

FINAL TRANSCRIPT

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MDZ - MDS Inc. Announces Strategic Repositioning - Conference Call

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CORPORATE PARTICIPANTS

Kim Lee

MDS Inc. - Senior Director, IR

Stephen DeFalco

MDS Inc. - President & CEO

Doug Prince

MDS Inc. - EVP, Finance & CFO

CONFERENCE CALL PARTICIPANTS

Hari Sambasivam

NBF - Analyst

David Martin

Dundee Securities - Analyst

Tim Evans

Jefferies & Co. - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the MDS conference call. I would now like to turn the meeting over to Ms. Kim Lee, Senior Director, Investor Relations. Please go ahead, Ms. Lee.

Kim Lee - MDS Inc. - Senior Director, IR

Thanks, Michael. Good morning, everyone and thank you for joining us this morning. Stephen DeFalco, President and CEO of MDS, will be discussing the details of today's announcement and Doug Prince, Executive Vice President of Finance and CFO, will join us for the Q&A portion of the call.

A press release was issued earlier this morning. If you have not received it, you can access the release on our website at mdsinc.com.

During the call, we will be making forward-looking statements about MDS' businesses, including statements with respect to the proposed sale of businesses, use of proceeds of sale and strategy of the remaining businesses. These statements are not a guarantee of future performance and are subject to risks and uncertainties that could cause actual results to differ materially. Some of these risks are disclosed in the reports and other documents filed with the relevant Canadian and US securities regulators and are available on our website.

During the call, we will make reference to select non-GAAP financial measures that we feel could provide meaningful information to investors. Also, unless otherwise noted, all amounts referenced today are in US dollars. I will now turn it over to Stephen DeFalco.

Stephen DeFalco - MDS Inc. - President & CEO

Thank you, Kim. Good morning, everyone. Today, we announced the repositioning of MDS that is intended to unlock the value of MDS' businesses in the near term. We believe our proposed path forward is in the best interest of the Company and its shareholders.



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As a result of the strategic review process led by the special committee, our Board of Directors are recommending a shift in direction for the Company that includes separate plans for each business unit going forward.

As we disclosed earlier this morning, MDS has entered into an agreement to sell MDS Analytical Technologies to Danaher Corporation. We are actively seeking a buyer for the MDS Pharma Services Early Stage business. Following the completion of these transactions, MDS will remain as a publicly traded entity consisting solely of Nordion.

Over the past several quarters, we have commented on the significant challenges facing MDS. The economic downturn has created soft markets for both MDS Analytical Technologies and MDS Pharma Services. MDS Nordion is dealing with the prolonged shutdown of the NRU reactor, which according to Atomic Energy of Canada Limited's most recent estimate, is not expected to return to service until calendar Q1 2010 at the earliest. The MDS Board of Directors and management believe that the plan announced today is the best way to unlock the value of our three business units in a reasonable timeframe.

In addition, these actions are intended to provide our businesses with greater opportunities to grow and expand their respective market leadership positions and meet the needs of our customers, employees and other key stakeholders.

Let me give a little more detail and start with Analytical Technologies. MDS has signed an agreement to sell MDS Analytical Technologies to Danaher for \$650 million. Danaher also intends to purchase the share of the AB SCIEX joint venture held by Life Technologies. Our mass spectrometry joint venture with Life Technologies is a market leader. A strong company like Danaher will integrate the two sides of this excellent franchise into one organization.

Customers, business partners and other stakeholders will all benefit from now having one company represent this award-winning, revitalized productline in the future. The sale of MDS Analytical Technologies is subject to shareholder approval and we plan to call a special meeting of shareholders to address this requirement. More information will be available in a proxy circular, which we expect to distribute and file with securities regulators later on this month. We plan to hold the shareholder meeting in October and anticipate closing the transaction before calendar year-end.

Following the close of the MDS Analytical Technologies, we currently intend to initiate a substantial issuer bid to return approximately \$400 million to \$450 million in capital directly to shareholders. More details on this initiative will be provided in the upcoming proxy circular.

Now Pharma Services. We are actively seeking an appropriate buyer for the MDS Pharma Services Early Stage business. Our Early Stage business is a leader in molecular screening and profiling, has strengthened bioequivalence and bioanalytical services and has one of the largest Phase I bed capacities in the industry.

MDS is looking for a buyer who is capable of building on the great work that has been done to improve this business in recent years and further advance the quality of services that are provided to clients. There can be no assurances that MDS will complete a transaction involving MDS Pharma Services. If MDS determines that there is not an acceptable transaction for MDS Pharma Services, we intend to retain and build the business.

As disclosed on June 1 when we announced the sale of Global Clinical Development to INC Research, we also continued to seek a suitable buyer for Global Central Labs. As we work through this process, we will continue to provide excellent service to our customers.

Nordion. Following the sale of MDS Analytical Technologies and the anticipated sale of the remaining operations of MDS Pharma Services, MDS will remain a publicly traded entity consisting solely of Nordion. MDS Nordion employees will continue to focus and build on the core strengths of the business and on their leadership position in providing medical isotopes for molecular and diagnostic imaging, radiotherapeutics and sterilization technology. Despite the current isotope supply challenges that the business is facing over the long term, we see MDS Nordion as an innovative market leader and financially solid company.



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One of the realities of doing business in the global economy is the need to be agile and nimble to respond to changing realities. The challenges faced by MDS as a result of the recent global economic downturn and AECL's prolonged shutdown of the NRU are unparalleled and have been exceptional. In light of these challenges, we believe this new course and repositioning of MDS is in the best interest of the Company and its shareholders, is the best option to unlock the value of the business in the near term and will provide each MDS business greater opportunity to grow their respective market leadership positions.

Let me make a couple of brief comments about Q3. Before we start the Q&A portion of the call, I would like to preview some of our Q3 results. In Q3, we saw further softening in demand for Early Stage CRO services, particularly Phase I. This was driven by customers' continued reprioritization of their research and development pipeline and customer concerns about uncertainty created by our strategic review process.

In addition, as we previously announced, our financial results are negatively impacted by AECL's NRU shutdown. For the third quarter, we expect to report net revenues in the range of \$190 million to \$195 million and adjusted EBITDA in the range of \$5 million to \$10 million for continuing operations. I will now turn it back to Kim for the Q&A.

Kim Lee - MDS Inc. - Senior Director, IR

Thanks, Steven. Michael, you can start the Q&A portion of the call, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Randall Stanicky, Goldman Sachs.

Unidentified Participant

Hi, good morning. Thanks. This is actually Stephan calling in for Randall. Just had a question on the Pharma Services business. You guys mentioned your intent to sell this business. What do you think the interest is right now for Early Stage, particularly Phase I and do you think there are buyers out there with interest?

Stephen DeFalco - MDS Inc. - President & CEO

Randall, thanks for joining us. It is a good strong business and a market leader. Having said that, as you know, it is a somewhat choppy deal environment. We do have a couple of interested parties and we will be seeing how that comes together. This is though a market leader in its respective deals, particularly in the screening area and the Phase I.

Unidentified Participant

Great, thanks. And just to touch on Nordion, are you guys going to focus solely on this business going forward? There has been a couple unexpected reactor shutdowns and a couple I think scheduled for early 2010. Can you just give a quick update on how these shutdowns will run, as in what is going to happen into the end of 2009 and what do you expect in early 2010?

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Stephen DeFalco - MDS Inc. - President & CEO

Currently based on the best information we have, which we get from third parties, similar to you, the estimated schedule of return of the NRU reactor is in calendar Q1 of 2010 and currently the Petten reactor is expected to go out of service for I think 22 to 26 weeks starting sometime I think late Q1 of 2010. So I think those are the things that are out there, but as you know, sometimes other things happen in that industry.

Unidentified Participant

Great. So no change to previous news around these reactors?

Stephen DeFalco - MDS Inc. - President & CEO

Right. And the other businesses at Nordion run just fine -- the sterilization business and the radiopharmaceuticals business. So this is one of the three productlines.

Unidentified Participant

Great. Thanks a lot. Let me jump out of the queue now. Thanks for the questions, guys.

Operator

Hari Sambasivam, NBF.

Hari Sambasivam - NBF - Analyst

Yes, thank you. Stephen, just a quick couple of questions on the process for the NRU reactor at this point in time. In terms of keeping Nordion, what is the process going to be in terms of your negotiations with the government? I mean have you made any progress in terms of the arbitration and the litigation process? Could you give us an update on that simply because I think, with the sector remaining, it is a significant portion of it and there is some huge uncertainty on it? So it would be useful to get a sense of what kind of milestones we will see on that for the next year or so.

Secondly, just a question about corporate management. With these two businesses being sold, what level of corporate management and corporate infrastructure do you keep for this company? And who will actually run the Nordion business? Maybe if you can address those please. Thank you.

Stephen DeFalco - MDS Inc. - President & CEO

Okay, Hari, so on the first question, there is really two areas where we are focusing a tremendous amount of energy. One is we are processing our lawsuit, we're moving forward and anyone knows who has ever been in a conflict litigation, particularly one with the government, it is moving forward at the pace that we expected. And I think we are using that to the best of our ability to move forward and make sure that we get a good outcome for our shareholders.

I would say the second part, which is probably in some ways probably more effective over the timeframe, is we are talking and dialoguing with everyone who this issue is near and dear to them. And so that is the medical professionals across Canada. It is the folks in the government who believe that the MAPLE decision should be revisited. It is various other international parties. And I think we are seeing that shaping up nicely in terms of seeing lots of media about that. I think pressure about it.

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You know at the Liberal caucus, they are talking about this and so we are hoping and also participating in the process with the expert panel with -- there were a number of submissions about the MAPLE reactors. So I think we are using both of those approaches in order to get the right facts and the voices on the table about this leading industry in Canada and hopefully find some solutions there that make good sense for the patients going forward that it supports.

Hari Sambasivam - NBF - Analyst

Could you give us a bit of granularity, Stephen, as to what the specific milestones are? This has been dragging for a while and what exactly, as shareholders, should people expect in terms of the outcome of this? And I am kind of curious as to why you left the stub behind. You have sold off the two large businesses and what is the rationale of actually holding onto Nordion at this point in time?

Stephen DeFalco - MDS Inc. - President & CEO

I think the milestones are we are going to continue to progress the lawsuit at a rate that we can progress it. I think it is difficult to put timeframes around that and as with any lawsuit, there is uncertainty, so I am not going to be commenting a lot on that.

In terms of the second part of your question, as we move forward and we complete these transactions, we will, as we always do, be looking at our cost structure and be making certain changes in our cost structure, particularly at our Toronto center. Steve West is the President of Nordion and will remain so.

Hari Sambasivam - NBF - Analyst

And on the corporate side, Stephen?

Stephen DeFalco - MDS Inc. - President & CEO

As I said, we will be -- as we progress through these transactions, we will be assessing that as we go and winding down the corporate center.

Hari Sambasivam - NBF - Analyst

Thank you.

Operator

(Operator Instructions). David Martin, Dundee Securities.

David Martin - Dundee Securities - Analyst

Thank you and I just got on the call, so I apologize, this question may have already been asked. But I notice you are saying that your July cash position is going to include \$35 million for the proceeds related to the late-stage Pharma Services sale. That business was sold for \$50 million, so is the \$50 million the fees on the transaction or was there some debt payment that was made? And then I guess what should we expect the net to MDS to be for this transaction? Of the \$650 million, how much is going to flow into MDS hands?

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Doug Prince - MDS Inc. - EVP, Finance & CFO

Hi, David. This is Doug Prince. The proceeds received are again in line with the contract. There is an escrow payment and there are some milestone payments. And these are the typical kind of things you might see in a deal. There are typical deal costs as well. We would anticipate eventually receiving well north of \$40 million from this transaction. But again, we have to complete the various milestones. We have to wait for the escrow period to resolve itself. There will be additional details disclosed in our Q3 release next week.

David Martin - Dundee Securities - Analyst

Okay. And then what will the net be to MDS on this current transaction?

Doug Prince - MDS Inc. - EVP, Finance & CFO

We will disclose that next week.

David Martin - Dundee Securities - Analyst

Okay. Thank you.

Operator

Thank you. There are no further questions registered at this time. I beg your pardon. Tim Evans, Jefferies & Co.

Tim Evans - Jefferies & Co. - Analyst

Thank you. Just a quick question. On the third quarter, you are giving \$5 million to \$10 million in EBITDA and revenue \$190 million to \$195 million. Could you give us some idea of how that breaks down between the segments or maybe just comment on the similarities to the prior quarter?

Doug Prince - MDS Inc. - EVP, Finance & CFO

Tim, this is Doug again. I think we have attempted to do that with the NRU outage and the other major driver versus Q2 on a sequential basis will be Pharma Services.

Tim Evans - Jefferies & Co. - Analyst

And can you quantify that in any way?

Doug Prince - MDS Inc. - EVP, Finance & CFO

Not at this time. We will release that next week.

Tim Evans - Jefferies & Co. - Analyst

Okay, great. Thank you.



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Operator

There are no further questions registered at this time. I would now like to turn the conference back over to you, Ms. Lee.

Kim Lee - MDS Inc. - Senior Director, IR

Thank you, Michael. Thank you, everyone, for joining us this morning. If you have any additional questions, please do not hesitate to give me a call. Thanks again and have a great day.

Operator

Thank you. Ladies and gentlemen, your conference has now ended. All participants are asked to hang up their line at this time and thank you for your participation.

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