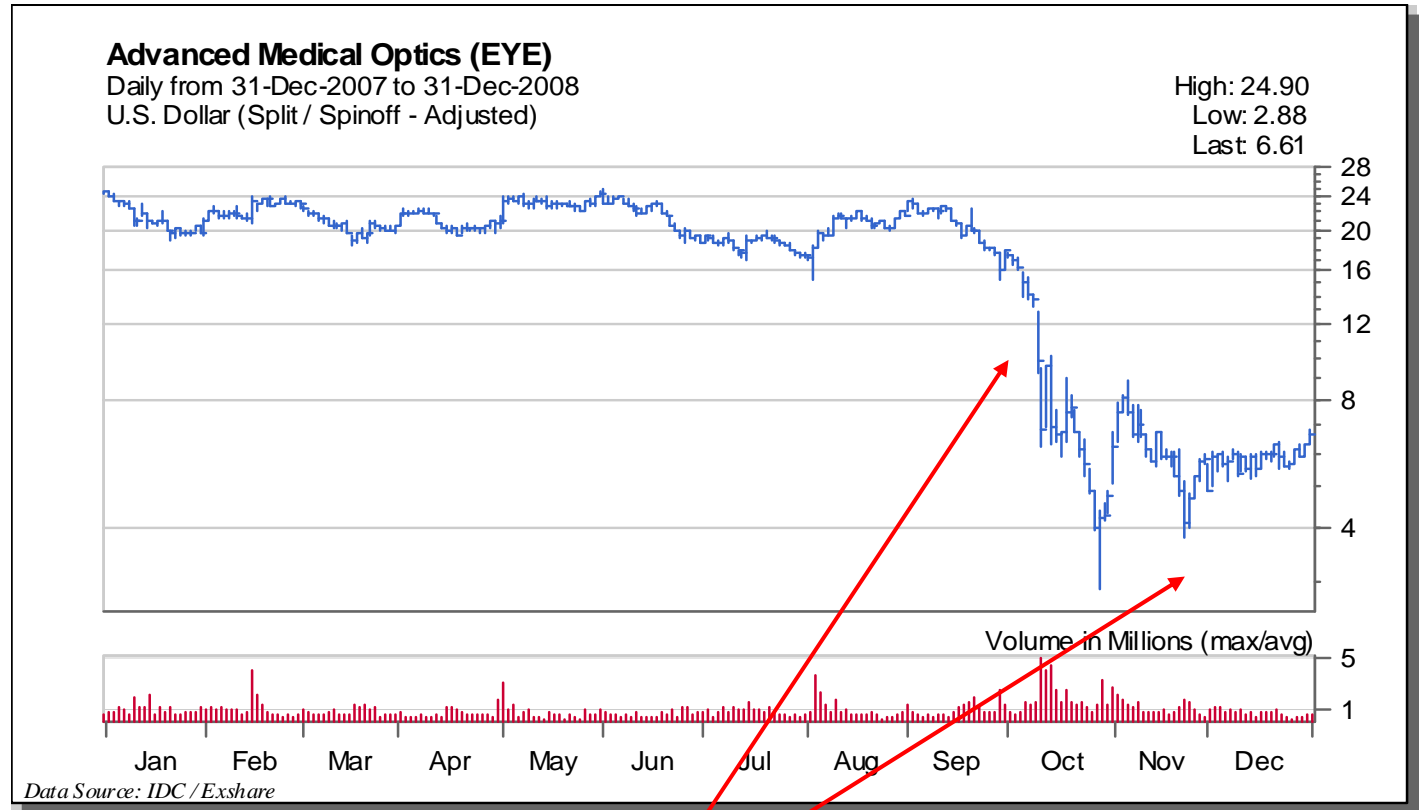
EYE CARE DEBT-TO-CAP RATIOS - MRQ



Source: Company Reports

What have been the concerns?

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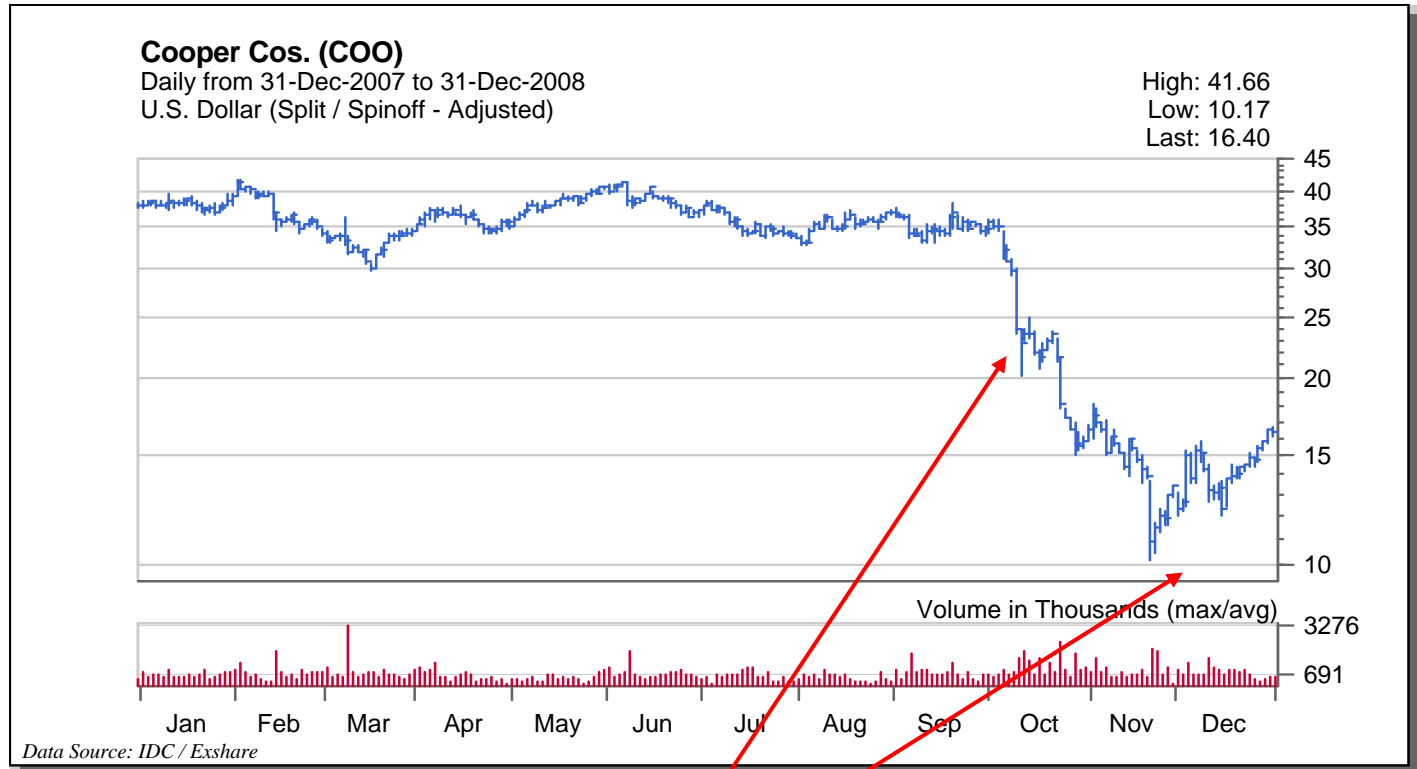


Off 68% 10/1/08 to 12/1/08
and nearly 85% peak to trough in 2008

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What have been the concerns?

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Off 66% 10/1/08 to 12/1/08
and ~75% peak to trough in 2008

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What have been the concerns?

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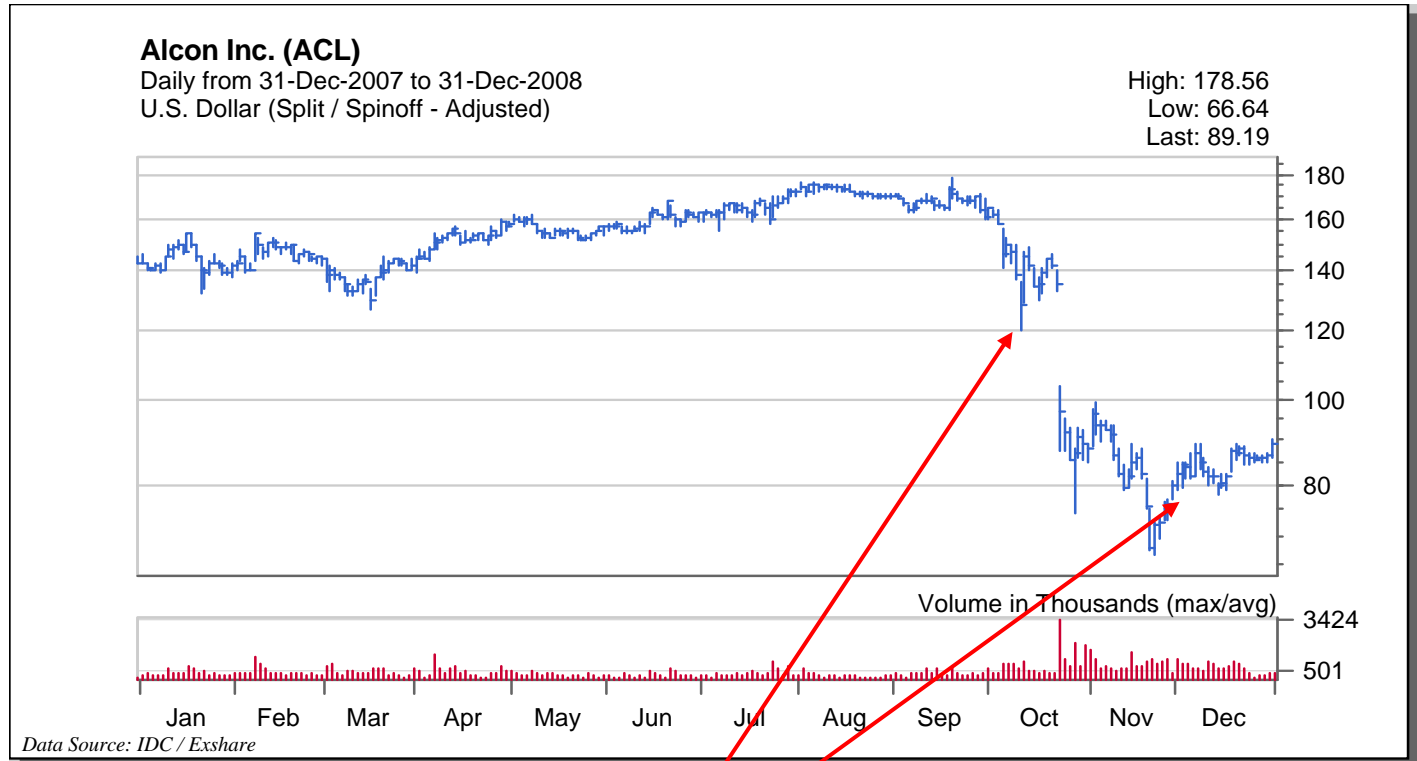
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- **International Exposure** = Foreign currency tailwinds reversing for U.S. based companies, impact not isolated to top-line.

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What have been the concerns?

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Off 50% 10/1/08 to 12/1/08
and ~60% peak to trough in 2008

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2009 – Relative Performance Improves

- **Broader market remains weak:** S&P off 13% / Dow Jones U.S. Healthcare Equipment/Services off 10% ytd 2009.

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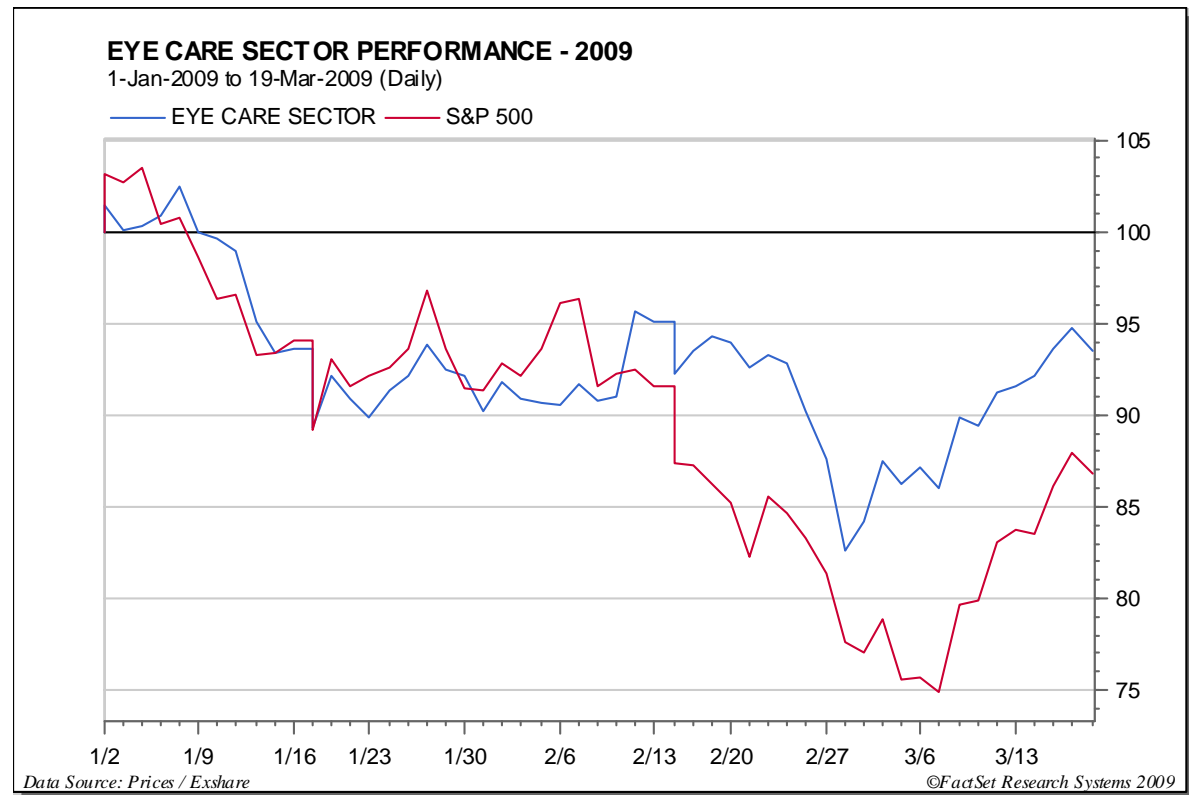
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- **Broader market remains weak:** S&P off 13% / Dow Jones U.S. Healthcare Equipment/Services off 10% ytd 2009.
- **Absolute Ophthalmic market returns also soft:** Index off 7% ytd. 2009.

2009 – Relative Performance Improves

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- **But outperforming once again on a relative basis:**

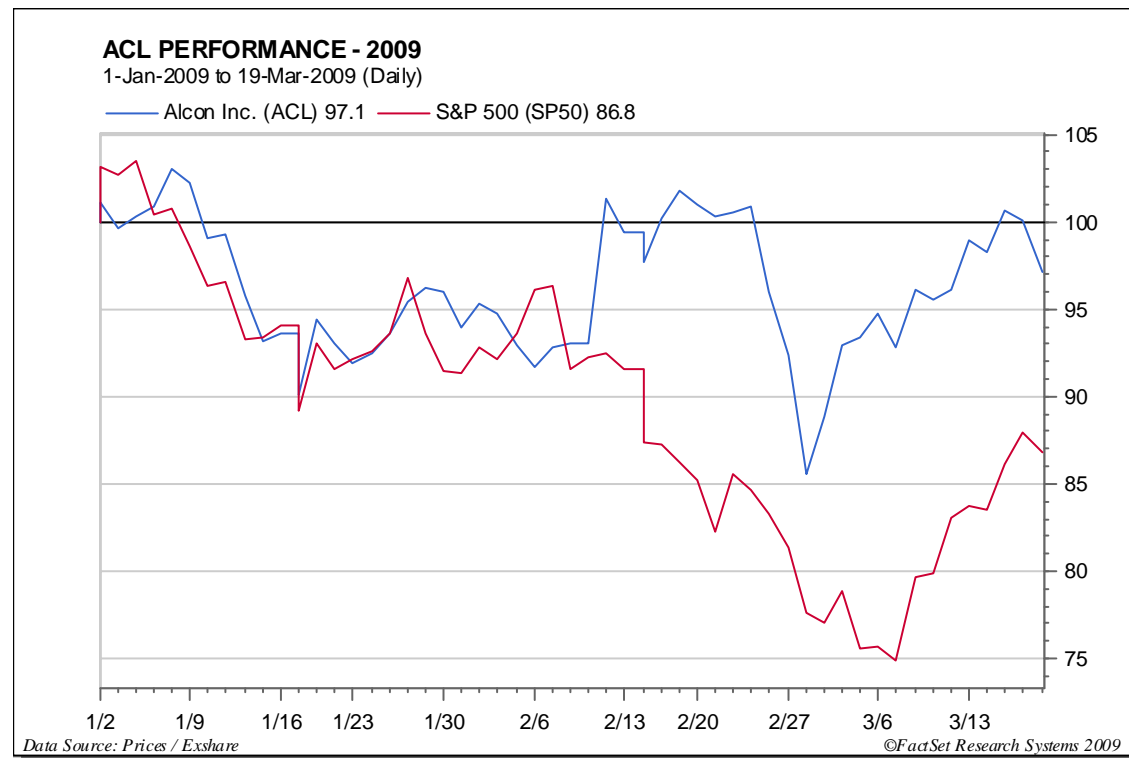


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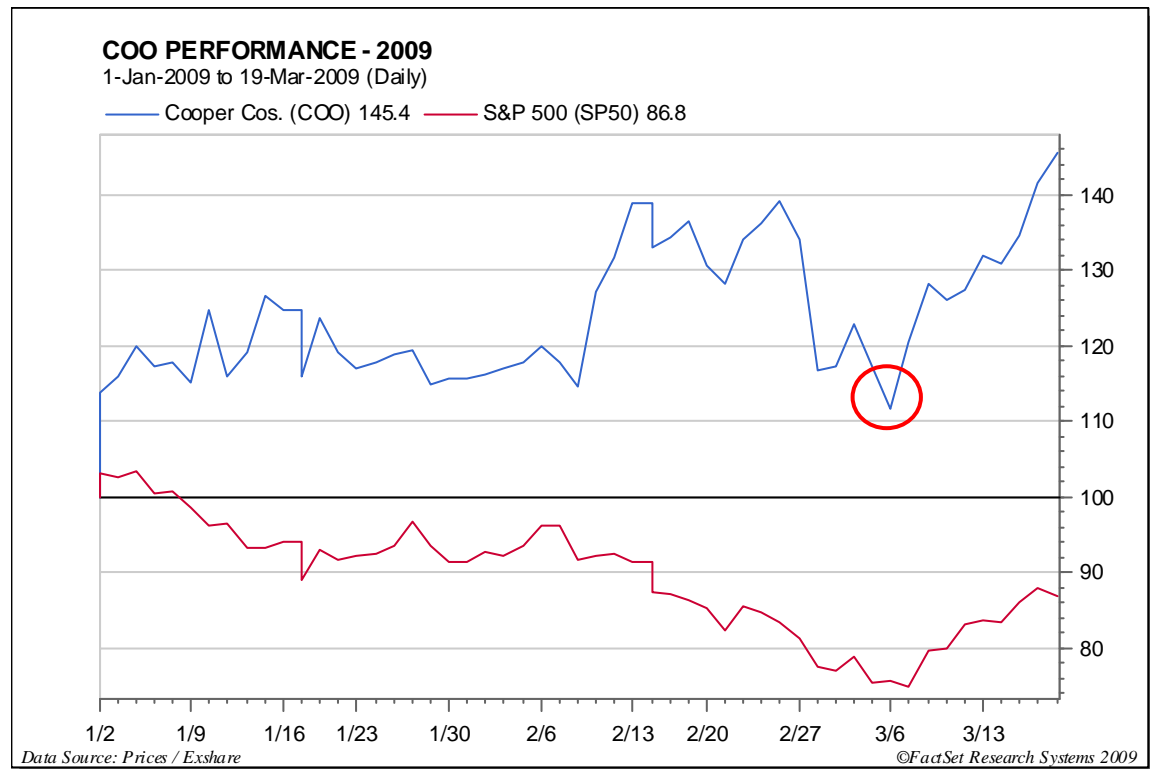


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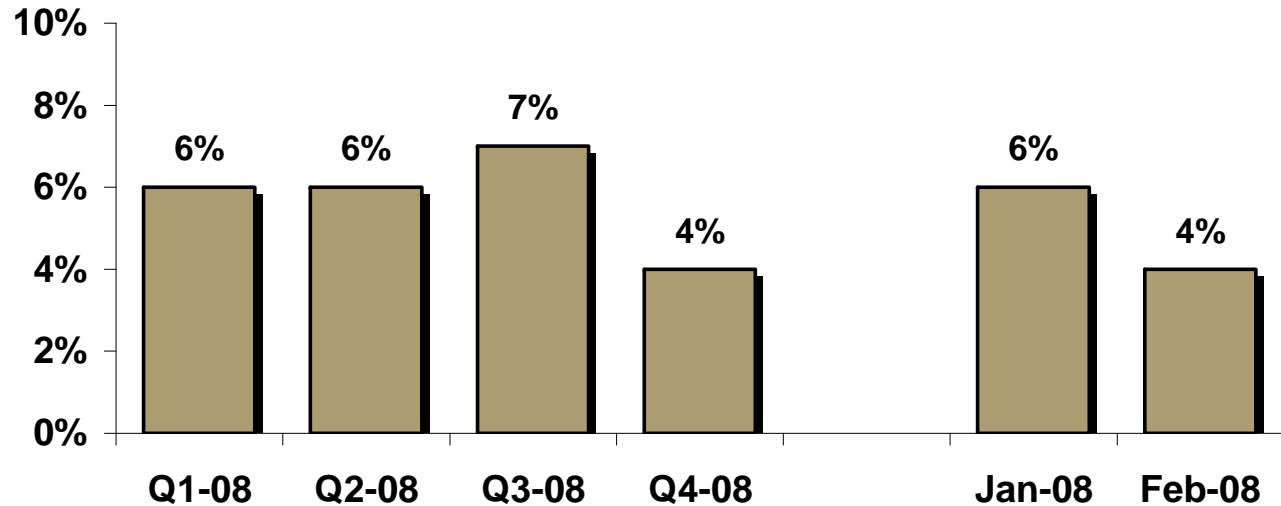


Other Reasons for Recent Outperformance

- **Markets not as sensitive to consumer?** CL market no doubt slower and risk of flat to down months/qtrs in 2009 exists, but early '09 trends encouraging.

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Worldwide Soft Contact Lens Market



Source: Company Reports

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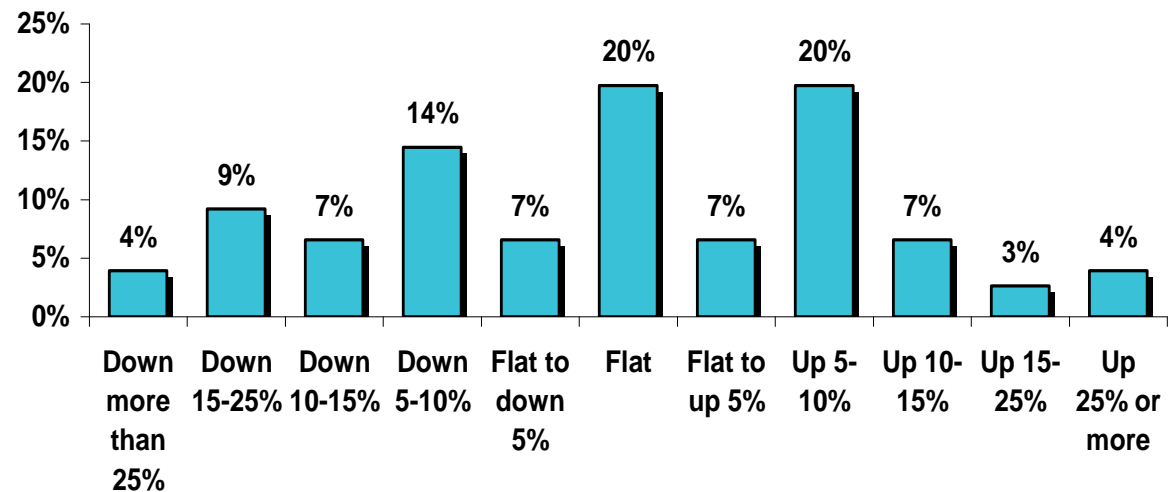
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RWB / AllAboutVision.com Winter 2009 Contact Lens Survey

JANUARY 2009 CONTACT LENS SALES PERFORMANCE



Source: Robert W. Baird & Company & AllAboutVision.com

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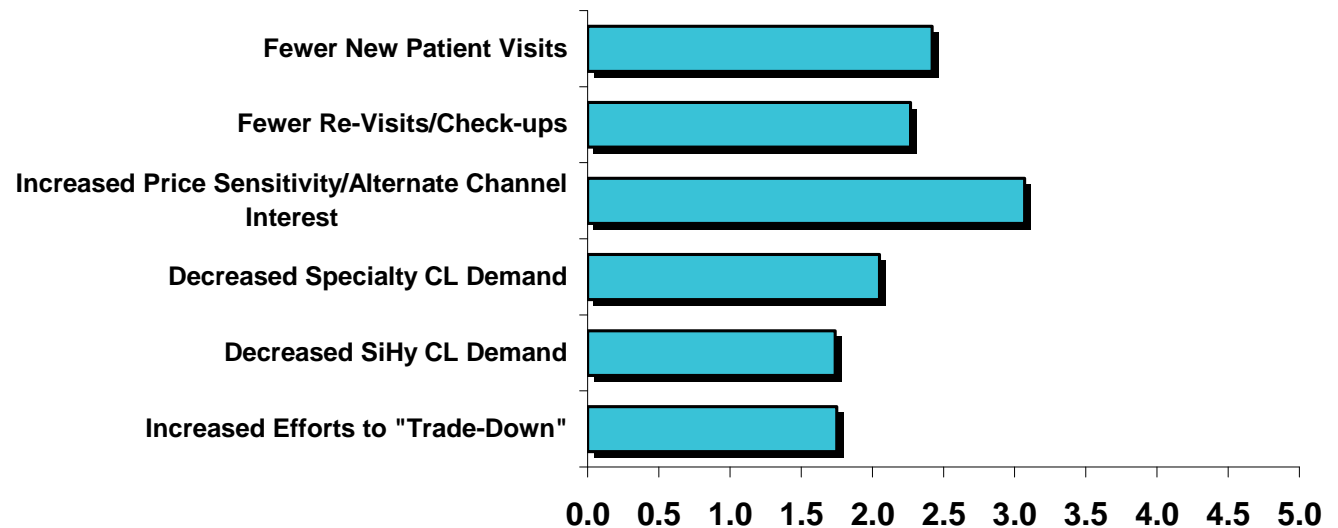
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RWB / AllAboutVision.com Winter 2009 Contact Lens Survey

PATIENT SENSITIVITY TO MACRO-ECONOMIC TRENDS



Source: Robert W. Baird & Company, Inc. & AllAboutVision.com

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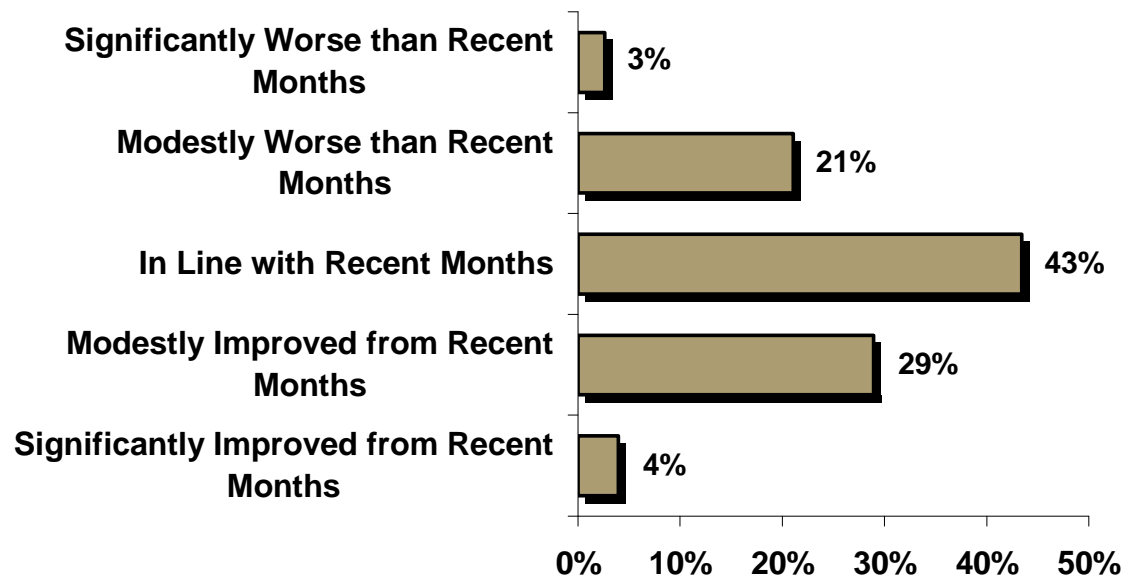
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2009 PATIENT TRAFFIC FLOW EXPECTATIONS



Source: Robert W. Baird & Company & AllAboutVision.com

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Other Reasons for recent outperformance

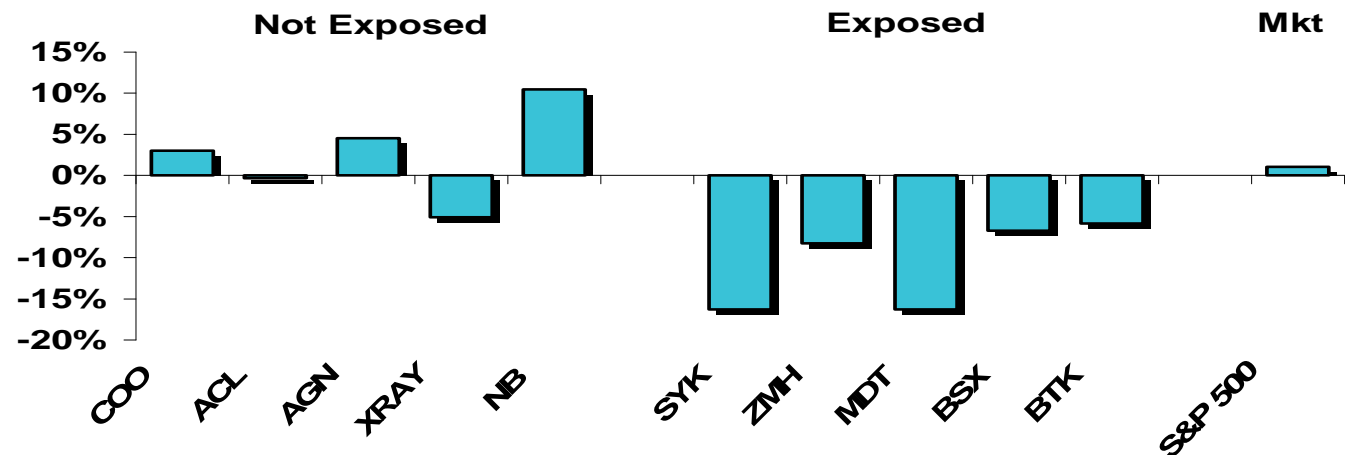
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- Take-out potential supporting some medtech areas: AMO/Abbott deal and Nestle/Novartis deal provide support for ACL, COO.
- "Obama-less" healthcare plays:

SELECT HEALTHCARE PERFORMANCES SINCE OBAMA BUDGET PROPOSAL



Source: Fact Set

Wrapping Up....

- **Near-term pressures remain** = Rising unemployment, low consumer confidence, rising savings/falling consumption rates.
- **But “worst case scenarios” appearing less likely of playing out** = Has helped some ophthalmic names rebound and/or outperform broader market thus far in 2009.
- **Early cycle/consumer rebound plays....** = There will be a time to own these stocks again, but need to see stabilization in consumer spending trends; longer-term/secular change in consumer behavior may limit extent of rebound.
- **...And “Obama-less” plays** = Lack of exposure to healthcare reform an intermediate- to longer-term positive for group but cannot pound table with this argument given near-term consumer exposure.
- **Investors concerned about being “too early” though.** Bottom-line – a number of these stocks will likely prove to be good early cycle plays...but near-term risk remains in trying to be too early to that game.



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Thank You

***Please Contact Me if You Would Like:
To Be Added to Our Research Distribution List
A Copy of This Presentation
Formal Write-ups of Our Survey Work***

Jeffrey D. Johnson, O.D., CFA

Vice President, Senior Research Analyst

Robert W. Baird & Co. Inc.

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Appendix – Important Disclosures and Analyst Certification

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Risk Ratings: L - Lower Risk - Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. **A - Average Risk** - Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. **H - Higher Risk** - Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. **S - Speculative Risk** - High-growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks. The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

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Analyst compensation is derived from all revenue sources of the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions.

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Analyst Certification

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