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Q1 2013 Teleflex Incorporated Earnings Conference Call

EVENT DATE/TIME: APRIL 30, 2013 / 12:00PM GMT

CORPORATE PARTICIPANTS

Jake Elguicze *Teleflex - VP, IR*
Benson Smith *Teleflex - President, CEO*
Thomas Powell *Teleflex - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

Lawrence Keusch *Raymond James - Analyst*
David Lewis *Morgan Stanley - Analyst*
Matt Taylor *Barclays - Analyst*
Jonathan Palmer *CLSA - Analyst*
Anthony Petrone *Jefferies - Analyst*
Chris Cooley *Stephens - Analyst*
Jim Sidoti *Sidoti - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the first quarter 2013 Teleflex Incorporated earnings conference call. (Operator Instructions). I would now like to turn the call over to Jake Elguicze, Treasurer and Vice President of Investor Relations. Please proceed, sir.

Jake Elguicze ***Teleflex - VP, IR***

Thank you, operator, and good morning everyone. And welcome to the Teleflex Incorporated first quarter 2013 earnings conference call. The press release and slides to accompany this call are available on our website at www.teleflex.com. As a reminder, this call will be available on our website and a replay will be available by dialing 888-286-8010 or for international calls, 617-801-6888 pass code 82225144.

Participating on today's call are Benson Smith, Chairman, President, and Chief Executive Officer, and Thomas Powell, Executive Vice President and Chief Financial Officer. Benson and Tom will make brief prepared remarks and then we'll open up the call to questions.

Before we begin, I'd like to remind you that some of the matters discussed in the conference call will contain forward-looking statements regarding future events as outlined on slide four. We wish to caution you that such statements are in fact forward-looking are nature and are subject to risks and uncertainties, and actual events or results may differ materially. The factors that could cause actual results or events to differ materially include, but are not limited to, factors made in our press release today as well as our filing with the SEC, including our form 10-K, which can be accessed on our website. With that, I'd like to now turn the call over to Benson.

Benson Smith ***Teleflex - President, CEO***

Thanks, Jake, and good morning everyone. On today's call, I'll begin with an overview of the results for the first quarter and discuss some strategic highlights. Tom will then provide you with a more detailed review of our financial performance, including details of our product line and geographic revenue mix and then finally our outlook for 2013.

So beginning with our financial highlights, building upon the momentum generated over the last two years, the first quarter of 2013 was another very solid quarter for Teleflex, with revenues reaching approximately $412 million. This represents an increase of 8.2% versus the prior year quarter on both an as reported and constant currency basis. When adjusting for the impact of two fewer shipping days we had this quarter, our constant currency revenue growth would have been even higher, totaling approximately 10.5% increase.

Turning to adjusted gross and operating margins, they were 48.8% and 14.7% respectively. This represents a year over year improvement of 44 basis points at the gross margin line, but a decline of 119 basis points at the operating margin line. Year over year gross margin improvement was primarily due to the mixed benefit of higher margin LMA product sales, as well as a continued benefit we are seeing from price increases. And while in line with our internal expectations, the decline in year over year adjusted operating margin was due to the inclusion of the medical device excise tax and expenses associated with businesses that were acquired after the first quarter of 2012 that were not in our prior year results.

I'm pleased to say that despite operating in what is a more difficult macro environment, as well as dealing with headwinds such as two fewer shipping days, the medical device excise tax, and the impact of our convertible notes on our weighted average shares calculation due to the appreciation of our stock price, the company was still able to generate adjusted earnings per share of $1.03 representing an increase of 4% over the prior year period.

Let's now move to some of the strategic highlights for the quarter. During the first quarter, the average selling prices of our products continued to expand marking the seventh consecutive quarter that the company has been able to attain positive year over year pricing. And while at slightly lower levels than we've seen recently, this quarter pricing contributed 55 basis points in revenue growth. Our Latin American businesses led the way up 298 basis points. That was followed by our Asian businesses, which achieved price improvements of 130 basis points. Next was our North American business which was up 78 basis points. And finally, our European business experienced a slight decline in average selling prices that total approximately 22 basis points. This marks a reversal in the positive pricing trend we had seen out of Europe during the course of 2012.

During the first quarter of 2013 a few competitors were particularly aggressive in the pricing of some tenders. We are monitoring this situation and want to take a balanced approach towards trying to increase price without giving up future volume in some European countries. As far as our outlook on pricing is concerned, from an overall company perspective, we expect pricing to moderately improve for the remainder of the year from the levels we saw during the first quarter of 2013.

Moving to R&D investment and the sales of recently introduced products. In this past quarter, the company continued to make progress with our internal product development efforts. R&D spending was up 30%, or 60 basis points, from the prior year quarter. From this investment came newly introduced products which contributed 113 basis points of revenue growth for the quarter. New product sales were most significant in Europe, led by sales that were customized-ask product offering.

In addition to new product revenue, we also recently received several market clearances from the FDA. One of the more notable ones was the 510(k) that we received on our next generation vascular positioning system. The ARROW VPS G4 device is the only system to use micro-Doppler ultrasound technology in combination with intravascular ECG. This VasoNova next generation device offers state-of-the-art design and technology, providing easy to follow symbols with further enhancements, such as statement of final catheter position, improved sterile field capability, and Wi-Fi access to enable integration with data management systems. The G4 device is used in conjunction with the accompanying disposable ARROW VPS stylet, and will be available United States in the second quarter of this year. We expect this newly designed product to continue the good adoption we've seen to date with our catheter navigation technology. During the first quarter we closed another 17 accounts and currently have our technology in approximately 80 hospitals.

Another recently received clearance was granted to our ARROW JACC with Chloragard technology. This product is a long-term, small-bore antimicrobial and anti-thrombogenic catheter that gives clinicians a single, less-invasive option for critically ill patients for the duration of their therapy. This catheter is specifically designed for the non-position vascular access specialist.

An emerging trend within healthcare is the placement of central venous catheters by non-physicians. The ARROW JACC is another example of how Teleflex continues to innovate and bring products to market that satisfy clinical needs as well as facilitate positive changes we are seeing emerging in the vascular access space. The first insertion of this device occurred recently and we expect full market launch of this product to occur during the fourth quarter of 2013.

And before I move on and provide you with an update on LMA, the last regulatory approval that I would like to call your attention to is the 510(k) received for the ISO-Gard mask with clean air technology. Launching in the second quarter, the ISO-Gard mask could change clinical practice with one of our existing call points. There's a significant body of research pointing to waste anesthetic gas hazards, or WAG, and the impact it has on healthcare workers' safety. According to OSHA, some potential effects include nausea, dizziness, headaches, and fatigue, as well as sterility, miscarriages, and liver and kidney diseases. This has led to WAG scanning in the OR and sophisticated air exchange systems to minimize hazardous gases.

This issue, however, remains largely unaddressed in the post-anesthesia care unit, or PACU, also referred to as the recovery room.

Because the patient is the main source of WAG in the recovery room, the systems used in operating rooms really have no application and it's more difficult to control clinician exposure to the breathing zone of the patient. In order to best address care for the patient and manage this risk to the clinician, we've developed the ISO-Gard mask with clean air technology.

Now let's move on to discuss LMA. Teleflex has owned LMA for about six months now, and it continues to do quite well for us. During the first quarter, LMA products contributed approximately $33.5 million in revenue. As you'll recall, LMA provides us with a market share-leading series of products with gross margins in excess of our longer-term corporate wide goal of 55%.

LMA performance and integration efforts continue to run slightly ahead of schedule. As a result, the adjusted earnings per share contribution for LMA in the first quarter was greater than our initial expectations. This was another reason why the company was able to achieve year over year earnings per share expansion despite the additional weighted share averages from the convertible notes.

And before I turn the call over to Tom I would like to provide you with an update on GPOs, IDNs, and the profitability improvement initiatives that are under way at the company. During the past quarter, we continued to expand our GPO and IDN relationships. In Q1 we closed a total of ten agreements, five of these awards were brand-new. These new wins were across several of our product lines includes VasoNova's VPS technology, airway management products, as well as ligation and suture product offerings.

Turning to our profitability initiatives, the reduction of our North American distribution center footprint remains on track. We continue to expect this initiative to be complete by the third quarter of this year. And despite incurring approximately $1.2 million of redundant costs in the quarter, associated with the operation of our legacy distribution facilities, it remains our expectation that the move to a centralized distribution center will be approximately break-even over a full year of 2013 results with additional operating leverage occurring in 2014 and beyond.

Finally, we've had a project underway for quite some time now related to the integration of the legacy ARROW ERP system into the existing Teleflex SAP platform. That project is also on schedule and we anticipate completion at the end of the second quarter. We are in the process of working with our customers and we do not currently anticipate there being any type of service disruption.

With that, I will now turn the call over to Tom and he can walk you through our most recently quartered financial performance in detail. Tom?

Thomas Powell ***Teleflex - EVP, CFO***

Thanks Benson, and good morning everyone.

Revenues for the first quarter were $411.9 million. This represents an increase of 8.2% on both an as recorded and constant currency basis versus the first quarter of 2012. The growth in constant currency revenue is largely due to the acquisition of LMA, which contributed approximately 8.8% of growth. In addition, the sales of recently introduced products added approximately 113 basis points of growth, while price increases contributed another 55 basis points of growth. Partially offsetting these gains were lower volumes associated with two fewer shipping days in the first quarter of 2013 as compared to 2012.

Turning to gross profit, adjusted gross profit and margin were $201.1 million and 48.8% respectively. This compares to $184.1 million and 48.4% in the prior year quarter. As Benson mentioned in his opening remarks, the increase in gross profit and margin in the first quarter is primarily due to the acquisition of LMA as well as selective price increases.

Let's now move to a discussion of operating margins. For the first quarter of 2013, adjusted operating margins were 14.7%. This represents a decrease of 119 basis points versus the prior year quarter. The decline in adjusted operating margin can largely be attributed to medical device excise tax and additional amortization and operating expenses associated with the late-stage technology acquisitions which were completed after the first quarter of 2012. If we were to exclude these costs, the adjusted operating margin would have been approximately 16.7%.

Turning now to taxes. The GAAP tax rate for the first quarter of 2013 was 21.7%. Included in the quarterly rate were a discrete tax benefit related to the reinstate of the R&D tax credit, and an improvement in rate as a result of mix. However, on a non-GAAP basis, the tax rate for the quarter was 27.9% and largely in line with our original plan assumptions. While the GAAP rate of 21.7% appears attractive, what is most relevant is the non-GAAP rate of 27.9% as this is a rate implicit in our adjusted earnings per share.

Now turning to earnings per share. Adjusted earnings per share for the first quarter were $1.03, representing an increase of approximately 4% versus the prior year quarter.

Before I move on, I would like to clarify the dilution impact of convertible notes on the first quarter earnings per share. As an outcome of depreciation of the stock price in the first quarter and the accounting mechanics associated with our convertible notes and related warrants, an additional 1.6 million shares were included in the weighted average share count. This dilution negatively impacted our first quarter adjusted earnings per share by approximately $0.04.

As a reminder, there are two components underlying the additional 1.6 million shares. One component is related to dilution from the warrants. During the first quarter, this component increased weighted average share count by approximately 300,000 additional shares. The second component is related to convertible notes themselves. During the first quarter, this component increased weighted average share count by approximately 1.3 million additional shares.

It is relevant to keep in mind that upon maturity, the share dissolution from the convertible notes would be offset by the shares due to Teleflex under the convertible note hedge agreement which we entered into in August of 2010. For accounting purposes, however, since the impact of the convertible note hedge agreement is anti-dilutive, under US GAAP we exclude this offset from the calculation of diluted shares. As a result, the current accounting dilution is greater than the economic dilution because the share count impact and the convertible agreement excluded from diluted share count given their anti-dilutive nature.

Let's now move on to a more detailed review of constant currency product line and disagree geographic revenue results. Critical care revenue in the first quarter was up 12%, totaling $287 million. The increase in constant currency revenue was due to higher sales of urology and anesthesia products, including the addition of LMA. Partially offsetting these growth rates was a decline in sales of respiratory and vascular products, and the impact of having fewer shipping days in the quarter.

Surgical care revenue in the first quarter was up 3.3%, totaling $74.7 million. The growth in surgical products revenue was primarily the result of increased sales of ligation and access products. Partially offsetting this growth was a decline in the sales of chest drainage and general surgical instrument products, as well as the impact of having fewer shipping days.

Cardiac care revenue for the first quarter was down 7.3% in a total of 18.9 million. The decline in cardiac revenue was primarily due to lower sales of balloon pumps in the United States as well as the impact of fewer shipping days.

And lastly, OEM revenue for the quarter was down 1.1% and totaled $31.3 million. The decrease in OEM revenue was largely due to reduced catheter sales -- excuse me, which was largely reduced sales catheter products and the impact of having fewer shipping days.

Next I'll take you to our top line performance from a geographic perspective. Revenue in the Americas segment for the first quarter 2013 was up 8.5% and totaled $195.8 million. The increase in constant currency revenue was due to LMA product sales, new product introductions, and price increases. Offsetting this growth was the impact of having fewer shipping days in the quarter as compared to the prior year.

Moving to EMEA -- revenue in this segment was up 5.4% and totaled $142.4 million in the first quarter. The increase in revenue in EMEA was due to the LMA product sales and new product introductions. This segment was also negatively impacted by fewer shipping days in the quarter, as well as the slight year over year decline in average selling prices.

Finally, sales in the Asia segment were up 26.8%, totaling $42.4 million. The increase in this segment was due to LMA product sales and price increases.

Next, I'd like to provide you with an update regarding our full year 2013 financial outlook. Let me begin with reaffirming the 2013 constant currency revenue growth and adjusted earnings per share ranges that we initially provided last December. In 2013, we continue to expect constant currency revenue growth of between 11% and 13%.

Similar to our revenue projections, our expectation for growth and adjusted operating margins remain as previously communicated. We continue to project gross margin to be in a range between 50% and 51% for the year. It's our expectation that year over year gross margin expansion will be driven by pricing initiatives, improved product mix, and cost reduction programs. In addition, in 2013, we will have the benefit of a full year's contribution of LMA product sales, which carry an above-average margin.

We continue to project adjusted operating margins to be in a range between 16% and 17% for 2013. This range includes the impact of the medical device tax. Without the medical device tax, our adjusted operating margins are projected to be between 17% and 18%. Finally, we continue to expect 2013 adjusted earnings per share to be in the range of $4.70 to $4.90.

And similar to the remarks I made in our last earnings conference call, from a cadence perspective, we continue to project adjusted earnings per share to be greater in the second half of 2013 versus the first half with particular strength in the fourth quarter. The first half of 2013 earnings will be impacted by the following -- the amortization and operating expenses associated with the late-stage technology acquisitions which were completed mid-2012 and, therefore, the expenses are not in the prior year run rate until the second half, additional costs associated with the transition of the new distribution center, which is projected to turn accretive in the second half, and the impact of the medical device tax.

Finally, as I mentioned earlier, our share prices appreciated nicely. As a result our weighted average share account will also increase to account for convertible notes and this will have a dilutive effect on our earnings. Currently offset the per share impact on convertible notes are modestly improved expectations for foreign currency, slight improvements in LMA business expectation, and good overall operating expense control. In total, the puts and the takes are about equal and we continue to project 2013 adjusted earnings per share in the range of $4.70 and $4.90.

That completes my prepared remarks. With that, I'll now turn the call back to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question comes from the line of Larry Keusch from Raymond James. Please go ahead, sir.

Lawrence Keusch ***Raymond James - Analyst***

I guess, Benson, first question is on price. Obviously, the 55 basis points was below what you were trending last year. I recognize that. You are now, obviously, anniversarying a bunch of the price increases. But how was that relative to your expectations in the quarter, and if it was different what may have changed? How should we think about that going forward? I know you indicated that you expected to step up some, but just some color on why that would happen and where we should be thinking about it for the year.

Benson Smith ***Teleflex - President, CEO***

So we began to see some more competitive pricing show up on European tenders and we gave our European managers the flexibility to be able to respond to that. I think our overarching goal with pricing, not just this year but really for the next several years, is to push our pricing to the extent that we can without putting volume at risk. So we wanted to be responsive to some of those tenders that were coming in in Europe.

The second area which also had an impact on it was we were in the midst of a changeover of our general manager in Japan. We had a significant price increase scheduled on the calendar for Japan, didn't want to go through that without a manager -- without the new manager in place there. So we expect to move forward on that. And our current expectation is that we'll see some improvement overall -- in our overall pricing through the balance of the year.

Lawrence Keusch ***Raymond James - Analyst***

And any sense of -- I know internally you do, but externally, can you give us any sense of where you think it can be for the year?

Benson Smith ***Teleflex - President, CEO***

Yes. So we started off this year in the -- in the expectation of about 100 basis points. We think that's going to be a little bit more difficult to get to because of the situation in Europe right now. So I think we expect somewhere in the 70 basis point range right now from what we can tell. But again, our key goal here is to be -- continue to be competitive in the marketplace as well.

Lawrence Keusch ***Raymond James - Analyst***

Yes. Understood. Okay. And then two other just quick ones. Number one, can you give us a feel for the organic growth when you try to adjust for the days? And then I think if I got this right, the free cash flow, it looked like there wasn't a whole lot this quarter. It looked like working capital was up in the quarter, so any thoughts around how we should think about free cash flow generation for the year?

Benson Smith ***Teleflex - President, CEO***

I'll let Tom take care of that question first and then I'll get back to you on the revenue number.

Lawrence Keusch ***Raymond James - Analyst***

Okay.

Thomas Powell ***Teleflex - EVP, CFO***

Yes. You are correct. In the first quarter, free cash flow was a little bit lower than we've seen in the past. That's in part due to working capital, most notably inventories. We had mentioned that we are in the process of rolling out a SAP project to some sites and we're building up some inventories just to safety stock in connection with that. So on a full year basis we don't anticipate inventories will be up markedly, other than the addition of bringing obviously the LMA business into ours. So we expect free cash flow on a full-year basis to be relatively comparable to what we had last year and up slightly given a little larger revenue base.

Lawrence Keusch ***Raymond James - Analyst***

Okay.

Benson Smith ***Teleflex - President, CEO***

So getting to the revenue projections, as I mentioned in my remarks, just accounting for the extra two days would have brought both our constant currency and as-reported revenue up above that 10.5% number. It was just a series of one-time events that contributed probably to another 50 basis points. So I think that the run rate for revenue taking those things out of -- or putting it into context, would have been about 11% number, which from our perspective put us where we felt we needed to be first quarter. I would remind you that we were of the opinion that the first half of this year was going to be a little bit less favorable comparisons than the second half.

Lawrence Keusch ***Raymond James - Analyst***

Does that imply that organic growth when I remove LMA specifically was sort of in the low single digit range? Is that fair?

Benson Smith ***Teleflex - President, CEO***

Yes.

Lawrence Keusch ***Raymond James - Analyst***

Okay. Perfect. Thank you very much.

Operator

Next question comes from David Lewis from Morgan Stanley. Please go ahead.

David Lewis ***Morgan Stanley - Analyst***

Good morning.

Benson Smith ***Teleflex - President, CEO***

Good morning.

David Lewis ***Morgan Stanley - Analyst***

A couple questions here. I guess first going back to last quarter and some of the details you provided. You said LMA was ahead of schedule. I think last quarter, you tried to quantify what you think the relative earnings accretion was for LMA -- can you reset us again? Where you first stated LMA accretion could be which I think was $0.31 to $0.37, and in terms of what you saw in the fourth quarter versus first quarter impact and how LMA is trending versus that range?

Benson Smith ***Teleflex - President, CEO***

So I think the numbers that we have used and have been consistent around have been $0.35 to $0.40 accretion this year. I would say that we feel quite comfortable that those numbers are going to be attained. There is some puts and takes in some other parts of the P&L that would lead us to probably kind of keep that expectation corralled and around that range still. Most of the things that have been happening up to this point that are ahead of schedule actually affect moving forward some of the accretion in 2015 into 2014. So we would expect to see most of the accretion that we have been planning in 2015 to roll into 2014. So instead of $0.15 in 2014, we think it's going to be closer to $0.30 in 2014. And that's where the biggest sort of ahead of schedule kind of comments really apply as opposed to this year.

Thomas Powell ***Teleflex - EVP, CFO***

And just kind of the $0.31 to $0.37 you referenced versus the $0.35 to $0.40 that Benson did. We had assumed $0.03 to $0.04 that we are going to get in 2012 associated with the acquisition. So the $0.31 to $0.37 that you referenced would be the incremental this year. $0.35 to $0.40 would be that in total. So --

David Lewis ***Morgan Stanley - Analyst***

Understood. And the commentary in the call here, maybe you can talk about the back half of the year outlook in two specific buckets, one margins. You had been very explicit this would be the toughest margin quarter of the year maybe Tom could talk about the balance trends for the year and specifically as relates to organic growth trends, factors we should be considering. It sounds like price will get better across the quarter with Japan but specifically organic growth. Is it just a series of comp adjustments throughout the back half of the year that get you more comfortable with growth improvement or are there other dynamics we may be missing? So just your thoughts on organic growth and maybe Tom's thoughts on margin progression. Thank you.

Benson Smith ***Teleflex - President, CEO***

Addressing the organic growth numbers -- again without trying to get too much into the weeds, there were a number of kind of unique situations first quarter. For instance, in OEM sales, we actually had a decline of 1% in revenue versus their typical 3% to 5% revenue growth. A lot of that had to do with a Pvax back order last year which elevated their sales growth for the first half of the year. They were responding to that back order, which shows up as an unfavorable comparison this year to last year. And without trying to go through all of those, there's sort of five or six things that fall into that kind of bucket that have a more negative effect and go aren't likely to persist.

There has been a fair amount of conversation about decreased utilization. And again, I think this affects us less than other competitors. But where that happened in the first quarter was a relatively precipitous decline in position calls. And our experience here is that does tend to have an immediate impact and then usually what happens is there's an increase in acuity three to six months down the road. It's an area where we're watching pretty closely, but we would expect to see that mitigate quite a bit by the end of the year. There's only a certain amount of time you can postpone the kind of conditions where most of our products are used in.

We also will continue new product launches throughout the balance of the year. And again, expect some -- expect some modest improvements in pricing. But I would say on that point, we are moving very aggressively into longer term gross margin improvements that are not revenue-dependent and are not pricing-dependent. I think we're taking a pretty conservative view of the market and overall aren't anticipating an uptick in the macro conditions to get the improvement we're trying to get at.

David Lewis ***Morgan Stanley - Analyst***

Great.

Thomas Powell ***Teleflex - EVP, CFO***

Just a little bit on margins. So for the first quarter, gross margin came in or adjusted gross margin came in at 48.8%. A couple things that you want to understand in those numbers. First of all, we talked about some of the investments we're making to consolidate facilities. So in the first quarter, we had some expense associated with the consolidation of our North American distribution sales. We're essentially consolidating three distribution centers into one as well as consolidating the LMA distribution center into that one. And we're pretty much completed through three of the four initiatives. We expect to wrap that up in the early Q3 time frame. So there's expense this quarter. We expect that to turn accretive in the back half of the year.

In addition, we also had some expenses associated with could consolidation of a distribution center in Europe and the exit of a warehouse in Asia. So some costs that we incurred in the first quarter that we don't expect to reoccur in the back half of the year. And also, we expect that North American distribution center to turn accretive in the back half.

We also had some unfavorable performance in the first quarter from a manufacturing perspective that actually occurred in the fourth quarter and rolled out in inventory in the first quarter. We don't expect that to continue in the second based on what we saw. Manufacturing performance was pretty good in Q1 and don't expect to have some unfavorable variances rolling out in the second quarter related to that which we, again, saw in Q1.

In addition, some additional drivers to the back half that will help us increase margins, we will continue to put cost improvement programs into place that will help drive costs down. We also have generally higher levels of revenues in the second and third quarter and even higher level in the fourth quarter which will help us further leverage our fixed overhead costs. And we're also projecting some more positive mix in the back half of the year as a result of some stronger growth in some higher-margin regions and businesses.

So as we look at the margin throughout the year, we expect it to continue to build quarter after quarter throughout the year and still get to our kind of gross margin target of 50% to 51% on a full-year basis.

David Lewis ***Morgan Stanley - Analyst***

Great. Thank you very much.

Operator

Thank you. Next question comes from Matt Taylor from Barclays. Please go ahead.

Matt Taylor ***Barclays - Analyst***

Good morning, guys. Thank you for taking the question. So I wanted to just ask about the guidance. You talked about keeping guidance the same and just modestly lower pricing. Is there any other change in assumptions with regards to either LMA, new products or volume growth?

Thomas Powell ***Teleflex - EVP, CFO***

with regard to guidance, we really are staying the same range in terms of volume growth. Pricing is mentioned, it's a little bit softer than what was initially expected, although not markedly. Offsetting that, we've got a little bit better performance in execution on LMA through the first quarter. We also are doing a nice job in managing our operating expenses. And so those are the real drivers of kind of the pluses and minuses, if you will, to help offset some of the downside from issues such as the dilutions to the converts and, obviously, the lesser pricing.

Matt Taylor ***Barclays - Analyst***

Okay. And just to be clear, in terms of your three-year outlook, do you -- does the change in pricing this quarter change how you think pricing trends will occur next year at all, or is this just more of a one-time thing?

Benson Smith ***Teleflex - President, CEO***

Yes. So that's -- I would say the answer to that, Matt, is we don't necessarily see this as a linear progression. There are different kinds of opportunities that present themselves to us, and a lot of these have to do with our pushing margins in some of the areas where we still use distributors. So because it's at 55% this quarter doesn't necessarily mean we're projecting it to stay at that level as we look over the next couple of years. But I would say it would take a fairly significant change in our pricing assumptions to start to have much of an impact of what we expect to be our overall gross margin improvements over the next three years.

And those gross margin improvements will start to provide, I think, more clarity as the year rolls out. But we now start to get into the phase where they are less revenue-dependent and less pricing-dependent and really just a matter of execution in terms of our consolidation of our manufacturing footprint.

Matt Taylor ***Barclays - Analyst***

Okay. Thanks. Very clear. Thanks.

Operator

Thank you. Next question comes from Jonathan Palmer from CLSA. Please go ahead.

Jonathan Palmer ***CLSA - Analyst***

Good morning. Thank you for taking my question. Tom, you mentioned in the prepared remarks the increased share count. Is there an explicit number we should be modeling here or a range?

Thomas Powell ***Teleflex - EVP, CFO***

Well, let me give you our thoughts on how to approach that. Obviously, the share count will change depending on the stock price, and what we attempted to do was to provide in our 10-K filing a pretty comprehensive disclosure of how the share count will change based on the stock price given, the warrants, and the convertible notes. So as a suggestion, one approach might be to think about as you're thinking about price targets for the year, you could then tie that into the share dilution that we provided in the 10-K filing. So you could use that as a basis for establishing share count dilution.

Jonathan Palmer ***CLSA - Analyst***

All right. Benson, there's one quarter behind you here and some puts and takes in the first half with a ramp in the margins in the second, what are some of the headwinds that would conceivably take you to the bottom of your guidance range for the year?

Benson Smith ***Teleflex - President, CEO***

So I think probably the geography that we continue to monitor most closely is Europe. I think it's fair to say that the economic situation in Europe does not appear to be getting any better during the course of the year, so we have -- we have, I think, somewhat scaled down our pricing expectations in Europe. Other aspects of our business in Europe are actually doing quite well. So that's probably the area where we just are monitoring it quite closely.

We believe that if there was some good news in this, it's that the apparent downfall in the utilization rates have, even though we think we have got some immunity from that, have caused us to take a very, very close look at our spending and planned spending for the balance of the year. So we think we have some pretty good visibility in terms of how we would adjust our operations based on if the market turns out to be more conservative than we think we're going to be.

So I guess the short answer is probably Europe is the biggest area where we have some concern about continuing volatility there. We think we've got a pretty good understanding. We've got good European managers on the ground. But it remains an area for us that we have, I think, are watching more closely than other places.

Jonathan Palmer ***CLSA - Analyst***

That's very helpful. I'll jump back in the queue.

Operator

Thank you. Next question comes from Anthony Petrone from Jefferies Group. Please go ahead.

Anthony Petrone ***Jefferies - Analyst***

Thanks. I have a question on R&D in the quarter. Actually, it seemed a little bit light versus our model. And we know you have a number of late-stage acquisitions, R&D programs that are going on among Semprus, Hotspur, et cetera. Can you elaborate -- have some of those projects reached a level of maturity or did the company elect to actually slow some of those investments in the queue? And I have a couple of follow-ups. Thanks.

Benson Smith ***Teleflex - President, CEO***

So I think there's just an ongoing prioritization basis of which projects make the most sense for us to continue. We don't expect significant revenue contributions out of Semprus or out of Hotspur until mid-2014. We are continuing to spend on both those projects as per plan. The -- some of the shortfall in spending really came out of some internal R&D projects that -- for a variety of reasons became lower priorities for us.

Anthony Petrone ***Jefferies - Analyst***

That's helpful. If we move over to cardiac, you mentioned weakness in intra-aortic balloon pump volumes. There was some chatter about weak PCI volumes in the quarter from some of your competitors. I'm just wondering how much was related to slower overall PCI volumes versus perhaps competitive share losses.

Benson Smith ***Teleflex - President, CEO***

So we don't attribute any of our slowdown to competitive share losses. There is a couple of different things going on here. There is relatively slow capital markets in the US and in Europe, accompanied by relatively brisk capital markets in China, for the pumps and sales. It appears that the Shock II trial has had an impact on balloon utilization in Germany. So far it's largely contained to Germany. The results of that trial were more negative than most people's expectations about the effect of the use of balloons. There's a lot of questions about whether the control group was a good representation. But so far, Germany has been the only noticeable place that seems to have been -- that seems to have changed there their practice or utilization of balloons as a result of that study.

So there's a couple of things going on there. But I'm at least not aware that we lost any pump accounts or lost any balloon accounts to competitive activity that would have been the reason for the comparative slowdown.

Anthony Petrone ***Jefferies - Analyst***

That's very helpful the last one for me and I'll jump back in, can you give an update Benson on the capital allocation policy? Is M&A still on the top of the list or do you envision maybe allocating more capital to offset dilution from the convert? And then maybe just to touch on where you stand on debt service. Thanks a lot.

Benson Smith ***Teleflex - President, CEO***

So the -- I would say that generally speaking this year, our capital allocation thinking is quite similar to what it was last year. You could expect to see some continued efforts in acquisitions this year in the late-stage technology area primarily. We are continuing to look at the best way to manage and deal with the dilution issue. The big complication there, I think, from our perspective is that the end result is much different than how we're reporting it on a quarter, and we're trying understand how we can do a better job explaining that.

Jake Elguicze ***Teleflex - VP, IR***

Anthony, I think the other important thing is really going back to Benson and Tom's remarks, that LMA and overall opex cost controls not associated even with R&D but just in the SG&A line is really also helping to mitigate the impact of the additional weighted average shares from the convert.

Anthony Petrone ***Jefferies - Analyst***

Fair enough. Thanks.

Operator

Thank you. (Operator Instructions). The next question comes from Chris Cooley from Stephens. Please go ahead.

Chris Cooley ***Stephens - Analyst***

Thank you and good morning.

Benson Smith ***Teleflex - President, CEO***

Good morning.

Chris Cooley ***Stephens - Analyst***

Benson and Tom, could you walk us through some of the expectations you have that pertains to organic growth in the back half? And specifically what I'm trying to get at here is it looks like you have some secular themes that are dragging down a number of your businesses. So if we think about that organic growth, obviously, ex-LMA, what can we focus on to give us confidence that you can see acceleration from those single digits in the back half, especially depressed volumes in the US? And I just got one follow-up after that. Thanks.

Benson Smith ***Teleflex - President, CEO***

So the most direct way that I can answer that is we've tried to filter through what first quarter would have looked like without some of these extraneous events and without the two days' loss of shipping days. And have factored that into our reforecasting of what the balance of the year looks like. And I think across most of our product line, we're relatively comfortable that the forecasts that have been resubmitted are quite in line with what we see as sort of average daily order rate moving forward.

There are a couple of areas that are dependent on improvements in the vascular business in particular. We expect to see continued growth in the PICC line and in the DPS number. We expect the JACC product to start to take off as a product line for us. So I would say if you ask me to quantify the biggest risk, it really has to do with some every the acceptance of some of the new products that we're introducing during the course of the year versus concern about the underlying kind of market utilization rates. And again, I don't want to say we're completely immune from it, but we do not see that that has been a big factor in our first quarter results.

Chris Cooley ***Stephens - Analyst***

Okay. Super. And then similarly, I think you mentioned early on, if I can look back at my notes, duplicative costs in the quarter that I think approximately $1.2 million as it pertains to North American distribution consolidation efforts. When we think about those costs continuing into the early part of the third calendar quarter, is that a number that we should be kind of assuming in terms of the weight versus the P&L here in the second quarter, or does that number get bigger, smaller? Just trying to think about gauging that as it winds down.

Benson Smith ***Teleflex - President, CEO***

No. Right now that represents the costs of operating duplicate centers until we're out of that, and our expectation is we're out of that early in the third quarter. So most of those costs should disappear.

Thomas Powell ***Teleflex - EVP, CFO***

Yes. So in terms of order of magnitude, you should probably think that as we move to the second quarter and continue to have costs, about at the same level as we saw in the first quarter, perhaps a little bit less. As we then go kind of into full operation in the third quarter, we expect to be at kind of the break-even point and then accretive in the fourth quarter is how you should think about this cost.

Chris Cooley ***Stephens - Analyst***

Okay. Thank you very much.

Operator

(Operator Instructions). Thank you. We have a question from Jim Sidoti from Sidoti & Company. Please go ahead.

Jim Sidoti ***Sidoti - Analyst***

Good morning. Can you hear me?

Benson Smith ***Teleflex - President, CEO***

We can.

Jim Sidoti ***Sidoti - Analyst***

Great. I want to confirm the medical device tax -- that was put in the SG&A line, correct?

Benson Smith ***Teleflex - President, CEO***

Yes.

Jim Sidoti ***Sidoti - Analyst***

Okay. And then on the approval for the new VasoNova system -- what's the strategy for rolling that out? Do you go back to your existing customers and upgrade them, and what do you do with the previous generation unit? Or will you market it more towards new users?

Benson Smith ***Teleflex - President, CEO***

So there's a mix of answers to that question. Some of the accounts that have recently converted have -- were encouraged to convert early with the expectation that they would get some assistance with moving into the new pump. Our general expectation is we'll not do that across the board. It depends really on the discussion with the individual account.

From a -- purely from a functional standpoint, the existing units in the field work well. To a certain extent, we'd like to get some of those back at the hospitals because they work well in a trial situation, as they're just testing out the general technology. So there's a little bit of a mixed answer to that based on the circumstances that have been discussed with accounts as they've been converting.

Jim Sidoti ***Sidoti - Analyst***

Okay. And then some of the other companies in your space that have reported have been attributing a little bit of the slowdown to the timing of Easter during the quarter. Do you think that affected your business at all?

Benson Smith ***Teleflex - President, CEO***

We looked at that, and the answer we came back with was no. The biggest single factor for us was just the two less shipping days. I think you could make an argument that the fact that the last day of the month fell on a holiday, had some negative influence. But when we looked at order patterns the first couple of days of April, we didn't see that as a big factor.

Jim Sidoti ***Sidoti - Analyst***

Okay. Thank you.

Operator

Thank you. (Operator Instructions). As we have no questions at this time. I'd now like to hand the call back to Jake for closing remarks. Thank you.

Jake Elguicze ***Teleflex - VP, IR***

Thank you, operator. And thanks to everyone that joined us for the call today. This concludes the Teleflex Incorporated first quarter 2013 earnings conference call. Have a nice day.

Operator

Thank you. Ladies and gentlemen, that concludes your call for today. You may now disconnect. Thank you for joining and have a good day.

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Q2 2013 Teleflex Incorporated Earnings Conference Call

EVENT DATE/TIME: JULY 31, 2013 / 12:00PM GMT

CORPORATE PARTICIPANTS

Jake Elguicze *Teleflex Inc - Treasurer & VP of IR*
Benson Smith *Teleflex Inc - Chairman, President & CEO*
Thomas Powell *Teleflex Inc - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

David Lewis *Morgan Stanley - Analyst*
Matthew Taylor *Barclays Capital - Analyst*
Kayla Crum *William Blair & Company - Analyst*
Larry Keusch *Raymond James & Associates - Analyst*
Chris Cooley *Stephens Inc. - Analyst*
Jim Sidoti *Sidoti & Company - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the quarter two 2013 Teleflex Incorporated earnings conference call. My name is Carolyn, and I will be your operator for today. At this time, all participants are in listen-only mode. We will conduct a question-and-answer session towards the end of this conference.

(Operator Instructions)

A reminder, the call is being recorded for replay purposes. And now I would like to turn the call over to Jake Elguicze, Treasurer and Vice President of Investor Relations. Please go ahead, sir.

Jake Elguicze ***Teleflex Inc - Treasurer & VP of IR***

Good morning, everyone, and welcome to the Teleflex Incorporated second quarter 2013 earnings conference call. The press release and slides to accompany this call are available on our website at www.teleflex.com. As a reminder, this call will be available on our website, and a replay will be available by dialing 888-286-8010, or for international calls 617-801-6888, passcode 88095129. Participating on today's call are Benson Smith, Chairman, President, and Chief Executive Officer, and Thomas Powell, Executive Vice President and Chief Financial Officer. Benson and Tom will make brief prepared remarks, and then we'll open up the call to questions.

Before we begin, I would like to remind you that some of the matters discussed in the conference call will contain forward-looking statements regarding future events as outlined on slide 4. We wish to caution you that such statements are, in fact, forward-looking in nature and are subject to risks and uncertainties, and actual events or results may differ materially. The factors that could cause actual results or events to differ materially include but are not limited to factors made in our press release today as well as our filing with the SEC, including our Form 10-K, which can be accessed on our website. With that, I would like to now turn the call over to Benson.

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

Thanks Jake, and Good morning, everyone. Similar to our other calls, I will begin with an overview of the results for the second quarter and discuss some strategic highlights. Tom will then provide you with a more detailed review of our financial performance, including details of our product line and geographic revenue mix, and then finally our outlook for 2013.

So beginning with our financial highlights, second quarter 2013 revenue was approximately $420 million. This represents an increase of 9.6% versus the prior-year quarter on both an as-reported and constant currency basis. We saw both a year-over-year and sequential improvement in pricing, as well as from the contribution of recently-introduced products to the market. In addition, LMA continued to contribute meaningfully to our top-line growth, adding approximately 8.5% of constant currency revenue growth in the quarter. From an overall Teleflex portfolio perspective, we continued to see the impact of negative hospital and physician office trends on a year-over-year basis. Our current internal estimate has hospital utilization rates down approximately 3% for the first half of 2013 versus 2% growth for the full year of 2012.

In 2012, the combination of share gains, price, and new product introductions provided an additional 3% growth on top of the 2%

utilization growth, for total Teleflex growth of approximately 5%. This year, the combination of share gains, price, and new product introductions is generating approximately a 4% improvement. However, through the first half of 2013, the negative 3% utilization number is reducing this to approximately 1%. Past data shows that utilization rates eventually rebound, and almost always within 6- to 12-month time frame. Given the basic underlying demographics, it's hard to construct a scenario where that won't happen in this case. When exactly that will happen is harder to predict. So we are assuming that the current trends will continue for the balance of the year. That assumption is causing us to reduce our revenue constant currency guidance range by 1% on both the top and bottom of the range.

As such, our new range calls for constant currency revenue growth of between 10% to 12% for 2013. Hitting that range will require improved revenue performance over the last half of the year, and Tom will provide some additional details that describe where that improvement is coming from. In spite of a softer revenue picture, we are not lowering our adjusted EPS guidance. By the way, this would be the case even without the adjustments we are making in accounting for the dilution of our convertible notes. Improved gross margins, strong OpEx control, and improved operating margins are all helping to compensate for the slight reduction in revenue.

Turning to adjusted gross and operating margins, they were 49.8% and 17%, respectively. Adjusted gross margin improved 170 basis points versus the prior-year quarter. In addition, it was up 100 basis points from the first quarter of 2013. And I'm pleased to say that the gross margin levels reached this quarter were the highest ever attained by the Company as a pure play medical device enterprise. Year-over-year gross margin improvement was primarily due to the mix benefit of higher margin LMA product sales, as well as the continued benefit we are seeing from price increases.

Operating margins also moved in a positive direction in the quarter, increasing approximately 230 basis points from the first quarter of 2013. And while the adjusted operating margin was flat when compared to the second quarter of 2012, it's important to understand that the prior year's amount did not include the medical device excise tax, as well as many of the expenses associated with businesses that were acquired during the course of 2012. This takes us to adjusted earnings per share, which were $1.27 for the quarter, up 3.3% versus the prior year. And while Tom will go through the mechanics behind this in more detail during his prepared remarks, I do want to point out that we decided to make a change in how we calculate adjusted earnings per share.

The change in methodology is related to the impact that our convertible notes have on our weighted average share count. This adjustment increased the Company's adjusted earnings per share by $0.04 in the second quarter and $0.07 for the first six months of 2013. The change in methodology did not have any impact on the previously-reported adjusted earnings per share figures for the second quarter and six-month period of 2012. The rationale behind making the change is that the Company believes that reflecting the anti-dilutive impact of the convertible note hedge agreements is more representative of the economic reality that would occur upon maturity of the convertible notes. And this presentation is not atypical for companies with similar circumstances.

Let's move now to some of the strategic highlights for the quarter. During the second quarter, the average selling prices of our products expanded, both when compared against prior years as well as versus the first quarter of 2013. Our Latin American business led the way, up almost 300 basis points. That was followed by North America business, which achieved price improvements of 116 basis points. Reversing the negative trend in pricing that we experienced in the first quarter of 2013, our European markets saw pricing improved approximately 62 basis points. Finally, our Asian businesses experienced a slight decline in average selling prices that total approximately 14 basis points. A slight improvement came from Japan, but that was offset by a decline in pricing coming from China. Based on our second quarter pricing results, our outlook remains unchanged from what we said on our last earnings call, and we continue to expect 70 basis points of improvement. We also remain confident in our longer-term pricing assumptions as part of our margin enhancement programs.

Moving to R&D investment and the sales of recently introduced products. Similar to the past few quarters, the Company continued to make progress on internal product development efforts. R&D spending was up 21%, or 30 basis points from the prior year quarter. From this investment came newly-introduced products which contributed 132 basis points of revenue growth. This was led by an increased sale of our ArrowADVANTAGE5, ArrowEVOLUTION, and customized European ASK product offerings. In addition, we also saw an increase in revenue associated with newly-launched regional anesthesia products. Finally, we received several market clearances from the FDA and launched several products towards the end of the quarter that we expect to positively impact our second half of 2013 results.

Some of the more notable regulatory approvals obtained were the 510(k) and CE Mark approvals that were received on our Arrow GPSCath balloon dilation catheter. This product enables multiple vascular procedures to be performed with one dual-function catheter, which will potentially reduce both procedure time and expense. This product combines angioplasty and our proprietary VisioValve injection system, allowing physicians to perform high-pressure angioplasty and inject physician-specified fluids while maintaining guide wire position. This product is expected to launch during the third quarter of 2013, and it comes from the Hotspur acquisition we closed last year. Another recent 510(k) was received on our Arrow NextStep retrograde femoral length dialysis catheters, designed for clinician ease of insertion and to take better advantage of the blood flow dynamics within the heart through its unique reverse port configuration, these products are also expected to launch during the third quarter.

Moving to some products that were launched at the end of the second quarter, the Rusch TruLite laryngoscope system provides a disposable blade and handle designed for single-patient use. It features an LED lighting technology and addresses clinician concerns regarding potential risk of patient cross-contamination as well as the cost associated with maintaining reusable laryngoscopes. And before I move on and provide you with an update on LMA, the last new product launch that I would like to call you attention to is that of our Arrow VPS G4 vascular positioning system. Launched to the market in the second quarter, the Arrow VPS G4 device is the only system to use micro-Doppler ultrasound technology in combination with inter-vascular UCG and advanced algorithms to locate the exact location of the lower one-third of the superior vena cava and cavo-atrial junction. We expect this newly-designed product to continue the good adoption we've seen to date with our catheter navigation technology. During the second quarter, we penetrated additional accounts and, as of the end of June, we have our vascular positioning technology in approximately 90 hospitals.

Now let's move on to discuss LMA. During the second quarter, LMA contributed approximately $32.5 million in revenue. I am pleased to say that LMA performance and integration efforts continue to run ahead of schedule. And similar to the first quarter of 2013, the adjusted earnings per share contribution from LMA in the second quarter exceeded our initial expectations. In an attempt to continue to build upon our airway management and laryngeal mask portfolio during the second quarter, we acquired the assets of Ultimate Medical and its affiliates. Ultimate is a leading supplier and innovator of airway management devices, with a portfolio of patented products and a full range of laryngeal mask airways. Ultimate recently developed a cuff pilot, which is the world's first integrated cuff pressure indicator for airway management devices. This technology allows clinicians to continuously assess cuff pressure, which may reduce the risk of aspiration and tracheal injury. Currently, the cuff pilot technology is used with Ultimate's portfolio of laryngeal masks, and it has the potential application for use with the market leading LMA brand of laryngeal masks as well.

Another acquisition that we closed during the second quarter was Eon Surgical. And for those of you who attended our analyst day last year, you may recall that we said we were interested in further developing our product capabilities to serve the micro-laparoscopy market. We accomplished this through the acquisition of Eon. Eon has advanced a minimally invasive micro-laparoscopy surgical platform technology designed to enhance surgeons' ability to perform scarless surgery while producing better patient outcomes. Micro-laparoscopy, unlike single incision surgery, provides surgeons a mechanism for performing minimally invasive procedures without significant changes in technique. We're excited about this acquisition, as it will expand our surgical product offerings and address a significant market growth opportunity. And before I turn the call over to Tom, I would like to provide you with a brief update on GPOs, IDNs, and the profitability initiatives that are underway at the Company.

Once again, during this past quarter, we continued to expand our GPO and IDN relationships. In Q2, we closed a total of seven agreements. Six of those awards were brand-new. These new wins were across several product categories, including PICCs, laryngeal masks, cardiac trans-radial access, and laryngoscope blades. Turning to our profitability initiatives. I am happy to report that we have completed the North American distribution center consolidation program, eliminating three US-based distribution centers. And finally, we completed the integration of the legacy Arrow ERP system into the Teleflex SAP platform. I would like to take a moment to thank all of the employees who worked on both of these projects. Your dedication to the successful completion of these initiatives is greatly appreciated. With that, I will now turn the call over to Tom, and he can walk you through our most recent quarterly financial performance in more detail. Tom?

Thomas Powell ***Teleflex Inc - EVP & CFO***

Thanks, Benson, and good morning everyone. Revenues for the first quarter were $420.1 million. This represents an increase of 9.6% on both an as-reported and constant currency basis versus the second quarter of 2012. The growth in constant currency revenue is largely due to the acquisition of LMA, which contributed approximately 8.5% of growth, and pricing, which contributed another 91 basis points of growth. Turning to gross profit, adjusted gross profit and margin were $209.2 million and 49.8%, respectively. This compares to $184.4 million and 48.1% in the prior-year quarter. The 170 basis point increase in gross margin in the second quarter is primarily due to the acquisition of LMA as well as selected price increases. In addition, gross profit in the second quarter of 2012 was adversely impacted by certain costs associated with the start-up of the Singapore distribution center. And these costs did not re-occur in 2013.

Now let's move to a discussion of operating margin. For the second quarter of 2013, the adjusted operating margin was 17%. This represents a sequential increase of approximately 230 basis points as compared to the first quarter of 2013. When compared to the second quarter of 2012, adjusted operating margin was flat. Versus 2012, the gains achieved in gross margin were offset by additional costs of the medical device excise tax and additional amortization and operating expenses associated with the late stage technology acquisitions completed in 2012. If we were to exclude these costs, the adjusted operating margin would have been approximately 18.4%.

Turning now to taxes. The GAAP tax rate for second quarter of 2013 was 12.3%, and included net tax benefits from the resolution of both a foreign tax matter and a US state matter. Both of these benefits related to prior periods and were therefore added back in determining adjusted EPS. On an adjusted basis, the tax rate for the second quarter of 2013 was approximately 26% and was in line with our expectations. For the first six months of 2013, on an adjusted basis, the tax rate was 26.9%. And for the second half of 2013, we are projecting a slightly higher adjusted tax rate than what occurred in the first six months of the year.

Now turning to earnings per share. Adjusted earnings per share for the second quarter were $1.27, representing an increase of 3.3% versus the prior-year period. As mentioned by Benson, during the second quarter we made a revision to the calculation of adjusted earnings per share. Previously, the number of weighted average shares used to calculate adjusted earnings per share excluded the anti-dilutive benefit of the convertible note hedge agreements. After the revision, the anti-dilutive impact of the hedge agreements will be included when calculating adjusted weighted average shares. We've made this revision for a number of reasons.

First of all, we believe that this presentation more accurately depicts the underlying economic dilution associated with the convertible notes, and more clearly portrays the potential dilutive impact of the convertible notes upon their maturity. And as mentioned by Benson, this presentation is not atypical for companies with similar circumstances. Second, we believe that the change will provide for greater transparency of operating performance and will reduce earnings volatility caused solely by changes in our stock price. Finally, we believe it is important to make the change now, while the earnings impact of the change is still somewhat minimal. In hindsight, we would have preferred to have made the change before the year began. This change in methodology increased our adjusted earnings per share for the second quarter by $0.04 and for the first six months of 2013 by $0.07. It did not, however, have any impact on the adjusted earnings per share amounts that were reported during the second quarter and first six months of 2012. Consistent with past practice, the Company will continue to include in its adjusted weighted average shares any additional dilution associated with the warrants.

Let's now move to a more detailed review of our constant currency product line and geographic revenue results. Critical care revenue in the second quarter was up 14%, totaling $289.3 million. The increase in critical care revenue was due to the higher sales of urology, vascular, interventional access, and anesthesia products, including the addition of LMA. Partially offsetting these growth areas was a decline in sales of respiratory products. Surgical revenue in the second quarter was up 6.6%, totaling $78.1 million. The growth in surgical revenue was primarily the result of increased sales of ligation and access products. Partially offsetting this growth was a decline in the sales of chest drainage and general surgical instrument products. Cardiac care revenue in the second quarter was down 1% and totaled $20.2 million. The decline in cardiac revenue was primarily due to lower sales of balloon pumps. And lastly, OEM revenue for the quarter was down 11% and totaled $32.1 million. The decrease in OEM revenue was largely due to reduced sales of catheter and performance fiber products.

Next, I will take you through our top line performance from a geographic perspective. Revenue in the Americas segment for the second quarter of 2013 was up 12.9% and totaled $199.8 million. The increase in constant currency revenue was due to LMA product sales, new product introductions, and price increases. Moving to EMEA, revenue in the second quarter was up 8.1% and totaled $137.8 million for the second quarter. The increase in revenue in EMEA was due to LMA product sales, new product introductions, price increases, and higher sales of existing products. Finally, sales in the Asia segment were up 17.3%, totaling $50.4 million. The increase in this segment was due to LMA product sales and higher sales of existing products.

Finally, I would like to provide you with an update regarding our full-year 2013 financial outlook. As Benson mentioned, hospital utilization and patient visit trends were negative for the first half of the year, which impacted our revenues. We are encouraged by our above-market revenue performance and our ability to generate positive pricing in such an environment. We also believe that population demographics support increasing hospital utilization and patient visits over the longer term, which will benefit us. However, given the potential for the near-term continuation of current trends, we are lowering both the top and bottom end of our 2013 constant currency revenue growth range by 1%. We now expect full-year 2013 constant currency revenue growth to be between 10% and 12%. This compares to our prior expectation of constant currency revenue growth of between 11% and 13%. Our expectations for adjusted gross and operating margins remain as previously communicated. We project adjusted gross margin to be in the range between 50% and 51% for the year. And we continue to project adjusted operating margin to be a range between 16% and 17% for the year. This range includes the impact of the medical device tax.

Finally, we are very encouraged by progress made toward our longer term financial goals and margin expansion. It is our expectation that strong operating performance and cost control measures will offset the earnings impact of slightly softer than expected revenues. As such, we continue to expect 2013 adjusted earnings per share to be in the range of $4.70 to $4.90. And similar to the remarks I made on our last few earnings calls, from a cadence perspective, we continue to project adjusted earnings per share to be greater in the second half of 2013 versus the first half, with particular strength in the fourth quarter. That completes my prepared remarks. With that, I would like to now turn the call back over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Lewis, Morgan Stanley.

David Lewis ***Morgan Stanley - Analyst***

I wonder -- two questions. I want to focus in on both the top and bottom line. First of all, if you think about the trends in the first quarter, most of the business metrics coming in inline or slightly better, but organic growth specifically. Volumes, is obviously soft again for the second quarter. If you think about the back half of the year, visibility, organic growth, our math has your organic growth having to accelerate 1% to 2% in the first half to something like 5% or so in the back half. I wonder if you could just give us some very specific commentary on, is that how you see the back half? And what gives you the confidence that that organic growth number can get better in the back half? Or is it simply assuming that LMA gets dramatically better and the organic growth acceleration is not as severe? But that's the first question; I have one follow-up.

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

The overall answer, really, is we have an additional day in the back half, and we have some new products that have already been launched in the first half that start to contribute. I'll turn it over to Tom to give you some more specifics around those points.

Thomas Powell ***Teleflex Inc - EVP & CFO***

Okay. We do see it similar to the math you have just laid out. As Benson mentioned, we have an extra shipping day, just how our days are calendarized during the year and, that, we expect to add 120 basis points of growth by itself. But then in addition, we have a number of items, none of them by themselves are all that significant, but collectively, they do support the growth. I will just highlight a number of those. First of all, as mentioned, we acquired Ultimate during the year, which will add revenues in the back half of the year. We also had a number of new products coming out. I think Benson highlighted a number of the key ones. And that will add some fairly significant growth in the back half. We also had acquired EFX, EZ-Blocker, Hotspur, and we expect as those businesses continue to ramp up, we'll get more revenue growth out of them in the back half of the year versus the first half.

We also have a distributor go-direct strategy that is aiding our revenues a little bit. And then a number of one-off issues that really benefit the back half of the year versus the first half. And I will enumerate a couple of the bigger ones. In 2012, there was a custom strike in Brazil that we don't expect to re-occur this year. And so somewhat helps with an easy comparable. We also had some import restrictions being imposed by the government of Argentina. We're starting to see those boost, and we have some belief that we may get some additional benefit in the back half. And then we had distributor who was adjusting stocking levels down in the first half, but now has reached that new point, and we expect those revenues to continue as normally as can be expected. Then also, we're likely to get a little bit of benefit from the euro in the third quarter as a result of last year's exchange rate, I think, being around $1.25. Have some negativity from the yen, likely, but overall expect all of these different matters to add up to support the stronger second half that we've got projected.

David Lewis ***Morgan Stanley - Analyst***

Okay, thanks, Tom, very clear. And then maybe just one more quick one. Benson made a comment about maintaining the earnings guidance range regardless of the adjustment. But just so we're crystal clear, on the $4.70 to $4.90, is the approximate $0.12 to $0.16 of anti-dilution included in that number or not? And if it is included, is the way to think about this the operational performance is the low end of the range, and you are at the top end of the range when you include the adjustment? Thank you.

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

So our operational income expectations right now are exactly the same place they were when we issued our guidance. So we expect operational performance to come in at exactly the same number. There is a modest benefit that comes from the adjustment that we're making, but not enough to take us outside the range.

Thomas Powell ***Teleflex Inc - EVP & CFO***

Yes, so one way to think about it is, if you go back to when we first communicated earnings for the year, back in December at our analyst day, we assumed a dilution from the converts and from the warrants of $0.11. And as a result of this change, we are going to be taking out the dilution associated with the converts, because we're now going to be counting the hedge agreement, which is -- essentially offsets that dilution. However, we still have the dilution associated with the warrants, and if the stock price stays at today's level, that's probably about $0.04. If it increases a little bit, it might be at $0.06 of dilution. So net-net, we see this change as perhaps generating a net $0.05 benefit versus our initial guidance expectations. We didn't see that as being meaningful enough to cause to us change our guidance range at all on EPS.

However, as Benson mentioned, we do want to reiterate that our underlying business performance is still very much on track with our initial expectations, while revenue is softer than planned, as discussed, we've enacted a number of cost savings measures. And we've also seen some greater performance out of LMA than initially expected. And some of the productivity initiatives that we're putting in place are really starting to drive some performance improvement. So overall, I think the headline is that operating performance is largely on track with our expectations at the beginning of the year.

David Lewis ***Morgan Stanley - Analyst***

And Tom, is it safe to assume, based on your comments around distribution being on track here in the second quarter, that margin performance in the back half of the year should be stronger than the first half? You still feel comfortable with that?

Thomas Powell ***Teleflex Inc - EVP & CFO***

On the gross margin line, we feel comfortable that gross margin will be at that 50% level that we achieved in the second quarter, perhaps a little bit higher as we get into the fourth quarter. On the operating margin line, we had a pretty solid performance in the second quarter. And that's going to be tough to replicate throughout the whole year, but we do see improved performance over what we'd see in the first quarter. Perhaps not quite to the level that we saw in the second quarter on the operating margin line.

David Lewis ***Morgan Stanley - Analyst***

Okay. Thank you very much.

Operator

Matthew Taylor, Barclays.

Matthew Taylor ***Barclays Capital - Analyst***

I just wanted to touch on the pricing initiatives. You had some bounce-back from last quarter. One thing you talked about last quarter was some disruption in Asia, and prices were down there. So, I was wondering if could you just give us a little more insight on some of the dynamics in the different regions, and what you're expecting out of each of those going forward? You mentioned your long-term view is intact, so any commentary on that would be helpful.

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

I will repeat a comment I made last quarter, and is that the underlying instructions that each of our regions have is not to be aggressive with price to the point that it puts volume at risk. In this particular quarter, the -- most of the pricing decline that came in China came from a decision to lower the price on a clip applicator so that we would get those placed in more hospitals and sell more clips. We took the hit on price for the applicators, but we'll see the revenue in future quarters come in from the clips. So the -- and I use that as an example. Most of these changes in our estimates from quarter to quarter are really around very unique circumstances. Last quarter it happened to be Europe. We were able to recover relatively nicely in Europe in a quarter. And I would say the same thing is true as we look to the last half of the year in Asia. We expect improved pricing in Asia to come out. As I said last quarter, as we move further into next year, more and more of our pricing comes from increasing prices to distributors as opposed to end users, and we have a high level of confidence of being able to achieve that.

Matthew Taylor ***Barclays Capital - Analyst***

Just wanted to ask one on your organic growth and revenue expectations for the year. You talked about some lower utilization in the US hospitals. In terms of making your guidance for the year, how much of that is predicated on continuation of the current trends in the environment, and how much is more Teleflex-specific with some of the new products that you talked about? If you could help us parse out those different factors, that would be great.

Thomas Powell ***Teleflex Inc - EVP & CFO***

So I would say -- comments on utilization, while there's probably more publicity about what's going in the United States, there's lower utilization trends in Europe and lower utilization trends in Japan as well. Our assumption is that they stay -- that these utilization trends stay at about the same level they are now, which is in negative territory for the balance of the year. Our ability to take share, launch new products and get price doesn't seem to be impacted by those declines in utilization. So those are the baseline assumptions in hitting our new revenue guidance line.

Matthew Taylor ***Barclays Capital - Analyst***

Okay, great.

Operator

Matt O'Brien, William Blair.

Kayla Crum ***William Blair & Company - Analyst***

This is Kayla in for Matt. Just a couple of questions for you. With respect to those utilization trends that you just discussed, what gives you the confidence in those markets just remaining stable and not deteriorating?

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

That's a good question, and I would say we have no magic crystal ball. Personally, over the last four weeks, I visited with most of the largest GPOs in the United States, and I would say they don't have a good explanation for the lower utilization trends. They were surprised as much as anyone else. So, I can't say that we know for sure what's going to happen, whether they're going improve, or that anybody else knows they're not going to decline. The best we can do is really peg our growth rates on top of what we think the utilization rates are likely to be at this point in time. They've been relatively consistent at that minus 3% level throughout the year. So, that's the core that's driving that assumption, but we don't have the magic crystal ball here to be able to say for sure what's going to happen to utilization rates.

Kayla Crum ***William Blair & Company - Analyst***

Understood. Great. And then just with respect to VasoNova, what pull-through revenue are we currently seeing in PICCs? And then where do you think that could go over time?

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

So I think right now, Kayla, I think we're approximately still seeing the same type of pull-through on additional PICC revenue that we have stated in the past. I believe that our prior statements referred to somewhere around, call it, a 30% or so pull-through rate on additional PICC product revenue associated with VPS sales, and I think that that's still in line.

Kayla Crum ***William Blair & Company - Analyst***

Okay. And then just over time, where do you think that could go?

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

So I will take a stab at this. The biggest, I think, improvement that we could make in our product offering over the next six months is the ability to package our stylet with our antimicrobial and antithrombogenic PICC. Right now, there's some product modifications that we need to undergo so that the stylet will fit comfortably within that product. So right now, the very best PICC we have that's receiving some attention doesn't marry well with the stylet for the VPS unit. Once that obstacle is removed, we're pretty confident that we are going to see some upward trends in PICC conversions as a result of the VasoNova placements.

Kayla Crum ***William Blair & Company - Analyst***

Okay, great, thank you.

Operator

Larry Keusch, Raymond James.

Larry Keusch ***Raymond James & Associates - Analyst***

Benson, I was just wondering if I could take your temperature on M&A. You've obviously done some larger deals with M&A and with LMA, and obviously some of these smaller technology deals, but how are you thinking about size and scope of M&A activities at this point?

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

So I would say the best answer to that, Larry, is what you've seen from us over the past two years is what you can probably expect at least over the next year and a half. We still see some very attractive technology additions that we can make, Eon Surgical being a good example of something that occurred this quarter. And we've got some other things that we're looking at during the balance of the year, and we remain quite alert to other LMA-type opportunities. It's very hard to predict whether they materialize or not, but our appetite for that remains pretty consistent with what it has been over the last two years.

Larry Keusch ***Raymond James & Associates - Analyst***

Okay. And then just lastly, on LMA specifically, I'm wondering if you can give us any update? You indicated, again, in your prepared remarks that the integration is slightly ahead of plans. That's what you indicated in the first quarter. I think you had been looking for a $0.35 to $0.40 accretion for this year, and I think in the last quarter you indicated that you expected to pull some -- forward some of the accretion. Now it's going to be spread in 2014 and 2015, more into 2014. So if you could just update us on how that's all progressing, that would be helpful.

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

I would say we're well on track, certainly in -- for 2013, where we expected to be. And as we've indicated, we're performing a little ahead of that, and actually expect that trend to continue. At this point, we're still in the process of quantifying some of the 2014 accretion and still have the opinion that it is going to be higher than what we initially thought of it, because some things are moving a little faster than what we had in our planning process. So I guess the bottom line is my remarks remain unchanged from what they were on the last quarter's call.

Larry Keusch ***Raymond James & Associates - Analyst***

Okay, great.

Operator

Chris Cooley, Stephens.

Chris Cooley ***Stephens Inc. - Analyst***

Question for you, Benson. Just looking at the results year-to-date, and the leverage you have been able to realize through the P&L, and as you see the mix starting to ramp with [CV's] newer products and how it may ahead of expectations a little bit on integration. Could you revisit for us this morning your long-term objective? In particular, how you think about the business from a margin structure? Has that changed at all in light of the current environment, post the analyst meeting and at the end of last year? And then I have just one quick follow-up thereafter.

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

Yes. So the short answer to that question, Chris, is really no. The majority of the improvement that we needed to make to get to those longer term gross margin numbers and operating margin numbers are not particularly revenue-sensitive. They have more to do with changes that we're making in our operational footprint. And again, are not appreciably revenue-dependent. Now, more revenue helps, but we don't expect utilization softness to be an interference with our ability to make those improvements. And excuse me, I forgot the second half of your question.

Chris Cooley ***Stephens Inc. - Analyst***

No, that's fine. That's what I wanted to get at, is basically you feel you still can obtain the margin targets there.

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

As an overall statement, I would say I feel a greater sense of confidence in our ability to get there just based on the details and issues that have been addressed. We've been putting more and more meat on the bones in terms of exactly how we're going to get there and what the timetable is. So if anything has happened in the confidence factor in our getting there, it's gone up as opposed to gone down over the last quarter.

Chris Cooley ***Stephens Inc. - Analyst***

Makes sense. And if I could, just one quick follow-up and I'll get back in queue. When you look at the second quarter results, respiratory and OEM both down 6.5% and 11%, respectively. Was there any -- could you parse out that decline for us between volume? Or was there anything structural there in terms of a contract shift, completion of a product? Just kind of curious about getting a little bit of color behind both of those declines.

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

Yes, so there are different drivers there. OEM benefited last year considerably by a P-back shortage. We happened to have it on hand, and that resulted in a lot of orders for those products well in advance of our end customer's real need. So it was a benefit to us last year, probably inflated the OEM number somewhat last year, and this year, simply as a comparison this year to last year, it looks negative. Now, on top of that, there is some softness in our end customers' utilization rates for some products that is contributing to that a little bit, and that's really due to some utilization decline. Our expectation is that most of that P-backs issue is behind us, and as we look at the balance for the year, it is going to be more favorable.

Respiratory therapy is perhaps one of the products that is generally used by lots of hospital patients, and that probably has had a greater impact from downward trends in utilization than other product areas. In fact, if you look at our surgical numbers, they're up quite nicely, so where we've gotten products in really strong niches that are non-postponable, we continue to see good growth out of those segments. So those are the answer for respiratory and OEM.

Operator

(Operator Instructions)

Jim Sidoti, Sidoti & Company.

Jim Sidoti ***Sidoti & Company - Analyst***

Just a bookkeeping question. On the first quarter call, you guys -- and I think on the guidance, initial guidance, you expected the total of the non-cash amortization and the non-cash interest expense to be about $0.99, and you've taken that down to $0.90. Can you let us know why the change there?

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

So Jim, I think it was just a slight reduction there from the initial expectations, once we looked at it as part of the re-forecast process, but nothing material there.

Jim Sidoti ***Sidoti & Company - Analyst***

Okay. And then the -- on previous calls, you talked about making some further consolidations, I think with the LMA manufacturing, to get additional accretion in 2014. Is that still on track?

Benson Smith ***Teleflex Inc - Chairman, President & CEO***

So we expect a good gross margin improvement in the LMA product line, yes, and I can't be more specific about the details than that.

Jim Sidoti ***Sidoti & Company - Analyst***

Okay. All right.

Operator

(Operator Instructions)

We have no questions at this time, so now I would like to turn the call back over to Jake for closing remarks.

Jake Elguicze ***Teleflex Inc - Treasurer & VP of IR***

Thank you, operator. And thanks to everyone that joined us for the call today. This concludes the Teleflex Incorporated second quarter 2013 earnings conference call.

Operator

Thank you, Jake. Ladies and gentlemen, thank you for your participation in today's conference. That concludes your presentation. You may now disconnect. Have a good day.

THOMSON REUTERS

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Q3 2013 Teleflex Incorporated Earnings Conference Call

EVENT DATE/TIME: OCTOBER 30, 2013 / 12:00PM GMT

CORPORATE PARTICIPANTS

Jake Elguicze *Teleflex - Treasurer, VP, IR*
Benson Smith *Teleflex - President, Chairman, CEO*
Tom Powell *Teleflex - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

David Lewis *Morgan Stanley - Analyst*
Larry Keusch *Raymond James - Analyst*
Matthew O'Brien *William Blair - Analyst*
Richard Newitter *Leerink Swann - Analyst*
Matthew Taylor *Barclays - Analyst*
Anthony Petrone *Jefferies - Analyst*
Jim Sidoti *Sidoti - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, welcome to the Q3 2013 Teleflex, Inc. conference call. My name is Steve and I'll be your operator today. (Operator Instructions). Now I'll turn it over to Jake Elguicze, Treasurer and vice president of Investor Relations. Please proceed, sir.

Jake Elguicze ***Teleflex - Treasurer, VP, IR***

Thank you, operator, and good morning, everyone, and welcome to the Teleflex, Inc. third quarter 2013 earnings conference call. The press release and slides that accompany are available at our website at www.teleflex.com. As a reminder, this call will be available on our website and a replay will be available by dialing 888-286-8010 or for international calls 617-801-6888 passcode 49689482.

Participating on today's call are Benson Smith, Chairman, President, and Chief Executive Officer, and Thomas Powell, Executive Vice President and Chief Financial Officer. Benson and Tom will make brief prepared remarks and then we'll open up the call to questions.

Before we begin, I would like to remind you some of the matters discussed in the conference call will contain forward-looking statements regarding future events as outlined on slide four. We wish to caution you that such statements are in fact forward-looking in nature and are subject to risks event may differ. Filing with the SEC including our Form 10-K which can be accessed on our website. With that I'll turn it over to Benson.

Benson Smith ***Teleflex - President, Chairman, CEO***

Thanks, Jake, and good morning, everyone. Similar to other calls, I will take us through an overview of the results for the quarter and discuss some highlights. But first, I want to address some questions that, I believe, may be on some of your minds. In particular, I will provide some detail regarding our signed agreement to acquire Vidacare Corporation. We are excited about this addition to our product portfolio, and want to share our rationale, as well as our expectations. I will discuss this after I review the quarter's highlights.

Secondly, I want to provide some commentary around why we are lowering our revenue expectations for the year, especially in light of positive results during the third quarter.

Thirdly, does our lower revenue guidance for the fourth quarter have any impact on our 2014 growth expectations?

And lastly, has anything happened in the third quarter which changes our thinking about either the achievement or the timing of our margin expansion goals?

The answer to the last question is no. We continue to make very good progress in the planning process and expect to provide much more visibility into the details at our upcoming analyst meeting in December.

Regarding our revenue guidance, after the second quarter call, I was asked many times at various investor meetings why we didn't take an even more conservative posture. It was quite clear, I think, to many people, that in order to hit our guidance for 2013, we would have a steep uphill climb for the second half of the year. However, a number of discrete elements led us to believe this was possible and we enumerated those on the last call.

We were also influenced by what appeared to be a strong order trend in July, and we expected resolution to certain dealer negotiations that would also have had a positive revenue impact in the fourth quarter. However, the order trend, while it was much improved over the first half, was not quite as strong as we expected and sufficient to get us to our guidance levels in light of other factors that happened.

In particular, let me share some of those details about the other factors. Today, as we look ahead into the fourth quarter, we do not see any signs yet of a strong flu season similar to last year's fourth quarter, and that is likely to result in unfavorable comparisons in our respiratory therapy business. And while our dealer negotiations are making good progress, the timing will not result in any significant improvement in the fourth quarter.

Generally, our other underlying business trends are quite positive. As a result, while there will be some negative impact this year, we do not expect that these circumstances will alter our growth expectations for 2014.

We expect our OEM business, which has been in negative territory all year, to be back in positive territory by the first quarter next year. In addition, we expect that our respiratory therapy year-over-year revenue comparisons will be much more favorable in 2014 compared to 2013. And we have every reason to expect that our agent-dealer negotiations will be concluded successfully.

This, coupled with our positive trends in our other product lines, leaves our 2014 growth expectations intact. Naturally, we'll provide more substantive information at our New York analyst meeting in December, when we release our 2014 guidance.

So with that overview, let's begin with our third quarter highlights. Overall, the third quarter was a good quarter for Teleflex. Revenue this quarter totaled $413.8 million. This represented an increase of 11.6% versus the prior year on a constant-currency basis, and 12.4% as reported. Revenue growth continued to be driven by our pricing initiatives, as well as from the introduction of new products to the marketplace. In addition, LMA continues to contribute meaningfully to our top and bottom line growth.

While from an adjusted earnings standpoint of view, the company achieved $1.33 this quarter, representing an increase of almost 27% versus the prior year, the earnings growth in the quarter primarily came from improvements in our gross margin, as well as some cost containment initiatives. And while Teleflex's longer-term success and operating margin expansion is becoming less and less dependent on pricing and revenue growth, I know that many people in the investment community continue to be interested in the sustainability of our pricing initiatives.

During the third quarter, the average selling prices of our products once again expanded, both when compared against prior year, as well as when compared against the first and second quarters of 2013. This past quarter, the improved average selling prices of products contributed approximately 109 basis points of revenue growth.

Thanks to a distributor-to-direct conversion in South Africa that occurred during the second quarter of the year, our European business saw an improvement in pricing of 180 basis points. However, even without that, Europe had an improvement of 68 basis points. That was followed by increases in the Americas, which generated a 103 basis point improvement, and Asia, which saw its prices increase 69 basis points. Finally, our OEM business experienced a slight decline in the average selling prices of products that totaled 34 basis points.

I'm pleased to say, however, that the price improvements we have been able to generate have not come at the expense of losing longer-term GPO and IDN contracts. In fact, during this past quarter, Teleflex won a total of 10 agreements. Nine of those awards were new, and included product categories like laryngeal masks, PICCs and our VasoNova VPS technology. Currently, our VPS technology is in approximately 100 accounts nationwide, and all indications point to a robust fourth quarter.

Next, I would like to touch on recent a new product launch that we are quite excited about. As many of you are aware, part of Teleflex's longer-term margin expansion is expected to come from the introduction of new products at higher margins. It is our belief that an example of this recent launch is our ARROW JACC with Chlorag+ard Technology. Designed specifically for the nurse call point, this product is the first and only long-term anti-microbial and anti-thrombogenic central venous catheter. It employs our Chlorag+ard Technology as a weapon against thrombosis and infection for up to 30 days and is effective against the full spectrum of bacteria. We believe that this product represents a significant step forward in raising the standard of care for patients requiring vascular access, while equally addressing the clinical need for efficiency and cost-effectiveness.

And before I move on to discuss the Vidacare opportunity that we announced last night, I would like to take a moment to provide you an update on LMA. The acquisition of LMA, which closed last October, is another example of how the management team at Teleflex has improved the company's product mix and operating margin profile. During this past quarter, LMA contributed its highest amount of revenue yet as part of Teleflex, totaling approximately $34 million, while its gross margin reached almost 61%. Keep in mind that when we acquired LMA a little less than 1 year ago, its gross margins were in the 57% to 58% range.

Because the integration and performance of LMA continued to progress so well, during the course of 2013, we began to look for another LMA-like acquisition and we believe we found it in Vidacare. Based in Texas, privately-held Vidacare is the leading provider of intra-osseous, or inside the bone, access devices for diagnostic monitoring and therapeutic devices. With a strong patent portfolio, Vidacare will expand Teleflex's vascular access product portfolio with a defining technology that moves Teleflex into the inside-the-bone segment and strengthens our presence in the EMS channel and nurse call points. And similar to LMA, Vidacare will also improve Teleflex's overall gross and operating margin profile, as currently, Vidacare's gross margins are approximately 85%.

Many of you may not be familiar with the intra-osseous access device, so let me take a moment and provide you with a bit more detail. Vidacare products incorporate a patented power driver and needle system to access the inside of the bone space for a variety of medical, diagnostic, and therapeutic purposes. Their products include the EZ-IO intra-osseous vascular access system, the OnControl Bone Marrow System, and the OnControl Bone Access System. Vidacare's proprietary devices have become the recognized technology standard and are used in a broad range of applications, including vascular access, emergency medicine, oncology, and spinal surgery.

The EZ-IO intra-osseous vascular access system gives immediate, stable and secure vascular access via the intra-osseous space in the bone, where marrow is located and where blood and stem cells originate. The intra-osseous space is the body's largest non-collapsible vein that provides a route for infusion of fluids and essential medications into the central circulatory system as quickly as traditional IV lines. EZ-IO is used by a vast majority of the United States advanced life-support ambulances and emergency departments, as well as the United States military, when vascular access is difficult to obtain.

The OnControl Bone Marrow System provides the first significant advancement in bone marrow biopsies and aspirations in more than 50 years, offering patients and clinicians a vastly improved procedure option with significantly lower pain and exceptional quality core samples. While the OnControl Bone Access System provides rapid and safe access to the vertebrae during spinal surgery procedures with increased precision in needle placement and shorter surgical procedure times.

The transaction, which Teleflex intends to initially fund with borrowings under its revolving credit facility, is valued at $262.5 million, net of cash acquired. Like all acquisitions, this is subject to customary closing conditions, including the receipt of certain regulatory approvals. It's expected to be completed late in the fourth quarter of 2013, and based on that, the acquisition is not expected to significantly impact Teleflex's 2013 revenue or adjusted earnings per share expectations. However, Vidacare is expected to contribute approximately $68 million to $72 million of revenue at approximately $0.10 to $0.15 in adjusted earnings per share in fiscal 2014. We, at Teleflex, are really excited about this opportunity and look forward to Vidacare's employees becoming part of the Teleflex family.

With that, I will now turn the call over to Tom and he can walk you through our most recent quarterly financial performance and our outlook for the remainder of 2013 in more detail.

Tom Powell ***Teleflex - EVP, CFO***

Thanks, Benson, and good morning, everyone. Revenues for the third quarter were $413.8 million. This represents an increase of 11.6% on a constant-currency basis. When taking into consideration the impact of foreign exchange, revenues in the third quarter increased 12.4% versus the third quarter of 2012. The growth in constant currency revenue is largely attributed to the acquisition of LMA, as well as sales of new products, which contributed 1.5 percentage points of growth, and pricing, which contributed another 1.1 percentage points of growth.

Turning to gross profit -- for the third quarter, adjusted gross profit and margin were $205.8 million and 49.7%, respectively. This compares to $180.6 million and 49.1% in the prior year quarter. The 67 basis point increase in adjusted gross margin was primarily due to the acquisition of LMA, as well as selective price increases.

Also during the quarter, we incurred a number of costs that we would characterize as shorter term, or nonrecurring in nature, that held us back from achieving further gains in gross margin. Those costs include the transition to and startup of the new North American Distribution Center located in Olive Branch, Mississippi, the transfer of cardiac production to the Chelmsford facility, and some inefficiencies in ramping up production at several plants following the rollout of SAP at the end of the second quarter. While these costs adversely impacted gross margin during the quarter, we do not foresee ongoing issues and expect that each of the referenced initiatives will achieve its longer-term savings objectives.

Now let's move to a discussion of operating margin. For the third quarter of 2013, the adjusted operating margin was 17.3%. This represents a sequential increase of approximately 30 basis points, and an 80-basis-point improvement when compared with the third quarter of 2012. If we exclude the impact of the medical device tax on our third quarter 2013 results, operating margin would have been approximately 18%. The improved operating margin was the outcome of the gross margin gain, coupled with tight SG&A cost control initiatives put in place to counter a softer-than-anticipated revenue environment. As we look to the future, we intend to leverage the cost programs currently in place as a means to reset SG&A spending levels, which will help us to achieve our longer-term margin expansion objectives.

Turning now to taxes. The GAAP tax rate for the third quarter was 10.2% and included net tax benefits from the favorable resolution of foreign and US tax matters, as well as the balance sheet impact of statutory tax rate changes. These benefits do not directly relate to the current period, and were therefore removed when determining adjusted earnings per share. On an adjusted basis, the tax rate for the third quarter was approximately 23.8%. This tax rate was slightly better than our original expectation, primarily due to a favorable return-to-accrual adjustment for approximately $2.8 million, which added approximately $0.07 to third quarter adjusted EPS.

And now, turning to earnings per share. Adjusted earnings per share for the third quarter was $1.33, representing an increase of 26.7% versus the prior year period.

Let's now move on to a more detailed review of our constant currency product line and geographic revenue results. Critical Care revenue in the third quarter was up 17.9%, totaling $289.3 million. The increase in Critical Care revenue was due to the addition of LMA, as well as higher sales of vascular, urology, and interventional access products. Partially offsetting these growth areas was a decline in sales of respiratory products.

Surgical revenue in the third quarter was up 3.9%, totaling $73.2 million. The growth in surgical revenue was primarily the result of increased sales of ligation, suture and access products. Partially offsetting this growth was a decline in the sales of general surgical instrument products.

Cardiac Care revenue in the third quarter was down 1.6% and totaled $17.6 million. Similar to recent quarters, the decline in cardiac revenue was primarily due to lower sales of intra-aortic balloon pumps.

And lastly, OEM revenue for the quarter was down 9.4%, and totaled $33.7 million. The decrease in OEM revenue was largely due to reduced sales of catheter, extrusion, and performance fiber products.

Next, I'll take you through our top line performance from a geographic perspective. Revenue in the Americas segment for the third quarter was up 13.8% and totaled $192.5 million. The increase in constant-currency revenue was due to LMA product sales, new product introductions, and price increases.

Moving to EMEA. Revenue in this segment was up 9.6% and totaled $132.3 million for the third quarter. The increase in EMEA was also due to LMA product sales, price increases, new product introductions, and higher sales volume of existing products.

Finally, sales in the Asia segment were up 25.2%, totaling $55.3 million. The increase in this segment was due to LMA product sales, price increases, and higher sales volume of existing products.

Finally, before I open up the call for Q&A, I'd like to take the opportunity to provide you with an update regarding our full year 2013 financial outlook.

While our third quarter revenue growth of 11.6% was strong, it was not quite as strong as we were previously expecting. As outlined by Benson, these and other factors now cause us to take a more tempered view toward fourth quarter revenue growth. As an outcome, we are lowering our 2013 constant-currency revenue growth estimates to a range between 8.5% and 10%. This compares to our prior expectation, which called for constant-currency revenue growth of 10% to 12%.

In addition, our expectations for adjusted gross margin are slightly lower as well. Previously, we projected adjusted gross margin to be in the range between 50% and 51% for the year. We now expect our full year gross margin to be between 49.5% and 50%.

To offset the earnings impact of the softened revenue and gross margin expectations, we have taken steps to reduce planned SG&A spending. As an outcome, we expect that adjusted operating margin will remain in the range between 16% and 17% for the year. This range includes a negative impact of 65 basis points from the medical device tax.

And finally, because of the strong earnings performance in the third quarter and our expectation to closely manage SG&A spending for the balance of the year, we are raising our full year adjusted earnings per share expectations for 2013. We now expect 2013 adjusted earnings to be in the range of $4.85 to $5 per share. This is an increase from our prior expectations, which call for adjusted earnings per share to be in the range of $4.70 to $4.90 per share.

That completes my prepared remarks. With that, I would like to now turn the call back over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And your first questions comes from the line of David Lewis were Morgan Stanley. Please go ahead, David.

David Lewis ***Morgan Stanley - Analyst***

Good morning. Benson, we talked a little bit about organic growth here this year and maybe next year. 4Q implied numbers are actually in line with our model, but they still do apply the acceleration. I appreciate you mapped out a view of how this can improve to next year. In this environment, I guess I'm trying to understand, what is the most appropriate way to think about your business heading into 2014? Should investors think about the roughly 3% organic growth we saw this the third quarter or something closer to the 5% organic growth that your implied numbers assumed for the fourth quarter?

Benson Smith ***Teleflex - President, Chairman, CEO***

I think it's somewhere between those goalposts. I think our current view of the macro-environment is that it's stablizing but not necessarily improving in terms of physician visits and hospital visitations. I think we still see some confusion in terms of what the impact of the Affordable Care Act is likely to be in the short term.

Looking at where the villains are this year, and in the Teleflex portfolio, it is primarily our respiratory therapy business, our OEM business, and our cardiac care business. Specifically, I think we feel quite optimistic that the OEM business is likely to see a good turn around and be in positive territory next year, so that drag will be eliminated. We are starting to see some encouraging green shoots around our cardiac care business with some new accounts that we've won, and the introduction of the Hotspur balloon into that product line.

The respiratory therapy business is likely to remain our most challenged business in terms of the overall macro-environment. But as I mentioned earlier at least the comparisons between 2014 and 2013 are sounds likely to be more favorable. I think we'll see an uptick of where we are this year, and I think we're likely to take a bit of a conservative view though with some of the uncertainty in terms of our planning and our guidance for 2014.

David Lewis ***Morgan Stanley - Analyst***

Okay, very helpful. And maybe just shifting focus to the Vidacare for a second, here. I was wondering if you could give us a sense of the Vidacare growth rate, I don't think I caught that in your prepared remarks, what Vidacare's been growing at, and what do you see the core end markets as growing at. I was wondering more strategically, if we take a step back, is this transaction more about leveraging the vascular channel or more about driving growth for the intra-osseous segment? Thank you.

Benson Smith ***Teleflex - President, Chairman, CEO***

Yes, so Vidacare has been growing, our estimate has Vidacare has been growing in the mid-teens. They've certainly had a couple of recent years that have been higher than that as a result of dealer to direct conversions. We sort of stripped that out in our own model as one-time events.

Speaking a little bit about the rationale, there is a couple of really good points we like about this. First of all, they have just really started the process and are seeing quite good growth rates in the hospital segment as well. So we think this is a really good addition to our vascular sales effort in the hospital. It gives us a broader product portfolio, and so it's certainly a plus for us from that perspective.

With the acquisition of LMA, that is a product line that is also used in the ambulance segment, and personally Teleflex was somewhat under-represented in that space, and so the -- about a third of Vidacare's business is in that hospital environment. This will allow us to have better coverage and better presence in that segment.

And then the bone marrow product lines are one that was a bit neglected in the Vidacare portfolio. They have just recently started paying more selling attention to that product line, and we think that's going to be a great product in the interventional radiology space.

Lastly, I would just say we see there is considerable opportunity for expansion over the next several years in the Asian market in particular. So it's more of a growth play than LMA was, but there's still good synergies that we'll get out of the acquisition.

David Lewis ***Morgan Stanley - Analyst***

Very helpful. Thank you very much.

Operator

And your next question is from the line of Larry Keusch from Raymond James. Please go ahead.

Larry Keusch ***Raymond James - Analyst***

Hey Benson or Tom, just continuing on Vidacare, and some of the comments made in the prepared remarks this morning, the $0.10 to $0.15 accretion for 2014. I'm wondering what, how you are getting to that, what are the assumptions there? And I guess, going back to the release from last night, you indicate the initial financing is going to be done through your revolver, which I think would imply that something more permanent will be put in place at some point. Again, if you could speak to that, and how that plays into the current assumptions of see creation for 2014.

Tom Powell ***Teleflex - EVP, CFO***

Okay. Well, the $0.10 to $0.15 for next year is largely based on bringing the business into ours. We expect that the integration will go fairly quickly and will realize synergy savings throughout 2014. So as we move into 2015 we're looking towards a doubling of that level of earnings as result of pretty quick integration. Going forward after that it's largely going to be driven--our future gains will be driven through the revenue growth that Benson had referenced.

Now with regard to the financing, your point is something that we're obviously using revolver to finance this initially. Our assumption was more permanent financing would follow, and the cost would be included in that $0.10 to $0.15% assumption for 2014 going forward.

Larry Keusch ***Raymond James - Analyst***

Okay, great. Appreciate it. And then I guess the other quick one for me when you think about the respiratory business and the OEM business and the comments, Benson, that you made relative to 2014, why does the OEM business actually improve? And I guess the other question respiratory has been -- it's a low-margin business for you guys. It's been fairly volatile. What are you doing there to keep it or to improve it, I should say? And I guess the other question is, why keep it?

Benson Smith ***Teleflex - President, Chairman, CEO***

So let me address the OEM circumstance first. This year we had a higher number of contracts with outside customers that were ending, and the customers had an opportunity to take that business in house, and due to some of their own economic pressures, decided to do that. I think we've got pretty good visibility in terms of what that is going to look like in 2014, and pretty good visibility in terms of projects that we have been working on this year that will be commercialized by our outside customers next year. It is, I would say, among the rest of our businesses, the most subject to some volatility from year to year based on what's going on with some of the outside customers. If we look back to 2012, they were in the growth rate of about plus 10%. This year its closer to minus 10%. Next year we think it's going to be up at least in the mid-single digits.

I think we've got pretty good visibility in terms of what that is going to look like, and this late in the year the orders coming in are for next year. So I think we have a pretty good sense of comfort about the OEM business.

The respiratory therapy business is a business that is more subject than most of our other businesses to ups and downs in procedures and admissions. I think it is a more challenged business from the standpoint of our overall gross margins. We expect some fairly substantial improvement in those gross margins as a result of our footprint consolidation, and I think as we look at our overall product portfolio it's a business that's under review pretty constantly.

Larry Keusch ***Raymond James - Analyst***

Okay, terrific. Thanks very much.

Operator

And your next question is from the line of Matthew O'Brien from William Blair. Please go ahead.

Matthew O'Brien ***William Blair - Analyst***

Good morning. Can you guys hear me okay?

Benson Smith ***Teleflex - President, Chairman, CEO***

We can.

Tom Powell ***Teleflex - EVP, CFO***

Good morning.

Matthew O'Brien ***William Blair - Analyst***

Thanks. Just a couple of quick questions and housekeeping items for you. I think you mentioned the non-recurring costs that impact the gross margin in the quarter? Can you quantify the basis point perspective what that impact was? And then Benson, per the follow up to David's question on growth for Vidacare, I understand going forward we should expect something around mid-teens growth?

Tom Powell ***Teleflex - EVP, CFO***

Just to quickly answer your question about the overall impact, just two items accounted for about 100 basis points in what we would describe as non-recurring gross margin events -- principally coming from a needle recall that we had in the cardiac care business, and expenses relating to the opening of the North American distribution center that have basically already resolved and are back on track. So that's the quantification of that.

In terms of the Vidacare rates going forward, I think our conservative estimate is that this will contribute at least double the growth rate of our non-Vidacare product line over time. Certainly over the next five years. It becomes a little less clear as we move out further than that as the markets start to mature but I think we'll see double the growth rate of that product line versus our overall Teleflex growth rate.

Matthew O'Brien ***William Blair - Analyst***

Within cardiac care, you've mentioned in the past that balloon pumps is a smaller piece of the business, but you have seen some impact in some data over in Germany, has that expanded beyond Germany at this point, as far as impact utilization here in the US or elsewhere?

Benson Smith ***Teleflex - President, Chairman, CEO***

No, it continues to remain a confined to Germany, and our expectation is that unless there's several other studies that confirm the shock to trial results it's unlikely to affect clinical practice outside of that area, that's what we've seen so far.

Matthew O'Brien ***William Blair - Analyst***

If I could sneak in one more, and back to VasoNova, I think you said 100 accounts at this point affecting [inaudible] in Q4. Could you give us a sense for next steps for that product, and then where you're at in terms of [inaudible]. Thank you.

Benson Smith ***Teleflex - President, Chairman, CEO***

Yes, so, a good bit of our effort in the third quarter revolved around the introduction of the new console, and most of that was directed at existing accounts that were using first generation equipment that was out there, and they had converted to it with the anticipation of moving to the new console when it was available. So that that consumed a fair amount of selling time during the third quarter. Now that time has shifted over to new accounts, and we follow that pretty closely in terms of where the interest level is. And as I mentioned in my prepared remarks, indications look quite promising for a relatively robust quarter in terms of count conversions. Was there another part to your question?

Matthew O'Brien ***William Blair - Analyst***

Just the PICC pull through, I think you provided some of those metrics in the past.

Benson Smith ***Teleflex - President, Chairman, CEO***

Yes, so actually we continue to see encouraging PICC pull through. We saw a noticeable increase in our anti-microbial, anti-thrombogenic PICC from accounts outside of the VasoNova realm, and our effort here is to really get that product packaged with a pre-packaged with a VasoNova stylet as soon as we can because of the interest in the anti-microbial/anti-thrombogenic features.

Lastly, we are starting to see some initial use of VasoNova with CVC catheters, and that's an encouraging sign.

Matthew O'Brien ***William Blair - Analyst***

Thank you.

Operator

And your next question from the line of Richard Newitter from Leerink Swann. Please go ahead.

Richard Newitter ***Leerink Swann - Analyst***

Hi, thanks for taking the questions. Benson, if you wouldn't mind just with respect to the Vidacare acquisition. You guys had a very successful integration of LMA. Maybe you could just elaborate a little bit more. You talked a little bit about the strategic rationale and the strategic differences behind the integration, but can you talk about logistically and operationally where there might be differences and similarities in the next few months and the steps you'll need to take to integrate?

Benson Smith ***Teleflex - President, Chairman, CEO***

One of the things that I think the LMA integration, particularly in the field, went so well was that a lot of revenue on a product line basis associated with essentially one product, and our observation was that that's much easier to integrate into particularly your selling and marketing organizations that don't have 30 new products to be able to learn.

Also what helped was that the LMA sales force that came with it was very clinically oriented, and were able to quickly pick up the technical assimilation of the rest of the vascular line. From that point, we see some real similarities in Vidacare -- 80% of their business plus is in that EZ-IO product line. It is a clinically driven product that from what we have learned about their sales force, they're very confident and comfortable in terms of walking in and talking with clinicians. We think a lot of same factors that help LMA be a good integration for us we are likely to see with the Vidacare line.

Richard Newitter ***Leerink Swann - Analyst***

Okay. That's helpful. Thank you. Maybe also can you provide a little bit of insight into what kind of step up in quarterly amortization we can expect from this acquisition?

Tom Powell ***Teleflex - EVP, CFO***

So I believe that the expected amortization next year is somewhere in the $8.5 million range, I believe.

Richard Newitter ***Leerink Swann - Analyst***

That would be assuming--this is assuming a close in starting Q1.

Tom Powell ***Teleflex - EVP, CFO***

Yes, Rich, that is sort of a full year amount, I believe.

Richard Newitter ***Leerink Swann - Analyst***

Got it. Thanks for that. And then just maybe -- well, that's helpful. Thank you very much, guys.

Operator

And your next audio question is from the line of Matthew Taylor from Barclays. Please go ahead.

Matthew Taylor ***Barclays - Analyst***

Thanks, guys, good morning. Quick on Vidacare. So this really seems like another LMA sales deal, but just can we talk about the company's capital strategy on acquisition on the larger scale. You've done two bigger deals inthe past two years. What can we expect going forward? Can we expect smaller deals? Or just lesser deals? I'm just curious on that.

Benson Smith ***Teleflex - President, Chairman, CEO***

So for 2014 I'm going to say it's unlikely that we would do another Vidacare or LMA-size acquisition. The only caveat I would give to that is acquisitions tend to be somewhat opportunistic. We probably wouldn't have done Vidacare as soon as we did, except we had been following this property for some period of time, and the time seemed right for them to think about selling it.

So we don't necessarily have an acquisition of that size planned. It's possible. I think the more likely scenario is you're going to see a continuation of some of these smaller technology and smaller product acquisition, late-stage technology acquisitions.

We're just going through the process, actually, of revisiting what our capital allocation strategy going to emerge for 2014 and 2015, and again I think we'll be able to provide additional insight at the analyst meeting in December.

Matthew Taylor ***Barclays - Analyst***

Thanks, guys. That's helpful. And just a quick follow up on Asia if I could. I'm just trying to understand everything with the puts and takes. Last quarter you spoke about the clip applicator and you had focus on that weighted on results a little bit. This quarter there was some talk about the distributors negotiations that are going on. But as we take a look at the business from how LMA has done, to pricing, and to really the overall growth rate, things really seem to be going well. How should we think about the Asian business going forward?

Benson Smith ***Teleflex - President, Chairman, CEO***

I think we're going to see more of the same, if not, a modest uptick.

Matthew Taylor ***Barclays - Analyst***

Okay, thanks, appreciate it.

Operator

And your next question comes from the line of Anthony Petrone from Jefferies. Please proceed.

Anthony Petrone ***Jefferies - Analyst***

Thanks and good morning. A couple on Vidacare, Benson, can you share the margin profile of that business? With LMA certainly that was gross margin accretive, wondering what the gross margins are on the Vidacare business, and even further down on P & L, the operating line and specifically what is their R&D level, does that work to increase the overall R&D of the company?

Benson Smith ***Teleflex - President, Chairman, CEO***

The gross margins are 85%, and until we actually close the transaction we're not ready to go into some of the operational synergies that might occur and Vidacare's current P&L would be certainly substantially different as a result of integrating the sales organizations.

Anthony Petrone ***Jefferies - Analyst***

That's helpful. Maybe one of the features of LMA was that it had a big international presence, so that actually helps at the tax level. It seems that Vidacare is possibly more US-focused, so maybe what is the geographic mix of Vidacare's revenues, and how does that play out at the tax line?

Benson Smith ***Teleflex - President, Chairman, CEO***

About two-thirds of the revenue currently is in the United States, and about a third of it is, giving you rough numbers here, a third of it is outside of the United States. They have really just gun the process of taking over their dealer, their international dealer operations into a more of a direct posture. We actually expect that the international sales provide a robust opportunity for improved revenue growth over the next couple of years. They just recently were awarded clearance for the product in Japan. They're going through the process of getting some reimbursement and acceptance, clinical acceptance in the product. They're halfway through the process of getting it licensed and approved in China. So one of the things that I think we really bring to the picture is a very sophisticated international operation that can take advantage of the product's capabilities and markets they have not yet penetrated.

Tom Powell ***Teleflex - EVP, CFO***

And with regard to the tax rate, just given where the revenues are generated and US tax code, you should probably be thinking around 35 percentage type tax rates. So right now we don't have significant tax planning benefits that we're able to realize.

Anthony Petrone ***Jefferies - Analyst***

Sure, and maybe switching topics, Benson, to GPO volumes, I think you had a comment last quarter that volumes unexpectedly fell at some of the larger GPOs and they were looking at the negative 3% utilization rate. I am just wondering if there was an update on those trends.

Benson Smith ***Teleflex - President, Chairman, CEO***

The latest conversations that I've had from a variety of providers and GPOs, I would say, and just to echo my remarks in my script, it appears that there's not continuing erosion, I would say that it looks from our vantage point at this point is that I would describe as stabilization in office visits and hospital procedures. We are seeing considerable cost reduction efforts on the part of certainly some of our largest customers. I think that there's a growing concern about what the actually impact of the Affordable Care Act is going to be in terms of what's the mix of patients they're going to see, are they all Medicaid patients, and I think they are at least preparing for continued cost pressure in the United States. As we move to Europe I think we're seeing, again, the erosion appears to have stopped, and I would say our viewpoint for 2014 is a modest uptick in Europe.

Anthony Petrone *Jefferies - Analyst*

Thanks again.

Operator

Sir, you have no further questions at this time. (Operator Instructions). Your next question is from the line of Jim Sidoti of Sidoti & Company. Please go ahead.

Jim Sidoti *Sidoti - Analyst*

Good morning. Can you hear me?

Benson Smith *Teleflex - President, Chairman, CEO*

We can, Jim.

Jim Sidoti *Sidoti - Analyst*

I assume you don't want to go into too many details on the synergies until after you complete the acquisition, but can you tell me the size of the sales force is now at Vidacare?

Benson Smith *Teleflex - President, Chairman, CEO*

Yes, we're going to hold the line and keep any discussion about synergies and integration until after the closing. And in fairness, we're just having our first integration meetings with the folks at Vidacare, and we're approaching this with a bit of an open mind in terms of what this is going is look like. We've been very impressed with the folks we've met at Vidacare, and are interested in capitalizing on their talent pool as much as we possibly can.

Jim Sidoti *Sidoti - Analyst*

Maybe ask another way, do they have the whole country covered right now with their current sales force?

Benson Smith *Teleflex - President, Chairman, CEO*

Yes.

Jim Sidoti *Sidoti - Analyst*

Okay, and just another bookkeeping question, there was reversal charge, some contingent income, I assume that's from a previous acquisition, can you tell me which one that was?

Tom Powell *Teleflex - EVP, CFO*

Yes, it was related to the Hotspur acquisition.

Jim Sidoti *Sidoti - Analyst*

All right, thank you.

Operator

(Operator Instructions). And you have another question from Anthony Petrone from Jeffries Group. Please go ahead, sir.

Anthony Petrone ***Jefferies - Analyst***

Thanks, just a follow-up. Benson, you announced last year at Analyst Day a number of restructuring activities, one around the centralization of distribution efforts in North America. Those were designed to drive margin expansion into 2014, 2015, maybe an update on where you stand on some of those initiatives and where we should start to see margin expansion from those efforts, thanks.

Benson Smith ***Teleflex - President, Chairman, CEO***

We began shipping out of the North American distribution center really earlier this year. Nearly all of the product was transferred to that location during the third quarter. We expect this to be back in the black by the fourth quarter. We expected it to be back in the black by the third quarter. We did have some additional temporary labor expenses that were responsible for some of the as we described earlier one-time events affecting our gross margin. Those appear to be behind us. I do believe we'll see the full benefit that in 2014. So that's slightly behind in terms of the timing, but we are I think overall really pleased with the whole transition from three into one distribution centers.

And I forget was there another part to that question?

Anthony Petrone ***Jefferies - Analyst***

No, that, that does it, thanks.

Benson Smith ***Teleflex - President, Chairman, CEO***

Okay.

Operator

And now I would like to turn the call over to Jake Elguicze for closing remarks.

Jake Elguicze ***Teleflex - Treasurer, VP, IR***

Thanks, operator. Thanks everyone who joined us for the call today. This concludes the Teleflex, Inc. third quarter 2013 earnings conference call.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

THOMSON REUTERS

PLACEHOLDER TRANSCRIPT

Q4 2013 Teleflex Incorporated Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 21, 2014 / 1:00PM GMT

CORPORATE PARTICIPANTS

Jake Elguicze *Teleflex Inc - Treasurer, VP of IR*
Benson Smith *Teleflex Inc - Chairman, President, and CEO*
Thomas Powell *Teleflex Inc - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

David Lewis *Morgan Stanley - Analyst*
Jason Wittes *Brean Murray, Carret & Co. - Analyst*
Matt Taylor *Barclays Capital - Analyst*
Matthew O'Brien *William Blair & Company - Analyst*
Richard Newitter *Leerink Partners - Analyst*
Larry Keusch *Raymond James & Associates - Analyst*
Anthony Petrone *Jefferies & Co. - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2013 Teleflex Incorporated earnings conference call. My name's Marie and I will be your operator for today.

(Operator Instructions)

As a reminder, this call is being recorded for replay purposes. And now, I'd like to turn the call over to Jake Elguicze, Treasurer and VP of Investor Relations. Please proceed, sir.

Jake Elguicze ***Teleflex Inc - Treasurer, VP of IR***

Thank you, operator. And good morning, everyone, and welcome to the Teleflex Incorporated fourth-quarter and full-year 2013 earnings conference call. The press release and slides to accompany this call are available on our website at www.teleflex.com. As a reminder, this call will be available on our website and a replay will be available by dialing 888-286-8010, or for international calls 617-801-6888, pass code 68453301.

Participating on today's call are Benson Smith, Chairman, President, and Chief Executive Officer; and Thomas Powell, Executive Vice President and Chief Financial Officer. Benson and Tom will make brief prepared remarks, and then we'll open up the call to questions.

Before we begin, I'd like to remind you that some of the matters discussed in the conference call will contain forward-looking statements regarding future events, as outlined on slide 4. We wish to caution you that such statements are, in fact, forward-looking in nature and are subject to risks and uncertainties, and actual events or results may differ materially. The factors that could cause actual results or events to differ materially include, but are not limited to, factors made in our press release today, as well as our filing with the SEC, including our Form 10-K, which can be accessed on our website.

With that, I'd like to now turn the call over to Benson.

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

Thanks, Jake, and good morning, everyone. It's a pleasure to be with you once again and, similar to other calls, I'll begin with an overview of the Company's results and discuss some highlights.

Let's begin with revenue. Fourth-quarter revenue performance was strong and ahead of our expectations, totaling $450.5 million. This represented an increase of 6.9% versus the prior year on a constant-currency basis. The better-than-expected revenue performance occurred across several of our product lines and geographic regions, as we experienced strong sales during the last two weeks of December.

Revenue growth in the quarter continued to be driven by LMA, as well as from the introduction of new products to the marketplace, and our pricing initiatives. In addition, fourth-quarter revenue was also aided by the acquisition of Vidacare. I am pleased to say that the initial stages of the Vidacare integration have gone quite well. And the Vidacare product line's revenue performance in the quarter also came in ahead of our expectations. We continue to be quite excited about this acquisition, and it is our belief that Vidacare has excellent growth potential in the future.

But before I move on to other highlights in the quarter, I do want to address a couple of questions that I suspect are at least on some of your minds. As you know, we lowered our revenue guidance at our Analyst Day meeting in mid-December. Every forecast we do internally has a worst-case scenario and, in mid-December, there was a plausible worst case that could result in revenue coming in below our previously stated guidance, with the low end at 8.5% in constant currency. As a result, we felt we had an obligation to alert the investment community to this possibility.

Almost as soon as we did that, we began to see an improvement in the revenue across the board. We were able to reduce back orders more than expected. Revenues of some product lines came in better than expected. And we believed there was likely at least a slight uptick in US procedures that helped.

We also saw results from Europe to be much more positive than we anticipated. Now, in Europe it's not unusual for the last week of the year -- that week between Christmas and New Year's -- to be particularly strong. Most European healthcare departments operate somewhat like the US military, in the sense that, if they don't spend the dollars allocated by the end of the year they'll be lost.

However, that pattern is very difficult to forecast. And, this year, because of the many reductions in spending that occurred in Europe, we did not expect that pool of dollars to be there, so we took a conservative view in establishing our revenue range.

We were obviously very pleased to see orders come in much stronger than we anticipated. But a related question is that, sometimes that overperformance in December can come at the expense of January revenue. And, while it is still very early on, this does not seem to be the case, as January revenue was in line with our expectations.

Turning to some other highlights for the quarter. Adjusted gross margin reached 50% and represented an increase of 240 basis points versus the prior year and while adjusted operating margins increased 50 basis points over the prior quarter as well.

I would like to point out that, when we discuss adjusted operating margins in the future, we will no longer include intangible amortization expense. The rationale behind changing the calculation of adjusted operating margins has to do with consistency, allowing for comparability between ourselves and many of our peers, as well as to provide better visibility into the underlying operational improvements we are making at the Company.

Since we do not include intangible amortization expense when we calculate adjusted earnings per share, we believe that it would be a more consistent approach to also exclude the intangible amortization expense from our adjusted operating margins as well. While from a comparability perspective, those of our peers who exclude intangible amortization expense also exclude it when calculating adjusted operating margin.

If we were to exclude intangible amortization expense from our fourth-quarter 2013 adjusted operating margins, they would have been 19%, up 70 basis points from the fourth quarter of 2012. Tom will provide some additional details regarding this change and how we reconcile it to our previously provided longer-term financial goals.

And, finally, before I move on to some other highlights, the Company achieved adjusted earnings per share of $1.36 this quarter, representing an increase of 18.3% versus the prior year.

Next, I would like to discuss fourth-quarter pricing, GPO, and IDN contract awards, and new product introductions in more detail. During the fourth quarter, the average selling prices of our products once again expanded when compared against the prior year. This past quarter, the improved average selling prices of products contributed approximately 86 basis points of revenue growth.

Thanks to some select price increases and a distributor-to-direct conversion in South Africa that occurred earlier this year, our European business saw an improvement in pricing of 129 basis points. That was followed by an increase in Asia, which generated an 89-basis-point improvement, and the Americas, which saw price increases of 86 basis points. Finally, continuing a trend we've seen all year, our OEM business experienced a decline in the average selling prices of their products that totaled 81 basis points.

Shifting gears, the fourth quarter of 2013 saw a continued expansion of contractual agreements between Teleflex and our GPO and IDN partners. In fact, during this past quarter, Teleflex won a total of 11 agreements. Four of these awards were new and included product categories like pain and airway management as well as intra-aortic balloons and pumps.

Next, I would like to touch on a recent new product launch that we're quite enthusiastic about. During the fourth quarter, new product introductions contributed 102 basis points of revenue growth. And, as many of you are aware, one component of Teleflex's longer-term margin expansion strategy is to introduce new products at higher margins. An example of this is the recent launch of our ISO-Gard Mask with CleanAir Technology.

Designed to help reduce hazardous waste gas within a nurse's breathing zone, the ISO-Gard Mask is the only solution available for source control of waste anesthetic gas in the recovery room. Developed in partnership with clinicians, the ISO-Gard Mask simultaneously delivers oxygen to patients and scavenges those gases to help limit exposure faced by clinicians.

In November, Teleflex announced that the Community Surgery Center North was the first of what we hope to be many, many healthcare facilities to use this product. As I've said in the past when mentioning this product, the issue solved by the ISO-Gard Mask is really a worker's safety-related one, and we commend the Community Surgery Center North for addressing this issue and taking action to comply with OSHA waste anesthetic gas workplace exposure guidelines.

Next, I'd like to take a moment to provide you with an update on LMA. During this past quarter, LMA contributed its highest amount of revenue yet as part of Teleflex, totaling $34.2 million. On a full-year basis, LMA contributed $134.2 million, and had a gross margins that approximated 59%. LMA is truly a success story for Teleflex. It exceeded all of our expectations in 2013.

The execution of our integration plans went smoother and faster than we originally thought, and, as a result, additional synergies were generated during the year. As we enter 2014, we continue to be excited about the product pipeline, which includes the third-generation LMA device, which we expect will bridge the remaining gap with ET tubes and open up a very large number of additional procedures to LMA use.

Finally, clinicians continue to be interested in adding visualization to airway-management devices. We expect placement of LMAs can also benefit from the added comfort and security of visualization of positioning and sealing during or after placement. These are all exciting areas in our approach to enhancing our market leadership in the laryngeal mask arena.

Next, I would like to update you on the status of the Vidacare acquisition. This transaction was closed on December 2, 2013, and, in less than one month that we owned Vidacare, it performed extremely well and exceeded our initial expectations. Yet, despite the strong performance in December, we are not changing our financial projections for Vidacare in 2014 quite yet.

We continue to believe that Vidacare will contribute between $68 million and $72 million in revenue and between $0.10 to $0.15 in adjusted earnings per share. I would like to thank all the employees involved with the Vidacare acquisition for such a smooth integration, as Vidacare's contribution towards our fourth-quarter results provides us with even more confidence that we will achieve the constant-currency revenue growth range that we previously provided for 2014.

Another reason why we remain confident in our ability to achieve 7% to 9% constant-currency revenue growth in 2014 has to do with a recent distributor acquisition which we closed. For those of you who attended or listened to our Analyst Day event in December, you may recall that we mentioned that we finalized negotiations with a key distributor. Now, we are in a position to provide a few more details surrounding that transaction.

A definitive agreement was signed in December 2013 with one of Australia's largest medical device distributors -- that being Mayo Healthcare. Mayo provides high-quality products, educational services, technical services, and customer support to healthcare institutions throughout Australia. This accretive transaction, funded through the use of outside US-based cash, was completed in February of 2014 and represents the major distributor-to-direct conversion that was assumed in our previously provided 2014 financial guidance.

Finally, before I turn the call over to Tom, I would like to briefly summarize Teleflex's full-year 2013 performance. For the full year, Teleflex revenue was just shy of $1.7 billion, up 9% on a constant-currency basis.

Adjusted gross margin also improved versus 2012, reaching 49.6%. This represents an increase of 130 basis points. However, primarily due to the Medical Device Excise Tax, the improvement in gross margin did not materialize to an improvement in the Company's full-year 2013 adjusted operating margin, which totaled 16.3%.

If we were to exclude the impact of intangible amortization expense in our adjusted operating margins, they would have been 19.3% in 2013. This would compare to 2012 adjusted operating margins, excluding intangible amortization expense, which were 19.1%. The aforementioned performance resulted in the achievement of adjusted earnings per share of $5.03 in 2013, or an average increase -- excuse me, or an increase of 13.5% versus 2012.

Moving to some additional full-year highlights. Pricing improved on a full-year basis approximately 1 percentage point. Breaking this down geographically, the Company saw price increases of 122 basis points in the Americas, 111 basis points in Europe, and 66 basis points in Asia, while our OEM business experienced price declines, which totaled 30 basis points.

New product introductions were also a highlight during 2013, contributing 124 basis points of revenue growth. Our R&D initiatives focused on the development of new innovative products for existing and new therapeutic applications. This translated into the introduction of 27 new products and line extensions in 2013. These product introductions should position Teleflex nicely for future revenue growth and margin expansion.

Another item that should position the Company for sustainable and profitable future growth is the 37 GPO and IDN contracts Teleflex was awarded during the year. These agreements spanned across all of our product lines.

We also continue to broaden our portfolio and strengthen our margin profile with select acquisitions. During 2013, this included Vidacare, which complements our vascular access and specialty-product portfolios; Ultimate Medical, with its variety of airway-management devices, which complements our anesthesia portfolio; and Eon Surgical, which complements our surgical-product portfolio with its minimally invasive micro-laparoscopic platform technology.

All totaled, 2013 was a successful year for Teleflex. It certainly wasn't some without some issues that we needed to overcome. However, it is our belief that Teleflex has a well-positioned, diverse product portfolio that is capable of above-market growth rates and one that is able to successfully navigate through a shifting healthcare market.

In 2014, we plan to make focused areas of additional investment targeted to select distributor-to-direct conversions, investments in sales and marketing in China and Latin America, and some R&D investments in higher-margin product opportunities. All of these investments will pay a benefit and help drive sustainable and profitable growth in the future.

Yet Teleflex's success is not solely dependent on our ability to outpace our market in terms of revenue growth. And we are committed to improving operating leverage over a multi-year period from a non-revenue dependent items.

To that point, I also want to comment on where we stand with our facility rationalization plans. Presently, we are in the final stages of validating all of our assumptions and we expect that we will be in a position to provide you with an update in the near future. These plans are complex in nature. However, we still anticipate reaching the 55% gross margin level by the time we exit in 2015.

And, as I've said previously, if there's a risk associated with this, it relates to timing and not to our ability to drive operational improvements in our gross margin. In addition, we don't plan on stopping once we reach that 55% goal and believe that additional gross margin improvement gains could subsequently follow.

With that, I will now turn the call over to Tom and he can walk you through our most recent quarterly financial performance and outlook for 2014 in more detail. Tom?

Thomas Powell ***Teleflex Inc - EVP and CFO***

Thanks, Benson, and good morning, everyone. Revenues for the fourth quarter were $450.5 million, which represents an increase of 6.9% on a constant-currency basis. When taking into consideration the impact of foreign exchange, revenues in the fourth quarter increased 7.5% versus the fourth quarter of 2012.

The growth in constant-currency revenue is largely attributed to favorable comps on LMA and the acquisition of Vidacare. In addition, new products contributed approximately 1 point of growth and pricing added another 86 basis points of growth.

Also during the fourth quarter of 2013, we had one additional shipping day as compared to the fourth quarter of 2012. We estimate that this one additional day contributed approximately 1 point to revenue growth.

Turning now to gross profit. For the fourth quarter, adjusted gross profit was $225.2 million, versus $199.6 million in the prior-year quarter. And adjusted gross margin increased 240 basis points to 50%. This marks the first time since becoming a pure-play medical equipment company that a 50% gross margin was attained for a quarter. The increase in adjusted gross margin was primarily due to price increases and higher-margin product offerings from LMA, Vidacare, and new products.

Turning next to adjusted operating margin. For the fourth quarter of 2013, the adjusted operating margin was 16%. This represents a 50-basis-point improvement when compared to the fourth quarter of 2012. The improvement was the outcome of the gross margin gain, coupled with tight SG&A cost control initiatives.

Somewhat tempering the gains in operating margin were the Medical Device Excise Tax, additional intangible amortization expense, and the acquisition of Vidacare, which carries a higher level of operating expenses. If we were to exclude intangible amortization expense from the calculation, adjusted operating margin would have been 19% in the fourth quarter of 2013, or a 70-basis-point increase from the fourth quarter of 2012.

On the bottom line, adjusted earnings per share was $1.36 for the fourth quarter of 2013. This compares to adjusted earnings per share of $1.15 in the fourth quarter of 2012, or an increase of 18.3%.

Moving next to product line and geographic revenue results. Critical care revenue in the fourth quarter was up 10.2%, totaling $316.7 million. The increase in critical care revenue was due to the addition of LMA and Vidacare as well as higher sales of vascular, urology, and interventional access products.

Partially offsetting these growth areas was a decline in sales of respiratory products. The decline came in the areas of oxygen and aerosol therapy product sales, as well as the planned rationalization of lower-margin, non-invasive ventilation products.

Surgical revenue in the fourth quarter was up 4%, totaling $80.5 million. The growth in Surgical revenue was primarily the result of increased sales of ligation access and suture products. Partially offsetting this growth was a decline in the sales of general surgical instrument and chest drainage products.

Cardiac care revenue in the fourth quarter was down 6% and totaled $19.2 million. Similar to recent quarters, the decline in cardiac revenue was primarily due to lower sales of intra-aortic balloon pumps. And, lastly, OEM revenue for the quarter was down 5.7% and totaled $34.1 million. The decrease in OEM revenue was largely due to reduced sales of performance fiber products and catheters, with a decrease in part caused by the in-sourcing of catheter production by select customers.

Next, I'll take you through our top-line performance from a geographic perspective. Revenue in the Americas segment for the fourth quarter was up 6.6% and totaled $212.4 million. The increase in revenue was due to LMA and Vidacare product sales, new product introductions, and price increases.

Moving to EMEA. Revenue in this segment was up 5.2% and totaled $144.9 million in the fourth quarter. The increase in revenue was due to LMA and Vidacare product sales, higher sales volumes of existing products, and price increases, including the margin we capture by selling direct to customer versus through a third-party distributor.

Finally, sales in the Asia segment were up 21.6%, totaling $59.1 million. The increase in this segment was due to LMA product sales, price increases, and higher sales volume of existing products.

Finally, I'd like to provide you with an update regarding our full-year 2014 financial outlook. Today, we are reaffirming the 2014 financial outlook that we provided at our Analyst Day event this past December. For 2014, we continue to expect constant-currency revenue growth of between 7% and 9%. We expect that approximately 75% of our projected 2014 constant-currency growth will be sourced from a combination of the recently closed Vidacare acquisition and distributor-to-direct conversions.

New product introductions are expected to make up the majority of the remaining 25% of revenue growth, with only modest expectations for volume gains and product price increases. As a reminder, in 2014, we continue to expect approximately 100 basis points of total pricing. However, the majority of that pricing is projected to come in distributor-to-direct conversions, while pure product price increases are expected to be much more selective.

And now, turning to adjusted gross margin. We are also reaffirming our 2014 projections, which call for adjusted gross margin to be in the range between 52% and 52.5% for the year. The projected 2014 improvement represents an increase of approximately 240 to 290 basis points over 2013, and the projected rate of increase is approximately twice that achieved in 2013.

We expect that three key actions will drive the 2014 expansion in adjusted gross margin. First, we project that the addition of Vidacare's high-margin portfolio will increase gross margin by approximately 150 basis points. Next, distributor-to-direct conversions are expected to add another 40 basis points. And then, third, continued investment and focus on manufacturing and operations efficiency programs are expected to yield an additional gain of up to 100 basis points. This is a real good story here that we'll keep you posted on as the year develops.

Moving on to adjusted operating margin and earnings per share. As Benson stated earlier, when discussing adjusted operating margin, we will now exclude the impact of intangible amortization expense so that we are consistent with the way we calculate adjusted earnings per share. This approach provides for improved comparability between ourselves and many of our peers, and allows our investors to better track the operational performance of the Company.

It is important to understand that we are not changing any of the underlying assumptions from what we previously provided regarding 2014 operating margins, except for the impact of intangible amortization expense. For the full year 2014, we expect adjusted operating margin, excluding intangible amortization expense, to increase by approximately 100 basis points to between 20% and 21%. Further gains in adjusted operating margin are being tempered by investments to support the distributor-to-direct strategy and the addition of Vidacare, which carries a much higher relative level of SG&A.

I would also like to address what this change means in terms of the calculation of our adjusted operating margin, in terms of our previously provided longer-term goals. If you recall, we previously said we thought it was possible to exit 2015 at around 21% adjusted operating margin. The 21% that we previously mentioned included approximately 300 basis points of intangible amortization expense. With this change to exclude intangible amortization expense, we now believe that we will exit 2015 with adjusted operating margin of approximately 24%.

Moving on to taxes. Similar to gross margin, we look at taxes as another opportunity area, and as a result of planning activities, we expect to be able to further reduce the non-GAAP tax rate to a range of 22.5% to 23.5% for 2014. While from an adjusted interest expense standpoint, we currently anticipate a weighted average interest expense rate -- excuse me, average interest rate of approximately 4.6%, and we expect to have approximately the same amount of debt outstanding during the course of 2014 as we did at year end 2013.

I would like to add that we still plan on financing the Vidacare acquisition through the issuance of a longer-term instrument, and our assumptions regarding a weighted average interest rate of 4.6% for 2014 reflect that longer-term financing being put in place.

Finally, on the bottom line, we are reaffirming our previously provided 2014 adjusted earnings per share range of between $5.35 and $5.55 per share. This adjusted earnings per share range assumes an adjusted weighted average share count of approximately 44 million shares. And, although we do not provide quarterly financial guidance, it is important to understand that we are projecting revenue and adjusted earnings per share to be greater in the second half of 2014 as compared to the first half, with particular strength in the fourth quarter.

Due to our calendar, which calls for one fewer shipping day in the second quarter of 2014 as compared to the second quarter of 2013, along with what we believe to be continued near-term uncertainty in the first quarter of 2014 associated with the implementation of the Affordable Care Act, we have planned our 2014 revenue cadence with a more cautious approach. Currently we project that our first-quarter 2014 revenue and adjusted earnings per share will only be moderately higher than the results we achieved in the first quarter of 2013.

We expect that any disruption coming from the roll-out of the Affordable Care Act will be resolved by the beginning of the second half of the year. This assumption, along with the fact that we will have one additional selling day in the fourth quarter of 2014 as compared to the fourth quarter of 2013, leads us to believe that the second half of 2014 revenue will be more heavily weighted than the first half of the year.

In addition, we expect the second half of 2014 earnings to be positively impacted by the manufacturing cost improvement plans that our operations team is working on right now. As a result, we believe that the overall weighting of our earnings contribution will be heavier in the second half of 2014.

That completes my prepared remarks. With that, I would like to now turn the call back over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question comes from the line of David Lewis from Morgan Stanley. Please proceed.

David Lewis ***Morgan Stanley - Analyst***

Good morning.

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

Good morning, David.

David Lewis ***Morgan Stanley - Analyst***

Just two questions this morning. I guess Benson, I appreciate your commentary around margins. I think we got probably more visibility on the margin story over the next 18 months than we had in the past. That was certainly encouraging.

I do want to go back to the fourth quarter here a second. It does look like the underlying SG&A numbers were higher than we were expecting, and I'm just sort of wondering given the tax rate in the quarter, was there any element of reinvesting in the fourth quarter here given the upside from tax? And Tom, I didn't hear specifically one-timers of SG&A that would have explained why you came in a little lower than we would have expected on margins in the fourth quarter, so any insight you can give us on the fourth quarter would be great, and then I have a follow-up.

Thomas Powell ***Teleflex Inc - EVP and CFO***

Yes, sure. Well Vidacare certainly came into the equation in the fourth quarter and that carries a higher level of SG&A expense. I'm not able to obviously understand what was in your model. That was a driver. Then we also had a number of factors that we had during the year which included Medical Device Excise Tax.

And we had made some investments in the business. I'm trying to think of the timing, were any of those captured in the third quarter or just solely the fourth quarter. But there was nothing that was unusual in nature. As you know that the first I would say nine months or so of the year we were pretty aggressive in looking at cost reduction opportunities given the softness in revenue. As we began to see that we felt we could cover that revenue downside, perhaps we weren't as aggressive in the fourth quarter, but nothing that I would point to as an unusual or one-time spending level.

David Lewis ***Morgan Stanley - Analyst***

Okay. Helpful. And then Benson, you made some commentary around fourth-quarter trends on utilization coming in stronger than you expected, and it sounds like based on guidance, you're not getting as aggressive on those trends in the first quarter, but doesn't sound like you expect those trends to fade.

Maybe you can talk to us about the improvement in the underlying business; across the segments of your business, where do you see that improvement and have you seen that improvement be sustained here in the early part of the first quarter in those same segments? Thank you.

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So just relative to US utilization rates, there is some indication that there was somewhat of a rush to get procedures taken care of towards the end of the year. It looks to us like the best explanation of that was concern about what was going to happen to either people's deductibles or to their overall policies as they approached the new year. There's some indication that there's going to be perhaps some retraction I think in utilization I think the first couple of months as a result of the issues relative to people's insurance coverage sorting themselves out.

That, although could have been a part of our December results, we don't believe it was a significant part. And again, relative to the US, we had already trimmed back our revenue estimates for the first half of the year, assuming some confusion around insurance. So that singly really isn't changing our viewpoint of what the first half of the year's going to look like. And in fact, we didn't see anything out of the ordinary in January that would suggest that's the case, and January results were right in line with our expectations.

The bigger driver really for the unexpected overperformance in December had to do with back order reduction in part, and the biggest thing I mentioned in my remarks was that European customer kind of having quite heavy orders in the last week of the year.

But once again, I would say when we looked at January results, that does not seem to have come at the expense of January results. So I would say we're pretty optimistic that even if there is some confusion in insurance coverage in the United States, that we've already factored that into our revenue estimates.

David Lewis ***Morgan Stanley - Analyst***

Okay. Thank you very much.

Operator

Our next question comes from the line of Jason Wittes from Brean Capital. Please proceed.

Jason Wittes ***Brean Murray, Carret & Co. - Analyst***

Hi. Thank you very much. Another question that came up was distributor conversions. It sounds like the large one that you did in Australia went by pretty smoothly, but my sense from just your estimates is that there's quite a few more to be expected this year. Have you built in some kind of cushion for that, and how should we be thinking about the risk involved with converting those distributorships?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

The biggest risk was actually tied to concluding the Australian distributorship both from a standpoint of size and when it was planned for in the course of the year. So I would just say there are others that are projected during the course of the year. They are smaller in size and later in the year, and so if there is some delay there, the potential that they have to negatively impact the results is quite minimal compared to what might have happened had we not been successful in closing the Australia distributorship. There are some but I don't think they'll have the potential of having significant impact on our 2014 results.

Jason Wittes ***Brean Murray, Carret & Co. - Analyst***

Okay. Go ahead.

Thomas Powell ***Teleflex Inc - EVP and CFO***

In terms of the revenue that we've been expecting out of that distributor to direct conversion that we completed accounts for over 80% of what we were looking for. So in terms of risk, we've captured the big piece of that revenue with closing this deal.

Jason Wittes ***Brean Murray, Carret & Co. - Analyst***

Okay.

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

I would just add, from an overall risk perspective, I think the performance we've seen out of Vidacare, both in December and then in January again has us feeling a lot more comfortable. And then the closure of the Australian distributorship again is another thing that's now in the bag and locked down. I think those two events have derisked our revenue profile quite a bit for 2014.

Jason Wittes ***Brean Murray, Carret & Co. - Analyst***

Okay. Very helpful. And actually if I could just follow up on -- I'm sure you'll get other questions on Affordable Care's impact. Sounds to me thus far the impact really hasn't been felt, but your continued impression is it's kind of a first half sort of disorganization/perturbation effect that you're kind of anticipating in the numbers right now. Is that the right way to characterize it?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

Yes. We took a conservative view to that certainly in the first half. I would say it's probably the cloudiest part of our forecasting, how this is really going to roll out. But again, we said at the Analyst Day meeting and reiterated here, we've taken a pretty conservative view in terms of the potential for some negative impact here, and we would expect that ultimately it will be resolved and we think that's likely to happen certainly by the second half of the year.

Jason Wittes ***Brean Murray, Carret & Co. - Analyst***

Then one last question, just on Vidacare. Seems like it's going very well. Is there some pull-through of other products with Vidacare that you're seeing, or is it just sort of continuity of the sales force and execution on your part that's just driving the good performance?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So it's a number of different factors. When we acquired LMA, there's also an ambulance utilization of that product. The addition of Vidacare to our product line really gives us a strong enough call point there to represent LMA, which was sort of a weak link in our LMA business.

I think that the -- if you just look at the impact in hospital segment for Vascular Access, it provides another product area to talk about besides CBCs and PICCs, and really enhances our strategy around putting the right product in the right patient at the right time. And there's -- I would say there's a lot of enthusiasm about learning about that product within the hospital segment. So it's a little easier to get into see people as a result of having that product in our bag that are also purchasers of other Vascular Access products.

Jason Wittes ***Brean Murray, Carret & Co. - Analyst***

Thank you very much.

Operator

And our next question comes from the line of Matt Taylor from Barclays. Please proceed.

Matt Taylor ***Barclays Capital - Analyst***

Thanks for taking the question. Can you hear me okay?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

Yes.

Matt Taylor ***Barclays Capital - Analyst***

Great. So I just wanted to ask a question on one of the things that you covered at the Analyst Day. Your Surgical performance was pretty good this quarter, had been good all year. Can you just talk about some of the new surgery products that could be coming through the pipeline in 2014, and what if any impact they could have on the financials?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So to a certain extent, Matt, our improvement in the Surgical business over the last several years has been in part due just to a revival of attention around that product line. Post ARROW acquisition, there just wasn't much attention from a product development standpoint, from a sales force penetration standpoint on that, and that division has made some particularly good strides in improving its sales force effectiveness and its coverage.

EFX certainly has been a product, one of the late-stage technology acquisitions that gave them a very new, innovative product to talk about. Our business in ligation has always been strong and I think that just additional focus on surgery has helped drive that. We are a benefiter of robotic surgery and that's helped.

And then as I think we look forward, the inclusion of Eon Surgical in that micro-laparoscopic arena is quite exciting. We're not going to see a lot of benefit of that in 2014. We'll start to see that show up in a much more significant way in 2015.

Matt Taylor ***Barclays Capital - Analyst***

Okay. Great. And not to harp on this but I just wanted to make sure that I was clear with what you were saying about ACA and volume in the first half. Is your point just that you think that there could be some uncertainty for people in the US in terms of their coverage, and that may cause them to delay procedures and that could be resolved by the second half of the year, or are you talking about seasonality or both? Can you just clarify exactly what you're expecting?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

Our commentary just really primarily results in or stems from some confusion around people whose coverage was cancelled last year and may not have been restored by January of this year. Our sense is to the extent that there was an uptick in December, that probably was a bit of a rush for people to get things covered under their old plan.

As we understand the details, more people are having somewhat higher deductibles which can be a deterrent particularly early in the year to visit that primary care physician. The latest information we have about primary care and specialist visits in January seems to be on the downside. So it's mainly driven by some of the confusion around coverage and some of the time it may take to get that resolved for people who intend to and want to have insurance coverage.

Matt Taylor ***Barclays Capital - Analyst***

Okay. Very helpful. Thanks, Benson.

Operator

Our next question comes from the line of Matthew O'Brien from William Blair. Please proceed.

Matthew O'Brien ***William Blair & Company - Analyst***

Good morning. Can you guys hear me okay?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

Yes.

Matthew O'Brien ***William Blair & Company - Analyst***

Okay. I dropped off a couple of times here, so you may have covered some of this. With Vidacare specifically, given the integration's going a little better than you expected, it is fair for us to assume that you feel a little bit more comfortable towards the higher end of the revenue range that you're expecting for 2014, given what you've seen so far?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

I think there's some safety in that estimation, yes.

Matthew O'Brien ***William Blair & Company - Analyst***

Okay. And then again you may have covered this and I may have missed it. But I think you said before the deal closed, that you'd be in a better position to provide a little bit better view on the operating margin opportunity that you see there, and the cost synergy opportunity that you see a little bit longer term. Would you mind providing some of that detail?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So I think we've probably said as much as we can say at the current time. I will tell you that since our Analyst Day meeting, there has been nothing that has come out that causes us to have any lack of confidence in hitting that 55% goal by the time we exit 2015. Most of the work that's being done is simply making sure we understand the entire task involved to get things done and we have adequately planned for resources to be able to address those issues.

I will also reiterate the fact that we will not, by the close of 2015, be able to receive all of the benefit that comes from that effort. And so I'll just reiterate that 55% is kind of the starting point for that. We expect that to subsequently improve over the next couple years after that as well.

Matthew O'Brien ***William Blair & Company - Analyst***

Okay. Then just one more real quick if I may. You mentioned the facility consolidation and rationalization plan that you're going through right now. You haven't quite [bite the bucket]. Should we expect to hear something more definitive on the Q1 conference call?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So I think the near future is the phrase we've used in our script today and I think that's about as definitive as we can be at this point in time.

Matthew O'Brien ***William Blair & Company - Analyst***

Got it. Thank you.

Operator

And our next question comes from the line of Richard Newitter from Leerink Partners. Please proceed.

Richard Newitter ***Leerink Partners - Analyst***

Hi, thanks for taking the questions. I was just hoping you could or maybe you already provided this and I missed it. I apologize if that's the case. The Vidacare contribution in the fourth quarter, could you quantify that both on the top line and whatever it was from the EPS standpoint or cost standpoint incrementally above maybe what you were forecasting?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So typically we don't and didn't plan to release actual sales numbers simply on a single month basis, but I'll just reiterate that it was ahead of what we expected in December and ahead of what we expected in January.

And our viewpoint at this point is is that we certainly have a high level of confidence we're going to achieve that annual range we provided as guidance. Should our viewpoint change in either one direction or another, we'll certainly provide that information, and it's also our expectation at this point that we're going to achieve all the synergies that we expected to achieve during 2014.

Richard Newitter ***Leerink Partners - Analyst***

Okay. Thank you. And just Tom, the commentary you gave exiting the year for the new operating margin guidance, now that you're backing out amortization from that, for the long-term kind of goal that you had set out previously, the [high 5s], I think you had said 25% operating margin over time, do we just add the same amount to that long-term goal as well?

Thomas Powell ***Teleflex Inc - EVP and CFO***

Well, here's how you should be thinking about it. As we look at the amortization impact, it's about 300 basis points. We had talked about as we exit 2015, we had been thinking we could be at the 21% range. As you include those 300 basis points, it would get you up to 24%.

We're obviously still pushing to get ourselves to that longer-term goal of what was 25%, which would now be 300 basis points greater. But that's somewhere off in the distance. We think that by the end of 2015 we can be at that 24% range once you make this adjustment, is the way I would think about it.

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So that calibrates to the 21% we have been guiding people to that if our gross margin is 55%, our operating margin should be in that 21% or slightly higher number. And so this is just adding that -- the benefit of that change in accounting on top of that. It represents no real long change in the our underlying expectation about operating margin expansion. It's just we think a more consistent way of calculating it.

Richard Newitter ***Leerink Partners - Analyst***

Great. And just what was organic growth in the fourth quarter, top line growth?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So our organic growth is probably best represented by adding our pricing increases and our new product entries. Actual volume growth was in slightly negative territory compared to the prior quarter. And again, we think the biggest driver for that.

Jake Elguicze ***Teleflex Inc - Treasurer, VP of IR***

So I would just say, Rich. I think our organic excluding any impact from any M&A was somewhere around maybe that 2%, maybe a little north of 2% type level, and that's primarily new pricing and new product introductions.

Richard Newitter ***Leerink Partners - Analyst***

Okay. And that volume negative -- was negative but also included an extra selling day so it would have been even more negative if not for the extra selling day?

Thomas Powell ***Teleflex Inc - EVP and CFO***

We're slightly negative on a full year basis on volume alone. In the fourth quarter, it ticked up as we discussed and I think it's closer to flat to up slightly positive.

Richard Newitter ***Leerink Partners - Analyst***

Excluding the selling day benefit?

Thomas Powell ***Teleflex Inc - EVP and CFO***

Excluding the selling day benefit it would be about flat, yes.

Richard Newitter ***Leerink Partners - Analyst***

Okay. Great. Thank you very much. Appreciate it.

Operator

And our next question comes from the line of Larry Keusch from Raymond James. Please proceed.

Larry Keusch ***Raymond James & Associates - Analyst***

Hi, good morning. I just wanted to come back to the adjusted gross margin that you're anticipating for 2014 and in there, Tom, you mentioned the manufacturing cost improvement programs of adding roughly 100 basis points.

But I wanted to understand, is that associated with the manufacturing footprint rationalization that you're going to unveil at some point here? Or are those things being done outside of that, and then once we get the details of the impact of the rationalization, that may have some impact in 2014, but I'm assuming more so in 2015? I want to make sure I'm understanding that.

Thomas Powell ***Teleflex Inc - EVP and CFO***

What we're referencing in these numbers that we just cited were projects outside of any footprint rationalization. So in our current planning we are making some fairly significant investments in productivity and other cost improvement programs that will drive this 100 basis points.

To the extent we move forward with any footprint rationalization, that would be incremental, and to your point, the majority of that impact would be 2015 and later. We wouldn't have a significant impact in 2014.

Larry Keusch ***Raymond James & Associates - Analyst***

Okay. Perfect. And then two other quick ones for you, if I could. On the tax rate, I may have missed this, but what were the items that drove the lower tax rate in the quarter? Because I believe on the third-quarter call you were sort of anticipating that the tax rate would tick up a little bit here. So perhaps you can just help us understand what drove that lower rate.

Thomas Powell ***Teleflex Inc - EVP and CFO***

Sure. Well, as we talked about, in 2014 we've got a number of initiatives that we're putting forward to drive our sustainable tax rate lower, and as we started putting those pieces into place an opportunity presented itself for us to accelerate some benefit into the fourth quarter of 2013.

And so we took advantage of that and so that's really the driver. It was a single opportunity that we took advantage of. As we continue to look at 2014 as mentioned, we're looking to take our sustainable adjusted tax rate down to a level of about 23%, plus or minus 50 basis points.

Larry Keusch ***Raymond James & Associates - Analyst***

Okay. Great. And then lastly, Benson, just any thoughts on M&A, the competition for assets out there, valuations, and since you're integrating Vidacare and still working through some LMA, does that suggest that deals are off the table for the time being, or could you do something if the right asking price came along?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

We consistently have taken an opportunistic viewpoint towards acquisitions. You can't time when something that's quite attractive to you comes along. And at the same -- by the same token, we don't feel some compulsion to have to do one in the next calendar year either.

We've got a pretty -- I would say that we are satisfied to the degree to which acquisitions like Vidacare and LMA have improved our overall business portfolio, but a lot of that has come from picking very carefully acquisitions that have that potential for us. And often acquisitions that are particularly good for us don't make as much sense to somebody else who might not be able to have the same synergies that they're able to generate.

So the best I can tell you is over the next several years at least, I think you could expect to see more of what you've seen in the past several years from us, which includes both some of those larger acquisitions and continued emphasis on late-stage technology acquisitions as they become available, and some of these dealer to direct conversions.

Larry Keusch ***Raymond James & Associates - Analyst***

Okay. Great. Thanks very much.

Operator

And our next question comes from Anthony Petrone from Jefferies Group. Please proceed.

Anthony Petrone ***Jefferies & Co. - Analyst***

Thanks and good morning. Maybe Benson just on the M&A question for a second, I'm just wondering how that all plays out relative to the leverage now that you have calculating I guess a little north of a 3.5X debt ratio, perhaps approaching 4X. Maybe just a talk on the capital structure and debt service as you go forward and the ability to finance deals, should an attractive one come along in the near term.

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So I think you raise a good point. And that is as that creeps up, the more cautious we are about looking at any individual property. I'll turn over the detailed answer to that to Tom.

Thomas Powell ***Teleflex Inc - EVP and CFO***

Okay. Well, as we look at our balance sheet at the end of 2013, we've got around $430 million of cash sitting on the balance sheet. As we look at 2014, we're expecting to generate again some additional free cash flow, which could be combined with that money already on the balance sheet. So to the point you're raising, our ability to take on additional debt will be somewhat limited until we grow a bit and reduce our leverage levels.

As we look at 2014 and think about capital allocation, this year we generated about $230 million cash flow from operations. Should probably think about a 10% or so increase in cash flow from ops. Next year we're going to hold the dividend the same. That will consume $57 million or so of that cash.

In terms of CapEx, this year we spent right around $63 million, $64 million. Next year we'll take that up a little bit. In fact, up about $25 million, largely to facilitate the investments in productivity that we spoke about, and those investments in productivity will help us drive that up to 100 basis points of additional gross margin expansion.

And so as you net those all out, that leaves about $100 million left over for investment in addition to the $400 million that we currently have on the balance sheet.

Anthony Petrone ***Jefferies & Co. - Analyst***

Very helpful. And in the past the Company has also exercised on asset sales. I'm just wondering as you look at the portfolio today, are there potential for additional asset sales going forward?

Benson Smith ***Teleflex Inc - Chairman, President, and CEO***

So I think our consistent answer here is just as any business would, we routinely look at our overall portfolio and make strategic assessments about those businesses that we're most interested in or less interested in in the future moving forward.

Anthony Petrone ***Jefferies & Co. - Analyst***

And then the last one, just on Vidacare and as relates to the balance sheet, have you announced how the total purchase price was financed? I don't believe that there was any impact in your interest expense this quarter but maybe just an update there.

Thomas Powell ***Teleflex Inc - EVP and CFO***

Yes, sure. So we, as mentioned, we do intend to permanently finance that. That has not yet been done. So what you'll see in the interest expense in the fourth quarter is that funding on the revolver, and we're currently working towards a more permanent financing solution. So our 2014 financial assumptions have made room for that higher level of interest assumed in a fixed rate financing relative to what we're currently getting on the revolver rate.

Anthony Petrone ***Jefferies & Co. - Analyst***

Okay. Thanks a lot.

Operator

(Operator Instructions)

Sir, we have no more questions at this time. So I'd now like to turn the call back to Jake Elguicze.

Jake Elguicze ***Teleflex Inc - Treasurer, VP of IR***

Thanks, operator. And thanks everyone for joining us today on the call. This concludes the Teleflex Incorporated fourth-quarter and full-year 2013 earnings conference call. Have a good day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation and you may now disconnect. Good day.