

INNOVATION



Opening new pathways to growth.

# FOURTH QUARTER 2011 EARNINGS CALL

February 23, 2012

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# EARNINGS CALL PARTICIPANTS

- › Thomas J. Hook
  - President & CEO
  
- › Thomas J. Mazza
  - Senior Vice President & CFO
  
- › Marco F. Benedetti
  - Corporate Controller & Treasurer

# AGENDA

## › Thomas J. Hook

- Fourth Quarter 2011 Financial Highlights
- 2011 Review
- Strategic Focus

## › Thomas J. Mazza

- Fourth Quarter & Full Year Financial Results
- 2012 Financial Guidance

## › Question & Answer

# FOURTH QUARTER 2011 FINANCIAL HIGHLIGHTS

- › Sales of \$141.7 Million – 6% Increase
  - 28% Vascular Access growth
  - 27% Electrochem organic growth
  - \$3 million medical device sales
  - \$2.5 million sales from Micro Power acquisition
  
- › Results
  - Increased spend on medical device initiatives (SG&A and R&D) creating value
  - Gross margin & operating margin pressure
  - Exceeded annual revenue and adjusted EPS guidance

## 2011 REVIEW

### › Grow & Diversify Revenue

- Diversified revenue offsetting declining CRM market
  - 2012 CRM revenue expected to be < 50% of total sales
- Vascular Access growth bolstered by commercialization of medical devices
- Investments in Orthopaedic operations driving market share gains
- Micro Power acquisition complementary to Electrochem
- Secured long-term agreements with largest OEM customers

## 2011 REVIEW

### › Drive Operating Performance

- Initiated multi-faceted plan to optimize orthopaedic geographic footprint and build infrastructure to support medical device manufacturing
- Continued to invest in global quality and regulatory systems
- Generated \$90 million of cash flow from operations and repaid \$40 million of long-term debt
- Renegotiated revolving credit facility to provide increased financial flexibility

## 2011 REVIEW

### › Deliver Innovative Solutions

- Made significant progress on medical device initiatives
  - Sales from medical devices of \$5 million for 2011
  - 53 medical device patents filed 2011 (10 granted)
  - In total 86 medical device patents pending (42 granted)
  - 12 global device regulatory submissions made in 2011 (11 received)
  - Launched 2 medical device incubation companies
  - Received two 510(k) clearances in Q1 2012
    - Transradial catheter sheath introducer
    - Steerable delivery sheath for AF ablation

## 2012 AND BEYOND

### › Growth

- Organic Revenue & Profit Growth in Core Business
  - Solid execution
- Targeted M&A
  - Strategic and opportunistic
  - Focus on core markets
  - Financing in place
- Innovate New Medical Device Technologies
  - Commercialize medical device pipeline
  - Continuous project funnel

# FOURTH QUARTER & FULL YEAR 2011 SALES

Greatbatch Medical		
Q4 '11	vs. Q4 '10	2011
\$ 121.3 M	2%	6%

Electrochem		
Q4 '11	vs. Q4 '10	2011
\$ 20.5 M	44%	9%

- › CRM & Neuromodulation
  - Stable
  - Expect continued headwinds in 2012
- › Vascular Access
  - Market growth
  - Device sales \$2M (\$4M YTD)
- › Orthopaedic
  - Expanded capabilities enabling market share gains
- › Organic growth 27% QTD (6% YTD)
- › Quarter variations due to timing of customer inventory pulls
- › Q4 2011 includes \$2.5 million sales from Micro Power acquisition
- › Investment in sales & marketing
- › Continued strength in Energy markets

# FOURTH QUARTER 2011 FINANCIAL RESULTS

	<u>Q4 2011</u>	<u>vs. Q4'10</u>
Sales	\$ 141.7 M	6%
Gross Profit	\$ 44.7 M	0%
as a % of Sales	31.5%	
SG&A	\$ 18.6 M	21%
as a % of Sales	13.1%	
RD&E, Net	\$ 12.8 M	12%
as a % of Sales	9.0%	
Adjusted Operating Income <sup>(1)</sup>	\$ 15.7 M	-11%
as a % of Sales	11.1%	
Adjusted Diluted EPS <sup>(1)</sup>	\$ 0.39	-15%

<sup>(1)</sup> See appendix for reconciliation to GAAP

# FULL YEAR 2011 FINANCIAL RESULTS

	<b>2011</b>	<b>vs. 2010</b>
Sales	\$ 568.8 M	7%
Gross Profit as a % of Sales	\$ 180.4 M 31.7%	4%
SG&A as a % of Sales	\$ 72.5 M 12.8%	12%
RD&E, Net as a % of Sales	\$ 45.5 M 8.0%	1%
Adjusted Operating Income <sup>(1)</sup> as a % of Sales	\$ 67.6 M 11.9%	4%
Adjusted Diluted EPS <sup>(1)</sup>	\$ 1.68	11%

<sup>(1)</sup> See appendix for reconciliation to GAAP

# 2012 FINANCIAL GUIDANCE

<u>Annual Sales:</u>	\$645 million - \$665 million
	CRM & Neuromodulation: -3% to 0%
	Vascular Access: 10% to 20%
	Orthopaedic: 5% to 15%
	Electrochem <sup>(1)</sup> : Approximately 5%
<u>Adjusted OI as % of Sales<sup>(2)</sup>:</u>	11.5% - 12.5%
<u>Adjusted EPS<sup>(3)</sup>:</u>	\$1.75 - \$1.85

1 – Percentage increase assuming full year pro forma Micro Power revenue in 2011.

2 – Excluding adjustments of approximately \$15 million to \$20 million (\$5 million non-cash).

3 – Excludes the after tax impact of operating income adjustments in <sup>(2)</sup> and \$9.1 million (\$5.9 million net of tax) of non-cash convertible debt interest expense. Assumes 35% effective tax rate and 24 million average shares outstanding.

# APPENDIX

# GAAP RECONCILIATION

	Three months ended		Year ended	
	December 30,	December 31,	December 30,	December 31,
	2011	2010	2011	2010
Operating income as reported	\$ 12,542	\$ 24,512	\$ 61,699	\$ 68,994
Adjustments:				
Inventory step-up amortization (COS)	177	-	177	-
Executive death benefits (SG&A)	-	-	-	885
Neuromodulation platform DVT expense (RD&E)	2,270	-	5,133	-
Litigation settlement	-	- 9,500	-	- 9,500
Consolidation costs	-	493	425	1,573
Integration costs	-	- 93	-	42
Asset dispositions, severance and other	759	2,346	168	2,943
Adjusted operating income	<u>\$ 15,748</u>	<u>\$ 17,758</u>	<u>\$ 67,602</u>	<u>\$ 64,937</u>
Adjusted operating margin	<u>11.1%</u>	<u>13.3%</u>	<u>11.9%</u>	<u>12.2%</u>

# GAAP RECONCILIATION

	Three months ended		Year ended	
	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
Income before taxes as reported	\$ 8,562	\$ 20,520	\$ 48,392	\$ 49,325
Adjustments:				
Inventory step-up amortization (COS)	177	-	177	-
Executive death benefits (SG&A)	-	-	-	885
Neuromodulation platform DVT expense (RD&E)	2,270	-	5,133	-
Litigation settlement	-	9,500	-	9,500
Consolidation costs	-	493	425	1,573
Integration costs	-	93	-	42
Asset dispositions, severance and other	759	2,346	168	2,943
(Gain) loss on cost method investments, net	-	150	4,232	150
Note conversion option discount amortization	2,180	2,024	8,483	7,876
Adjusted income before taxes	13,948	15,940	58,546	53,294
Adjusted provision for income taxes	4,808	5,078	18,824	17,576
Adjusted net income	\$ 9,140	\$ 10,862	\$ 39,722	\$ 35,718
Adjusted diluted EPS	\$ 0.39	\$ 0.46	\$ 1.68	\$ 1.51
Number of shares	23,607	23,532	23,636	23,802

## CONTACT INFORMATION

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