

Against the Odds

After being spun off from Allergan, Inc., Advanced Medical Optics, Inc., has proven skeptics wrong and, through a number of high-profile acquisitions, has become the leader in the refractive surgery market.

BY SARA E. SMITH, MANAGING EDITOR

Since its spinoff from Allergan, Inc. (Irvine, CA), which became official on June 29, 2002, Advanced Medical Optics, Inc. (Santa Ana, CA), has proven to be a successful independent offshoot with many triumphs in terms of the advancement of technology and the acquisitions of complementary companies.

Cataract & Refractive Surgery Today asked Advanced Medical Optics' Chairman, President, and CEO James "Jim" V. Mazzo to discuss the workings of the business enterprise, how it was established, what it has achieved, and what future plans it may include.

SURVIVING A SPINOFF

According to Mr. Mazzo, the first goal for a spun-off company is to execute the transaction effectively. "If a company can survive a spin, the acquisition and integration aspects of it are fairly easy thereafter," he told *CRSToday*. According to Mr. Mazzo, the execution of a spinoff entails separating one company into two entirely divided entities. The division applies to everything: structure; mentality; boards; managerial teams; and stock symbols. It occurred within 6 months under the terms of the Allergan/Advanced Medical Optics deal.

The second goal was to populate the new entity of Advanced Medical Optics with a mixture of intellectually strong individuals who represent the ophthalmic business and medical device industry. Mr. Mazzo, however, looked beyond ophthalmology for half of his direct reports, because he wanted their fresh outlook on the industry. "I went outside for people like Randy Meier and Jane Rady and several others who could bring in expertise from different industries with a dissimilar mentality," he said. Mr. Meier is Advance Medical

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Optics' Chief Operating Officer and Chief Financial Officer. Prior to joining Advanced Medical Optics, he was Executive Vice President and Chief Financial Officer of ICN Pharmaceuticals, now known as Valeant Pharmaceuticals International (Aliso Viejo, CA). Ms. Rady serves as Executive Vice President, Strategy and Corporate Development, and previously served as Director and the CEO of Integrated Genomics Inc. (Chicago, IL). "About 82% of Advanced Medical Optics' employees were from Allergan" Mr. Mazzo said.

The third objective was to properly prioritize the company's pipeline. "We organized our R&D departments to focus on specific projects to pursue internally and then what we were going to go after externally," Mr. Mazzo stated. "This method was executed to ensure that we would not spend R&D [research and development] dollars on products we were going to try to eventually acquire. We articulated from the beginning of the spin that we were going to be in a business-development mode early on and that acquisitions were part of the company's growth strategy." Mr. Mazzo believes a lot of companies view business or product acquisitions as opportunities to take advantage of as they arise. Advanced Medical Optics looks to corporate acquisitions as an asset that the

company will continue to pursue to enhance its position in the marketplace. Advanced Medical Optics, according to Mr. Mazzo, has realized many of these goals, and the enhancement of the company's research and development portfolio is currently producing dividends for the company.

ACQUISITIONS

The Surgical Ophthalmology Sector of Pfizer Inc. and Pharmacia Corp.

Advanced Medical Optics' first acquisition was the surgical ophthalmology business owned by Pfizer Inc. (New York, NY). That company had acquired this portion of its assets from Pharmacia Corp. Advanced Medical Optics paid \$450 million for a wide array of products, including the Healon line of viscoelastics, the CeeOn and Tecnis IOLs, and the Baerveldt glaucoma shunt. Although the company largely had no viscoelastic device of its own prior to this acquisition, obtaining the Tecnis lens was the jewel of the entire transaction, Mr. Mazzo explained.

"Strategically, we realized that we needed to fill the viscoelastic gap," Mr. Mazzo said. "We accomplished that with this acquisition, but at the same time we also obtained a product that could differentiate [us] from the rest of the industry—the Tecnis."

In addition, Advanced Medical Optics acquired related manufacturing facilities in the Netherlands, Sweden, and India.

The acquisition was a transformational event for Advanced Medical Optics, Mr. Mazzo said. "In my opinion, if Advanced Medical Optics had not acquired the [aforementioned] products, I don't think we'd be sitting here today," he explained. "This attainment gave us a competitive line of products including Healon, the 'gold standard' in viscoelastics, and the Tecnis lens, the true, first aspheric IOL."

Visx, Incorporated

The \$1.27 billion acquisition of Visx, Incorporated, brought important growth in ophthalmic devices to Advanced Medical Optics. With this transaction, the

A TIMELINE FOR ADVANCED MEDICAL OPTICS*

2002	2004 - 2005		2007	
<p>Spinoff from Allergan, Inc.:</p> <ul style="list-style-type: none"> • June 29, 2002 • Began trading on the New York Stock Exchange under the symbol "AVO" on July 1, 2002 • The opening price was \$11 per share 	<p>Acquisition of Pfizer Ophthalmic Surgical Business:</p> <ul style="list-style-type: none"> • Announcement: April 2, 2004 • Acquisition finalized: June 28, 2004 • Products: Healon line of viscoelastics, CeeOn and Tecnis IOLs, Baerveldt glaucoma shunt • \$450 million transaction 	<p>Acquisition of Visx, Incorporated:</p> <ul style="list-style-type: none"> • Announcement: November 9, 2004 • Acquisition finalized: May 26, 2005 • Products: Star S4 laser system, WaveScan Wavefront system, Advanced CustomVue ablation technology • \$1.27 billion transaction 	<p>Acquisition of IntraLase Corp.:</p> <ul style="list-style-type: none"> • Announcement: January 9, 2007 • Acquisition finalized: April 2, 2007 • Products: IntraLase FS laser • \$808 million transaction 	<p>Acquisition of WaveFront Sciences, Inc.:</p> <ul style="list-style-type: none"> • Announcement and acquisition finalized: January 16, 2007 • Products: Shack-Hartmann-based aberrometer • \$20 million
<p><i>*Since the spinoff in 2002, Advanced Medical Optic's stock price per share has risen from \$11 at opening to a high of \$52.90 in 2006. The company directly attributes the rise in stock price to a series of strategic moves, both organical and through acquisitions. As of press time, the company's stock was trading at \$35+ per share.</i></p>				

ADVANCED MEDICAL OPTIC'S FINANCIAL PORTFOLIO FROM ITS INCEPTION IN 2002 TO DATE

	2002	2007
Revenue:	\$538 million	\$1 billion
Market capital:	\$429 million	\$2.2 billion
Employees:	2,100	4,200

company inherited Visx's installed base of brands such as the Star S4 IR Laser System, WaveScan Wavefront system, and CustomVue procedure. The aforementioned technologies in conjunction with Advanced Medical Optic's existing portfolio of refractive surgery products (including the Verisyse, ReZoom, Array, and Tecnis IOL, as well as the Amadeus II microkeratome) enabled the company to offer a breadth of refractive technologies to customers. Moreover, the company gained access to practitioners who were not necessarily familiar with its offerings but were loyal to Visx and its products. "[Advanced Medical Optics] entered a new segment with the acquisition of Visx," said Mr. Mazzo. "It clearly established us as the No. 1 refractive company with superior technologies."

According to Mr. Mazzo, Advanced Medical Optics is the market leader in laser vision correction technologies, with more than 60% of all procedures in the US being performed with a Visx laser.

IntraLase Corp.

One of the reasons Advanced Medical Optics acquired IntraLase Corp. was to create a new standard of care in laser vision correction, largely because the LASIK market has been relatively flat recently. The IntraLase FS laser offers customers a bladeless option for patients when creating a corneal flap during the LASIK procedure. "[This laser] was the next-generation technology that was missing from our business portfolio," Mr. Mazzo noted. "We've realized now that by completely capturing every [ophthalmic] frontier for the refractive practitioner we've moved into a noncapitated businesses arena where patients will pay for refractive services." He explained that the company is not abandoning its government reimbursement business but is now able to have both. Prior to purchasing IntraLase Corp., Advanced Medical Optics was missing out on the Generation Y market. Furthermore, Mr. Mazzo sees potential for the development of the femtosecond laser for other indications in the future.

Wavefront Sciences, Inc.

One of the quietest recent acquisitions in the industry was that of Wavefront Sciences, Inc., the manufacturer of the industry's highest-resolution Shack-Hartmann-based aberrometer. This product strengthens Advance Medical Optic's CustomVue laser vision correction technology and is expected to accelerate the introduction of next-generation diagnostics that build upon the WaveScan Wavefront systems.

"WaveFront Sciences has unbelievable technology," Mr. Mazzo said. "I don't think that anybody has appreciated how strong of an entity they are as an original equipment manufacturer before we acquired them." Products from WaveFront Sciences are designed to help practitioners identify candidates for refractive laser and IOL surgery as well as contact lenses.

For a review of Advanced Medical Optics' acquisitions and financial implications, see *A Timeline for Advanced Medical Optics* and *Advanced Medical Optic's Financial Portfolio from its Inception in 2002 to Date*.

CONSOLIDATING THE CATARACT AND REFRACTIVE SURGERY MARKETS

The consolidation of both the cataract and refractive surgery markets is imminent, according to Mr. Mazzo. Many small companies are entering the market with one product in the hope of being acquired by a larger company that has a vast product portfolio.

Mr. Mazzo believes that a large size may benefit an ophthalmic company but will not guarantee its success. "Companies do not require 100% market share in all ophthalmic sectors in order to be successful, but [Advanced Medical Optics] has a lot of different technologies for customers to choose from," he said.

FUTURE PLANNING

In 2005, a noncompete agreement with former parent company Allergan, Inc., expired, and Advanced Medical Optics has since been developing a comprehensive product for the treatment of dry eye. The US launch is expected during the fourth quarter of this year or early next year, and the overseas launch is due to occur during the first quarter of 2008.

"This is very exciting because it's our first foray into the dry eye market," Mr. Mazzo stated. "This is an OTC [over-the-counter] product."

In another refractive component of ophthalmology, the company is working on an accommodating IOL. The project is in the beginning stages of research and development, with no launches anticipated before 2010. The design remains a secret. ■

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