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COHR - Coherent Inc to acquire Rofin-Sinar Tech., Inc. M&A
Call

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OVERVIEW:

COHR announced that it has signed definitive agreement to acquire ROFIN-SINAR.



CORPORATE PARTICIPANTS

Bret DiMarco *Coherent, Inc. - EVP and General Counsel*

John Ambroseo *Coherent, Inc. - President and CEO*

Kevin Palatnik *Coherent, Inc. - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Jim Ricchiuti *Needham & Company - Analyst*

Patrick Newton *Stifel Nicolaus - Analyst*

Larry Solow *CJS Securities - Analyst*

Mark Miller *The Benchmark Company - Analyst*

Joe Wittine *Longbow Research - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Coherent's conference call hosted by Coherent, Inc. At this time, all participants are in a listen-only mode. (Operator Instructions)

As a reminder, this call is being recorded. I would now like to introduce Bret DiMarco, Executive Vice President and General Counsel. You may begin your conference.

Bret DiMarco - Coherent, Inc. - EVP and General Counsel

Thank you, Victoria; and good afternoon, everyone. Welcome to today's conference call to discuss Coherent's acquisition of Rofin-Sinar, which we announced earlier this afternoon. On the call we have John Ambroseo, our President and Chief Executive Officer; and Kevin Palatnik, our Chief Financial Officer. John and Kevin will run through the transaction highlights and then offer prepared remarks. We will then go to Q&A.

I would like to remind everyone some information provided during this call may include forward-looking statements, including, without limitation, statements about Coherent's future events; anticipated financial results; the expected completion and timing of the transaction; and expected benefits and other information related to the transaction. These forward-looking statements may contain such words as expects, will, anticipates, or intends. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict and may cause actual results to vary significantly.

Factors that could cause actual results to differ materially include the risks the transaction may not be completed in a timely manner or at all; the effect of the announcement of the transaction on Coherent's business relationships, operating results, and business generally; challenges in costs of closing, integrating and achieving anticipated synergies; the risk that the proposed transaction disrupts current plans and operations; and potential employee distraction and retention difficulties.

These and other risks are set forth in more detail in Coherent's periodic SEC filings, including its most recent Form 10-K, Form 10-Q, and Forms 8-K. These forward-looking statements reflect beliefs, estimates, and predictions as of today, and Coherent expressly assumes no obligation to update any such forward-looking statements.

I would now like to turn the call over to John Ambroseo. John?

John Ambroseo - Coherent, Inc. - President and CEO



Good afternoon, everyone. Apologies. We had a problem with the bridge. Thanks for joining us on such short notice. We just published a new investor presentation that can be found under the investor relations tab on the Coherent website.

So we have just announced that we have signed a definitive agreement to acquire Rofin-Sinar, one of the world's leading developers and manufacturers of high-performance industrial laser sources and laser-based solutions and components for \$32.50 per share in an all-cash transaction, with a transaction value of approximately \$942 million.

This price represents a spot premium of 41.7% to Rofin's closing price on March 15. This deal, which has been unanimously approved by both Companies' Boards of Directors, is expected to close in six to nine months.

We are really excited about the potential for this deal, and I would like to walk you through what the deal means to Coherent as well as some of the economics. Let me begin by saying that this transaction is a great fit for us from both a strategic and financial perspective. Combining with Rofin will strengthen Coherent's position as a world leader in lasers, components, and laser-based tools. It will also significantly enhance long-term value for our shareholders.

Let me provide some background. Coherent has historically participated in foreign markets, including microelectronics, OEM instrumentation, scientific research, and materials processing. We enjoy strong customer relationships across all four and have leading market positions in the first three. It has been our intent to expand our participation in materials processing, which is the largest industrial laser market in the world, with approximately \$2.8 billion in calendar year 2015 sales.

For those of you unfamiliar with Rofin, the Company has approximately \$520 million in annual revenue in fiscal 2015. Headquartered in Plymouth, Michigan; and Hamburg, Germany, Rofin has approximately 2,200 talented employees at locations across nine different countries. Rofin is a leader in lasers and laser-based systems for materials processing, making it an ideal strategic fit for us. This transaction brings a complementary product portfolio, diversifies revenue, and creates scale.

We are particularly excited about joining forces in fiber lasers and achieving scale faster than either Company might have done on its own, which should enhance competitiveness and profitability in a market targeted to exceed \$2.2 billion by 2019 with a 16% CAGR. The combination will also enable new opportunities for customers through broader product and service offerings for the Company by increasing growth opportunities and leveraging resources, and for employees for a larger Company with many cross-border roles. Again, this is a terrific fit.

I will now turn the call over to Kevin Palatnik, Coherent's Executive Vice President and CFO. KP, it's all yours.

Kevin Palatnik - Coherent, Inc. - EVP and CFO

Thanks, John. Coherent and Rofin generated combined revenues of approximately \$1.3 billion in fiscal 2015. As John mentioned earlier, this is an all-cash deal, which is accretive to non-GAAP EPS in the first year following the close. We expect to capture opportunities at both the top-line and bottom-line levels -- not only through the increase of scale, as noted earlier, but also through identification of savings, specifically \$30 million in annualized run rate synergies within 18 to 24 months of closing. We expect synergies will be achieved through increased efficiencies, leveraging the scale of the combined businesses, duplicative public Company costs, and optimizing the combined R&D portfolio.

We are financing the transaction through cash on the combined balance sheet and a \$750 million Term B loan. This financing package includes a \$100 million five-year revolving credit facility. The term loan is a dual-tranche structure with a 50%/50% split between dollar-denominated and euro-denominated debt. This results in gross debt of 2.9 times LTM or last 12 months EBITDA, including digestion synergies, with net debt at 2 times LTM EBITDA.

As you can see, this is not a highly leveraged transaction. While our actual leverage ratios will depend upon timing of the close, we expect to rapidly delever as a result of the significant cash flows of the consolidated Company. The loan terms allow for prepayments without penalties, acquisitions, share buybacks, and dividends.

In conclusion, combining these two businesses will significantly increase our scale, particularly in the materials processing segment, and broaden our overall product portfolio, resulting in greater diversification of our revenue sources. With that, I will hand it back to John to wrap up the call.

John Ambroseo - Coherent, Inc. - President and CEO



Thank you, Kevin. Let me summarize why we believe the acquisition of Rofin makes such great strategic and financial sense. First, this transaction brings together two highly complementary businesses. As a result, we will have -- we will enhance our position in the laser markets while creating a stronger, more diversified business with accelerated innovation and enhanced scale.

From a financial perspective, the transaction offers immediate certain cash value to Rofin shareholders. For Coherent stockholders, the acquisition represents not only a unique opportunity to strengthen Coherent's position in materials processing, but adds the complementary portfolio and scale to drive enhanced shareholder value over the long-term. I also want to acknowledge the extraordinary efforts of the respective transaction teams who worked incredibly hard to get this deal done.

Victoria, we'll now open up the call for Q&A.

QUESTION AND ANSWER

Operator

Jim Ricchiuti.

Jim Ricchiuti - Needham & Company - Analyst

John, I don't have the presentation in front of me, and I joined just a few minutes late. But are you anticipating any regulatory issues associated with this? How long is that process going to be? Because we have seen some issues in the past.

John Ambroseo - Coherent, Inc. - President and CEO

Sure. So we are required to do regulatory filings in various jurisdictions. We are in the process of preparing all that information, and we expect that process to be completed in six to nine months.

Jim Ricchiuti - Needham & Company - Analyst

But in particular, you feel that -- for instance in Germany, where there have been some issues in the past, that this is a deal that can get done?

John Ambroseo - Coherent, Inc. - President and CEO

We are talking about two very -- I assume you are referring to the Excel transaction from over a decade ago.

Jim Ricchiuti - Needham & Company - Analyst

Yes, I am.

John Ambroseo - Coherent, Inc. - President and CEO

So at two very different times and two very different sets of circumstances, Jim. The authorities -- the regulators approved that deal 10 years ago in the US very quickly. In Germany, we went through an extended process, and they required a remedy in order to allow the deal to close. But the remedy they wanted would have destroyed the economic value of the transaction, and it simply made no sense to move forward. We don't see those kinds of issues present in this deal.

Jim Ricchiuti - Needham & Company - Analyst

Okay. And with respect, again, have you -- if we look on a pro forma basis, how much of the revenues now will be from materials processing?



John Ambroseo - *Coherent, Inc. - President and CEO*

So we still have to do a thorough mapping, but it is going to push materials processing up probably into the number two position for the Company.

Jim Ricchiuti - *Needham & Company - Analyst*

Okay. And just with respect to the synergies that you're talking about, do you expect -- I think Kevin provided some information on that. But within the first year or so, what was the number you have identified in terms of synergies?

Kevin Palatnik - *Coherent, Inc. - EVP and CFO*

Yes, Jim, it's Kevin. We did not identify the specific year. We said \$30 million that we should be able to reach annualized within 18 to 24 months, and that really comes from leveraging the scale of the business -- as you know, duplicative public Company costs. And we will optimize the R&D portfolio as well.

Jim Ricchiuti - *Needham & Company - Analyst*

Okay. The last question from me is just: how long has this process been underway? And again, not having any of the material in front of me, you might have shed some light on this. But we know that there has been a fair amount of news around Rofin for some time now. But I'm just curious -- how long has this process been going on in terms of your negotiations?

John Ambroseo - *Coherent, Inc. - President and CEO*

Let me answer that one, Jim. First of all, I want to again highlight the strategic value of the deal. And I also want to remind everyone that we are always looking at the art of the possible in the space. As far as the particulars around this particular transaction, you will have to wait for the proxy materials that will come out very shortly to have that information.

Jim Ricchiuti - *Needham & Company - Analyst*

Okay, okay, thanks. I will jump back into queue. Thank you.

Operator

Patrick Newton.

Patrick Newton - *Stifel Nicolaus - Analyst*

Congratulations on the announcement. I guess just focusing on the \$30 million in annual OpEx savings, Kevin, can you give us the relative weight between the efficiencies, the public costs, and then the R&D?

Kevin Palatnik - *Coherent, Inc. - EVP and CFO*

Patrick, we are going to have to wait a bit on that. As you know, we do our high-level estimates with all the support for the \$30 million. But as we move into the phase of integration planning, we will really flesh that out in detail. And then we will come forward with it. But right now, let's keep it at a top-level \$30 million within 18 to 24 months.



Patrick Newton - *Stifel Nicolaus - Analyst*

And, I guess, just given the commentary around the lack of maybe details on how this fits the other -- does this -- was this a relatively short courtship? Or has this been in the process for a period of time?

John Ambroseo - *Coherent, Inc. - President and CEO*

Again, I am going to refer back to my previous statements. You'll have to wait for the proxy materials to have that detail.

Patrick Newton - *Stifel Nicolaus - Analyst*

Okay. And then, I guess, just John and Kevin, on the efficiencies side, when we think of Rofin, there is a loose consolidation -- or, I'm sorry, a loose association of several different entities. Should we think that the efficiencies through prep consolidating a lot of these individual entities into a broader Coherent structure is one of the lowest-hanging fruits as far as synergies that you can extract out of that transaction?

John Ambroseo - *Coherent, Inc. - President and CEO*

So, Patrick, great question. We have gone through a transaction analysis. We are going to enter into a phase where we are going to be doing integration planning, and that will be a joint team of people from both sides. And as we go through that, we will be able to build a more thorough model, which we will share when it is appropriate. Today is not the appropriate time to share that.

Patrick Newton - *Stifel Nicolaus - Analyst*

Without giving details, would you think that that is one of the areas that makes the most sense, just given that you have entities like DILAS, entities like Optoskand, entities like Nufern, all that fall into the Rofin umbrella? Is that -- without giving the details, is that logical for an area to extract synergies?

John Ambroseo - *Coherent, Inc. - President and CEO*

Patrick, I am going to say it for a third time: we are going to work through this, and we will make the information available when it has been fully vetted. I think it would be inappropriate to comment on any location at this juncture. And I'm going to leave it at that.

Patrick Newton - *Stifel Nicolaus - Analyst*

Okay, and just last one on the fiber strategy: if we think about the scale that could be created and thinking about merging the two strategies there, is there -- can you talk a little bit about what it is about Rofin and their solutions that could benefit Coherent, and also what Coherent brings to the game, and how collectively that strengthens the Company's position?

John Ambroseo - *Coherent, Inc. - President and CEO*

Again, we are looking at this holistically. We think that there is knowledge and learning on both sides that can be leveraged, and it presents a unique opportunity to do a best-in-class assessment on a whole number of fronts -- not just on the final product, but on all the technologies that fit into those product platforms. And those things can have benefits on cost of goods; they can have benefits on lifetime; they can have benefits on performance. And we are looking forward to being able to unleash the teams to evaluate all of that.

Patrick Newton - *Stifel Nicolaus - Analyst*

Great. Thank you, John.



Operator

Larry Solow.

Larry Solow - CJS Securities - Analyst

Just for confirmation, this is the net cash -- the \$150 million or so, that we can essentially adjust that out, right? So just the net value of this deal is really more like \$800 million. Is that correct?

Kevin Palatnik - Coherent, Inc. - EVP and CFO

So we are borrowing the \$750 million term loan, and we will cap that with the combined balance sheet. So the increment to get to \$940 million comes out of the combined balance sheet. So yes, it would be net.

Larry Solow - CJS Securities - Analyst

Okay, so the \$940 million is the net purchase price, net of the cash?

Kevin Palatnik - Coherent, Inc. - EVP and CFO

\$940 million is the all-in. The piece parts come from a \$750 million loan and then existing cash on the combined balance sheets.

Larry Solow - CJS Securities - Analyst

Got it. Got you, okay. In terms of materials processing, I think Rofin is about -- seems like there are somewhere around \$300 million of that \$500 million, in using round numbers, is coming from materials processing. Is there a decent amount of overlap or any overlap in that materials processing? I know they're more in the high-power end, but do you guys compete at all on the low-power piece? Will there be any competing, you know, areas?

John Ambroseo - Coherent, Inc. - President and CEO

There are areas where both of us participate. And again, we will be going through that thorough analysis part of the integration planning.

Larry Solow - CJS Securities - Analyst

Okay. The synergies of \$30 million, can you break that down? No, I am just kidding.

Could you -- because that just seems like it's mostly obviously on the cost side, and it seems like you probably -- it's -- on a near-term or an 18- to 24-month target, hopefully there is probably more as you look down in the future; but it sounds like this deal is also -- the impetus is also on the revenue side. Perhaps you think that there is more revenue synergies in that \$30 million as we look out. Is that fair to say?

Kevin Palatnik - Coherent, Inc. - EVP and CFO

Yes, Larry, the \$30 million was all cost. There are top-line synergies that we talked about in our prepared remarks. As we come together as two teams and work through integration planning, we will have a better visibility into that. So we have not declared any top-line synergies. The \$30 million is all cost.



Larry Solow - CJS Securities - Analyst

And the -- there are --.

John Ambroseo - Coherent, Inc. - President and CEO

Larry, if I can answer that on the revenue side, we are enjoying a terrific position right now in the [microelectronics] space, particularly with flat-panel display. The other large growth opportunity in the market today is in materials processing, particularly with the use of fiber lasers. And this transaction better positions the combined Company to go after that.

Larry Solow - CJS Securities - Analyst

Right. And along those lines, can you just remind us -- is Rofin's positioning on the fiber laser side -- I guess, obviously -- I don't know if you can give us revenues, but are they fully integrated? Or would that benefit come from your side? And any other type of things that -- compare and contrast the two platforms between yours and theirs. That would be great, thanks.

John Ambroseo - Coherent, Inc. - President and CEO

Sure. Ours, as you are probably aware, is an integrated structure or a vertical structure. They have aspects of that, and the components that are not yet vertical are certainly planned to be vertical in the future. So it is a very similar approach thematically to ours.

Larry Solow - CJS Securities - Analyst

And the planned vertical integration will be expedited by the combined entities? Or were they already moving towards vertical integration on their own?

John Ambroseo - Coherent, Inc. - President and CEO

They are moving towards it on their own. It will be accelerated, and we get to take advantage of greater scale.

Larry Solow - CJS Securities - Analyst

Got it. Okay, great. Thanks.

Operator

Mark Miller.

Mark Miller - The Benchmark Company - Analyst

Congratulations on the deal. Just pursuing the line of questioning a little further about what Coherent can bring to Rofin-Sinar, especially in the area of the production and development of diodes -- you've had an extended history there. I am just wondering if you can make any comments on that in terms of -- do you feel that will help accelerate the ramp of diode technology at Rofin?

John Ambroseo - Coherent, Inc. - President and CEO



Certainly diode technology is one of the areas that we will look at to accelerate and to build greater scale. And obviously the respective engineering teams need to collaborate on that to come up with a pathway that gets us there as fast as possible.

Mark Miller - The Benchmark Company - Analyst

Okay. And just unfortunately, bringing up some past history: any concern about objections in Europe to this merger in terms of you would have a dominant position in one area of lasers?

John Ambroseo - Coherent, Inc. - President and CEO

I am not sure which area you are referring to.

Mark Miller - The Benchmark Company - Analyst

Well, you had made a prior acquisition that kind of got blocked by the German -- I forget the office official name, but --.

John Ambroseo - Coherent, Inc. - President and CEO

Got you. Again, we are going to go through the regulatory review process. We expect to complete those filings very shortly. We, of course, will cooperate fully with regulators as they go through their discernment. And we seek to have a favorable outcome.

Comparing and contrasting the two transactions a decade apart, very different dynamics -- I understand there is curiosity about it. I am not sure that it is as relevant, because one of the biggest changes that has taken place between circa 2005 and 2016 is the technology that was prevalent in 2005 has been pretty much decimated going into 2016.

Mark Miller - The Benchmark Company - Analyst

For some time, you have wanted to expand, and you had done some expansion in the system area. In terms of Rofin-Sinar's expertise in this area, what areas do you think would be most attractive to you to further expand and combine the technologies in terms of producing laser systems?

John Ambroseo - Coherent, Inc. - President and CEO

Well, I think the areas that we are focusing on right now, which are high-power lasers, short-pulse lasers, diode lasers -- all of those make tremendous sense. And we can build scale and gain leverage through that exercise.

As far as Rofin's systems business, it's certainly a very attractive piece of the equation. And we will be working to evaluate where we can make further investments to expand that business at a greater rate.

Mark Miller - The Benchmark Company - Analyst

And finally for me, margins -- margin -- there is a distinct difference. Rofin has typically been at the lower end of margins along the major laser manufacturers. How do you think this will impact this merger and the ability to improve Rofin's margins?

Kevin Palatnik - Coherent, Inc. - EVP and CFO

Mark, this is Kevin. In the short-term, as we come together, they will be a small impact. But as we realize some of the efficiencies, both top-line and at the cost level, we see improvement over time.



Mark Miller - The Benchmark Company - Analyst

Thank you, and congratulations again.

Operator

Joe Wittine.

Joe Wittine - Longbow Research - Analyst

I understand the integration team still has work to do, but just as it relates to materials processing, just help us understand how to bucket this combination. Is it first and foremost a scale play? That seems to be what it is, so you'll get some more highly leveraged salespeople, some vertical benefits on top of that. Or are there technological aspects, too -- specific technological things you liked within Rofin that you are excited to add -- as it relates to materials processing, if I wasn't clear.

John Ambroseo - Coherent, Inc. - President and CEO

Yes, Joe, the items you listed specifically -- I would choose D, all of the above. We should see benefits up and down that list. Yes. That is the short answer.

Joe Wittine - Longbow Research - Analyst

Okay. And there any concerns at all about Rofin shareholders not supporting -- you know, give us some insight into how those conversations went? You mentioned the premium. It's obviously a reasonable premium here. And along those lines, what is the breakup, if there is one?

John Ambroseo - Coherent, Inc. - President and CEO

So this transaction provides a meaningful premium in cash. Certain value delivered to shareholders, it seems pretty attractive. It is a 41.7% premium. Those are pretty strong numbers for all Rofin shareholders. As far as the details of the fees and whatnot, all of that is going to be contained in the filings that we are doing with the SEC. You will be able to see that.

Joe Wittine - Longbow Research - Analyst

Okay, thank you.

Operator

At this time, we have no further questions in the queue. I will now turn the call back over to John Ambroseo for any closing or additional remarks.

John Ambroseo - Coherent, Inc. - President and CEO

Thanks, Victoria. Again, I want to thank everyone for joining the call on such short notice. My apologies for the Adele moment that we had early on. We will provide -- be providing regular updates, certainly during our regular earnings conference calls on how things are going. We very much look to completing this transaction and begin working with our new colleagues. Thanks again, and we will talk with everyone soon.

Operator



This concludes today's conference call. You may now disconnect.

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