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IART.OQ - Integra Lifesciences Holdings to Acquire ACell Inc -  
Conference Call

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## OVERVIEW:

On 12/16/20, Co. announced that it has entered into a definitive agreement to acquire ACell, Inc.

## CORPORATE PARTICIPANTS

**Carrie L. Anderson** *Integra LifeSciences Holdings Corporation - Executive VP & CFO*

**Michael Beaulieu** *Integra LifeSciences Holdings Corporation - Director of IR*

**Peter J. Arduini** *Integra LifeSciences Holdings Corporation - President, CEO & Director*

## PRESENTATION

### Operator

Good day, and welcome to the Integra LifeSciences Business Update Call. Today's call is being recorded.

At this time, I'd like to turn the conference over to Mr. Mike Beaulieu. Please go ahead, sir.

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**Michael Beaulieu** - *Integra LifeSciences Holdings Corporation - Director of IR*

Thank you, Celeste. Good morning, and thank you for joining the Integra LifeSciences Business Update Call. Joining me on the call are Peter Arduini, President and Chief Executive Officer; and Carrie Anderson, Chief Financial Officer.

Earlier today, we issued a press release announcing an agreement to acquire ACell, Inc. The release and corresponding presentation, which we will reference during the call, are available at [integralife.com](http://integralife.com), under Investors, Events & Presentations in the file named ACell Acquisition Investor Presentation.

During this morning's call, Pete and Carrie will provide an overview of the acquisition, including a discussion about the complementary nature of the ACell technology and product portfolio with Integra's Tissue Technologies segment. Because the planned acquisition is signed but not yet closed, we will not take questions at the conclusion of the call. We do, however, look forward to sharing additional information with you in early Q1.

Before we begin, I'd like to remind you that many of the statements made during this call may be considered forward-looking statements. Factors that could cause actual results to differ materially are discussed in the company's Exchange Act reports filed with the SEC and in the release.

Also, as a reminder, on September 29, the company announced it had entered into a definitive agreement to sell its Extremity Orthopedics business to Smith & Nephew. The orthopedics transaction is expected to close in early January 2021.

Lastly, our comments today will include certain non-GAAP financial measures. For more information regarding the company's use of non-GAAP financial measures, please see Integra's current report on Form 8-K filed today with the SEC.

With that, I'll now turn the call over to Pete.

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**Peter J. Arduini** - *Integra LifeSciences Holdings Corporation - President, CEO & Director*

Thanks, Mike, and good morning, everyone, and thanks for joining the call on short notice during this busy week.

If you'll turn to Slide 3, I'll begin the presentation. We're very excited this morning to announce the acquisition of ACell, a private regenerative medicine company headquartered in Columbia, Maryland. ACell has been successfully developing and commercializing advanced products focused on the management of complex acute and chronic wounds and the reinforcement of soft tissue based on a proprietary porcine urinary bladder matrix technology called MatriStem UBM. This technology has been designed to enhance the body's ability to restore natural tissue and it will

expand Integra's regenerative capabilities. Our technology platforms will now include engineered bovine collagen, fetal bovine acellular matrices, human amniotic tissue and the acquisition of ACell porcine urinary bladder matrix or UBM.

The variability of tissue defects presents unique challenges to clinicians who want and need multiple treatment options. With ACell, we add a complementary technology that offers unique characteristics to assist clinicians and is focused on enhancing the body's ability to heal itself. In other words, it's what we refer to as regenerative medicine. Additional benefits of this acquisition include a strong fit with our existing commercial infrastructure and call points, a team of talented ACell professionals and a financial profile that's accretive to both our growth and profitability.

As Mike mentioned, we remain on track to close the divestiture of our orthopedics business in early January 2021. And we expect to close the acquisition of ACell later in the first quarter, subject to the regulatory review process. This combination of events puts us in a great position for a strong start to the new year.

If you'll turn to Slide 4, I'll provide some additional details on the technology and the product portfolio. So MatriStem UBM is derived from multiple porcine bladder layers and supports the human body's natural ability to initiate a remodeling response, providing strength and structure for new tissue in targeted areas.

So let me introduce the 3 products that are part of the ACell portfolio and are derived from the UBM porcine technology. First is MicroMatrix, which accounts for nearly half of ACell's revenues in 2019 and fill the gap in our portfolio with a powder formulation. MicroMatrix maximizes contact with the wound bed while initiating the remodeling of tissue that can be used alone or in combination with the Cytal wound matrix. Its ease of application makes it ideal for irregular wound beds.

The second product is the Cytal wound matrix, which is a sheet configuration that comes in multiple sizes and thicknesses and is indicated for acute and chronic wounds. This product will give clinicians another advanced solution with different characteristics as part of our portfolio.

And third is the Gentrix surgical matrix, indicated for use in the surgical reinforcement of soft tissue, hernia repair, including laparoscopic procedures.

Turning to Slide 5. This diagram illustrates how the ACell products will fit within our Tissue Technologies portfolio. We define regenerative technologies as products that help the body heal itself. And as many of you know, Integra was a pioneer in developing regenerative products. We received our PMA for our engineered collagen matrix called IDRT. And from the IDRT platform, we developed a series of products that are at the core of our company. Products range from single and bilayer matrices used in acute and chronic wounds to a portfolio of nerve and tendon repair products.

In 2015, we added a fetal bovine acellular matrix platform, which complemented our portfolio of wound and tissue repair products and expanded our reach into plastic and reconstructive surgery. PriMatrix and SurgiMend are the core brands in this area. And more recently, we added human amniotic tissue technologies, which led to the development and recent launch of our new trilayer amniotic tissue product called AmnioExcel Plus. And today, with the acquisition of ACell, we're adding a porcine technology platform with an established portfolio of products.

All 4 of these platform technologies provide a pipeline for future product development. Further, these differentiated product families benefit from ACell and Integra's established in-house scientific and engineering expertise, manufacturing systems as well as regulatory and clinical development capabilities in the areas of tissue reconstruction and repair.

With that, I'd like to turn the call over to Carrie, who will discuss the financial implications of the deal. Carrie?

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**Carrie L. Anderson** - *Integra LifeSciences Holdings Corporation - Executive VP & CFO*

Thanks, Pete, and good morning, everyone. If you turn to Slide 6, I'll start the discussion with a look at our revenue profile. In 2019, ACell generated revenues of \$100 million, representing growth of approximately 13% compared to the prior year. As a reminder, our Extremity Orthopedics business, which we are in the process of divesting, generated revenues of \$90 million in 2019 and, in contrast to the ACell business, did not grow from the prior year.

As Pete mentioned, we expect the orthopedics divestiture to close in early January, followed by the ACell acquisition later in the first quarter of 2021. Putting in slight timing differences aside and taking both transactions into consideration, total revenues for the company will not be significantly impacted. However, our portfolio mix will improve with the Tissue Technologies segment, moving from 28% of our total revenue in 2019 to now making up roughly 35% with the addition of ACell on a pro forma basis.

If you turn to Slide 7, I'll provide some additional details on the financial contributions we expect ACell to bring to Integra. The left side of the chart is the same content we used on our third quarter earnings call in October. It shows the effect to key P&L metrics of divesting our orthopedics business using pro forma 2019 numbers. We have added a similar analysis to the right, showing the impact of the ACell acquisition.

On a reported revenue basis, ACell will help make up the gap caused by the divestiture of the ortho business. But consistent with how we've treated past acquisitions, it will be excluded from our 2021 organic growth calculation. Beyond the first year anniversary date, ACell is expected to be accretive to our long-term 5% to 7% organic revenue targets.

Additionally, ACell's gross margins are similar to our current tissue-based products and thus are expected to be accretive to the corporate average. If we look at the adjusted EBITDA margin and adjusted EPS and considering both the impact of the ortho divestiture and the ACell acquisition, we expect a neutral first year impact using pro forma 2019. Following the commercial integration of ACell, we expect the ACell business to be accretive to both our pro forma 2019 adjusted EBITDA margin and adjusted earnings per share by the second year.

From a deal financing perspective, since we expect to close the sale of the orthopedics business before the completion of the ACell acquisition, we will use a combination of divestiture proceeds, cash on hand and our revolver to fund the upfront \$300 million purchase price. Following the completion of both transactions, we expect our consolidated total leverage ratio at the end of the first quarter of 2021 to remain within our target operating range of 2.5x to 3.5x. And importantly, the acquisition of ACell offers an attractive financial return, with an ROIC expected to exceed 7% by year 3 and 9% by year 5.

And with that, I'd like to turn the call back over to Pete for some closing comments.

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**Peter J. Arduini** - *Integra LifeSciences Holdings Corporation - President, CEO & Director*

Thanks, Carrie. If you turn to Slide 8, while 2020 has produced a number of unique operating challenges, we're excited about entering the new year with a more optimized portfolio. The addition of ACell expands our regenerative capabilities with the technology platform that will help drive future growth opportunities. ACell is accretive to our growth and profitability and add to complementary portfolio of products that will improve patient outcomes.

Throughout the pandemic, we've maintained our financial discipline and flexibility. And we'll be using the proceeds from the orthopedic divestiture to fund a portion of the purchase of ACell. This acquisition will generate a return on capital greater than our cost of capital by year 3. And we're accomplishing all of this while maintaining a leverage ratio within our target range.

We're confident that the strategic decision to divest orthopedics and optimize our portfolio with the acquisition of ACell will result in faster growth, higher profitability and an increased agility. Once the transaction closes, we look forward to welcoming ACell into Integra as its newest contributor to growth.

That concludes our prepared remarks. We look forward to speaking with many of you in the new year. Thank you for listening. Please stay safe. And operator, you may now end the call.

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**Operator**

Thank you. And again, that does conclude today's call. You may now disconnect.

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