

With Demand for Hair Removal Continuing to Grow Worldwide, 80% of Women Age 20 and Older Having Some Form of Cellulite and Wrinkle Removal also Having a Strong Global Demand, Cynosure, Inc. is In The Right Market at The Right Time with Products to Meet the Demand

**Healthcare
Med
(CYNQ-NASDAQ)**

Cynosure, Inc.

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**Michael R. Davin
Chairman, President and CEO**

BIO:

Michael Davin has been Cynosure's President and Chief Executive Officer and a Director since September 2003. Mr. Davin became Chairman of the Board of Directors in October 2004 and has more than 20 years of experience in the light-based technology field. From 1998 to 2003, Mr. Davin served as Co-founder and Vice President of Worldwide Sales and Strategic

Development at Cutera, Inc., a provider of laser and other light-based aesthetic treatment systems. Prior to co-founding Cutera, Mr. Davin spent 11 years in sales at Coherent Medical, Inc., a manufacturer of laser, optics and related equipment.

Company Profile:

Cynosure, Inc. develops and markets aesthetic treatment systems that are used by physicians and other practitioners to perform non-invasive and minimally invasive procedures to remove hair, treat vascular and pigmented lesions, rejuvenate the skin, liquefy and remove unwanted fat through laser lipolysis, reduce the appearance of cellulite and treat Onychomycosis. Cynosure's products include a broad range of laser and other light-based energy sources, including Alexandrite, pulse dye, Q-switched, Nd:YAG and diode lasers, as well as intense pulsed light. Cynosure was founded in 1991.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Davin, Cynosure is about transformation, what do you do?

Mr. Davin: Cynosure is a global organization that develops and markets aesthetic treatment systems that are used by physicians and other practitioners to perform non-invasive and minimally invasive procedures to remove unwanted hair, rejuvenate the skin through the treatment of vascular and pigmented lesions, remove multi-colored tattoos, liquefy and remove unwanted fat through laser lipolysis,

reduce cellulite and treat onychomycosis. We are also developing with Unilever Ltd., (Unilever) a laser treatment system for the home use market. We offer multiple technologies and system alternatives at a variety of price points depending primarily on the number and type of energy sources included in the system. As the aesthetic treatment market evolves to include new customers, such as additional physician specialties, we believe that our broad technology base and tailored solutions will provide us with a competitive advantage.

CEOCFO: How does it all work?

Mr. Davin: While we address a wide range of clinical indications with our broad base of technology, there are four key areas that we have focused on over the past couple of years: the removal of unwanted hair; the minimally invasive removal of unwanted fat and body sculpting; the treatment of cellulite and skin rejuvenation.

There continues to be a significant worldwide demand for the removal of unwanted hair with a treatment that can deliver a long lasting clinical result. Lasers are well suited to address this indication. By utilizing light-based technology as opposed to a razor or even some of the topical products on the market, which offer a temporary removal of hair, we are able to use a wavelength of light-based energy that is specific to the chromophore melanin. We are also very concerned with a patient's skin type. Two-thirds of the world's population is dark skinned. We have to be very sensitive about how we deliver the light-based energy

to treat dark skin, to avoid any adverse reactions to the skin such as hypo or hyper pigmentation. Our goal is to penetrate deeply into the hair follicle with a laser source and a wavelength selected specifically to protect the patient's skin while delivering the optimal clinical benefit. Our systems allow us to deliver highly concentrated light energy to the hair follicle destroying it in a way that the hair is not able to regenerate. The treatment regimen varies from three to five treatments in order to destroy the hair follicle. The treatments are separated by about a month, ultimately eliminating the patient's need to shave to remove their unwanted hair. The areas that are most commonly treated include the underarms, the legs, the back, the chest, and the bikini areas. Hair removal remains the largest indication that we treat. There continues to be a worldwide demand for the treatment of removing unwanted hair with a long-lasting clinical result. Our lasers satisfy that demand.

We pioneered the minimally invasive removal of fat using laser lipolysis in 2007 with the introduction of our Smartlipo system. Using the Smartlipo laser, we make a small incision and introduce a fiber under the skin to deliver the wavelength of thermal energy to liquefy and photo-disrupt the fat cells. Unlike traditional liposuction, where doctors use a very aggressive approach of suction, manipulation, grabbing and pulling the fat out of the body resulting in bruising and a longer recovery period, the laser uses smaller instrumentation than traditional liposuction cannulas, resulting in very little bruising and a faster time of recovery. Smartlipo procedures are performed under local anesthesia as compared to traditional liposuction where the patients are typically sedated. Our system delivers a specific energy that targets adipose tissue resulting in significantly less trauma to the treatment area and a quicker recovery for the patient. An additional benefit of the thermal properties of the laser that we see is a tightening of the skin through tissue coagulation.

Often when you use traditional liposuction to remove fat the patient is left with loose or flaccid skin that would need to be addressed in a second surgical procedure. Using Smartlipo the laser can be directed into the dermis to coagulate and stimulate the collagen resulting in a tightening of the skin.

Our third area of focus is the treatment of cellulite. We are the first company to the market with a one-time minimally invasive treatment for cellulite. We recently received FDA clearance for treating cellulite with our minimally invasive surgical approach utilizing our Cellulaze workstation. Typically Cellulite has been treated with topical creams, lotions, suction or mechanical therapy. The limitation of these approaches is that the results are temporary and the procedure needs to be repeated to maintain the

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- Michael R. Davin

desired appearance. Cellulaze is the first FDA cleared device to treat cellulite using a minimally invasive approach that delivers a longer lasting clinical result. It is estimated that 85% of women over the age of 20 have some form of cellulite, creating a significant market opportunity.

Skin rejuvenation is another area of strong interest for us. With an aging global population, there is a strong demand to address wrinkles, skin texture and skin toning, such as brown spots, red spots and discoloration of skin. We offer a variety of technologies to address these specific skin conditions. We can also target collagen stimulation to enhance skin texture and improve wrinkles in the skin as well as increase the elasticity of the skin. Once again, in all of these categories, there is a strong global demand. For Cynosure, about 56% of

our revenues comes from outside of North America demonstrating that these indications are worldwide.

CEO CFO: How does it break up between medical professionals and other types of practitioners that use your products?

Mr. Davin: 99% of our revenues are from products sold for use by physicians or under a physician's direction, but there are two major categories of physicians that make up our market – core and non-core. The core market is comprised of dermatologists and plastic surgeons. These are physicians or specialists that went to medical school to learn how to treat a variety of cosmetic indications and cosmetic skin disorders. Doctors who practice aesthetic medicine outside of their primary practice are categorized as non-core. These include OB/GYNs, family practitioners, internal medicine specialists and ear, nose and throat doctors. There has been a paradigm shift in our industry. Whereas prior to the early 2000's 100% of our revenues came from the core market, about half of our revenues now come from the non-core physician market. Physicians are looking to incorporate cosmetic procedures into their practice to offset reductions in

insurance paid medicine. Doctors have seen their healthcare reimbursement go down significantly. As a result, non-core physicians are looking to bring in other cash pay services that they can offer their patient base. These can include Botox injections, or laser hair removal, or skin rejuvenation procedures.

CEO CFO: Does the medical community understand the difference in quality with Cynosure procedures and do consumers know the difference as well?

Mr. Davin: Yes, the core market – dermatologists and plastic surgeons – have been using light-based technology to address cosmetic indications for decades, and for the most part they understand the different technologies available in the marketplace. In the non-core market, however, further education is needed to help phy-

sicians understand the differences in technology, and how these differences impact clinical outcomes of the cosmetic procedures. It is new to them and they are very interested in bringing these procedures into their practice, but, once again, it is not something that they specifically studied in medical school. Therefore, they need to get educated, not only on the science, but also on why light-based technology or other cosmetic procedures are advantageous in treating patients for cosmetic indications.

Among consumers, awareness is still limited. Certainly, consumers are very aware of lotions, potions and other products that are more cosmeceutical in nature. This is because companies that offer these products are much larger, enabling them to market the products directly to the consumer. We do not have the marketing bandwidth or prowess to be able to directly market to the consumer. We are not J&J or Procter & Gamble, which can spend millions and millions of dollars to educate consumers on their products. The positive here is that a large number of consumers – perhaps 75% or 80% – are not aware that there are devices out there today, such as ones that we offer, which can give them a much longer-lasting clinical result than can be achieved when using some of the cosmeceutical products on the market. The challenge is how do we get direct-to-consumer awareness. One way to create consumer awareness is to form alliances with the large consumer products companies. We have established a relationship with Unilever, a very large global consumer company. Unilever has the resources as well as the organizational structure to channel education into the direct consumer markets as it relates to the benefits light based technology can offer the consumer in the way of a superior clinical result. We are working with them to introduce light-based technology to the home-use market in combination with their topical solutions. As these types of relationships develop, the consumer will become more educated in the benefits of light-based technology.

CEO CFO: What about competitive landscape for laser treatments that

doctors are giving, are there many companies that are offering products, and why are they choosing the Cynosure products?

Mr. Davin: Pre-recession, there were quite a few companies competing in the marketplace. With the downturn in the economy in 2009-2010, we saw a fair amount of consolidation in the industry. In addition, some companies simply did not have sufficient funding to navigate through the recession. As we look at the industry landscape today, four or five major players make up the majority of the market. Cynosure is really the leader in the industry. Our laser product and service revenues grew faster than that of our peers in 2011. We pride ourselves on not selling our products based on price. We position and sell our products as a value proposition illustrating the potential return on the investment to the doctor. Often times, we can be the highest priced device that the doctor is evaluating, but we are able to command a premium price because we offer the doctor the greatest return on investment. We can offer the doctor the best platform of technology specifically designed to treat the high volume indication with the best clinical result and safety profile in the industry.

CEO CFO: Would you tell us about your actual product and revenue model?

Mr. Davin: We have three areas in which we generate revenues. The largest is capital equipment -- the device itself. This accounts for about 75% of our revenues. The other 25% comes from servicing our installed base through the sale of parts and service. After our standard one-year warrantee period expires, our physicians are offered annual service contracts on their systems. We also have a consumable, or one-time use, component of our revenues. Three of our laser systems on the market today have a consumable product associated with their use.

CEO CFO: Where do you see the most growth?

Mr. Davin: Now that the economy seems to be getting stronger and particularly in North America, we see growth in all areas including the

minimally invasive market, where we are the leader in fat removal, body contouring as well as the treatment of cellulite. We see a strong growth trajectory in these markets that should be a real catalyst for our company's growth for the next several years. Systems sold for hair removal continue to be a strong revenue contributor and as well skin rejuvenation systems. As the world continues to age and people live longer, they are looking for ways to keep a youthful appearance and light-based technology clearly provides a longer lasting clinical result. We also completed some acquisitions last year. We acquired ConBio out of Fremont California. ConBio specializes in short pulse technology for the treatment of tattoos, which is in itself a sizable market. The ConBio systems also are used for skin toning, which in the Far East there is a strong demand for treating, toning, and lightening skin. We believe the ConBio acquisition will deliver continuing growth going forward. We also acquired Smooth Shapes technologies for the non-invasive temporary treatment of cellulite as well as circumferential reduction and body contouring. We think the body contouring market is also a significant market. In addition, Cynosure has a very strong balance sheet. We have about \$74 million in cash with no debt. We are going to continue to be active on the merger and acquisition front. We are also very excited about the home-use market and our opportunity with Unilever. Overall, we believe we have a number of growth engines to help drive the company forward and continue our current momentum into 2012.

CEO CFO: Is the international market a major factor for Cynosure, and are there areas where you would like an increased presence?

Mr. Davin: As I mentioned 56% of our revenues last year came from countries outside North America. We are very strong in Europe as well as the Middle East and Asia. Where we are not as strong as we would like to be is in South and Latin America, specifically are countries such as Brazil, Venezuela and Mexico. We believe we could be doing much better in that part of the world and we know that the

demographics play very nicely for our business as there is strong demand for cosmetic indications in these regions. It is really necessary to establish the infrastructure and the local feet on the street to be successful there. This year we are focused on expanding and growing that opportunity.

CEO CFO: You mentioned that most people are not aware of these procedures, which surprises me; why so little awareness?

Mr. Davin: Given the comparatively small size of our companies, national direct-to-consumer advertising, such as monthly full-page ads in *Vogue* or regular television commercials, is just not something the industry can afford to do on a large scale. However, we know that we can prove clinically that our devices work much better and the clinical result will last much longer than other treatments.

Take hair removal as an example. Today, probably 90% of all women still shave their underarms and their legs to remove unwanted hair. Shaving is something that they really have to do every day. If you look at laser technology, with three to five treatments, they would not have to shave again. You ask yourself why are 90% of women probably worldwide still shaving, versus using a laser and not having to shave again and some might say because the laser procedure costs a lot more. The cost of these procedures has come down significantly over the past couple of years. We can demonstrate that a laser treatment for your underarms for permanent hair reduction may cost \$500 to \$1000 for all of your treatments. Treatments are completed in six months and then you do not ever need to shave or buy a razor again. Over one's lifetime, it would be more expensive to continue to buy razors and shaving cream, not to mention

the time-savings achieved by eliminating the need to shave.

Fortunately, the ubiquity of the Internet has made consumers more comfortable researching and sharing information online. More and more people are connected to the Web through smartphones, tablets and laptops, making social media an extremely effective tool to reach a broad market efficiently. We are using social media and other strategies to drive consumer awareness. These tools are far less expensive than national print ads and TV commercials, but enable us to be highly effective in getting our message to prospective customers and consumers. We expect to take increasing advantage of social media in the years ahead.

CEO CFO: Why should investors pay attention to Cynosure?

Mr. Davin: When you look at Cynosure, we are a twenty-year old company with a seasoned management team that has demonstrated that it can manage the business through periods of rapid growth as well as rapid decline. We have developed a diversified product platform focused to address the needs of high growth markets. We are also geographically diversified and generate 56% of our revenues from outside North America. This allows us to balance the risks associated with local economies. For example, when the economic downturn hit specifically hard in the US in the past few years, because we are well positioned in Europe and Asia, our overall business was not as dramatically impacted. We feel that we offer clinicians the broadest range of technologies and aesthetic devices to treat the widest range of cosmetic applications. This allows a physician to develop a relationship with Cynosure and know that as their practice grows they can be assured that Cyno-

sure will be there to support that growth through service support and new products. We pride ourselves on excellent distribution, and we pride ourselves on innovation; these are the cornerstone of our company. We continue to launch exciting new technology every year. In addition, we also have made some excellent accretive acquisitions. If you look at our performance in the industry, our laser product and service revenues grew 35% last year - faster than any of our competitors. We continue to launch new technology into the market such as Cellulaze and we will continue to introduce game-changing technology in the future.

We have a strong balance sheet, \$74 million in cash and no debt. We are cash flow positive and do not need to utilize our cash to drive our business. This allows us to think strategically and to continue to evaluate acquisition opportunities that we feel will be synergistic to drive non-organic growth. We also continue to drive organic growth through new product introductions fueled by our active internal research and development. We returned to profitability in the fourth quarter of 2011. This was a turning point in our industry, as no company in our industry had achieved profitability on a GAAP basis for almost three years — since the economic downturn in September of 2008. We have a number of catalysts for growth driven by a variety of technology resources. We also expect to continue to grow our consumables business and expand our worldwide global position in new markets through expanded distribution. In addition to our expected growth in the professional market, we are excited about our relationship with Unilever and our expansion into the home use market.

