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Conference Call Transcript

MDZ - 2008 Annual Investor Day

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PRESENTATION

Kim Lee - MDS, Inc. - Director - IR

Good morning, everyone, and welcome. My name is Kim Lee, Director of Investor Relations for MDS. I would like to welcome all of you today, both here in person and those of you joining us live via webcast.

While this is MDS's 11th annual Investor Day, this is the first time that we are hosting this event here in New York City. Given that over 70% of our institutional shareholders are now based in the U.S., it only made sense. In considering venues, we decided to return to where we took our first step into the U.S. market, here at the New York Stock Exchange. Thank you all for joining us.

As we look back over the last two years, there truly is a world of difference at MDS. Having completed the transformation of the Company, our key focus now is driving growth as a global life sciences company. Today, MDS is more global than ever and the growth opportunities we are pursuing are coming from the world's most rapidly growing markets. We are continuing to drive innovation and operational excellence across MDS. You will see us highlight the world of difference at MDS in our business unit presentations through three key themes -- globalization, innovation, and operational excellence.

Now let me walk you through our agenda for the morning. We will begin with Stephen DeFalco, our President and CEO, who will take us through an overview of our strategy and performance highlights. He will be followed by each of the three business unit presidents in the following order -- Steve West, President, MDS Nordion; Andy Boorn, President, MDS Analytical Technologies; and Dave Spaight, President, MDS Pharma Services. Following the business unit presentations, Doug Prince, our CFO, will take us through the financial overview and our 2008 financial guidance. All our speaker bios are in your packages.

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We will provide two opportunities for Q&A this morning. The first will be Andy Boorn's -- after Andy Boorn's presentation and before our mid-morning break, and the second after Dave Spaight's presentation. After our final Q&A session and before we close for lunch, Stephen will make a few closing comments. We are webcasting the event today, so during Q&A we will be using microphones so that everyone in the room can hear the questions, as well as those listening via webcast. Cellular devices tend to interfere with the AV equipment in these rooms, so I please do ask that you turn them off now.

Before we begin, let me draw your attention to our Safe Harbor language in this presentation. During the day we will be making forward-looking statements about MDS's 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 the risks are disclosed in the reports and other documents filed with the relevant Canadian and U.S. securities regulators and are available as well on our website. Let me remind everyone that all financial data today is shown in U.S. dollars and on a U.S. GAAP basis, unless otherwise stated.

In addition to standard GAAP measures, we also make reference to selected non-GAAP financial measures that we believe provide meaningful information to investors. Both GAAP and non-GAAP measures referenced here are used by management to assess the performance of the business and as a basis for management compensation. To help our readers gain a clear understanding of our non-GAAP measures, such as net revenue, net EBITDA and net earnings per share, we provide detailed reconciliation between GAAP and non-GAAP measures in the MD&A portion of our 2007 annual report and on our website. And now, I'll turn it over to our first presenter, Stephen DeFalco.

Stephen DeFalco - MDS, Inc. - President, CEO

Welcome and thank you for joining us this morning. I'm thrilled to be here with you as we enter 2008 with a tremendous amount of momentum. I'm now in my third year as CEO of MDS and I have more reason to be bullish on the performance of my Company than I ever have in the past. Why?

First of all, as a pure play life sciences company, all our businesses operate in very attractive, very robust end markets that are demanding new technology and growing at a good healthy pace. Second, across all of our business units and every one of our geographies, we currently have momentum. Third, there's a much more strengthened team and set of processes across MDS, as you'll see here today in meeting the leadership team that's driving the results.

MDS is a global life science company that provides leading technologies and services that help to diagnose disease and develop new drugs. Our customers are the most prestigious researchers in the world who sit in pharmaceutical, biotechnology, government, and academic institutions.

We have three strong leading businesses. MDS Analytical Technologies, the combination of Sciex and Molecular Devices, brings tools, reagents, and software to help people accelerate their drug discovery and drug development efforts. MDS Nordion, leader in medical imaging, helping doctors to quickly get an accurate diagnosis in order to help and assist patients with their outcomes. MDS Pharma Services, a leading contract research organization providing services that help pharma and biotech companies accelerate their drug pipeline.

Our strategy, as most of our long-term shareholders know, is very consistently; to become a premier life sciences company dedicated to improving the health and well-being of people around the world. There are three planks to that. The first was becoming a pure play global life sciences company. We completed that in Q2 of 2007.

The second is taking each one of our existing businesses and functions, benchmarking them against the best peers in our industry, and driving them to world-class performance through a series of operational improvements that accelerate their top-line growth and improve their EBITDA margins. The third part of the strategy, which you saw with the Molecular Devices acquisition, is from time to time in each of these three businesses doing bolt-on acquisitions that takes these businesses from leaders in their marketplace to global platforms.

The investment pieces for MDS is quite straightforward; \$1.1 billion global life sciences pure play investment, very attractive markets, very strong technology positions, driving growth over the long haul. Analytical Technologies we view as a new platform for value creation for clients. As we look, we now have our own sales and marketing team, are able to do bolt-on acquisitions, are able to do deals and access opportunities we weren't under Sciex alone.

MDS Pharma Services probably is our greatest value creation lever as we take what was a very troubled CRO and drive it up to the world-class industry benchmarks. We've seen tremendous improvement in the bottom line there. I think what you'll see from David is a lot of excitement as we accelerate both top line and bottom line in 2008.

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MDS Nordion is a fantastic performance for [us], a very consistent performer. What you'll see is plans in place to move its organic growth rate out from the mid-single digits up into the higher single digits. We have a very strong balance sheet and a team that has a great track record of execution. Probably the most important bullet, which isn't on this chart, is at our current stock price, we represent a tremendous value in today's market.

Quickly covering some 2007 highlights, made the transition to a global life sciences company, revenues up 17%, profits up 88% in what was a very, very difficult foreign exchange environment, Molecular Devices integration proceeding well, it's going to exceed our first year targets to that, MDS Nordion good strong, consistent performer throughout 2007, Pharma Services improved EBITDA, \$32 million on a year-over-year basis. Good strong track record. All of the businesses are much more streamlined, much more agile, much stronger teams in place, much stronger processes in place to make sure that this 2007 performance is a stepping stone to continued shareholder value creation in 2008, 2009, and beyond.

Taking a look quickly at our EBITDA performance in 2007, this is a bit of a confusing chart, but basically we went from \$77 million in EBITDA to \$145 million and through that absorbed \$32 million of negative impact on our reported results from foreign exchange. We look at the EBITDA buildup as a number of pieces.

The first is a number of productivity and pricing initiatives. This is the benefit from our Lean Sigma programs, improving our operational footprint, improving our processes, driving out waste, at the same time driving price in the marketplace to match the value of our technical products.

Second is net volume increases. This is a little lower than you'd seen in a normal year, really driven by the fact that if you take '05, of course you had very large volumes driven by a competitor's recall at Nordion. And so this is a net volume increase against what was a decrease in our isotopes business and an increase in all other businesses in the portfolio.

Molecular Devices acquisition -- good, strong performer for us for the balance of 2007, great momentum as we go into 2008. We expect that acquisition to exceed the goals that we put in place when we announced it. And then reduced FDA expenses, as we'd gotten rid of that overhang at Pharma Services. Again, \$32 million during the year. A tremendous step up in margin, over 500 basis points in terms of improved profitability.

Looking at our three segments, we have MDS Analytical Technology, the clear leader in mass spectrometry, which is the enabling technology in understanding protein pathways and bringing small molecules through the development cycle. A leader in cellular analysis and other drug discovery areas, these are must-have technologies our clients need to help them to accelerate their pipeline. Very robust markets, very prestigious customers.

MDS Nordion, really three businesses. All three of them great demand drivers. The first is imaging technologies, particularly a cardiac franchise, driven off our molybdenum technology. Very much needed product driven off an aging population, driven off incidence of coronary heart disease.

A growing radiotherapeutics portfolio started with Zevalin and Bexar, Nordion has been a bit of a deal machine, lining up a bunch of other collaborations with biotechs. As we help them to get through clinical trials, hopefully that'll turn into some launched drugs in the future. And our sterilization business, good, strong, consistent performer where Nordion technologies sterilizes most of the devices available in the life sciences markets today, syringes, stents, surgical gloves, a number of other products.

MDS Pharma Services operates in probably the largest end market with the most robust growth rates. This market is driven by a trifecta of long-term drivers. The first is R&D budgets are rising every year. The second is there's a greater propensity to outsource as biotech customers become a more meaningful portion of the industry spend and pharma companies deal with their productivity issues in their pipeline and find CROs can deliver these services better, faster and cheaper than they can.

The third part of the trend is the brand name global CROs, with strong regulatory capability, IT capabilities, global footprints, full service menus, are outgrowing the rest of the industry and crowding out many, many moms and pops who are still out in the industry. So there's three kind of levers there that drive the robustness of that industry and the growth. We participate in both the early and late stage part of that business. Each one of these businesses we look at specifically the value drivers to take them from a leading franchise to a strong global platform.

In Analytical Technologies, our keystone quality has been the ability to have a constant flow of new product announcements. New product announcements excite the market, differentiate us from competition. We do that by working very, very closely with our key accounts. We're also

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taking our production that was sitting in Canada and in California and shifting it to our two factories in Shanghai and in Singapore. This gives us the ability to tap some of the world's best suppliers, improve our quality, reduce our costs, expand our gross margins.

We have now an established, very high performing global sales and service team that came with Molecular Devices. What we observed, we do much better in North America than we do in Asia and Europe because Molecular Devices was unable to keep up with the investments of building that global network. We are making those investments and are able to expand our reach to those customers around the world. Same customers we have in North America, doesn't make any sense for our shares to not be similar. And so we think we have some good catch-up in those markets as we're able to make those investments.

I also think this is a great vehicle for bolt-on acquisitions. Our competitors kind of enjoy this where often in this industry an academic will develop a single instrument. It'll fit some very important application, but they have no capability to bring it to market. Our phone has been ringing off the hook since we acquired Molecular Devices with interesting opportunities where we can bolt-on additional products, bring to them distribution and sometimes software and regulatory capability.

MDS Nordion, value creation here is trying to move up in terms of organic growth. First thing is divesting non-core product lines that were dragging down our financials and the optics of that business. Second is partnering with a number of different people to create a pipeline of interesting and exciting new therapeutics. The third is expanding our cobalt supply and growing our sterilization business.

MDS Pharma Services, improving our front end of the business system, business development execution, study selection, pricing an ongoing process, leveraging our new and much more streamlined footprint, and expansion in Asia. We have a great capability in China, a very large facility in Taipei, a good presence in Singapore, a modest to no presence in India, a market that's going to be very important for this industry going forward.

Stepping back as we exit 2007, let's look at MDS's revenue mix. An analyst wrote a recent report and called it a defensive revenue mix. I found it an interesting phrase. I guarantee all of my shareholders we're playing offense in all these markets. But I think he made a valuable point. We sit here in a world that's certainly a lot of economic turmoil. We look at our revenue streams and our customer base, we feel very good going into 2008. Three-quarters of our revenue comes from services and reagents and consumables, about 25% of our revenue comes from capital equipment, and we think we have the must-have technologies in a very robust and fresh product line going into the year.

As we look at our customer set -- pharma, biotech, life sciences, government are the big pieces. And this chart has changed pretty dramatically in the past three years as we've concentrated all of our portfolio, our energy, and our management time on building franchises in these marketplaces.

MDS operates with the three divisions, but we serve a similar customer base. At this point in time, nearly two-thirds of our customers are served substantially by more than one division. We're seeing greater and greater opportunities to bring capability. We see pharmaceutical companies in particular struggling with our supplier base, desperately needing productivity, desperately needing people to step up on a broader set of relationships.

I believe that this chart is going to continue to concentrate as Nordion is working more and more with biotech customers, as the Analytical Technology's team is able to spread the brand and the capabilities in various geographies. We do use a number of Analytical Technology's instruments in Pharma Services and are able to provide certain customers with a choice, would you rather buy the instrument and the reagents, would you rather do it on a service basis, would you rather start on a service basis, see what kind of results you get, and then later upgrade to having your own installation.

So we find there's a tremendous amount of cross-pollination in three industries that are fundamentally consolidating. We see it broadly in some of the moves of our competitors. We see broadly as we talk to our pharmaceutical clients and they look for suppliers who can give them that same set of capabilities everywhere they touch them around the world across a broader range of solutions.

This chart lists some of the differences in MDS over the past year. We have a smaller number of businesses, less than 70% of my employees carry a U.S. passport. Our Asian population is up 250% over the past year. We now have a third of our employees sitting in Europe. Almost all of our revenue comes from the global markets. We've expanded dramatically our Asian sites. What you see on the bottom is really a diversified Canadian export company. What you see on the top is a company truly with a global footprint accessing global customers, strong global employee base, dealing with and competing successfully with the most robust technologies in the world in the life sciences arena.

We run the business with really four core processes. These aren't posters or slogans. These are things we use day in and day out. Starts with business operating reviews where each month we go through every parameter in business, we measure, we assess results, we make decisions, and

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we always try to make sure March is going to be better than February and April is going to be better than March. Very tight sense of accountability.

Second is talent management. We work very carefully on identifying our high potential employees and moving them to the most challenging opportunities in the corporation. We have a pay-for-performance compensation philosophy. We reward results, not effort, in all of our compensation plans. Last, but not least, employees who don't meet our performance expectations we counsel them out with dignity. Third, operational excellence really driven off our Lean Sigma toolkit. Tremendous momentum here across the corporation. Every site, every process, every function, picking this up at a tremendous rate.

And the fourth is our strategy process called the customer competition and capital. Starts with each one of our teams going out and interviewing 50 customers, discussing with customers where do you need the industry in three years from now, what do you buy from us today and you're happy with, what do you buy from our competition and why. Pulling all that information back and having it flow through our talent plans, our R&D investments, our acquisition priorities, making sure that we're going to be where we -- our customers need us to be in front of the competition.

As I said, these aren't a set of slogans, these are things that we measure. And we look back at our 2007 achievements, 17% revenue growth, 88% growth in profitability, integrated Molecular Devices, streamlined MDS Pharma Services. We could look at any one of these parameters in terms of upgrading the team, 43 Belts, over 100 Lean Sigma projects, \$7 million worth of benefits to the bottom line, our strategy process leading us to very large portfolio moves, selling the founding division of MDS, making the largest acquisition in the history of the corporation, doing an extensive share buyback.

As we look into 2008 we set priorities for each one of these processes and discipline. What you'll see in 2008 is a greater emphasis on growth going forward. We feel we've done a lot of the problem solving and fixing, we're now able to accelerate much more on the growth end and use that as a bigger lever in terms of expanding our EBITDA. Each one of our functions, finance, IT, and HR, we benchmark against similar peers. We look to drive them to the top 25% of employment.

We have an incredible amount of metrics. We know exactly what it costs just to cut a paycheck, exactly where the accuracy is of a paycheck and exactly where we stand against the world-class performers. We do that on every single one of our functions, IT, finance, and HR. Each one of them has a three-year plan to drive itself to world class.

Talent management, big emphasis on sales execution. When I arrived at MDS, none of the businesses had a senior leader of sales and marketing. Each one of the businesses very shortly will have a senior vice president responsible for the field team. Nordion was out there first, doing the Molecular Devices acquisition, each region reported up separately. We said we didn't want that. We promoted Tom O'Lenic, a great talent who came with the acquisition. Tom now oversees the entire global field team, builds programs and capability for them. You'll see similar moves in Pharma Services soon.

Strengthening our leadership in Asia. Lean Sigma program, as I said, where this is going to push it all. It's a tremendous pull from employees all over the world who are embracing changing their processes, driving out work that doesn't create value for our customers, streamlining them and designing them in a way that they can serve their customers better. We will have over 200 projects and over \$20 million of benefit.

Our strategy process is really focusing on tuning our R&D budgets, making sure that we're there to serve our customers as good as -- as well as possible. As I've said to shareholders many times, you won't be a fourth, fifth, or sixth division at MDS any time soon. We're going to really take these three businesses, we think our great platforms and wonderful end markets, and we're going to build them out and make them global leaders.

Similar to the move that we did in Analytical Technologies, we have a very disciplined approach to doing any acquisition. We look first on is it bringing something new to our customer set, is it on strategy, do we have employees who are ready and engaged and can integrate it successfully. Third, does it make good, strong sense for our shareholders. We make sure it hits all of those hurdles before we proceed.

Thank you very much. I think you're in for an extremely exciting day. I'll now turn it over to Steve West, who will walk you through MDS Nordion.

Steve West - MDS, Inc. - President - MDS Nordion

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Thank you, Stephen. Good morning, everybody. It's my pleasure to be here today in this great institution here in New York to tell you an exciting story about MDS Nordion. In short, this is a story of transformation as we're building and leveraging on our strength and our reputation and driving a business through innovation to expand our products, our services, and our portfolio. So, today, I'm going to talk to you about our growth agenda.

Today, MDS Nordion is a leader in providing medical isotopes around the world. We have over 700 employees. We touch the lives of millions of people every day in over 60 countries around the world. And physicians use our products every day to determine and detect and follow progression of disease to bring better therapies and more targeted therapies to their customers. We have now embarked upon a series of unique collaborations with both industry partners and academia to drive innovation. And we are a Company that is built a strong foundation in our core competencies and our operational capacity.

If I look at our markets today, I think we as a business are reinventing ourselves and changing the way that we look at our markets and our position in these very, very strong markets. We characterize molecular medicine as molecular imaging and radiotherapeutics. In looking at the molecular imaging market, it's a \$3.5 billion market, end user market, and we are a very, very important component of that market, particularly for diagnostic imaging, the majority of which is for cardiac perfusion imaging, but also includes imaging for oncology and neurodegenerative and others.

It's a market that is robust and is growing and is expanding and it's tied to growth in the evolvement of personalized medicine. Equally, it's a market where drug development and discovery businesses are looking at using the tools of molecular imaging to help them make better decisions as they bring drug candidates and diagnostic procedures through their pipeline.

If you look at radiotherapy, it's a smaller market today and we are in this market in essentially two areas. One is as a manufacturer of radiotherapeutic products, products like Zevalin and Bexar, and later on I'll reference some other partnerships that we have. And also we go direct to market with our own product for liver cancer, which is TheraSphere.

We also have a very strong position today in gamma sterilization technologies and you will be thinking about cobalt as a primary driver of that business. That is a business that's growing at about 5% consistently with the expansion of medical devices. It's also a business that's growing in phytosanitary, in cosmetic and treatment of spices. We also think that there's an opportunity here to develop new technologies as well and I'm going to reference that a little bit later on. So I think we have a really strong foundation at Nordion and a great reputation and we're in great markets.

So as we look at transforming our business, this process has already started. Looking at our financial performance, we do have a strong business. Now, when you look at the comparable between 2007 and 2006, clearly, as we've indicated, there have been some one-offs and some benefits that we had, particularly the majority of which were through the Covidien [outage] that we were able to scale up and meet consumer/customer demand. But if you factor out those one-offs, you would actually see growth both at the top line and at the bottom line. And in 2007 I think we've been preparing our organization.

Our investment in sales and marketing has led us to have a different dialog with our customers. We've been able to increase prices above market or inflationary rates. We have established new partnerships to promote our strategy of innovation. We have preclinical imaging capabilities now in molecular imaging and we have a pipeline of service contracts.

We now continue to have very good success with TheraSphere, above market growth rates and our actual internal growth rate on TheraSphere is around 35% per annum. And we are continuing to invest in TheraSphere and I want to just reference that a little later on as well. We're expanding our capabilities and our footprint in Europe and as you know, we have increased our capacity of cobalt supply.

We've also been investing in sales and marketing expertise and we've also started to invest in our innovation capability. We recently announced the hiring of a new position. Senior Vice President of Innovation for Nordion, Peter Covitz is joining us just after Easter. Peter comes from the NCI, the National Cancer Institute, where he's a chief operating officer, and he brings a lot of expertise and knowledge to our Company as we continue now to build our innovation capacity.

We believe we have a very good technology capability, which we're calling our innovation toolkit. If you think about our business today, you think about isotopes. Actually what isotopes are, they're signals. And so in the new world of developing technology for molecular imaging, we're taking our signals, we're taking our internal expertise in radiochemistry, or chelation or the linking, and we're creating a synthesis kit that will become a technology platform to develop new tracers for molecular imaging.

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As part of that strategy -- oops, didn't mean to do that. Let me go back. As part of our strategy, we've announced our collaboration with University of Ottawa Heart Institute. And I think this is a unique collaboration and certainly the Institute thinks that. They are a world-class organization, second only to the Cleveland Clinic in terms of access to a patient database with a strong capability in research, headed up by Bob Roberts, who's the world's leading cardiac genomics expert and one of the top 10 physicians in the United States who came to the Institute about three or four years ago.

The Institute brings their knowledge of cardiac physiology, their research capability and laboratories, and their access to patients and clinical trials. We bring our expertise in radiochemistry, we bring our expertise in regulatory, we know how to take things from the bench to the bedside, through CGMP manufacturing, and we know how to commercialize product. I see this collaboration and this partnership not being a one-off. This is a center of excellence for molecular imaging. There's been a tremendous interest across the rest of the industry about this particular model and I would expect us to do something similar in oncology and later on in neurodegenerative.

I did speak earlier and reference opportunities for developing technology in sterilization too and there is an emerging market now in regenerative medical devices. And many of you've heard about regenerative medicine, tissue transplants, organ replacement. It sounds a little bit like something off Star Trek, but there is an emerging business here. People are talking about an end user market worth about \$80 billion.

We're working with our existing customers as partners in developing a technology for treating these new devices. And they're called combination devices because they consist of really three elements. They consist of bioactive products, a synthetic scaffolding, and then stem cells and other responding cells. This is a biological medical device that needs sterilization using something very different to conventional sterilization techniques.

Nordion is very well placed to work with these companies like J&J or Becton Dickinson and so forth because we understand the physics and we understand manufacturing fragile biological materials in a clean room environment. I would expect us to be able to have our first technology launch as a trial run sometime in 2009. We're still trying to quantify the exact value of the market, but we believe there's an opportunity there for us.

I've also spoken about TheraSphere. We re-branded TheraSphere in 2007, being powerful, targeted, and safe. We are continuing to add IP around TheraSphere that we believe will give us a technology platform that we can then build upon and also look at extending this franchise and looking at new indications for this technology. So I think our innovation program is strong. We're expanding our portfolio and we're leveraging the collaborations that we have.

So collaborating for growth is very much part of our strategy and we have started to build a pipeline of partnerships, both with academia, as I referenced with the Institute, but also with industry partners. For example, our partnership with Molecular Insight Pharmaceuticals. We are a partner with them as they develop Phase III clinical trials for Zemiva where we have a six-year renewable manufacturing contract with them. We're also partnering with Molecular Insight on their clinical trials with Zemiva, which is a therapeutic product.

Similarly, we're cooperating with companies like Bradmer Pharmaceuticals who are doing clinical trials for a very innovative compound which is a radiotherapeutic compound -- combination of iodine and a monoclonal antibody for treating brain cancer. So our partnerships are driving our growth and our growth in this particular business segment, which is now a viable business model for us, is now running around 19% compound annual growth.

And we've been continuing to resource this. We've added business development capabilities, so that we can expand this pipeline both in terms of our development service model where we have partnerships with our customers where we're providing them services. It increases our pipeline of manufacturing of these products as well. And it also gives us a radar screen looking at opportunities in the modalities and the markets that we have expertise in and are operating in today. So this is very exciting for us.

As Stephen referenced, we have three strategic anchors that are driving our business -- innovation, globalization and commercial excellence. We have, I think, being traditionally a Canadian company that perhaps has a reputation as being a great exporter of product. We're looking now to be much more of an insider in markets. And part of our globalization comes from expanding our sales and marketing capability.

We're now building a sales and marketing group that has much more global outreach. We have probably now more salespeople outside of Canada than we have inside of Canada, which is a big shift for us over the last two years. And we're expanding our footprint in Europe and obviously looking at opportunities in Asia as healthcare delivery infrastructure begins to build in that part of the world.

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And we're also looking at driving new products into these markets as well. We're working on registering ANDAs for generic registrations for new products, for example, for infection imaging that will give us a much stronger global outreach. We've also managed to secure approvals for TheraSphere in the markets in India, Russia, in Europe, and Saudi Arabia. I should also point out that as we expand TheraSphere, TheraSphere is also fully reimbursed in most markets. So even though we're investing in TheraSphere, our customers are being reimbursed for using TheraSphere.

So we're expanding -- we're expanding the pie and I think we're going to change the nature of the pie as well. Because it's a global company with a global footprint, we expect to have a stronger European and Asian presence. Also, this fits with our innovation agenda and growth agenda because there's a phenomenal amount of research going on in Europe in particular. And so being insiders in these markets, collaborating with partners inside these markets, we'll be able to avail of new technologies and new radiotracers for our molecular imaging strategy.

Commercial excellence is one of our anchors and we have a reputation for reliable and high quality supply of isotopes. And obviously there was a little disruption in November and December which had an impact on our business. But some of the things I would like to just reference are that NRU, the reactor that supplies MDS Nordion is the most reliable reactor in the world and it does have a reliability of over 97%.

And as you saw from our 2006 numbers, NRU is a very scalable reactor that was able to meet the global shortage and pick up the difference over a period of several months. So NRU is the only reactor that has scalable capacity and during the outage, we saw that the other reactors combined can probably only increase isotope supply by about 15%.

The disruption that happened in November and December was not an issue of reactor reliability or operation. It was a -- it was a difference of opinion between a regulator and the operator. It was a regulatory issue. And the shareholder of ACL that runs the reactor, when they understood the impact this was having, the Canadian government moved extremely quickly to resolve the issue.

I should also point out that this is a highly integrated supply chain. It's not just about a reactor making isotopes. It's about taking those isotopes and processing them and creating an active pharmaceutical ingredient, an API. That API then has to be distributed, it has to be packaged. It's highly regulated. There are significant quality issues. And of course there are relationships with customers. So it's very much an integrated supply chain capability that we have at MDS Nordion to take those reactor isotopes and ensure they get delivered to patients around the world.

It's been a tough start to date in terms of EBITDA and we have given guidance on that. The Nordion team is always prepared to rise to a challenge. And we do see this as an opportunity for the team to demonstrate its strength. The other factor here, though, is that this disruption event has changed the nature of the dialogue and discussion around having a sustainable, reliable supply of medical isotopes for the world. And clearly, this has sharpened everybody's attention. And so the discussions that we are now having with our partners, ACL and other stakeholders, including their shareholder, is a very different dialog from the one that we might have been having prior to this.

And everybody now understands the criticality and importance of having a sustainable, reliable supply of isotopes. And the importance of NRU and then the MAPLE reactors as they come on stream to ensure that there is continuity because that's what physicians and patients want. And so we've raised and elevated the nature of the dialogue and so I think we will end up at a point where we will be able to have a plan going forward that clearly lays out what that means in terms of reliable supply of isotopes.

Commercial excellence is also about supply of cobalt-60 as well. So let's move from one isotope to another. We announced recently that we completed an agreement with Rosenergoatom to increase supply of our cobalt-60. We had traditionally relied upon CANDU reactors, Canadian based. Two years ago we started a relationship with Rosenergoatom and we started to receive our cobalt-60 from this source. And then more recently we announced that we had a new agreement with them that increases our supply by 30%. This is going to help us both in terms of volume of supply of cobalt, as well as helping smooth out a little bit some of the lumpiness in our business. It doesn't give us a totally smooth curve and we will be continuing to invest in other sources of cobalt supply as well.

So, in summary, we have a Company that I believe is transforming itself with a very strong growth agenda driven by innovation through collaborations, a better management process for innovation, and commercialization of our innovation technology platform. We have divested non-core assets to ensure that we are purely focused on our molecular medicine and sterilization franchises, and leverage the strength, the reputation, and the position that we have today in those markets with those customers.

We continue to invest in building our sales and marketing competence to be customer focused, market driven, and end user oriented. And we continue to invest in productivity through our Lean Sigma programs. We are globalizing our business, we're expanding our footprint in Europe with GlucoTrace, and we're looking at opportunities in Europe and Asia.

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I am very excited by this opportunity. The Nordion team is highly motivated. Our customers and our partners like this story. I hope I've got your hearts racing a little bit this morning and I've got your mind turning as well around the opportunity because we think it is a great story. And we've started a journey and we are very, very, very excited to be on this trajectory. Thank you very much for your attention. And what I'd like to do now is hand over to my erstwhile colleague, Andy Boorn. I'll pass on the baton.

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

Thanks, Steve. Good morning, everybody. My pleasure to be here this morning and give you an update on the ever developing story at MDS Analytical Technologies.

I think most of you will remember it's just 11 months ago that MDS acquired Molecular Devices, Molecular Devices being the world leader in bioanalytical tools, particularly microtiter plate readers used universally for all manner of biological assays, high content screening that is imaging, I'll talk a little bit more about that exciting area later on, and drug screening, so that's high throughput screening of drug candidate molecules particularly focused around cell-based assays, that is techniques that allow pharma companies to get input back on their molecules from a system that's much closer to real physiology than to chemistry in a test-tube. And we combined Molecular Devices with MDS Sciex, for many years the world leader in mass spectrometry, to form this new global platform for life science tools.

And when I speak about tools, I'm not just speaking about instruments anymore. As you'll see through the rest of the presentation, a big focus for us has been on expanding this software capability that we deliver to our customers, that we charge our customers for, and also providing them with end-to-end solutions to their problems rather than just tools to help them work. We also have expanded our business to include reagents, consumables, and some rather nice value added after-sell service products that allow our customers to schedule maintenance rather than have to have experience downtime when a machine needs to be maintained.

So let me talk about our markets a little bit. I think you're familiar with most of these. For mass spectrometry, Sciex has always been the leaders, together with their joint venture partners, and that continues today. Large market, robust growth rates. We know where they're used, pharma, biotech, life sciences, research traditionally. Emerging and rapidly growing opportunities for us in what we call the applied markets. So these are things like environmental analysis, particularly in emerging economies, food safety testing, something that's been very, very widely publicized in the last couple of years, mass spec is one of the key technologies that's helping to protect the world's food supply, and also some other areas like clinical research and forensics.

We move over into the Molecular Devices portfolio, really we serve two very large, very diverse sets of markets. In bioresearch we're the leader in the segments where we compete and that would be primarily in this supply of bio assay plate readers and in high content screening and imaging. In drug discovery, we lead in cell-based assay high throughput screening techniques, products like [Flipper] where we use fluorescent labeling to identify drug hits, and also in the emerging area of label free screening, which gives complementary information to that -- to that that is obtained with fluorescence technologies.

I think one of the big trends for us and one of the big things we see in the marketplace is we've got to take research tools, things that are very sophisticated in their scientific capability and in the data they produce, and be able to wrap those tools up in a way that allows a technician working the second shift in a lab doing food safety testing to be able to use that technology to get answers. So it's not just about research and getting data. In fact, the research market is one of the smaller opportunities in some of these spaces, it's being able to bring that technology to solve real problems in the world. And I think you'll see as we go through that those are opportunities we're exploiting today.

Talk about the performance in 2007 for a few moments. On the left-hand side in the blue you can see 2006. That's pure Sciex. And that's the proportion of representation of our share of the joint ventures we have in mass spectrometry. And then 2007 represents 12 months of Sciex, seven and a half months of Molecular Devices combined.

I think one of the good things for me and one of the great things about this integration is that despite all of the things that went on in 2007, merging two companies, bringing teams together, lots of integration activities, we were actually able to expand our profit margins in 2006 for about 22% EBITDA margin, 2007 around 23%. So operational performance continued. And I think one of the great things around the Molecular Devices acquisition was we moved very quickly to consolidate their sales organization to appoint a single global leader and he was able to drive very strong performance in the sales organization. They recorded the two record quarters in their history in Q3 and Q4 of 2007 for us.

The integration really went, I think, as smoothly as we could ever have hoped for or imagined. Within 100 days after announcing the deal, we had integrated all of the support functions, realigned the management team and had clear management structure in place for the whole of MDS

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Analytical Technologies. And then we also had in place plans over the next 12 to 15 months that we're working through now to completely integrate both R&D and manufacturing at a more reasonable pace.

A number of great things also happened despite the integration going on. Certainly continued migration of manufacturing to Asia. I'll give you a more detailed update on that in a few moments. We launched a number of new products. I'm going to highlight a couple of those for you and speak about where we see those driving new opportunities for us. And as I said, LC/MS mass spec, core mass spec franchise continued to grow very strongly in areas like the applied markets, very strong growth there. And we were able to expand our service revenues, particularly with some of these after sales, remote monitoring, validation services, and training programs, expand our service revenues by 19%.

Let me move on and speak about where we see things going in the future. So for our high level strategic objectives, we're aligned currently with the strategy that Stephen laid out. Globalization, innovation, operational excellence are our key focus areas. Globalization for us particularly means Asia and probably specifically India and China. No surprise there. But I think those markets for a tool supplier like us are going to represent a huge opportunity over the next decade. We're moving very aggressively to be strong players in both of those areas. I'll talk in a moment about some of the specific opportunities for Molecular Devices sales expansion.

Innovation in our history has always been developing innovative leading edge scientific products. That will continue. You'll also see us now emphasize products at much lower manufacturing cost points. We have to bring these research technologies to much broader application bases. We've got to drive our manufacturing costs down. And as you have seen and I'll remind you, over the last two years we've had a strong focus on software product releases and application product releases, which are products which we charge our customers for that give the product platforms, the hardware platforms we have out there, more utility in the marketplace. So we're more than just instruments, I think is the message.

As Stephen said, Lean Sigma has become almost a viral infection across MDS. We kick-started it in Toronto at Sciex about two years ago and it's now rapidly expanded throughout the Sciex organization. It's been grabbed and pulled from us by the Molecular Devices organization. People become zealots about this stuff. They just can't stand to see things being inefficient or wasteful anymore. They want to grab it, they want to use the toolkit, they want to get that time back to focus on adding value to customer facing operations.

Let me talk a little bit about each of these areas in more detail. As I said, the first thing we did at MD was to consolidate their sales force. It was reporting in three different lines into headquarters. Appointed a single head from their organization who drove great sales performance and is continuing to do that in 2008. As we move on, we want to focus very much on expanding their footprint in Asia. And so we recently appointed a vice president of sales and service for Asia, just joined us this month. And that will continue to drive through expanding our dealer networks in Asia and adding more direct sales staff across China and the rest of Southeast Asia.

In think in Molecular Devices, being a small company with limited resources, they had never been able to fully exploit the possibilities even in Europe. So I think they're underpenetrated at the moment in the European market. And so we see opportunities to expand our sales footprint in Europe, specifically for the Molecular Devices products, and grow our business there. And so we'll be making moves over the next couple of years in an orderly fashion to take what's a fairly fragmented quilt of distributors by region and by product and aggregate those into more direct sales force.

LC/MS, I think you remember we, together with our partners, opened a very large applications product demonstration center in Shanghai in 2007 with all of our mass spec products showcased there, a large staff of application scientists, expanded sales force on the ground in China. And we're driving very hard in what's a very rapidly expanding market for mass spectrometry in that region. We've always been the leaders in India in mass spectrometry for a number of years. That's now becoming a more competitive market, but we're continuing to work with our partners there to drive that market heavily oriented to pharmaceutical and CROs historically, now moving much more into food safety testing, environmental testing.

Let me make a couple of comments about Japan because I think that's probably one of the bigger clouds on the horizon in our business. A mature market, well developed market, that's seen a lot of consolidation in Japanese pharmaceutical companies over the last couple of years, so reduction in their R&D footprint, the exiting of a number of North American and European pharmaceutical companies from actually performing research and development in Japan, they pulled out. Some of that work is going to China, some of it's going to Europe, but they don't do it in Japan anymore. So Japan as a pharmaceutical market is very challenging.

Also, funding for basic research there has not grown in real terms in several years. So we have a number of challenges in the Japanese market and I think that's true across the whole industry. So we're retooling our sales approach there in the mass spec area to really go and focus on the opportunities that do exist. Very real opportunities include safety testing. Japan gets most of its food from other Asian countries and so it's a very high concern for them. And also continue to grow in some of the other applied markets.

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Look at where we're positioned from a Molecular Devices viewpoint. I think you realize that through our joint venture partners we are direct and global for mass spectrometry sales. For Molecular Devices, as Stephen pointed out, this global sales channel now gives us an opportunity, not just from Sciex, but across all of analytical technologies, to bring in new products to entertain more bolt-on acquisitions, licensing in technologies. We did a couple of technology licensing deals in 2007 which you'll see coming out in products in 2009 probably. It gives us a channel to bring those technologies to market. At Sciex we were somewhat landlocked unless it was a specific mass spec technology that our partners were also interested in investing in.

We're doing a couple of other organizational things. Molecular Devices operations in California are split between two sites. We're consolidating that onto a single campus in Sunnyvale. We've already moved manufacturing out of Union City. We'll move R&D, marketing and application support out of Union City in the next few months into an expanded and completely upgraded R&D central facility in Sunnyvale.

Talk about our innovation agenda for a couple of moments here. So historically we've always focused on breakthrough science. We're now moving that agenda much more to be customer focused. We've been collaborating very significantly with a number of our key customers over the last few years and some of our more recent product introductions reflect those collaborations. And then we have this overriding mantra of design for low cost manufacturing that's going to start permeating not just products for food safety testing, but also our higher end research products as well.

We'll spend on the order of \$70 million on R&D across the organization in 2008, much of that shared with our partners. We have a very strong pipeline. And no, I'm not going to give you details of what's coming. We don't talk about products before we're ready to launch them but there's a lot of good things in the works. And you'll continue to see us have a strong emphasis on software and applications, making the products easier to use, improving the utility of our product family.

We've reorganized our R&D over the last year to be organized by customer focused area, so engineers, software developers, research scientists, applications scientists, marketing people, and manufacturing and support people, focused on serving the pharma market, pharma being generally highly regulated in drug development. You think of these guys as being innovation leaders.

These are the last guys, these guys are -- the last thing these guys want to hear is that you're coming out with a new product because it means you've got revalidation issues, they've got to retest things, they don't even like upgrades in software. They like to continue to do things they way they're doing them now. Research markets, bioresearch for example, totally different. Every new product they want to adopt immediately. So you need different approaches to R&D, different ways to think about how you serve those customers.

The brightly colored graphic at the bottom there is simply a representation to remind me to tell you about our product development process. We've evolved from traditional stage gate processes into what's more typical, what's more state-of-the-art in terms of product lifecycle management. And a key element of that is we drive decision-making down within the organization, within the project teams to the lowest possible level where the information can be concentrated and everybody knows at every point in the process who has that decision to make.

And I'm pleased to report that we adopted this process about 18 months ago and the first product was just launched that went all the way through this process. And it's a product called LightSight, another software product. This is a software product for metabolite identification in preclinical pharmaceutical work, another product that we sell, software product that we sell that adds on top of our analyst platform.

Let me focus for a couple of moments on some of the products that have been launched in the last few months. You can see if you quickly scan the mix there, you see the mix of software reagents down on the lower right here we've got BioMonitor. This is a real-time problem solving predict and prevent instrument downtime, so this is something that -- certainly our regulated customers in pharma and food safety and environmental are very, very excited about, want to pay us for this service. We can remotely monitor their instruments; tell them ahead of time, "Look, it's going to need preventative maintenance in about two weeks. You schedule it when it's convenient for you. The instrument is not going to go down and surprise you in the middle of a very expensive and very important run of samples."

Let me bounce back over here and talk about ImageXpress Ultra for a few moments. So Image Xpress Ultra is a high content imaging system. It's really a microscope, if you like, with multiple lasers, multiple wavelength, multiple color capability. This is the sort of device that produces those exquisite images we've all seen on the front cover of Science and Nature where you can actually see within a cell where candidate drug molecules have interacted with proteins and you get fluorescent signals, usually green fluorescent proteins used. You see these beautiful pictures of -- taken in real-time of live cells interacting with drugs.

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Well, that's typically been a very offline, single researcher, very slow process looking at populations of cells, one sample at a time. What ImageXpress Ultra does is take that, put it into a 384-well microtiter plate format, and allows it to move up not just into secondary screening but, together with our partners at Merck, we're pushing this into primary screening. So rather than be able to, okay, we think we got some hits, let's do some more sophisticated experiments to see really what's going on, it's let's find that out now, let's find it out early and screen out the good hits from the ones that aren't of any use going forward.

So let me talk a little bit about a product over here on the mass spec side, FlashQuant. So this is a product that we worked for a number of years to develop, working with researchers at Pfizer and then, as it became closer to a product, also collaborating with researchers at Merck. And so FlashQuant is a product that addresses a specific need that they identify.

In preclinical drug testing, so-called ADME/tox testing, this is a whole panel of biological type testing that goes on to try and screen out drugs that are -- drug candidates that have been hits and figure out if they're really going to make it through the development pipeline, are they going to have adverse toxic effects, are they going to be eliminated from the body too quickly, all of these tests, the so-called ADME/tox screening.

And it's not the number of molecules; it's the number of screens. They'd like to double or increase by a factor of ten the number of screens that they can put these molecules through. What they're trying to do in their words is file early, file cheap. That's what they want to do. They want to screen out compounds early from the process.

So we said, well, the only way we know how to do that is to take a radically different approach, LC/MS is not going to get there. Chromatography LC is too slow, even high speed chromatography. And so what we've done with FlashQuant is taken our MALDI ionization source that we use on our protein mass spectrometers, after a lot of work, fundamental research to make small molecules ionized in a MALDI experiment. We've put that on the front end of our triple quads and our traps, so now you can do full quantitation with a MALDI source off of a flat surface an array of samples and that increases the throughput by a factor of 25.

So this is a product that's going to make people's head spin in pharmaceuticals companies when they think about their workflows. It's radically different from what is done today. Pfizer adopting it, Merck will adopt it, well see where the rest of the industry goes. But this is us again stepping out into a totally different place and saying we think this is a solution to a problem that you will have. Let's work with you to get that adopted.

One last product I want to talk about is the Cliquid family of software products. Cliquid is basically a whole family of software products that overlay on top of the instrument. And so they take complex mass spectrometers with lots of software parameters, lots of adjustments and optimizations and they -- and Cliquid takes control and says here is a method to achieve an answer. Not data, answers.

So for example, if you were one of our Cliquid customers when this pet food scare came up last year, melamine and cyanuric acid in pet food, we were the first ones to have an analytical method for that. Working with our collaborators in Canada, we were able to load that method onto our website. If you were a Cliquid user, you could download that method immediately, it took control of the mass spectrometer and you could run that method in a validated way to get answers immediately. You didn't have to adjust the instrument; Cliquid does that for you.

And if you go on our website you can see there's a whole range of Cliquid methods, including libraries of toxic compounds including a variety of food safety methods. And we think this is certainly one of the key tools to driving complex mass spectrometry into routine analytical testing.

So we all know that innovation, as Stephen said, drives excitement in this market, drives top-line growth. In 2006 when I showed this slide just on behalf of Sciex products, we were at about 55% of our revenues were from products launched in the previous three years. When we blend in Molecular Devices, it looks a little more like this, about 36%. Interestingly, more and more of this new revenue is coming from software and service products. As we move to 2008 it's going to then jump into the mid-40s and I think in 2009 you'll see it dramatically open up again. And so this is a pie chart that breathes in and out as waves of new products come through. I'm quite comfortable with where this is right now and you'll see it expand dramatically as go forward into 2009.

Let me talk for a couple of minutes about one aspect of operational excellence and that's our global manufacturing platform. I said we've already consolidated two factories in the Molecular Devices organization, so we have four primary manufacturing sites now, California, Toronto, Shanghai, Singapore. There's a lot of moving parts in this operation right now, products moving from Toronto to Singapore, primarily mass spectrometry products, products moving from California to Shanghai, primary bioresearch products, so microtiter plate readers, optical systems.

You can see some of the data on the types of piece part and labor savings that we achieve. This is a process that's going to continue. By end of 2008 we think about 60% of our mass spec revenues, about half of our Molecular Devices revenues will be shipping out of our Asian factories.

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This is a strategy that's giving real results this quarter but is really also designed to give meaningful results over the next decade in terms of positioning us to be in the right markets with these products.

New products as they come through are being designed with the Asian supply chain and the Asian partners that we now have in mind so that we can take advantage of -- take advantage of these effects earlier in the product cycle. And so I think you see these costs accelerating over the next few years as new product. And one of the other interesting byproducts of this is we're actually seeing improved product quality as we move to Asia because we have to be much more precise in specifying parts, in specifying things on drawings. Our entire process is tightening up really nicely in order to deal with the fact that R&D and the factories are now geographically separated. So I think this is a process you'll see us continue and we'll continue to give you updates on this.

So let me summarize quickly here. As we've moved forward in globalization, innovation and operational excellence, I think you can see we have opportunities to expand our sales footprint, specifically for Molecular Devices in Europe, globally for all of our products, and we'll continue our transition of manufacturing to Asia. Innovation, we have a lot of opportunities, particularly in the software and services, but also with new platforms to increase our share of the markets we're in and to expand into new markets like food safety testing, environmental, clinical research.

We are adding new technologies through in-licensing and small acquisitions. We did a couple in 2007. And operational excellence, Lean Sigma for us is the mantra; we're driving waste, inefficiency out of the business everywhere. And so these are the three strategies. What they deliver for us and for our stakeholders is growing revenues and expanding margins.

Thank you very much for your attention. I think now I'm going to hand it back to Kim and she's going to lead us into the Q&A session. Kim?

QUESTION AND ANSWER

Kim Lee - MDS, Inc. - Director - IR

So for questions and answers, we have Jane and Susan out there with microphones, so please use a microphone to ask your question. And I'd like to remind you that we're reporting our first quarter fiscal 2008 results in two weeks so please reserve your quarterly questions for our call on March 6th. Questions? Are there any questions. Hari?

Hari Sambasivam - Merrill Lynch Canada - Analyst

Andy, Hari Sambasivam here. Just a quick couple of questions on the differences in terms of Molecular Devices and the Sciex businesses. As we go into an economic downturn, could you give us a sense as to what portions of these businesses may be more or less affected by a consumer or an economic downturn? And I'm just trying to get a sense of what the rough level of sensitivity might be. They're not directly consumer related but there are probably other issues playing here, so if you can expand on that, that'll be great.

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

So, typically, most of our businesses are not heavily exposed to macroeconomic cycles, particularly consumer driven cycles. Some of our more industrial products, ICP-MS products, do have some exposure. That's a small part of our revenues but they typically would track economic cycles quite closely. The life sciences products, not particularly. More in tune with funding cycles from large government organizations. And regulated parts of the industry, whether it's in drug development or food safety testing or environmental, really don't track at all because those operations have to continue no matter what's going on in the economy. So limited exposure I would say, very limited exposure.

Stephen DeFalco - MDS, Inc. - President, CEO

Hari, we probably pay more attention to pharmaceutical CapEx spending than we do broad economic indicators to look at the Analytical Technologies business. So that's what we use as a leading indicator as we look to forecasts on that and kind of track more against that for Andy's business.

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Hari Sambasivam - Merrill Lynch Canada - Analyst

And in terms of pharmaceutical CapEx, Stephen, any major changes that you're expecting over the next -- how do you sort of perceive this playing out? I mean obviously a lot of concern out there. I mean there's a general feeling that the outsourcing will continue. But in terms of CapEx itself, it may be going down and I'm just wondering how that affects the instrument business as you see it.

Stephen DeFalco - MDS, Inc. - President, CEO

I take my cues from Andy, but I think right now markets feel pretty robust. We feel like we have a fresh product lineup. And so I think in the clutter of decisions, our products are rising to the top of priorities for our customers. All of the indicators I see look like it's going to be a good CapEx spending cycle in Pharma throughout 2008. But obviously we measure it all the time, we keep our eye on it. But currently the indicators are pretty good. So the -- our big customers are snapping up our technology at this point in time.

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

It's been a very strong 2007 for drug discovery and for the pharmaceuticals business is going to continue. And really, we're somewhat indifferent to whether they outsource or insource because you still need equipment to do the work. So whether we sell it to Dade or whether we sell it to Pfizer, we still sell it.

Stephen DeFalco - MDS, Inc. - President, CEO

And obviously Andy also sells to Covance and PPD and all of the CROs. So what we're more dependent on is fundamental demand versus if pharma decides to do it themselves or push it out. All of it's good for Andy.

Unidentified Audience Member

I actually have a follow-up question on that cycle. Do you guys see any differences in the timing of the sales cycle between European and U.S. pharma, knowing that some of the European pharma has been going through lots of restructuring and lots of issues and you're talking in terms of having that as one of your expansion markets for the business? Do you see any differences?

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

I think the -- there are differences, I think, in the timing of the cycles now globally compared to where we sort of perhaps in previous years. They seem to be smoothing purchasing much more through the year rather than having this sort of, we've got to purge the budget at calendar year-end and then there's sort of a dead [band] early in the next year until they get their budgets approved. Seems to be much more thoughtful, more smooth now. I don't see as much difference between Europe and North America as we used to see. They're globalizing their purchasing organizations so we see more coordinated activity.

There's one other point I was going to make. So, no, I don't think there's a big difference. Sorry, the point I was going to make was that European pharma for us, particularly on the Molecular Devices side, had a record, record year. So we saw a lot of -- I think some of that reorganization you were talking about has worked its way through the system. So we saw purchases. We had new products in imaging and in drug discovery screening, but we saw big uptake of those in 2007.

Unidentified Audience Member

A couple of questions. One for Steve with respect to the MAPLE reactors. I think what happened in December may help the Company in terms of getting these on-stream. Could you comment around perhaps what you see as timing? I know '09, '10, but could you be perhaps a little more specific?

Steve West - MDS, Inc. - President - MDS Nordion

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Well, firstly, I think that the importance of a supply chain that is reliable has elevated. And so the importance of NRU, the importance of MAPLE has certainly elevated. We know that ACL are continuing to look at MAPLE options. The -- it's on their nickel. Thank God we're not paying for that. And I think that's very important for us when we run through our mediation process that that's their responsibility.

They are due to report back from their experimentation around the issues that they had sometime during the summer and I think they're evaluating their options and I think we'll wait until then to see where they're going to be at. They're also looking at continuing to re-license the NRU reactor as part of that overall sort of integrated supply capability.

Stephen DeFalco - MDS, Inc. - President, CEO

The other thing is, Doug, as you know, there's been a bright light shining down on that. So the regulators changed out, CEO of ACL is changed out, the Chairman of ACL is changed out. I think (inaudible) is unbelievably educated on this issue. And so we -- I think there's a lot of pressure or at least a lot of interest in having those leaders step in, assess the situation, put a plan together. I would say, as Steve said, our messaging to them is reliable isotopes. To some degree, it's not important to us if they come from the NRU or MAPLE. Make sure what happened in December doesn't happen again because that was certainly preventable.

Unidentified Audience Member

Okay, thank you. And then just for Andy, if you look at ABI and the growth rates for the last four quarters of the business, I think you touched on some of the issues they had in Japan. But were there any other issues and when do you think the Japan issue might be addressed and any of the other issues so that we can see maybe a step up in those growth rates again?

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

I think the markets we see and Stephen indicated I think are pretty robust for us in pharma, particularly expansion into the food sector testing. The environmental relies a lot on being very effective in India, which we are, in China, which we are becoming I think more effective. I think you're going to see the cycles continue to come and go. The quarterly cycles are always challenging to relate to what's exactly going on in the market. I think there is some -- there is some -- certainly some slowdown in some areas in the market. But I think we think that 2008 is going to be pretty robust going forward.

Stephen DeFalco - MDS, Inc. - President, CEO

I would also say, Doug, one of the things that appears to be happening now is a macro shift of pharmaceutical companies not wanting to do a lot of work in Japan. So that's Western companies as well as Japanese companies. We're engaged in dialogs in David's business with certain Japanese companies who want to move away from doing it in Japan and outsource more.

I don't know that it's appropriate for us to look at the Japan market as if it's separate because, again, if they move that demand from Japan to the United States or Japan to Europe or Japan to India, I would say that as far as Andy's concerned, as long as you're analyzing sample and need answers, it's good for me, whether or not the ship-to is Tokyo or the ship-to is Mumbai is kind of fine.

So I'm not -- I think there are some execution issues in Japan, clearly, but I think there's also an overlying macro trend of folks figuring out that they don't want to do a lot of discovery there. The same way there was a macro trend five years ago, people believing that Cambridge, Massachusetts was a good place to do some of that work and certainly has ramped up for us there. So it's moving around a little bit based on what people view as scarce skills and a high need for productivity in those activities.

Lennox Gibbs - TD Newcrest - Analyst

Steve West, Cardiolite [is estimated], just want to ask a question again, as that genericization event gets a little bit closer, is that positive, neutral, negative to Nordion in your view?

Steve West - MDS, Inc. - President - MDS Nordion

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Thanks for that question, Lennox. So as that generic event plays out in the various estimators, the way that we look at that is that all the users in that modality still need generators. And so I would say that probably it's sort of agnostic to us in the first instance because the volume of isotope usage will remain the same. I think if you look at what's going to play out over the longer term is as the value of the [sistamibe] goes down, we're working with our customers to see how the value of the generator can go up. And I think our customers are now beginning to see that.

Traditionally, I think they've sort of used the razor and the razorblade model and the generator's been the razor. I think now they're seeing a change because in terms of value creation, those customers that sell sistamibe also sell generators. And so the volume is still going to increase in terms of usage and I think the value curve could actually shift in our favor.

Stephen DeFalco - MDS, Inc. - President, CEO

I think another wild card there, Lennox, is the technique is disproportionately used in North America, obviously a very wealthy population. The question for me as the price of that technique drops, will we see greater penetration into second and third world countries, which, by and large, don't have access to that technique. Obviously, any scan done in the world is good for us in terms of increasing demand. And so I don't know -- I don't know how price elastic the technique is and I think that's something that's not certainly a Q3 or Q4 event but it certainly is something in '09 and 2010 we could see in terms of fundamental demand increasing as that technique is more widely used.

Unidentified Audience Member

Good morning. I have three questions, one on -- maybe for all three of you. In terms of trying to determine who gets the most access to capital or is able to get the investment, I'd be interested in hearing how that process works. Obviously you've -- you've obviously changed the business a lot, so there must be new ways of how you think about that. And I can give you the other two questions or wait for the answer --

Stephen DeFalco - MDS, Inc. - President, CEO

I think I'm probably the appropriate one to answer it. So on capital allocation, we're very disciplined and very, very shareholder value driven. And so we don't say there's a pot here for Andy, a pot here for Dave, a pot here for Steve. We say we will fund the most attractive opportunities for our shareholders across the corporation. Right now we're in a fairly strong position on our balance sheet. If we ever had to go the debt market to fund good things for our shareholders, we would go do that.

And so I don't constrain my business unit presidents by telling them you have so much. They might feel obligated to spend it. I tell them you get the best opportunities that you have and bring them forward and the corporation will figure out a way to fund those. And so they don't compete for capital in the portfolio. They compete for capital in the capital markets.

Unidentified Audience Member

So would you say that you apply the same hurdle rate to each business or do you --?

Stephen DeFalco - MDS, Inc. - President, CEO

We do.

Unidentified Audience Member

You do?

Stephen DeFalco - MDS, Inc. - President, CEO

We do. Now, what we don't do, we apply the same hurdle rate for each business, but we risk adjust that hurdle rate depending on the opportunity. If one of them has a big cost reduction opportunity that we know is near certainty, we use a different hurdle rate than an acquisition where we

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would use a relatively high hurdle rate. So we adjust hurdle based on the risk factor, right, which I think is the appropriate way to kind of do it versus kind of broadly saying different businesses have different hurdle rates. All three businesses operate in the life sciences markets and the capital markets around that, so I think from that point of view they're similar, not different.

Unidentified Audience Member

Okay. Thank you. A question on scale at the instruments business. Certainly it was a big merger a couple of years ago with Thermo and Fisher and I think we could suggest this could be further consolidation in the industry over time. How do you view that? Potentially you could get into a situation where you're -- while you've got this great deal with ABI, you're left as an increasingly small Company relative to a consolidated industry. How you view that. And then the importance of consumables and tying those to your instruments and what your strategy is there?

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

So let's take the first one. In terms of consolidation, I think you're right. I think it will be more consolidation. But I think if you pare back the industry and say where do the revenues come from, this is a cottage industry basically. I mean tear Thermo apart, it's a gazillion, \$10 million, \$20 million, \$30 million product lines that often need individual support, individual R&D, individual customer contact. So scale helps in a few areas, maybe gives them more purchasing clout. We've certainly got more purchasing clout now with Molecular Devices volume.

But you're buying different parts. Maybe you're buying from similar vendors. You're selling products to the same customers. Stephen puts up a customer chart, it's the same for Steve West, it's the same for me, it's the same for Dave Spaight. But we're selling totally different things to totally different end users within those customers. So scale's got, I think, is less benefits, less attractions than you might think in this industry. I mean there aren't very many \$100 million product lines in this industry. Just wide breadth of technologies. Sorry, second question was about reagents?

Unidentified Audience Member

Yes.

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

So, our strategy around reagents, there really are no reagent opportunities, very few reagent opportunities in mass spectrometry. It doesn't require reagents. It's an absolute technique. In Molecular Devices, we're focusing the reagent strategy around reagents that can work on our platforms that we can pull through by our [boxes]. We're not trying to go out there and compete globally with Invitrogen or CuraGen or these guys to sell kits to the general population.

So when you see us release a kit it's because it adds value to the products we already have or that we're bringing to market. And so if you look through our reagents, they pretty much match up across our product line with systems that we offer and adds specific capabilities to our systems.

Unidentified Audience Member

Thank you. And then last question, where's Applied Biosystems on the acquisition of Molecular Devices?

Stephen DeFalco - MDS, Inc. - President, CEO

You should ask them. I mean they've been --

Unidentified Audience Member

Well, in the sense that is there potentially any plan for them to distribute those products along with the Sciex products?

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Stephen DeFalco - MDS, Inc. - President, CEO

No.

Unidentified Audience Member

Why wouldn't they?

Stephen DeFalco - MDS, Inc. - President, CEO

It's a very different --

Unidentified Audience Member

Why would there be?

Stephen DeFalco - MDS, Inc. - President, CEO

Yes.

Unidentified Audience Member

Well, it'd just be -- from your point of view it'd be an extra chance to leverage their distribution --

Stephen DeFalco - MDS, Inc. - President, CEO

We like having our own global distribution for those products. That was a big part for us of the acquisition. I think in general, first of all, we're in close communication with our partner all the time and where during that period of time in the acquisition I think they were happy for us and congratulated us and wished us well. Obviously they're in multiple business lines. We're in multiple business lines. We share the world's best mass spec franchise, so I think it all works.

Unidentified Audience Member

Now that you have R&D dollars, that on some level will have to be split across those two businesses, wouldn't ABI, though, potentially be more interested in what you're doing with the R&D dollars and then I think --

Stephen DeFalco - MDS, Inc. - President, CEO

Not at all. We agree with them on a global budget for R&D, a set of priorities. We work very closely to them. By the way, they set R&D budgets for their sequences. They set R&D budgets for their RT-PCR franchise, which are businesses they have we aren't involved in. We're a sovereign state and we're setting R&D budgets that are appropriate for Molecular Devices. So, no, not at all. I think it's a very comfortable relationship, two strong partners, a great business.

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

And there might actually be opportunities to leverage across each of those businesses to the advantage of both. So I know we've seen a couple of examples of that already.

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Kim Lee - MDS, Inc. - Director - IR

And one last question.

Unidentified Audience Member

Hi. A couple of questions. Thanks. For Andy on -- fairly simple question. But on the ABI -- or on the AT business, excuse me, as you're moving manufacturing offshore, it's kind of a pricing environment question, but as you're moving manufacturing offshore, does all of that cost savings accrue to AT or is there some pricing pressure or some pricing expectation on the part of customers that they would get some of that savings?

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

I haven't seen that yet but it's a very good question. Probably more likely to happen, I think, in the local markets, maybe within China.

Unidentified Audience Member

I'm sorry, in the what markets?

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

The local markets, so within China potentially. We price on the value of the product and certainly that's not been an issue up to date. I don't think it's going to be an issue in most of the world, but maybe some local pricing pressure in China. As the Chinese market views it, some of those products as being made in Asia now. Most of the cost savings there at the moment are being reinvested to drive other products to Asia. They're [buffeting] us against currency fluctuations. So it's been a pretty good situation for us so far.

Unidentified Audience Member

And sticking with that business, in the R&D collaborations that you described in your presentation, how do those work? Do the partners pay for the R&D in those cases or is that your obligation? And then what are your limitations on, if any, on the reselling of whatever product comes out of that collaboration?

Andy Boorn - MDS, Inc. - President - MDS Analytical Technologies

Sure. So these are -- the specific lines I spoke about were with Merck, Pfizer, I think were the ones I referenced. Those the ones you're talking about? Typically, those -- there's no obligation on the part of the -- no direct financial obligation on the part of the partner. What they contribute is their knowledge, often their people's time, and we work with them to give them prototypes and early versions of the product, which they then get to use so they gain an advantage in that sense of being -- gaining early access. So there's no mutual exchange. IP there was very magnanimous on IP. We're allowed to do whatever we want with the product after it's developed.

Unidentified Audience Member

One more quick one. Stephen, in your early slide on core processes, one of the items said greater than 200 projects and Six Sigma to be an issue in the coming year and \$20 million in targeted cost savings. How much of that \$20 million is in the guidance that you're giving this morning?

Stephen DeFalco - MDS, Inc. - President, CEO

All of it.

PRESENTATION

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Kim Lee - MDS, Inc. - Director - IR

We're going to start with our second half of our IR day. And I'll just give the floor over to Dave Spaight, President of MDS Pharma Services.

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

Good morning everyone and for my purposes it the anniversary of my second year with MDS Pharma Services. I'm very pleased to have the opportunity today to come in and meet with this group and update you on the progress that we're making at MDS Pharma Services, both in our ability to deliver higher levels of customer excellence, while at the same time driving towards industry leading profitability and growth.

MDS Pharma Services is one of the world's leading contract research organizations and it spans the entire drug development spectrum from preclinical development all the way through late stage clinical trials. Customers come to us for the expertise that we can provide with our scientists and our contract research associates and they also come to access our world class facilities, both our laboratories and our clinics which we have positioned around the world.

Customers also come to us as they're taking a look at new ways to bring drugs to market faster and more efficiently. And as you know, the contract research organizations provide a lot of that, as does MDS Pharma Services, those types of abilities. We are a world leading CRO and our customers span the pharmaceutical, the biotechnology, the generic and also the drug delivery industries. And this is a very exciting space.

So Stephen mentioned in his opening comments not only are drug companies and biotech companies working very quickly in order to bring new drugs to market and build those pipelines as drugs have moved off of patents and all of the issues associated with that, but they're also taking a look at their ability to reduce their overall costs within their businesses.

And so today, across the \$75 billion, roughly \$75 billion that is spent in drug development, only about 22% of that business is currently outsourced. And what we anticipate is that percentage of outsourced activity is going to continue to grow and as it continues to grow will support a very high level of growth within our space. We anticipate seeing growth in the low to mid teen type growth rates going forward.

We're also very well positioned in that our business is pretty evenly split between the early stage development and the late stage development. And again, spanning that full spectrum from preclinical discovery activity all the way into the safety trials that are done in late stage clinical trials.

As we take a look at 2007, my team was very, very focused in terms of creating a very strong platform moving forward that will help us drive profitable growth. We began by strengthening the leadership team right across MDS Pharma Services. We top graded 50% of the top two layers of our leadership and brought in a number of industry experts to help lead different business units and many of the functions across the business itself.

We also took a very aggressive restructuring plan that allowed us to close a number of non-productive facilities around the world in addition to reducing our headcount by roughly about 500 people so that we could get a footprint set in order to drive profitable growth as we move forward.

We also focused very closely in terms of working with the clients that were involved with the FDA issues in our Montréal lab. As we've moved those issues behind us, we've worked very closely to make sure that we've regained their trust and brought that business back in.

The net impact is a very strong improvement in our profitability going from 2006 to 2007. Clearly not where we want to be, clearly not the top line growth that where we want to be, but we're on track for that continuous improvement. And I expect that to continue as we move into 2008 and 2009.

If you take a look at our strategic objectives moving forward, we've taken a much closer focus on our customers, the things that we need to do to drive a much higher level of customer excellence. We began with a new branding campaign and it was really precipitated from a number of client visits that I had around the world. In my first 12 months, I met with over five dozen customers in different meetings in many parts of the world. I also met with many of our employees at different site meetings that we had and traveling with a number of them.

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I wanted to understand what was important to our customers, what was important to our employees as well, where our competitors were positioned and how MDS Pharma Services was perceived. From that, we developed a very powerful brand strategy that's built around the premise of delivering quality on time results to our clients. Sounds like a pretty pedestrian brand promise but it's amazing how it has resonated with our customers and helped to energize our employees around the world.

Secondly, we focused on our business development team, the front end of the business development team, and worked very diligently to both top grade that team and give them the tools that gives us much deeper visibility into our clients. Very important to understand, as drugs move through that development pipeline from the discovery stage into late stage clinical trials.

Our ability to position our teams and leverage the strength of that type of an organization so that we can follow the drug through development was very key and important. And in a second I'll give you a few more details on the steps that we've taken in order to strengthen the team. We've also focused very heavily in driving customer excellence, the improvements across our business. To date we've either completed or initiated over 125 different lean sigma activities, all geared towards delivering on our brand promise of high quality on time results for our clients.

We've also taken a look at our ability to better serve our clients as we move across the world and on increasing our investments in Asia, both with new facilities that we've invested in as well as new people that are coming forward, and taking a look at emerging opportunities that we have in India, which is a very fast growing market.

To kind of step through these and give you some examples, from a globalization perspective, we've invested heavily into China. MDS Pharma Services has been in China for over ten years and we're one of the leading central lab facilities in that part of the world. Clients have come. They're doing a lot of clinical trials that require a lot of support from a central lab perspective.

And with the new facility that we opened late in calendar year 2007, we have taken our existing footprint and increased it by a factor of three. At the same time, we've increased our capacity by 5x, which puts us in a great position to take our market leadership role and continue to serve our customers in this very high growth market.

From the business development perspective as well, you take a look at our organization, it's changed dramatically in the roughly two years that I've been onboard. You go back two years ago and we had business development teams that were really just aligned from their line of business perspective or a particular site or a particular region. We weren't fully leveraging the capability across our business in terms of our ability to share leads, share account information and, again, be there as drugs move through that development process to hand that off to the next team and be able to close that business.

In 2007 we took a number of steps to begin to drive that improvement. First and foremost, we went in, we top graded the leaders of each of our five business development teams. We went out and we got some industry experts, brought them onboard and they began the process of getting much more detailed information on our accounts, where the opportunities are and how we could work closer together to begin to share that information.

We also rolled out a new CRM tool so the first time had very clear visibility into our pipelines, into our accounts, into the activities that were taking place so that preclinical teams could share information with early stage teams who could then pass it on to the late stage teams themselves. Very important steps as we begin to build a world-class business development organization.

In the first few months of 2008 we've accelerated our actions on that front. We brought in a new head of global business development that the five new leaders will all report up to in their organizations to drive a much higher level of consistency in our approach. As the new person has come onboard, not only will we accelerate our CRM tools and our ability to drive deeper account penetration, but we're also beginning to institute the early days of key account management which allows us to build high level relationships and very important accounts and through those relationships drive a larger share of wallet as we work from them again everywhere from early stage to late stage moving forward.

Through this process we've seen our new order rate begin to increase. And the quality of the new business has gone up dramatically as well in terms of the types of business it's brought in, the profitability of that business. This is a trend that we anticipate will continue to accelerate in 2008 as we've made investments in training our business development teams, we've made investments to continue to drive these cross selling initiatives and we've put the leadership in place that will help drive best practice in each part of the world.

Tied to all of this is the energizing new brand that's been launched, quality on time services. Again, a very pedestrian view on it until you watch the reaction from clients. We launched this brand late in the fall at a trade conference in San Diego. We had over 350 clients attend the event. We

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had some wonderful industry speakers that came onboard and there were a line of people as they left the door talking about how MDS is a new company.

This brand promise is very important, very, very important because it does help differentiate us in the market. It's also helped to really engage our employees around the world. And I just brought two snapshots, one from our Beijing facility on the top and another one from our New Jersey facility. And it's amazing to have 3,500 people around the world that wake up every day and understand what their task is, and that's delivering high quality results and delivering them on time.

As we took them through and trained them on this, we had them all sign banners all around the world, 3,500 people that have signed banners, putting these banners up in our different locations and knowing that they're committed to delivering on that for our clients. So this is resonating very well from a client perspective and it certainly has our employees lined up.

And it's not simply a promise. It's not simply just a slogan to put out there. We're backing that with significant investments in our lean sigma programs. and those types of investments that we're making with over 75 green belts and black belts that are deployed is a great answer to the customer's question, what are you doing differently in order to be able to deliver on your promises. And we can turn to these programs, we can turn to the discussions that we've had with them and know that we [back] very strongly from that perspective.

Again, we've also invested from an IT perspective to deliver the brand promise. Two of the more significant investments that we've made, one is our recently announced Apollo system with a -- is a study management program allowing us to manage central laboratory studies all the way from RFP to the final report. This type of system also gives our clients real-time data access anywhere in the world. And so this is the first of our global systems that we're putting in each of our central lab locations across our European facilities, North American and also into Asia.

And we'll replace a number of legacy systems that we have up and operational today that are very inefficient. And so as this rollout continues, all the new studies coming onboard and as we begin to wean the others off the legacy systems, not only do we have great competitive advantage here, but we also have great pickups in terms of our overall productivity and the efficiencies that we can gain from it.

As I indicated as well, we've rolled out a center -- or, pardon me, a contact relation management system as well, which makes our teams much more productive, gives us much better visibility into our pipelines, allows us to monitor drugs as they move through the development cycle and make sure that we're positioning our teams properly in order to go after that type of business as we move forward.

From an operational perspective, I wanted to share with you some of the results that we've been able to achieve to date. And so again, we haven't just done this from an internal perspective. We've gone out and we've met with our clients. We talk to them about what are some of the most important bottlenecks and concerns they have in terms of speeding the time it takes to get their drugs to market. We went out and benchmarked where the industry was and we were pretty comparable in many of the cases. And that's what you see here in many of the yellow bars to the left.

The industry's demanding better performance from that perspective. And so working with them and just highlighting a couple of examples, just the method development time, this bottom left corner chart. In our bioanalytical procedures, somebody has a new drug, a method's required in order to be able to analyze that drug going forward. And the industry took X number of weeks, as would we, in order to provide that type of method to the client.

Assigning our top Black Belt and Green Belt resources to this type of project have resulted in a 55% reduction in the amount of time it takes us to develop a new method and be able to drive from that perspective. We can also do that very consistently, which allows us again to be able to meet the on time expectations of our clients.

A similar example that comes out of our Phase I business is the internal database cleanup time. Again, we're performing at about industry level averages. We meet with clients. It's a very important metric that they're looking at. And by deploying our resources on this, we've actually been able to achieve a 73% reduction in this area, again, giving us competitive advantage and drawing more customers back into MDS Pharma Services.

Across the business we're looking for these opportunities. I've highlighted a couple of others in our late stage businesses, areas where we now have new green belts and black belts deployed and driving further improvements in this particular area. And I anticipate we'll continue to see this accelerate through the organization, not only because customers are demanding it and it certainly gives us value, but our employees recognize the advantage. Our employees are coming to us, going we've got new ideas, let's explore them with our clients, let's put resources onto those types of projects so that we can continue to improve on our overall cycle time.

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So significant investment within Pharma Services and an area that we've had great traction and anticipate we'll continue to see great traction in the coming months and quarters.

So as I kind of go to the summary and really take a look at what we're trying to do in 2008 is build on what started in 2007, continue to focus on EBITDA expansion within our business and driving this business back up to industry level profitability and growth with the aim to leading the industry in both as we move forward. It's going to require continued work on our processes, continued investments on our IT customer facing solutions that we put forward. And in order to drive the top line, we've got to take full advantage of the new facilities that we've brought online.

And one of the examples, and you may have seen the press releases on it, a brand new Phase I facility that we launched in Phoenix, Arizona not more than about three or four weeks ago. We had a wonderful event down there. We had 40 clients fly in from every part of the United States to see the facility. And it is truly, truly a world-class facility. That facility is already starting to fill up with new study works as customers were very pleased and impressed by that perspective, which will only help drive our top line growth as we begin to move forward.

We also have to take full advantage of the new business development organization that we brought onboard. 25% of those positions top graded, new leadership at the helm of each of those businesses is going to be very critical for us to go out, continue to drive the demand, build our backlog within our business and be able to drive profitable growth for a long period of time.

So we've had a lot of fun in 2007 and certainly a lot of focus on improving the platform. And what I look forward is, as we go into 2008 and beyond, is to get this business at the top of the pack, both with respect to our growth and both respect to our profitability. I have an exceptional team that we've put in place. They're very energized and they're very excited about some of the early returns that we're seeing as we exit 2007 and move into 2008 in what is a very dynamic industry.

I want to thank you very much for your time today and we look forward to the question and answer period after I have Doug Prince come up and give our next presentation. Thank you very much. Doug?

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

Thank you, Dave. Well, it's a pleasure to be here with you today. It's nice to see a lot of familiar faces and it's nice to see some new faces as well.

I'm Doug Prince. I've been CFO at MDS almost a year now. It has truly been an action packed year. I've been in business about 30 years, about 17 with General Electric, other multinationals, and about seven years in the life science industry. I can't think of many businesses who've seen more activity, more significant events than what MDS has accomplished in the last year. I'm going to talk a little bit about 2007 and then I'll focus my presentation on 2008 and we'll get to the guidance.

So as you've heard from Stephen's presentation and you've seen the changes in each of our businesses, 2007 was a transformational year for MDS. It included the sale -- or the purchase of -- the sale of diagnostics, the retirement of 16% of our shares, and the acquisition of Molecular Devices, which, as you've seen from Andy, what that has done for the Analytical Technologies division.

Throughout this period we've also made major investments in growth, innovation, productivity and then the talent of our business. You've seen that in each of the businesses, from the sales focus to the leadership focus, a tremendous amount of investment. All of this has created a new MDS, a pure play global life science company.

When we look at the results, 2007 was a good beginning for the new MDS. Here you can see our revenue up 17% to \$1.1 billion, our profits went up 90%, about half of that from the Molecular Devices acquisition, the other half from growth and productivity, offsetting a very challenging foreign exchange environment. And our earnings per share doubled as a result of the improvement in profitability and the share buyback. It was a great year for -- 2007 was a great year for MDS.

Now, you've heard about the foreign exchange environment. Our biggest exposure as a global multinational is on the Canadian to U.S. dollar relationship. And I've shown some charts up there at the top that kind of depict what's happened with both the average rates on the left and the period ending rates on the right. And you can really see the massive volatility we saw in particular in the second half of 2007.

Well, as a global multinational, we do have a hedging program. But with the magnitude of movement we saw last year, this is what caused a \$32 million hurt to the EBITDA line in 2007. Now, the guidance that we're providing today is based on the rates that are in effect right now, so the Canadian U.S. dollar is about at parity. One thing to think about when you consider the guidance, parity is still below the average for last year.

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We're up a little bit from the year-end point, but that average last year was 109. So we're still feeling on a year-over-year basis some negative pressure from foreign exchange.

We as a business continue to try to mitigate that risk by balancing our revenue and our expense by currency, creating natural hedges where they can exist. Beyond that, we look to execute an effective hedging program. We're working to refine that. But even the best program cannot eliminate foreign exchange impact. Keep that in mind.

The other major item that took place at the end of 2007 was the conversion to U.S. GAAP from Canadian GAAP. Believe me, anybody wants to - you might be struggling with updating your model. You can imagine my struggles of working through this with my team. A tremendous amount of effort. We've taken some steps to try to simplify and point out the major swing items.

So you can see on this chart proportional accounting under Canadian GAAP going to U.S. GAAP, equity accounting for JVs, changes the revenue number. Doesn't change the underlying dynamics of the business. Similarly, things like the R&D you can capitalize in Canada. You have to expense it in the -- under U.S. GAAP. That has a minor impact. Usually the difference between how much you spend and how much you're amortizing.

But because part of it is amortization and now it's all expense under U.S. GAAP, there is a decline in EBITDA. And investment tax credits it's really just a geography. Canadian GAAP you can apply it as a credit to expense, U.S. GAAP it goes down on the tax line. But that one again, no real impact on net income or earnings per share.

We've tried to help everybody understand these so you can update your models. There's additional information on the website, both the U.S. GAAP primer on some of these changes and also some reconciliation tables. But keep in mind the guidance today and all the history that you're seeing is on a U.S. GAAP basis, so it's different than what you've seen before.

Now let's turn to 2008. We'll look back first at some of the major factor. And again, you've heard a number of these described already. As Stephen pointed out and you really see in Dave's business, big pharma is continuing to accelerate outsourcing. It's generating great demand for CRO businesses. And as Dave pointed out, our challenge and what we're working to do is on time, high quality products and services to satisfy our customers.

You also see the shift to Asia. Our customers are going there. We're moving sales and service there. We're also moving operations there so that we get some benefit on the bottom line from a productivity standpoint as well.

A stable supply of raw materials is critical, no more so than in Steve's business. The Nordion team is working to actively manage those supplies and a good example of that is the cobalt agreement with Russia. Looking out for a long-term contract, it adds 30% capacity versus where we are today to help serve our customers in the future and continue to grow that franchise.

And lastly, you see the customers continuing to increase their demands for innovation and new products. And not only are they looking for speed and precision, but ease of use, total solutions. And as Andy pointed out, a great pipeline of innovative new products to meet the needs of these demanding customers.

Now, at a macro level, again, foreign exchange is a reality. As a global multinational, we have to deal with that. It will continue to impact our business. If anybody has a crystal ball that tells me where the rates are going, please see me at the break. But we have an FX strategy in place. We're working to continue to develop natural hedges and we have a foreign exchange program in place. It can't eliminate it, but it can defer and dampen the impact, reducing the volatility and improving predictability.

And lastly, we had in the Q&A some questions on what's happening with the global economy, how will that impact MDS. As Stephen commented, a bit of a defensive mix because our products are not necessarily related to consumer spending. 50% of the business is services and CROs for drug development, a big portion of Steve's business is driven by medical testing, and in Andy's business it's not only instruments that are needed for the development cycle but reagents and services as well, which are needed on an ongoing basis. So we believe we've got a good balance to manage our way through economic cycles.

So I'm not going to get into detail on this chart but just remind you a big focus now for MDS is growth. Growth is what all of our businesses are focused on. And we're driving it through globalization, innovation and operations excellence. From a capital allocation structure we are driving working capital to self fund the growth. We have opportunities to reduce our working capital.

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You'll see in our financials for the end of the year we've reduced working capital in '07. All the businesses are focused on further reduction in 2008. This will help us generate additional cash to reinvest in the business and fund the growth. In addition, we have a strong balance sheet. And we'll look to accelerate our organic growth and profitability by again using a disciplined acquisition process to look for the right acquisitions that can add value for our shareholders.

So let's now look at performance for 2008. 2008 we're looking at a 24% improvement in EBITDA. We're predicting up \$30 million to \$40 million, again in the face of another challenging FX year because, again, the rates as of today are still below the averages for last year. So the challenge for us is to drive pricing, productivity and volume to offset foreign exchange and inflation.

Relative to the first bar there on the productivity and pricing, we are looking to generate higher prices, pass on to our customers and we get recognition for the value. And again, innovation is a key there to keeping the prices high. On the productivity front, we're getting a large amount of savings from the pharma restructuring that we initiated and 80% was completed in 2007.

In addition, as Stephen commented, \$20 million of productivity out of our Lean Sigma initiatives. That has to go to offset inflation. And if it wasn't big enough, that column would end up being red on the right-hand side. So the amount of productivity, the amount of pricing we're driving is more than offsetting inflation and is a big part of driving improvement in profitability.

We also have volume. And again, you're hearing the growth initiatives in every business. We also get a kicker from a full year of Molecular Devices. But that foreign exchange is still negative year-over-year and we do have the impact of some one-time events, such as the Nordion Q1 disruption from the ACL shutdown. You always have to be driving those levers that we control to really manage and control their own destiny. So, 24% improvement, targeting to be up 130 basis points.

When we look at revenue, our net revenues is up 12% to 16% growing to \$1.250 billion to \$1.3 billion. Again, the EBITDA improving 21% to 28%, and our adjusted earnings per share growing in the range of 10% to 25%. Now, you might ask why is it only growing 10% to 25%? Let me point out that this is adjusted EBITDA, this is not cash. It's adjusted earnings per share. It's not a cash earnings per share.

Another item that goes in there is our depreciation and amortization. And you will see an increase in amortization of intangible assets associated with the Molecular Devices acquisition. Again, a non-cash item, but that's another item to factor into your model. So we're having a full year of amortization of those intangibles associated with the Molecular Devices acquisition.

We look at guidance we also look at our GAAP measures. The details for total revenue for net income and basic earnings per share are described at a summary level in our press release and also available on the website with reconciling tables. Basic earnings per share is actually higher than adjusted earnings per share because we're adjusting out a one-time gain on deferred taxes associated with announced reduction in Canadian tax rates. You don't see Canadian tax rates change that often. Therefore, we're treating that pickup as an adjusting item.

On a reported basis, our effective tax rate will be in the 0% to 10%, that includes that gain on the deferred tax adjustment. Better way to think about it beyond 2008 really typically have about a 35% tax rate less investment tax credits. Again, those are coming down to the tax line now, they used to be up above. So 30% plus or minus a couple of points is probably an '09 and beyond type of rate.

Last year, because we lost money, 35% tax rate less investment tax credits generated [the 40]. Last year we had a loss in income. This year we have positive income. So that's the way to think about how that tax rate appears. And on capital expenditures, kind of flat with this year is kind of our projection.

So that's a quick summary of our guidance. I'm sure there'll be more questions in the Q&A. But I think this is a strong year for MDS. And again, a challenging economic environment. It's a year building on a transformational year and we're driving growth through globalization, innovation and operations excellence.

We have a strong balance sheet. We're looking forward to continuing to accelerate our business with the right acquisitions. I feel very confident standing here in front of you today and being able to tell you about this great story for MDS.

In my career I've been involved in a number of turnaround businesses and this one feels like we're in a great position right now. I'm very excited about where MDS is. We've created a new Company, a pure play global life science Company, and I'm convinced we're on the right trajectory to deliver great returns for our shareholders. Thank you very much. I'd like to now turn it over to Stephen for a few comments here next.

Stephen DeFalco - MDS, Inc. - President, CEO

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Great, Doug. Thank you very much. I just wanted to make a couple of summary comments and I think today was a good day to kind of reset everyone on MDS, our going forward plans, I think the confidence that we have in our business. We're coming off a year with 17% revenue growth and an 88% growth in EBITDA. But I think the thing that's important for our investors to understand is we didn't achieve those results through call it radical cost cutting.

We actually did that in a year where we made tremendous investments, investments in our new Phoenix facility, investments in our IT, investments in much stronger sales and marketing capability all over the world, expansions in China. So we're doing this in a very sustainable, very high class way, disciplined, good use of shareholder capital, operational improvement, closer to our customers. I think that's what you're going to see going forward over the next several years.

I'm going to take a little time now. I want to talk a little bit and talk about our stock price trends and then talk a little bit about how we're setting goals for the businesses going forward before I end the day.

Stock price was trending up quite well through our fiscal year-end. It was up 68% since the April '05 timeframe. We look at this now almost exclusively on the New York Exchange being that over 70% of our institutional investors are buying in at U.S. type prices.

It's traded off about 26% during that period of time. Kind of odd that it's traded off when we announced Q4 results, revenues up 24%, profit nearly doubling for our exit quarter of 2007. Clearly, the markets are off quite a bit. I think all of you, as I've talked to you during the breaks, have your own theories. Tool sector is off also quite a bit during that period of time as well as the CRO market.

There's obviously been a lot of news in the media about Nordion and the isotope information. So I think we look at this we think the stock is an exceptional buy at the current share price. We're going into 2008 with a lot of confidence, a lot of sustainability, good, strong end markets, new and refreshed product areas.

Second, as we think about each of these three businesses, we spend time in our strategy process, the fourth process] I talked about, customer capital, competition of looking at and scenario planning the businesses, making sure our tragedies make good sense to drive shareholder value. I'm going to share with you some of the goals that come out of that process for each of our businesses.

We tell you about [\$1.1445 billion] on an EBITDA GAAP basis. And we look at these three businesses and say what can we do in our hands, what's our performance improvement plan as we lay in processes and changes, we benchmark them to the competition. How do we think about those? We look at Analytical Technologies as a business that we think can grow at high single digits over the cycle. We think we'll have periods where we grow faster than that. We might have a period or two in the next three to five years we grow below that. But we kind of model this based on its end markets and its technologies the business grows high single digits.

We think our EBITDA range on this business is going to stay about where it is. It's a little different. U.S. GAAP numbers, sort of the low-20s. Continuing looking to move that up as we expand our presence in Asia. We'd like to over the end of this forecast period move it up to the higher rate. We think this is a business that commands a very good multiple in the marketplace.

And when we look at our tools comparisons, we think we have one of the highest, most valuable franchises in that industry, consistent years of performance on both sides of that portfolio, renewed strength in a combination of those businesses. I would say that we feel that we are the premier brand, the most consistent, one of the highest growth, one of the highest margin folks in there. So we look at this business as one that we think should command a premium within that sector of the peer group.

We look at MDS Nordion and think Nordion is a story of a company that was a mid-single digit grower, very high margins, 30% EBITDA margins. We want to over the future put plans in place to begin to grow an improve that organic growth profile at Nordion. Steve talked a lot about the collaborations. Steve talked about divesting product lines that were shrinking and were unproductive in terms of a profitability point of view.

Nordion is one we find the analysts struggle with most in terms of getting a comparable. It's unique. It has extremely high barriers to entry. It has deep, deep technical expertise in the business. There's no straightforward comparison, particularly when you start to compare EBITDA margin. There's absolutely no Company that operates in this industry at those sort of margins. We look at the peer group and look at the better performing medical device companies out there, we think that those are the best peer group for Nordion. It's not a one-on-one in the same industry. But when we think of how we value Nordion, we think of it as that kind of Company.

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I've heard -- I think Nordion is probably among our analysts and our shareholders the least understood of the MDS businesses. Unique businesses, horrendously high barriers to entry, fantastic economics and what we'd like to do over the next couple of years and the program you see put in place is to increase the organic profile of that business.

Pharma Services I would say -- I used to say a year ago was my fixer upper. I think now we've got a good, strong trajectory. We've got \$32 million worth of EBITDA improvement in that business. Our new business wins are accelerating every quarter. We feel a lot of momentum in that market. We see customers excited. We see customers returning to us who hadn't done business for us in a while.

We've shifted our mix towards pharma and biotech from what was a heavy generic mix a few years ago. We love our generic customers, but we don't want to be reliant on a single sector. We think there's more robust growth and margin opportunities serving a broader range of customers.

This is a business that we want to drive over the next couple of years to perform at an industry peer rate, which we think is in the 10% to 13%. We think that's driven by 7% to 8% improvement in R&D budgets and a continued propensity to outsource. I could tell you the outsourcing part of that equation goes up about 1 percentage point a year, which I view as a glacial speed. Most industries that move towards an outsourcing model trickle along at a rate and that hidden inflection point. I believe we're going to be seeing that inflection point over the next three to five years in that industry as there's wholesale changes in the pharmaceutical Company business model towards outsourcing.

We believe and have talked about driving this business up into the high teens in terms of EBITDA margins. David's created a really good trajectory. We had \$5 million in Q4. In that we got \$7 million of FX hit. So operationally delivered about \$12 million as we took an FX hit. We're going to continue that productivity programs that insulate us from FX and just sort of drive through that. We're quite comfortable, as we've talked about before, exiting 2009 in the high teens EBITDA margins. We look at that business as one that commands a higher market multiple given the very exciting growth rates and, quite frankly, the relatively low capital intensity of that business.

So as we take these three businesses, model them out for our shareholders, talk about our plans in place, we see within this portfolio a portfolio that over the next couple of years we want to grow to \$1.5 billion in sales and we think we can get over \$300 million worth of EBITDA. Not by doing a bunch of new and exciting things that we don't have plans for. These are the plans in place that we have, the productivity programs that we have in place, we think the momentum in our Lean Sigma engine, we think an accelerating amount of revenue growth in the fall through that these businesses have, they have tremendous fall through, will increase revenue growth.

And so we look at this as quite an exciting opportunity, again sitting at a stock price of \$16 and change. We look at the opportunities here, we think we're a very compelling value story in the market.

Last slide, back to the investment thesis. \$1.1 billion company. Incredibly exciting end market. We have never been as well positioned. We've never been as close to our customers. We've never had the lineup of technology, services and performances that we have entering 2008 in those very attractive end markets. Each one of our businesses has a tremendous opportunity for value creation. We have great new possibilities in Analytical Technology given our global footprint we've only begin to exploit.

Nordion is a complete makeover. The company had described itself a few years ago as providing commodity isotope, deeply involved with the biotech pipeline, launching products on its own, commanding pricing and value in this marketplace.

Pharma Services is a company that was heavily encumbered 24 months ago, I think finally hitting its stride. 30% increase in new business wins Q4 to Q2. We're going to continue to see good, strong momentum against that.

We have a great balance sheet and so on top of what we think we can do with the businesses from an organic point of view, from an operating point of view, we think we have opportunities to bolt on to each one of these platforms as we transform them from industry leaders into true global platforms.

I think what you saw today was a lot more depth and discussion with the management team. I'm thrilled to have Doug Prince onboard; an industry veteran joined us in the CFO slot during 2008. He joins a bunch of other very seasoned executives on the MDS team. He joins a bunch of good, strong MDS executives who've moved up into higher and stronger positions. So I look at this team and I look at our execution track record in 2007, I enter 2008 with a tremendous amount of confidence.

Thank you for spending the morning with us. Now I'd be happy to -- I have Doug and Dave up here for questions. My guess is Steve and Andy should stay close to the microphones.

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QUESTION AND ANSWER

Lennox Gibbs - TD Newcrest - Analyst

Thanks. Dave Spaight, we had quite a very few significant strategic investments in the early development portion of Pharma Services business, but you've been somewhat quieter with what we've seen today on the slides with respect to late development study. Can you kind of share (inaudible - microphone inaccessible)

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

Certainly. Thanks for the question, Lennox. Certainly we've made investments in early stage and are starting to see the benefits of the investments that we've made. In our late stage business we've focused on a couple of areas. First, with respect to our central lab capabilities, we've made IT investments within the business that help drive productivity.

And as part of our restructuring efforts, we also reduced the footprint. We had two facilities sitting in Europe, one in [Bayee], one in Hamburg. We did not need two facilities so we had that consolidation into a single site, which helps drive our productivity from that perspective. We've added the new facility, brand new facility in Beijing that I mentioned, which again gives us a great footprint from that perspective, and continued to make investments from a process standpoint in terms of driving it.

Going across our Phase II to IV business, that's probably the area that we've put the most focus on and just driving a tighter discipline around the types of studies that we're going after. And so if you take a look back a few years, we were kind of spread out. We were going after just about any type of opportunity that existed out there and our business development team's closing that opportunity and bringing in much of that work, unprofitable type work.

We took a very disciplined approach that said these are the therapeutic areas that we're going to target and focus on that are based on our capabilities that we had as a team, our strengths that we had. And then we took a look at the size of companies that we were looking at and trying to focus in on those mid-tier pharmaceutical companies that we felt that we could carve out a very profitable niche as we went forward.

We brought a new leader into the business in Dr. James Pusey, a very strong industry veteran. James came to us, he was the CEO of OrthoLogic, Senior Vice President at AstraZeneca and Serono in his past life, he's a medical doctor, graduate of London School of Economics, just a great background, and put him in charge of that business. And since that time he's been really driving that type of focused agenda, which will lead to profitable growth in that part of the business.

Lennox Gibbs - TD Newcrest - Analyst

Do you believe you have the footprint you need? I understand all of the discipline you brought into that system.

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

Yes.

Lennox Gibbs - TD Newcrest - Analyst

But you believe you have the footprint in Phase II to IV to get the 16% to 19% EBIDTA margins I think --

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

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I believe we have a great opportunity to continue to drive profitable growth in that area as we maintain our focus in carving out that niche in that mid-tier. So in terms of going after big, large trials and going up against some of the larger players, we're not at that scale to go after that business. But we are -- we're certainly well positioned to drive profitable growth in the areas that we've targeted.

Lennox Gibbs - TD Newcrest - Analyst

So I should look at this as (inaudible - microphone inaccessible)

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

I would say that we positioned ourselves to go after an area not only that we think we can win, but that we can drive profitable growth in that particular area. And I think that type of focused discipline will play out as this new business wins are rolling through with the types of gains that we should be able to make.

Dave Windley - Jefferies & Co. - Analyst

Hi. It's Dave Windley. A few quick ones, I hope, for Doug first. On the GAAP EPS that you're presenting in the press release and the slides, is it really basic EPS or is it diluted EPS or is there no difference in the share count?

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

There'll be minimal difference.

Dave Windley - Jefferies & Co. - Analyst

Okay. Can you quantify the amortization in the 2008 from MDC?

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

I'm not going to provide that level of guidance. But the amortization of MDC is included in our second half '07 --

Dave Windley - Jefferies & Co. - Analyst

Okay.

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

-- kind of give guidance on [break] that out.

Dave Windley - Jefferies & Co. - Analyst

Okay. Is the \$70 million that Andy talked about earlier in terms of the AT R&D spend, is that pretty close to total company R&D spend or are there pockets of R&D expense in the other two segments of the business?

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

Andy drives the bulk of the R&D. There is minor amounts in the other segments. And again, you can pick that up in the segment --

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Dave Windley - Jefferies & Co. - Analyst

But a few million dollars?

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

Yes, not much over that.

Dave Windley - Jefferies & Co. - Analyst

Okay. Maybe getting to a couple more strategic questions. I suppose. Stephen, you took a slide and made a specific point to talk about the direction of the stock and the value that you see in the stock. Is the Company interested in buying more stock?

Stephen DeFalco - MDS, Inc. - President, CEO

We're in a quiet period here and so I want to be kind of careful. But we look, as I said, in a very disciplined way at our capital. We look at our stock price in the market. We look at potential acquisitions in the pipeline. And I think we always had an intention to when we see value in our stock price be out there and purchasing it. As I said, we're in a quiet period now, but that'll ebb and flow in different quarters here in 2008.

Dave Windley - Jefferies & Co. - Analyst

Right, but fair to -- fair question. If you feel it's that compelling, then worthwhile for the Company to put its money where its mouth is.

Stephen DeFalco - MDS, Inc. - President, CEO

We would do the right thing for our shareholders in terms of looking at capital allocation, including buying our own stock.

Dave Windley - Jefferies & Co. - Analyst

Okay. And then finally, you commented on growth rates over the cycle in the one slide. What about growth rates by segment for 2008, some kind of indication? Directionally, are we above or below those levels? What stage of the cycle are we in by segment? Thanks.

Stephen DeFalco - MDS, Inc. - President, CEO

I'd probably want to keep this at a qualitative basis. I think the CRO industry is in a very, very robust cycle. I think no one sees an end to that anytime soon. I think we haven't participated fully in that cycle and you're going to see that more in 2008. I think Nordion has been kind of fine, given its mix of businesses, and the key to including that organic growth rate is probably not in cycle as much as it is divesting product lines that weren't growing and filling up with more exciting things.

I would say Analytical Technologies is in a good part of the cycle, not great. we've certainly seen more robust demand if we go back over the past ten years. And I think we're outperforming the cycle given the freshness of our product lines and our ability to drive share up a little bit in Europe and Asia on the Molecular Devices side.

Unidentified Audience Member

Okay. I'm just going back to the slide here, maybe a little deeper, all three of you I think, looking at the 2008 versus 2007 and how you get there. And the first question is really looking at the guidance in terms of improving productivity and so on and I think if I look at that there, it looks rather modest, I would say, given where you've been.

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I know there's a lot of things to fix, but certainly, especially putting that into the context of both the 16% to 19% you're talking about, that productivity improvement is probably -- a lot of that is on your shoulders. I'm just wondering if you can comment on if we exit with that kind of improvement, it seems like you've still got a lot of work to do when we enter into '09. So maybe you could comment just on that. And I'll have some follow-ups.

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

So I'll begin from a Pharma Services perspective. Clearly, a lot of opportunities we continue to work through. Of our restructuring actions that we took in 2007, roughly about 400 of that headcount had come out, so we still have about another 100 to go through the business as we move forward. Process improvements, IT investments will drive additional productivity gains within the business itself. And I'm thinking of things like the Apollo systems, as we bring that onboard. All of our new trials are going onto that type of a platform.

But we still have to maintain and drive a lot of our legacy systems until those other trials are complete or we can get approvals to migrate to the new systems going forward. And so those are the types of things that will continue to roll through as we go through the balance of the year.

The other aspect is filling our clinics, filling our laboratories. As we see demand come back in the early stage parts of our business, our Phase I clinics, we've got ample capacity within those sites. And so as demand begins to increase, you'll see our productivity gains from that type of application. And the same thing with bioanalytical, which is another highly automated area that, as we put more demand through, we should see faster fall through.

Unidentified Audience Member

Okay. And maybe another question just on the CapEx specifically. I'm looking at about your \$70 million mid-range. I'm guessing the lion's share is probably going to go to you. If I look out, given the businesses historically and how Analytical and Nordion have been real modest consumers capital, you want to look at the -- sort of the consumer capital and kind of the returns, maybe you could talk a little bit about allocation of capital once again, given the differing -- just first if you could qualify just sort of is that CapEx guidance more of it going over here? And then second just kind of how you think about that going forward?

Stephen DeFalco - MDS, Inc. - President, CEO

I'll answer part of it and then I'll turn it over to Doug. I guess one thing you said, Joe, which is Nordion is a modest user of capital as of now, as we've sort of changed the number of agreements there. I would say -- and a little bit of capital does ebb and flow across the businesses. Obviously we're building out the two factories in Asia. Most of that is already spent for sure. I think Nordion is not as low as you think in 2008 because we've got a couple of new products coming on line. Most of them require some amount of dedicated facilities and call it a tooling up from a regulatory point of view. Doug?

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

Yes, I would say when we look at capital allocation, CapEx is one portion of that. And I'd say the relative weighting of the businesses is directionally correct, but other parts of capital that we address is, for instance, the R&D spend. And we commented a lot about in Andy's business, again, an ongoing strong flow of innovative new products. We're also reinvesting in talent, so whether it's recruiting new leadership, training and development of all of our employees around the world. So when we look at capital, we're looking at human capital, R&D capital as well as CapEx.

And then we also, as we've mentioned, have that disciplined acquisition strategy. So that's another part. We look at all of this and we put our cash where we think will generate the right returns for our shareholders.

Hari Sambasivam - Merrill Lynch Canada - Analyst

David, it's Hari Sambasivam. Just a couple of quick questions on the CRO side. Just to go back on the issues that we had in the Montreal facility, I'm just -- I don't want to dwell on that, but in terms of larger lessons learned, what kind of processes have you put in place so that they act as sort of a trip-wire before you get into some -- a deeper issue.

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Dave Spaight - MDS, Inc. - President - MDS Pharma Services

Right.

Hari Sambasivam - Merrill Lynch Canada - Analyst

And I'm just wondering whether you can elaborate on that. And the second question I'm wondering is that as you sort of expand into Asia, obviously there's a lot of Chinese CROs, Indian CROs all coming up, all competing on various issues. What type of services that you -- are you offering that you think may be more of a commodity or more at risk of being commoditized with the advent of these CROs?

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

So let me take your first question and the lessons learned from the Monroal issues. I think most people in the room are aware these are issues that had occurred back in the 2003, 2004 timeframe and over the last two years we've worked very closely with the FDA in terms of driving resolution of that particular issue. I think the lessons learned on the first part is to actively engage with the FDA, be open having the discussions and things of that sort and we've certainly taken that approach over the last two years.

Secondly is to take all of the learnings from that and be able to institutionalize it within your processes. And so we had 28 different learnings that came from it that we built into our quality management systems as we go forward. We put leadership in place over our entire quality assurance business. Industry veteran that we stole from Steve West at Nordion, a gentleman with over 30 years of experience in this particular area, and he's worked with our entire quality organization around the world to make sure that quality management systems, as it comes up and is being built, takes into account all of those learnings and that people are properly trained in order to continue to drive those types of improvements.

Through that, the quality councils we've set up, the visibility that I have at the senior level with respect to those issues, we have much greater oversight than we've ever had to make sure these issues don't come up ever again because, quite frankly, that's our advantage going forward, as we probably have paid the highest tuition for the lessons that have been learned. And customers that are coming back recognize that we're putting ourselves in a position that we would never let that type of thing happen again. And so that permeates the entire organization. The second question you had I'm trying to recall again. And I'm sorry, if you could repeat that?

Hari Sambasivam - Merrill Lynch Canada - Analyst

It was related to the type of services that may be at risk of commoditization, where do you see prices staying the same? I'm just wondering in terms of bioanalysis or statistical management --

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

Probably the biggest area right now is in bioanalytical capability. So the bioanalysis, we're seeing more and more companies that are opening up operations or partnering in India on that particular front. Certainly has been a great benefit to my good friend Andy Boorn, who sells a lot of mass spectrometers into the Indian market and taking advantage of the fast growth that's going in that particular area. So we see good opportunities from there.

I traveled to India. I've probably been there four or five times in the past two years visiting different companies that are engaged in different phases. I think there's good opportunity on the preclinical side. As I think the regulations continue to evolve, we may see more toxicology type and safety assessment type testing being done in that part of the world. And certainly it lends itself well into late stage type clinical trials, not so much from a cost perspective, but just access to that type of patient population. So I anticipate we'll still see continuous growth on that piece, but from a more strategic perspective than just a pure cost play.

Hari Sambasivam - Merrill Lynch Canada - Analyst

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Just a follow-on on the central labs as well. How would you characterize yourself in terms of scale of central labs? And it is a fixed cost business and I'm just wondering in relation to some of your well-known peers, where do you rank and how would you characterize your critical mass at this point in time? Is it at par, do you have enough, do you need more?

Dave Spaight - MDS, Inc. - President - MDS Pharma Services

Yes. First off, our central lab business is a top three player in this space. So we've got a very strong position and we work with some of the largest pharmaceutical companies in the world from that perspective. As I indicated before in our restructuring actions that we took, we did consolidated our operations in Europe, which was, I think, very important in terms of driving the efficiency of our operations from that perspective. There was really no good reason to have two facilities from that perspective.

We take our leadership position that we have in Asia, specifically in Beijing, and have just as indicated, really expanded our capacity and capability from that perspective. And so we're one of the strongest players in that part of the world and we'll continue to serve well.

We see additional opportunities and really additional opportunities in India as more work is being done there and the ability to serve that market as it grows quickly. We're well positioned in Singapore with a facility to serve Southeast Asia. But I would say that as the Indian market continues to grow and expand, that would be one of the areas that we'd be looking at in terms of adding additional capability.

Unidentified Audience Member

Thank you. I just have a couple of questions on the subject of foreign exchange. Just to clarify, when you report your segment results, are the -- is the impact of the foreign exchange in each segment?

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

Yes.

Unidentified Audience Member

It is. Can you bracket sort of which segments have the largest FX impact?

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

All of our segments are -- have some exposure to the Canadian U.S. dollar because they all have operations in Canada. I'd say Pharma has the biggest Europe presence, so they're one that sees a bit more of the exposure between the U.S. and the euro. All three segments have the challenges of dealing with FX, as we do at corporate. So the total impact on the business is felt in all the segments and (inaudible).

Unidentified Audience Member

And can you comment on how much you've reduced the sensitivity to future exchange rate movements? So if you saw a similar decline in the value of the dollar versus the Canadian dollar, would you still report a \$32 million FX impact? Or how much lower would it be, more or less?

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

I really can't predict that at this point in time. It's extremely complex because if everything mirrored and played out exactly as it did last year, yes, it would be exactly the same kind of impact. The reality is that probably isn't going to happen. Exchange hedging position is changed. Some of our natural hedges have changed. So it's different than it was last year.

Stephen DeFalco - MDS, Inc. - President, CEO

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And certainly --

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

-- to say that the U.S. dollar weakens, there'll be some negative impact. If the U.S. dollar strengthens, there'll be some positive impact. That's all I can say at this point.

Stephen DeFalco - MDS, Inc. - President, CEO

Certainly a number of steps we've taken, moving products to Asia helps. Doing less Pharma Services work in Canada helps.

Unidentified Audience Member

I just want to make sure I didn't misunderstand. Are you saying that if you saw the same exact movements in FX in '08 that you did in '07 that you'd still see the same FX impact?

Stephen DeFalco - MDS, Inc. - President, CEO

It'd probably be less than the \$32 million, but exactly how much less I think would be difficult to answer and --

Unidentified Audience Member

Okay.

Stephen DeFalco - MDS, Inc. - President, CEO

-- something we're actively managing throughout the year.

Unidentified Audience Member

Okay. Again, just to clarify something, you have a slide on sort of long term goals and you mentioned adjusted EBITDA around \$300 million. I don't want to sort of rip apart what the exact assumptions are, but baked in there is there an assumption for mergers -- future bolt-on acquisitions and for some reversal of the FX?

Stephen DeFalco - MDS, Inc. - President, CEO

No. So that would be current FX rates and same store sales in our current portfolio.

Unidentified Audience Member

On the same slide that broke out the businesses, the Nordion piece you have revenue growth just slightly under Analytical Technologies and obviously you talked about the immense barriers to entry. Why did you ascribe such a low multiple to the EBITDA stream? What am I missing about the quality of that business versus the others given its other characteristics?

Stephen DeFalco - MDS, Inc. - President, CEO

Appreciate your enthusiasm for that business. I share it. I'm just trying to be somewhat pragmatic. I think that the Nordion industry grows at a slower rate in general than we're seeing in the Analytical Technologies industry just given the drivers of those businesses. And these are fairly

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high technology procedures and so we tend to have more growth in the Western world than we do in the emerging world. I think Andy's seen growth across the globe in his [technique].

We just look at the number I put in there, which is how we think of the business, is quite a lot higher than what most analysts ascribe to it today. And I think we want to push it more in the sense of we feel the multiple, it commands a premium brand medical devices type Company. I think as we achieve higher and higher organic growth, I think we would expect to ascribe a higher multiple to it over time. But do appreciate your enthusiasm for it.

Kim Lee - MDS, Inc. - Director - IR

We'll have one last question from Dave Martin.

Dave Martin - Dundee Securities - Analyst

Thank you. A couple of questions. The opportunity in China for the CRO industry as a whole, is it market growth that we're seeing or is this just a shift of contracts that would have otherwise gone to North America or Europe are now shifting to Asia, India? And if it is just a shift, how would you rate yourself as far as your aggressiveness in penetrating that market versus other major North American --?

Stephen DeFalco - MDS, Inc. - President, CEO

Yes. I think the answer to your question, which may be a little vague, is yes. I think there's tremendous indigenous market growth, as well as a shifting of contracts from North America into those regions. And I think the two of them kind of turbocharge the growth in those geographies. We have the largest central lab facility in China. We've been there over ten years, as David showed you, 3x increase in space, 5x increase in testing capacity. Very big facility in Taipei. We do preclinical work there. A big one in Singapore. So we feel pretty good about that. I think it's being driven mostly in the late stage to access patient populations.

And so the simple fact is if you have a new oncology drug you want to test, it's hard to find an untreated oncology patient in North America. And so where can you find those untreated patients? You find them in Eastern Europe, South America, India, China. And so it's being able to then properly test your drug by getting a patient whose body hasn't been altered by previous treatment.

That was sort of the first wave. I think we're also seeing more on the preclinical side driving towards a high skill base and a low cost environment. But I think that's going to be a little slower uptake. There's still concerns about letting the molecule run around the world in the preclinical phase that are IP type concerns. And so I think we'll see that wave grow nicely over the next 10 years, but probably from a small base.

Dave Martin - Dundee Securities - Analyst

Okay. And the last question I had, you mentioned that you see CRO outsourcing hitting an inflection point in the next few years. I'm wondering what percent of preclinical and clinical work do you see as being outsourced now? What is still held inside for --

Stephen DeFalco - MDS, Inc. - President, CEO

Yes.

Dave Martin - Dundee Securities - Analyst

-- companies? And is it a number of pharma companies that aren't outsourcing anything that'll switch over to outsourcing or is it just a gradual elevation?

Stephen DeFalco - MDS, Inc. - President, CEO

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Well, it's currently at 22% today. Goes up about 0.75% penetration per year has been the past couple of year trend. What drives the trend? Fundamentally two things drive the trend. One is a greater portion of the spend is Biotech. Biotech almost de facto outsource 100% of what they do. Biotechs today are about 20% of the industry spend. And so there's still only one-fifth of the development dollars, but again a large portion of that gets outsourced.

I think the second part of it that'll accelerate it are pharma companies who are continuing to grapple with their trend lines, none of them attractive in terms of R&D productivity. So they see these biotechs do things they can't do in terms of speed to market, capability, cost of developing a molecule. You see it as a constant flow of headlines. Pfizer closed three big facilities in North America, tremendous amount of layoffs, just calculate all of that's going to the CRO market.

They've closed capacity and all of that work is now going to be in the CRO market. Novartis just had an announcement and certainly BMS has had a series of announcements. And so I think every month pick up the paper and if you see a pharma company closing a facility or downsizing] its workforce, that essentially is work that's going to go out to the CRO market.

Now, your question to me, which I think is a great question, I do wish I could answer to you. What's the inflection point, right? If you look at any other industry, IT, cafeterias, any industry in the world, outsourcing doesn't stop at 22%. It kind of trickles in the early days and then all of a sudden it moves to an accelerated curve. And so 22% to me is a number that makes no sense at all, given what I'm seeing in the marketplace. And so I think we will see an acceleration of that.

I think you're also seeing the CRO industry is essentially an adolescent industry; most firms run by their founders, most of them coming off a regional base. I think as you see a creation of the stuff that David's talked about, which is a global footprint, ubiquitous IT system, clear brand promises that say to a customer you touch me in Beijing, you touch me in Paris, you touch me in new Jersey, expect the same level of service and the same promises from my team, I think that's what's going to really globalize that industry and take it, call it to a more professional outsource model than today what really is a real cottage industry.

All my years at McKinsey, all my years in industry, I've never seen something as fragmented as this. And so I think we'll see that as this industry evolves in the next five years. And we hope to be in front of that, certainly with the investments we're making and the way that we're positioning ourselves for customers and technology.

Great. Thank you all, we appreciate you all coming today. We had kind of a great day here at the New York Stock Exchange. And thank all of you for taking time out of your busy schedule. As you saw here today a team that's pretty excited about 2008, but I think a team even more excited about the platform we've built, the teams that we have in place, the technologies that we've invested in and our ability to grow and improve our returns for shareholders in 2009 and beyond.

So appreciate you spending the time with us. I'll turn it over to Kim and I'm sure I'll be talking to some of you during the break. Thanks.

Kim Lee - MDS, Inc. - Director - IR

That brings the MDS Investor Day to a close. I'd like to thank all of you for joining us this morning and hope that you're leaving us with a better understanding of how we're driving growth as a life sciences company. As always, if you have any further questions, just give us a call. We'll be back in the offices tomorrow.

And finally, for those present in person, there's an evaluation sheet in your package. We'd really appreciate it if you'd fill it out. It would really help us improve this event on an annual basis. Thank you.

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