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# SurModics, Inc. Annual Meeting

January 26, 2004

# Safe Harbor Statement

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Some of the comments made today will be forward-looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ and factors that may cause such results to differ are identified in our press release for the first quarter and beginning on page 12 of the Company's fiscal 2003 Form 10-K annual report.

# Agenda

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- Legal Matters
  - Introductions
  - Strategy
  - Financial Highlights
  - InnoRx Presentation
  - Q&A
- David Busch  
Dale Olseth  
Bruce Barclay  
Phil Ankeny  
Eugene de Juan, M.D.

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# Legal Matters

David Busch

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# Introductions

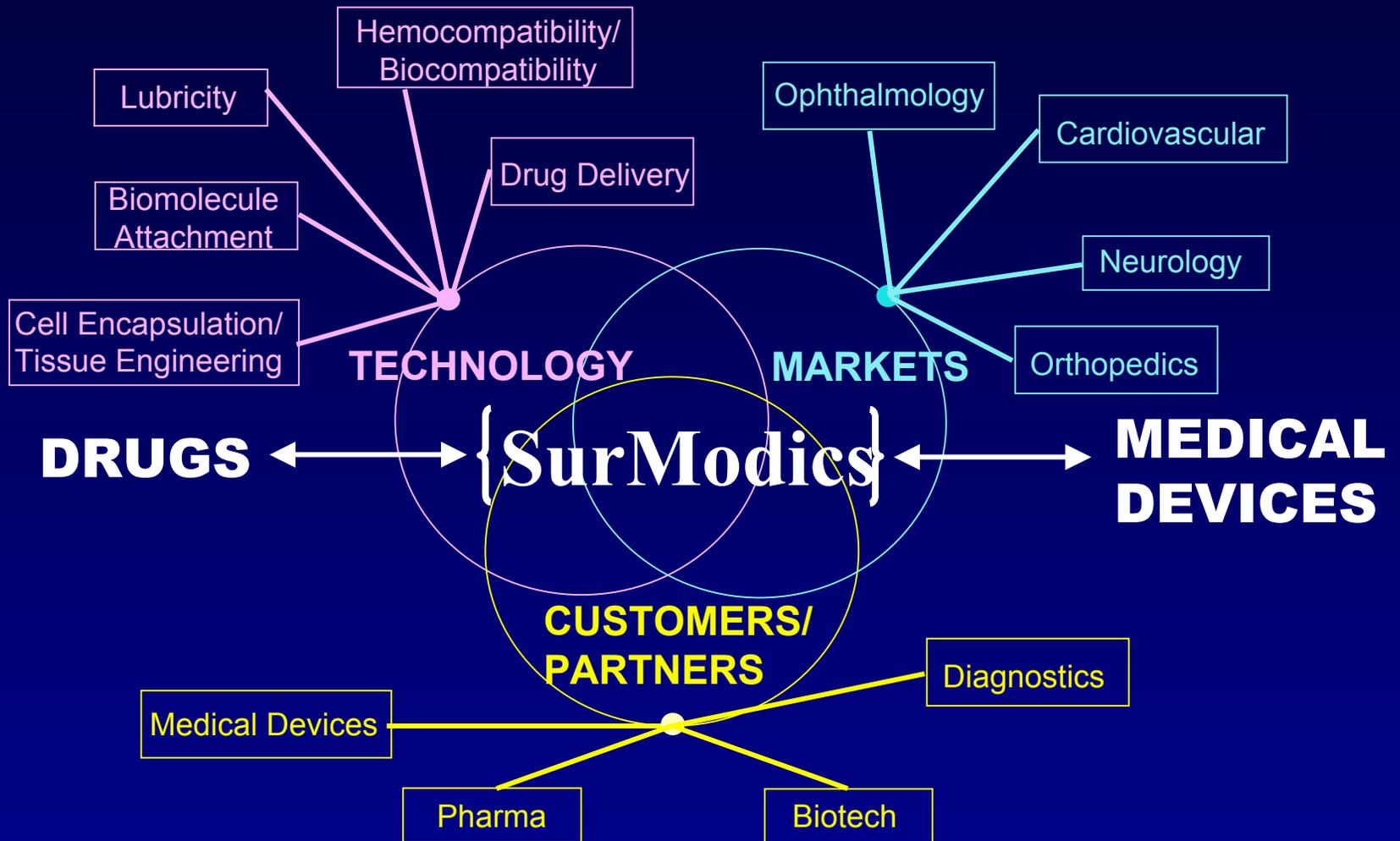
Dale Olseth  
Chairman and CEO

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# SurModics Strategy

Bruce Barclay  
President and COO

# SurModics Opportunities



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# Financial Highlights

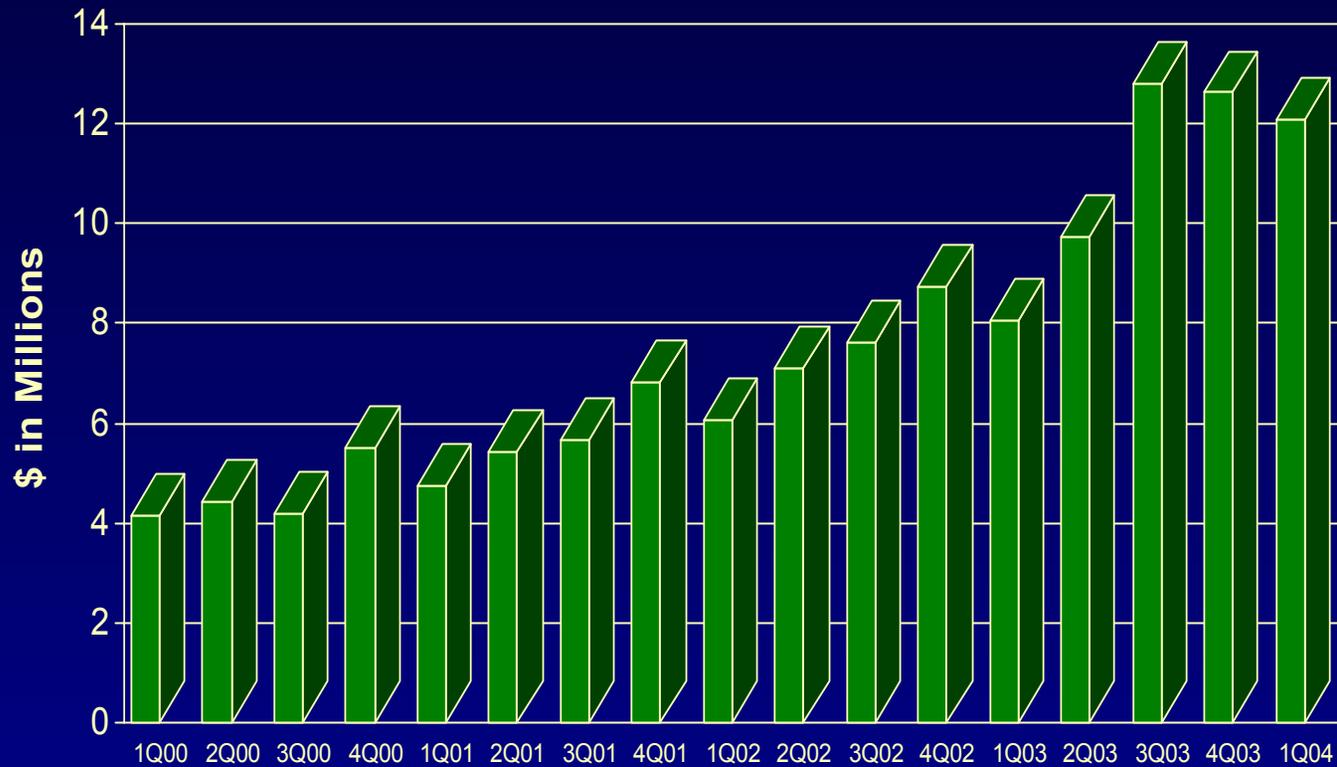
Phil Ankeny  
Vice President and CFO

# Recent Highlights

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- 1st quarter financial results:
  - + 50% revenue growth, to \$12.1 million
  - + 120% increase in operating income
  - + 89% net income growth

# Revenue History



# 1<sup>st</sup> Quarter Revenue

(000's)	<u>1Q04</u>	<u>1Q03</u>	<u>Growth</u>
Royalties and License Fees	\$8,629	\$3,880	122%
Product Sales	2,600	3,039	-14%
Development	858	1,129	-24%
Total Revenue	<u><u>\$12,087</u></u>	<u><u>\$8,048</u></u>	50%

# 1<sup>st</sup> Quarter Earnings

(000's)	<u>1Q04</u>	<u>1Q03</u>	<u>Growth</u>
Revenue	\$12,087	\$8,048	50%
Cost of Sales	736	587	25%
Operating Expenses	<u>5,064</u>	<u>4,606</u>	10%
Operating Income	6,287	2,855	120%
Investment Income	295	623	-53%
Income Taxes	<u>(2,471)</u>	<u>(1,307)</u>	89%
Net Income	<u>\$4,111</u>	<u>\$2,171</u>	89%
EPS	<u>\$0.23</u>	<u>\$0.12</u>	92%

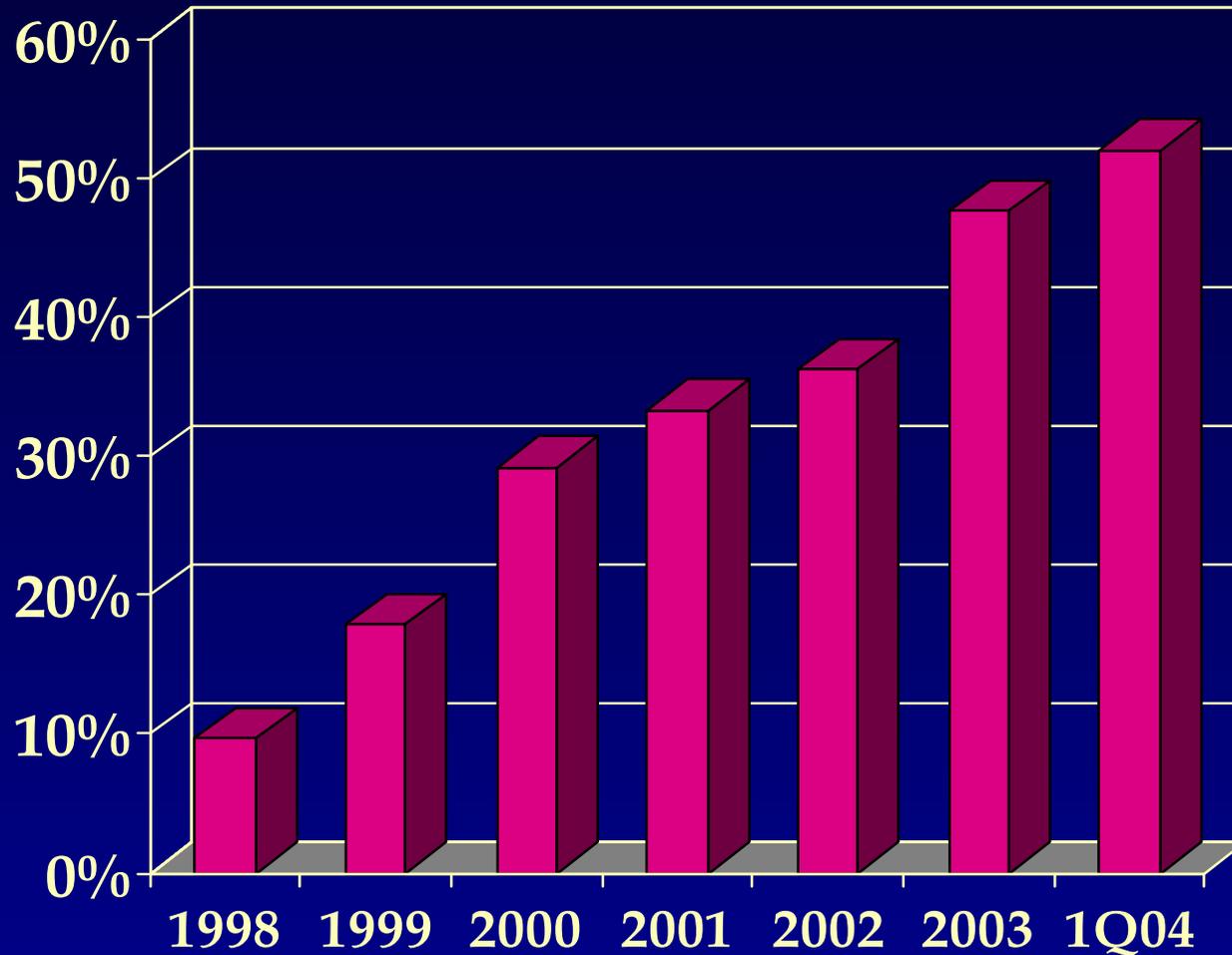
# FY 2003 Earnings

(000's)	<u>FY03</u>	<u>FY02</u>	<u>Growth</u>
Revenue	\$43,232	\$29,488	47%
Cost of Sales	2,649	2,683	-1%
Operating Expenses	<u>19,943</u>	<u>16,096</u>	24%
Operating Income	20,640	10,709	93%
Investment Income	1,860	1,688	10%
Income Taxes	<u>(8,563)</u>	<u>(4,601)</u>	86%
Net Income	<u>\$13,937</u>	<u>\$7,796</u>	79%
EPS	<u>\$0.78</u>	<u>\$0.44</u>	77%

# FY 2003 Revenue

(000's)	<u>FY03</u>	<u>FY02</u>	<u>Growth</u>
Royalties and License Fees	\$25,833	\$12,493	107%
Product Sales	11,804	9,004	31%
Development	5,595	7,991	-30%
Total Revenue	<u><u>\$43,232</u></u>	<u><u>\$29,488</u></u>	47%

# Growing Operating Margins



# Balance Sheet

	<u>12/31/2003</u>	<u>9/30/2003</u>
Cash & investments	\$9,665	\$6,647
Other current assets	10,422	11,112
Fixed assets, net	33,760	33,936
Long-term investments	40,180	39,164
Other assets	5,161	6,950
Total assets	<u>\$99,188</u>	<u>\$97,808</u>
Total liabilities	\$8,966	\$11,694
Stockholders' equity	90,222	86,114
Total liabilities & equity	<u>\$99,188</u>	<u>\$97,808</u>

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# InnoRx

Eugene de Juan, Jr., M.D.



InnoRx  
Vision for the Future

# Therapeutics for the Future

Eugene de Juan, M.D.

# Overview

- Background
  - InnoRx
  - Diseases
- Market Opportunities
- InnoRx Portfolio
- Competitive Landscape
- InnoRx's "Vision for the Future"

# Background

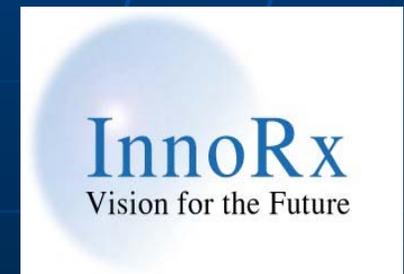
- InnoRx

- Founded in 1999 out of Johns Hopkins School of Medicine
- Focus: Ocular Drug Development and Delivery for Retinal Diseases



# Ophthalmic Disease

- Anterior Segment “Front of the Eye”
  - Refractive Surgery (Lasix)
  - Cataract
  - Glaucoma (drops and surgery)
- Posterior Segment “Back of the Eye”
  - Age-Related Macular Degeneration (AMD)
  - Diabetic Retinopathy



# Causes of Blindness

- Posterior Segment diseases
  - AMD and DR are the major causes of Blindness in the US and Europe
  - There is **no** highly effective treatment to restore or prevent visual loss in AMD.
  - Delivery of Drugs to the posterior segment is a major problem in treating these diseases.

# Age-Related Macular Degeneration

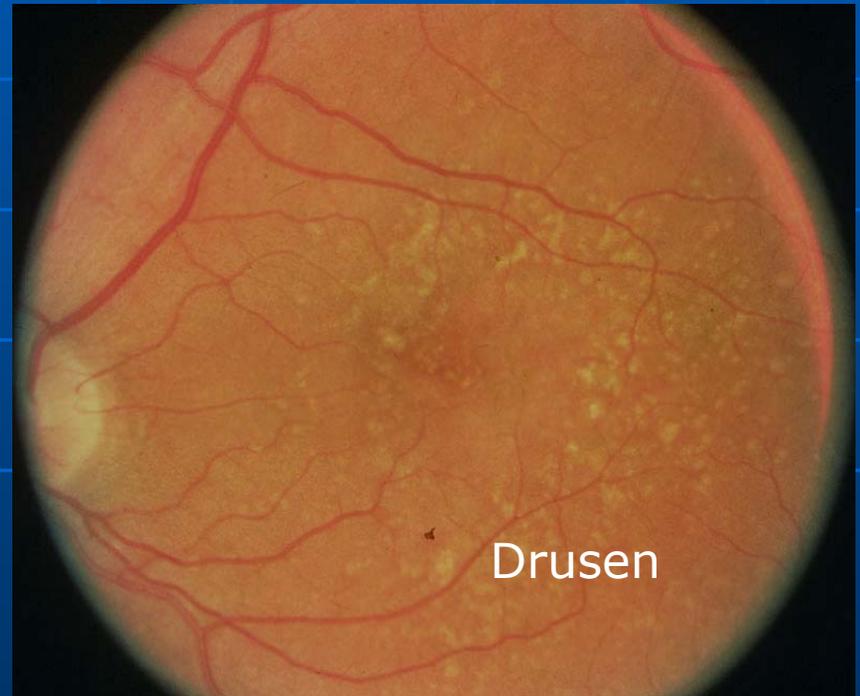
## The Problem

- AMD is the major cause of blindness in the US
- 1/3 of Americans over 65 have AMD
  - 10 million people
- 1/2 of those have some loss of vision
  - 5 million people
- 300,000 people this year will go blind
- 2/3 from Neovascular (Wet) AMD
- Incidence is expected to double by 2020

# Age-Related Macular Degeneration

## The Disease

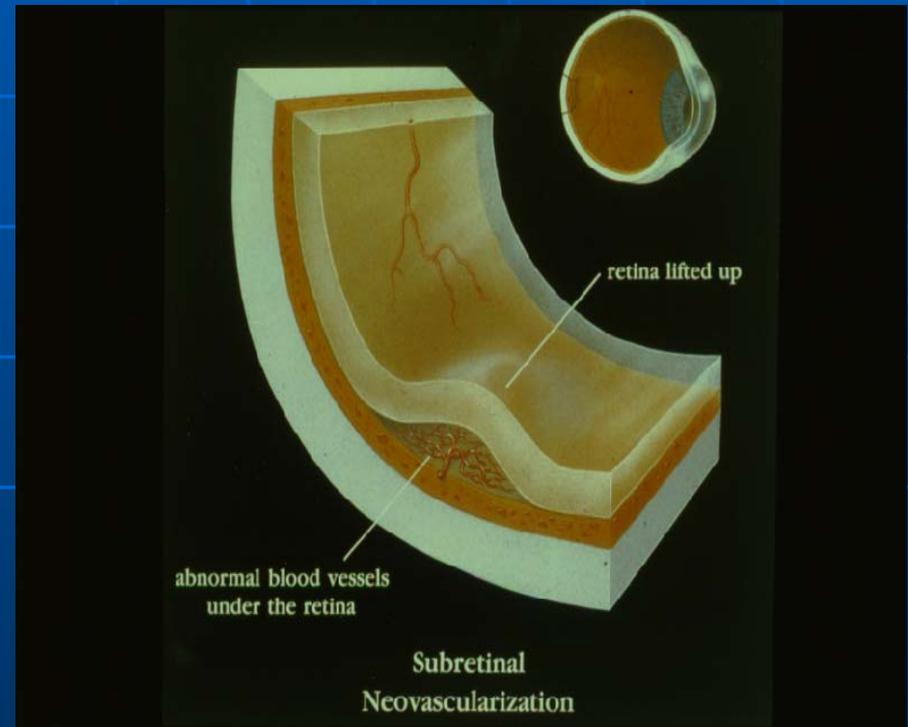
- A progressive degeneration of the central retina (Macula) causing loss of vision.
- Associated with aging and other factors
  - Genetic factors
  - Cigarette smoking
  - Diet



# Age-Related Macular Degeneration

## The Disease

- Two Forms of AMD
  - Dry (usually mild)
  - Wet (usually severe)
- The “Wet” form is caused by abnormal new blood vessels growing under the retina
- The “Wet” form causes 80% of blindness



1 month

4 months

12 months



# Diabetic Retinopathy

## Diabetes and Diabetic Retinopathy

- 13 M in US
- Incidence expected to double by 2030
- 10% with severe visual loss after 15 years
- Macular edema is major cause of visual loss in “working” age group
- 130 M world wide

# Diabetic Retinopathy

- Macular Edema (DME)
  - Leakage from vessels is the major cause of visual loss in DR
- Neovascularization
  - Growth of New Vessels is the major cause of "Blindness" in DR



# Ophthalmology Market

Indication	U.S. Patient Population	Global Patient Population	Current market \$	Estimated market \$ 5-6 yrs
<b>Age-Related Macular Degeneration (AMD)</b>	<b>15M</b> <b>1.5M (wet)</b> <b>200,000/yr<sup>2</sup></b>	<b>50M</b> <b>5.0M (wet)</b>	<b>\$50-100M</b> <b>(in 2000)<sup>1</sup></b>	<b>\$2B<sup>1</sup></b> <b>-5B</b>
<b>Diabetic macular edema (DME)</b>	<b>75K</b> <b>75,000/yr<sup>3,4</sup></b> <b>(5.3M D.R.)</b>	<b>2.5M<sup>4</sup></b>	<b>\$300M<sup>4</sup></b>	<b>\$500M<sup>4,5</sup></b> <b>-2 B</b>
<b>Glaucoma</b>	<b>3M</b> <b>150,000/yr<sup>6</sup></b>	<b>67M<sup>2</sup></b>	<b>\$4B<sup>1</sup></b>	<b>\$6B<sup>1</sup></b>
<b>Dry Eye</b>	<b>10M<sup>7</sup></b>		<b>\$522M<sup>8</sup></b>	<b>\$1B<sup>8</sup></b>
<b>IOL combination therapies</b>	<b>1.35M<sup>3</sup></b>	<b>20M<sup>9</sup></b>	<b>\$2.3B<sup>2</sup></b> <b>(IOL sales)</b>	

<sup>1</sup>Dain Rauscher Wessels, <sup>2</sup>OptiStock, <sup>3</sup>Research to Prevent Blindness, <sup>4</sup>Bay City Capital, <sup>5</sup>Allergan, <sup>6</sup>Glaucoma Research Foundation, <sup>7</sup>Bioscorpio, <sup>8</sup>Market Scope, <sup>9</sup>World Health Organization

# Ocular Drug Delivery

- The Eye is Ideal for Drug Delivery
  - Small ( $1/5000^{\text{th}}$ ) of the body
  - Has tight barriers to drug entry from the blood (Blood-Ocular Barrier)
  - Easily Accessible in the Clinic
  - Ophthalmic surgeons are familiar with “local” delivery of drugs (drops, injections, devices)

# Intraocular Drug Delivery Systems for AMD and DME in Development

Investigative Approach	Description	Disadvantages
<b><u>Envision TD</u></b> <b>Reservoir System (CDS/B&amp;L)</b> <b>DME</b>	<ul style="list-style-type: none"> <li>■ <b>Intravitreal implant</b></li> <li>■ <b>Long term release of Fluocinolone (3 years)</b></li> <li>■ <b>Phase II for DME did not meet visual endpoint</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Needs <u>surgical placement</u>, removal and replacement</b></li> <li>■ <b>High complication rate</b></li> </ul>
<b><u>Posurdex</u></b> <b>Biodegradable System (Allergan)</b> <b>DME</b>	<ul style="list-style-type: none"> <li>■ <b>Intravitreal implant</b></li> <li>■ <b>6 wk release of Dexamethasone</b></li> <li>■ <b>Positive Phase II (3 mo)</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Requires <u>repeat implantation</u> every 6-12 wks</b></li> </ul>
<b><u>Macugen</u></b> <b>(EyeTech)</b> <b>AMD</b>	<ul style="list-style-type: none"> <li>■ <b>Anti-VEGF therapy</b></li> <li>■ <b>Phase II/III for AMD</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Requires <u>repeat intraocular injections</u> every 6 wks</b></li> </ul>
<b><u>RhuFabV2 (Lucentis)</u></b> <b>(Genentech)</b> <b>AMD</b>	<ul style="list-style-type: none"> <li>■ <b>Anti-VEGF therapy</b></li> <li>■ <b>Phase III for AMD</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Requires <u>repeat intraocular injections</u> every 4 wks</b></li> </ul>

# Local Delivery and Sustained Release is the future for the treatment of Macular Diseases

## CURRENT THERAPIES

Intravitreal Injection (Steroid)

Systemic (oral therapy)

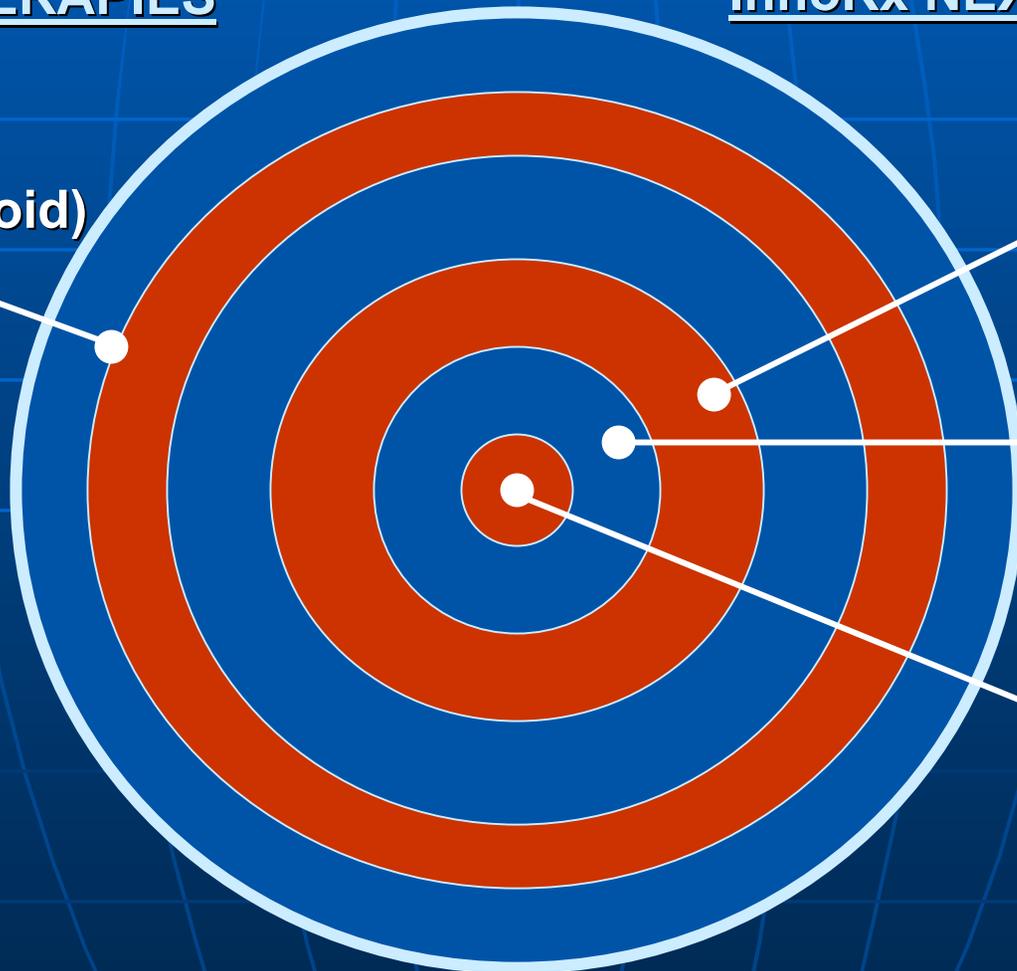
Topical (eye drops)

## InnoRx NEXT GENERATION THERAPIES

Subretinal Injection  
510K approved  
Patent pending

Intravitreal Sustained Release  
Patent issued

Subretinal Sustained Release  
Patent pending



# Example:

## Management of DME with Steroid

- Steroids have positive effects on Diabetic Macular Edema (DME)
  - Triamcinolone acetonide injection (Kenalog)
    - Not proven by clinical trial
    - Clinical experience indicates usefulness
    - Limited duration of effect (90 days)
  - Envision TD Trial ( B & L )
    - Did not meet primary visual endpoint
    - Very positive findings on OCT and other criteria
    - Cataract and Glaucoma significant problems
  - Oculex Trial (Allergan)
    - Positive Phase II results (3 months)
- Steroids are “effective” but not easily managed or delivered

# An “Ideal” Drug Delivery System for Retinal Disease

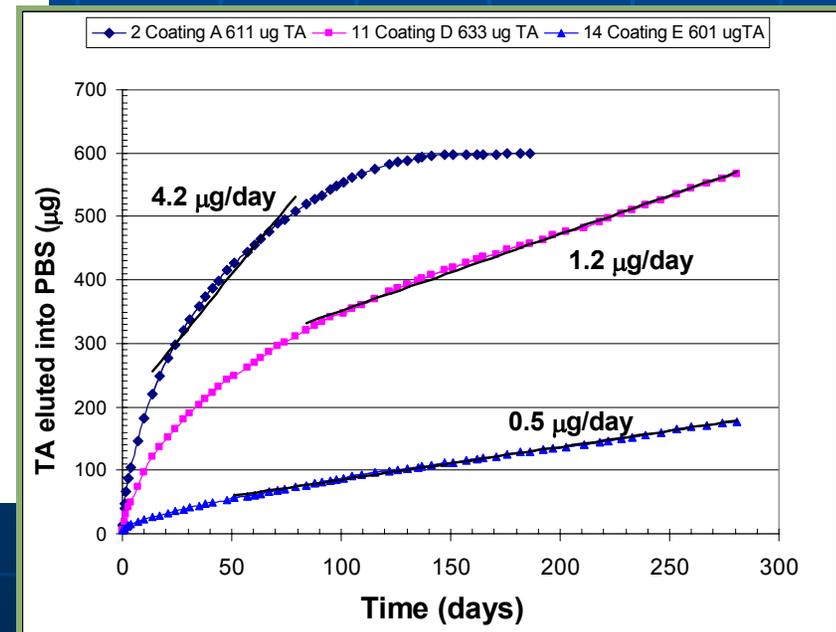
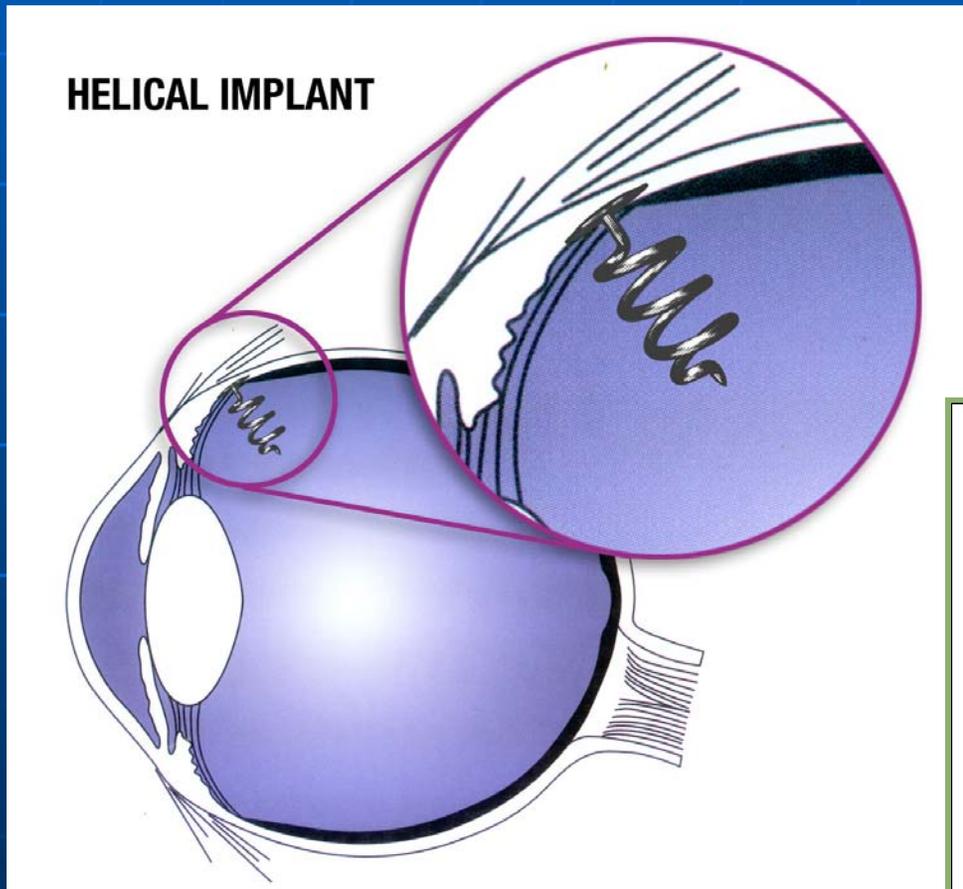
- Highly effective
- One Treatment
- “Clinic based” procedure
  - Topical Anesthesia
- Low cost
- Flexible dosing, easily monitored, replaced or removed
- A Platform for many Drugs and Ocular Diseases
- No complications

# InnoRx Portfolio

- Drug Delivery Platforms
  - Intravitreal
    - Helical Sustained Release Implant
  - Subretinal
    - Subretinal Injector
    - Subretinal Sustained Release Implant
- Pharmaceutical
  - PTK inhibitors (Genistein) Rx and Nx
  - Retinoids

# InnoRx Intravitreal Implant

- Minimally Invasive
  - Office procedure
  - Easily removed
- Sustained Action
  - > 1 year

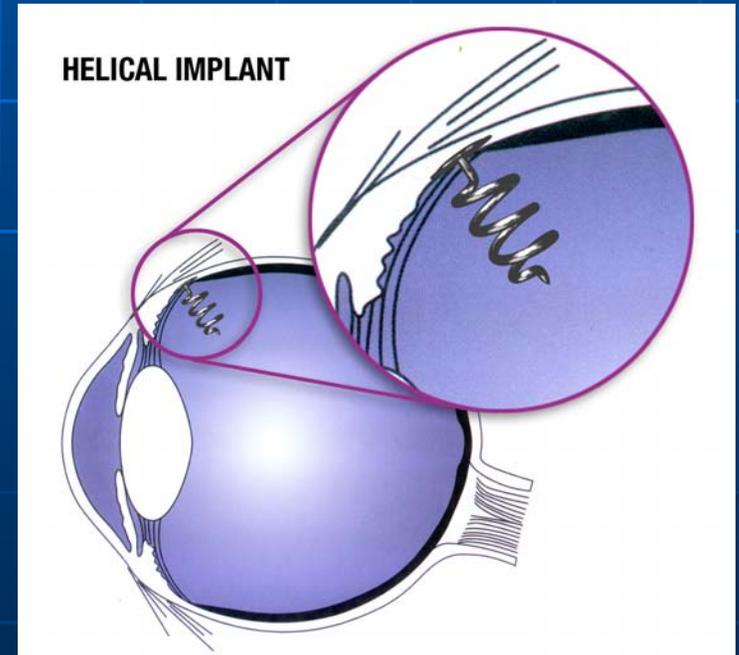


# SurModics as a Partner

- Clinically Proven Technology
- Strong Proprietary Position
- Excellent Development Partner
  - Truly collaborative
  - Innovative Scientists
- Effective Management
  - Disciplined, Focused, Effective
- Strong Financial Health

# InnoRx Intravitreal Implant

- *Proprietary* Minimally Invasive Device, suitable to clinic based procedure
- *Proprietary* SurModics' coating technology
- Potential for variable dosing
- Removable
- Intravitreal Delivery
- Sustained Release > 1 yr
- Platform technology

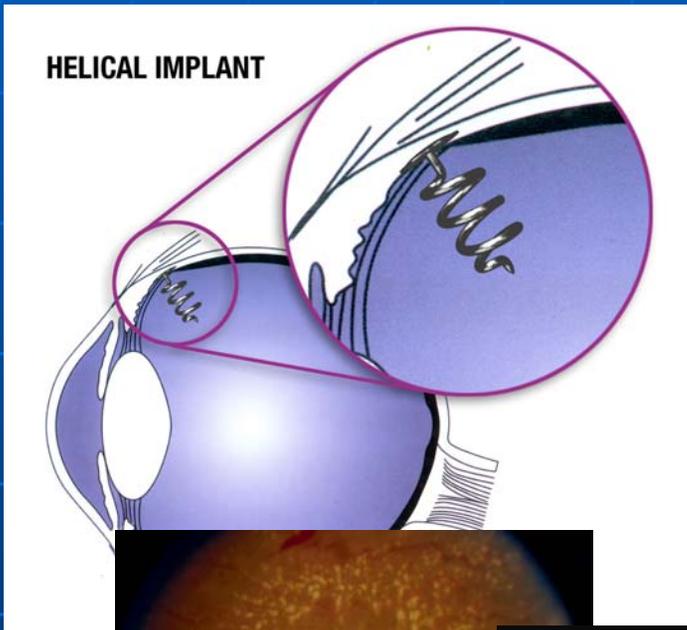


# InnoRx Intravitreal Implant Development Timeline

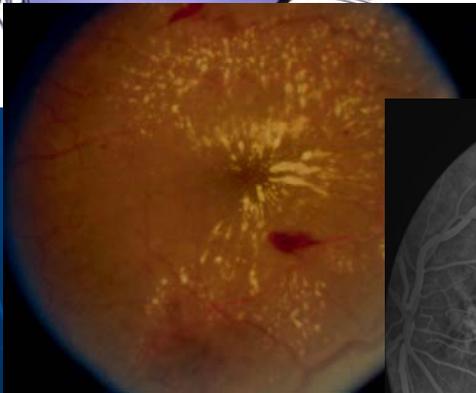
- 1H04 Development Completed
- 1H04 GLP Animal Studies
- 2H04 Human Clinicals

# InnoRx "Vision for the Future"

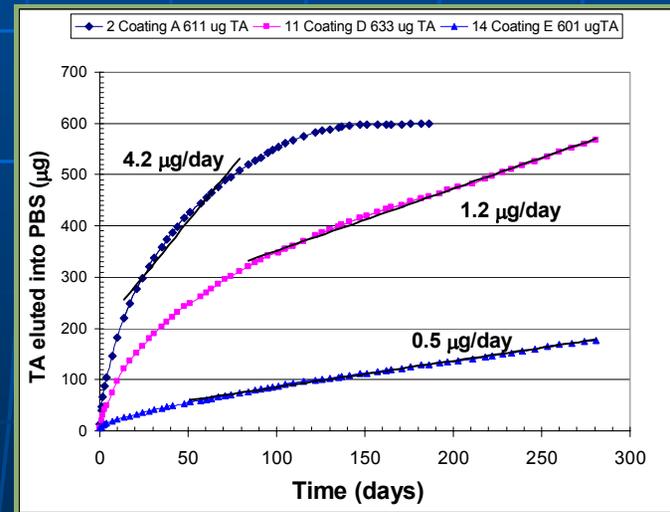
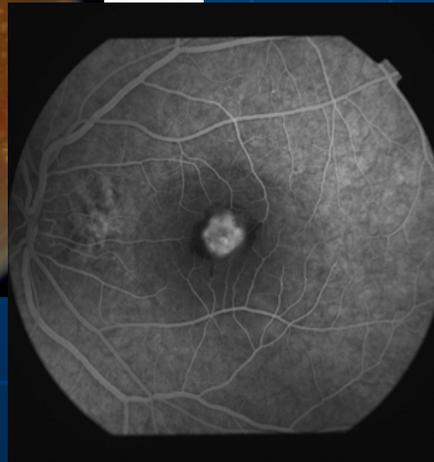
- Minimally Invasive
  - Office procedure
  - Easily removed
- Sustained Action
  - > 1 year
- Flexible Effective Platform
  - Targets Retinal Diseases



AMD



DME



The logo for InnoRx is centered on a white rectangular background. The word "InnoRx" is written in a blue, serif font, with the "R" being significantly larger than the other letters. Below it, the tagline "Vision for the Future" is written in a smaller, black, serif font. The entire white box is set against a dark blue background with a faint grid pattern.

InnoRx  
Vision for the Future

Thank You

# Disclaimer

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# Q & A