

# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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**THE WALL STREET TRANSCRIPT**

## CEO/COMPANY INTERVIEW

**DR. CARL JOHNSON**  
II-VI Incorporated

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Founded 1963  
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# II-VI Incorporated (IIVI)



**DR. CARL JOHNSON** is the Chairman and Chief Executive Officer of II-VI Incorporated ([www.ii-vi.com](http://www.ii-vi.com)). Dr. Johnson co-founded II-VI in 1971 and served as its President until 1985 when he became its chairman. From 1964 to 1966, Dr. Johnson was at Bell Telephone Laboratories where he worked in communication systems development. From 1966 to 1971, he was the Coordinator of Research & Development for Essex International, where he was responsible for a number of research projects

sponsored by Essex at Carnegie-Mellon University. Dr. Johnson obtained his BS, MS and PhD degrees in Electrical Engineering from Purdue (1964), Massachusetts Institute of Technology (1965) and the University of Illinois (1969), respectively. He is a member of the IEEE, the American Optical Society, the American Association for Crystal Growth and the Materials Research Society. Dr. Johnson has served state and national governments as an economic development and export policy advisor. He currently serves on the Board of Directors for two early-stage or start-up companies: Xymox Technologies, Inc. (WI/USA), and Armstrong Laser Technology, Inc. (PA/USA).

## SECTOR – SCIENTIFIC & TECHNICAL INSTRUMENTS

**(LAS233) TWST:** Could you give our readers a brief profile and overview, including a history, your involvement and business description of II-VI Incorporated?

**Dr. Johnson:** We are an optics, photonics, materials, devices and components manufacturing company. We have a 30 year history of steady growth and profitability. We have strong laser optics and components core businesses in both the CO<sub>2</sub> and YAG laser areas, and we keep developing and adding to this core business activity with various new product lines, technologies and businesses. One other thing; we aim to be a leader in whatever we do.

**TWST:** What significant trends or developments do you see taking place in your indus-

try right now and what will your response be to those trends?

**Dr. Johnson:** We believe that laser, optical, photonic technology will continue to proliferate in the world. The electro-optics and opto-electronics, which we're involved in, will play ever bigger roles in telecommunications, information technology, medical technology, military applications and the sciences. In other words, almost every aspect of society will continue to adopt these technologies. That will create numerous opportunities from which we can select those that fit us best and proceed.

**TWST:** What do you see as your greatest opportunity for growth in the next few years?

**Dr. Johnson:** We will continue to focus on specific opportunities. We will continue to diversify. Many of the things we do are applicable

across multiple industries so, if we are doing a good job in one area, we have an opportunity to move sideways and make applications in other markets because the technology is so pervasive. Of course, our ability to respond quickly to opportunities as they arise will make all the difference.

If we look at growth goals, our management team and our Board of Directors are committed to a minimum of 20% growth in revenues and earnings over the next several years, in fact, over the next 10 years. So this is the standard that we will hold ourselves to every year.

**TWST: Do you see any significant challenges or risks that the company will be facing in the next year?**

**Dr. Johnson:** We live in a cyclical world and that is on our minds at the moment because of what is happening in what I will call our macro environment. We will manage for success, as we always have over the past 30 years, and we are confident that we can manage our way through whatever kind of cyclical situation comes about.

We do serve a variety of manufacturing sectors. We serve OEM equipment manufacturers. We serve electronics, industrial, medical and scientific industries, so we will get some benefits from that diversification. However, in some of those industries it is well understood that there are currently retractions underway.

One other thing that does help us in the area of diversification is our global spread. Because we are very involved in all the leading economies of the world, we are attuned to what is going on in Asia, in Europe, in North America and to a growing extent in South America. So if they are each at a different phase of the business cycle it hopefully evens things out to an extent.

**TWST: What is your strongest market overseas?**

**Dr. Johnson:** Actually, if we look at the European market as a whole and the leading Asian economies as a whole, then it's pretty well balanced. I would say that close to 45% of our opportunity is in North America with the remaining 55% split about equally between Asia and Europe.

**TWST: What do you consider your strongest competitive advantage to be?**

**Dr. Johnson:** There is little doubt that among the groups we compete with, we are unique. That uniqueness leads to a competitive advantage. We are the most integrated in terms of specialty optical, electro-optic and photonic materials; fabrication and micro-fabrication capabilities; thin film coating technology; and precision metrology which enables us to assure that the products we are shipping are exactly what the customer has ordered.

This integration allows us to control more of the total manufacturing process than any of our competitors. I think it also allows us to manage our margins better than most of our competitors. We try to manufacture a finished or semi-finished product that goes right into the heart of our customer's production lines. In other words, we are critical to our customers producing and using their products, and we think that our model for profitability is better than for most of our competitors.

**TWST: What are your opportunities for improvement within the company?**

**Dr. Johnson:** We are doing some new things. First of all, we have two core businesses. Our CO<sub>2</sub> laser optics business and our YAG optics and components business are both 25 years to 30 years old. They are still growing very nicely. They provide us with steady, stable platform of core operations.

Around that, we are taking selected technical capabilities that are inherent in the core busi-

nesses and we are tailoring, developing, and applying them in new areas such as telecom, medical imaging and digital radiography, and electronic and photonic materials. These represent three separate initiatives, each of which is really a start-up business and each of which is at a different stage of development.

We expect growth in our core businesses to average 10% - 15% per year. Telecom and eV PRODUCTS, which is the activity that is deploying our medical X-ray, gamma ray and imaging technology, both have the opportunity to grow 30% - 50% a year. Electronic and photonic materials is an R&D activity that's maturing at the moment, but has not yet been deployed as a production activity. In summary, we're looking for growth on all fronts, but the more rapid, exciting growth should occur in the new areas that I described.

**TWST: Do you plan on growing the company organically, or will mergers, acquisitions and partnerships also perhaps play a role?**

**Dr. Johnson:** We are committed to growth in both of the forms you've asked about. Historically, we have done a lot of organic growth. Our eV PRODUCTS division is an example of organic growth. This year we're on track to do in the range of \$7 million in revenues with a book to bill ratio of at least 1.2. So eV represents an organic growth initiative that is now taking off. Alternatively, when we wanted to diversify into the YAG and related portion of the laser optics and components business, we did it by acquiring two small companies in Florida and merging them together into our VLOC subsidiary. Recently, through the acquisition of Laser Power Corporation, we were able to strengthen our position in CO<sub>2</sub> laser optics and acquire for the first time a real and exciting capability in the military infrared arena. So we really do pursue growth on both fronts.

**TWST: Will acquisitions help to leverage infrared and laser systems as part of your business?**

**Dr. Johnson:** We are always looking for the right technology, product line or business to acquire that fits with our current business. We look for opportunities that we can understand and manage well, and that fit our business model.

**TWST: What specific achievements would lead you to characterize the next two or three years as a successful period?**

**Dr. Johnson:** I previously mentioned that we have launched three start-up initiatives and now we have to follow through and make them successful. Specifically, turning eV PRODUCTS into a thriving, high growth, high profitability endeavor is one of the keys. On another front, every year we update our five year plan and each of our business units sets new milestones for themselves. We set milestones for two years, five years, and so forth. Insuring that we continue to reach our milestones during the coming years will be our real measure of success.

**TWST: Would you be able to comment on your rate of revenue growth over the next year or so?**

**D. Johnson:** We are committed to annual average compounded top line and bottom line growth that exceeds 20% per year. We believe that we have the capability and will have the opportunity to achieve this commitment.

**TWST: Are there any other messages, any other points that you would like to raise with potential long-term investors before we conclude the interview?**

**Dr. Johnson:** I would highlight a few things. First, we have a steady growth history and we are committed to continuing a similar growth pattern. Second, we believe that we offer investors

a different or alternative way to invest in exciting, focused startup opportunities in telecom; in electronic and photonic materials; and in X-ray, gamma ray and digital radiography detector components. That is because these startups, within the II-VI family of activities, are anchored in and connected to our lower risk core businesses that by themselves offer long-term value. The combination represents an alternative, inherently lower-risk way to invest in a cluster of new and exciting technologies. Third, we either are currently or aspire to be the leader in every business endeavor that we undertake. I think that this is an important philosophy, a key corporate value. We just don't go into something with anything less than the idea that some day we'll be the leader in that particular niche, market segment, or product line.

**TWST: Thank you. (JF)**

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