Orthopedic Contract Manufacturing Industry Overview

November 30, 2012
Table of Contents

Contract Manufacturing Market Update  1

Appendix: Healthcare & Life Sciences Group  2
The U.S. healthcare industry is in the midst of historically significant change characterized by coverage expansion and reimbursement pressure.

- The U.S. will spend $4.6 trillion on healthcare by 2020, representing a CAGR of 6.1% from 2010.
  - The Patient Protection and Affordable Care Act (“PPACA”) adds 32 million covered lives to the healthcare system by 2020

- The reelection of President Obama provides better policy visibility and clarity to market participants, especially with regards to the PPACA.
  - However, specific implementation and timing remain uncertain

- Fiscal pressures have triggered reimbursement cuts by government payors.
  - Fraud and abuse prevention is also a key government initiative

- Healthcare equity markets have performed well but continue to be supported by historic levels of monetary intervention.

- The U.S. healthcare M&A market has remained active due to:
  - Opportunities created by shifts in policy to expand coverage
  - Robust credit markets
  - Strong corporate balance sheets coupled with challenging organic growth opportunities
  - Availability of financial sponsor capital
Global Medical Device Market Overview

Medical devices continue to be a key point of innovation in healthcare, both supporting and driving additional demand.

- The medical device industry benefits from multiple attractive long-term trends, including:
  - Aging population and longer life expectations
  - Greater demand for healthcare services
  - Technological advancements
  - New product development

- OEMs are increasingly seeking to outsource manufacturing for a number of reasons:
  - OEM focus on core competencies
  - OEM margin pressure
  - Market growth outpacing capacity expansion
  - Shorter product lifecycles / faster time to market

### Global Medical Device Market

For the Years Ended and Ending December 31, 2007 – 2016P

($ in billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Americas</th>
<th>Western Europe</th>
<th>Asia/Pacific</th>
<th>Central &amp; Eastern Europe</th>
<th>Middle East/Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$220</td>
<td>$247</td>
<td>$235</td>
<td>$258</td>
<td>$311</td>
</tr>
<tr>
<td>2008</td>
<td>$273</td>
<td>$284</td>
<td>$299</td>
<td>$314</td>
<td>$331</td>
</tr>
<tr>
<td>2009</td>
<td>$314</td>
<td>$331</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
</tr>
<tr>
<td>2010</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
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<tr>
<td>2011E</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
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<tr>
<td>2012P</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
</tr>
<tr>
<td>2013P</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
</tr>
<tr>
<td>2014P</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
</tr>
<tr>
<td>2015P</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
</tr>
<tr>
<td>2016P</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
<td>$348</td>
</tr>
</tbody>
</table>

Source: Episcom Business Intelligence

### Global Demographic Trends

Millions of People from 2010-2050

<table>
<thead>
<tr>
<th>Year</th>
<th>Global Population 65 &amp; Older</th>
<th>% of Global Population 65 &amp; Older</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>523</td>
<td>7.6%</td>
</tr>
<tr>
<td>2020</td>
<td>714</td>
<td>9.3%</td>
</tr>
<tr>
<td>2030</td>
<td>969</td>
<td>11.7%</td>
</tr>
<tr>
<td>2040</td>
<td>1,252</td>
<td>14.2%</td>
</tr>
<tr>
<td>2050</td>
<td>1,487</td>
<td>16.2%</td>
</tr>
</tbody>
</table>

Source: United Nations Population Division
Supported by global demographics, the $43 billion orthopedic market is expected to resume its long-term expansion.

- Recent below average growth has resulted from:
  - Global economic slowdown
  - Uncertainty in rollout of PPACA
  - Depressed hospital spending

- All geographic regions are expecting solid growth with Asia/Pacific growing almost 10% annually due to:
  - Increase in disposable income and awareness of treatment and orthopedic solutions
  - Higher volume of physician visits and surgical procedures

- Projected North American growth of 4.9% through 2015P provides a stable foundation.
The orthopedic market is expected to reach $46.8 billion in 2015P as global consumers demand more advanced products.

- Trauma is forecasted to be the fastest growing segment at 8.6% annually through 2015P.
- Orthobiologics and extremities are expected to grow 7.3% and 8.4% annually through 2015P.
  - Technological innovations in orthobiologics resulting in faster recovery times continue to drive expansion in this segment while increases in ankle and surgery procedures are expected to spur extremities growth
- Growth in spine and knees is expected to be slower compared to the overall market due to sluggish procedure volume in these segments.

Source: Epsicom Business Intelligence
A valuation gap between the public and private markets has emerged in the last several years as M&A valuations have rebounded strongly.

- Public trading multiples have remained at depressed levels since 2008 and are trading well below the ten year average.

- Overall medical device M&A multiples rebounded in 2011 and are trading above the 10-year average through 2012 YTD.
  - The median 2012 YTD M&A transaction traded at 11.2x LTM EBITDA versus a ten year average of 10.3x

Source: CapitalIQ.

Note: Public trading multiples include the constituents of the Dow Jones Med Devices Index.

Source: Pitchbook.
### Contract Manufacturing – Trends Towards Outsourcing

OEM cost pressure and medical device innovation will continue to support strong growth in contract manufacturing.

- OEM medical device competitors focused on new devices primarily create value in ways unrelated to manufacturing.
  - Introducing new technology to improve outcomes
  - Branding strategies
  - Building sales forces and channels

<table>
<thead>
<tr>
<th>Trend</th>
<th>OEM Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Healthcare cost containment effort and increased regulation drive</td>
<td>• Focus on R&amp;D and outsource non-core manufacturing operations</td>
</tr>
<tr>
<td>margin pressure</td>
<td></td>
</tr>
<tr>
<td>• Rapid innovation and reduced product lifecycle make time to</td>
<td>• Leverage outsourcing for design and manufacturing expertise and</td>
</tr>
<tr>
<td>market critical</td>
<td>rapid turnaround</td>
</tr>
<tr>
<td>• New products rely on highly specialized manufacturing capabilities</td>
<td>• Outsource manufacturing to CMOs with unique capabilities and</td>
</tr>
<tr>
<td>and equipment</td>
<td>scale</td>
</tr>
<tr>
<td>• Strong growth in devices requires significant capital investment</td>
<td>• Leverage capital investment by CMOs</td>
</tr>
<tr>
<td>to match growth</td>
<td></td>
</tr>
</tbody>
</table>
Acquisitive growth in this highly fragmented sector has been robust. Past Acquisitions of Orthopedic Contract Manufacturers

- Machining Technology Group - 2005
- NGInstruments - 2009
- NeuroNexus Technologies - 2012
- Cencast Corporation - 2009
- Sandvik Medical Solutions - 2012
- OMC Precision Products - 2007
- Codman & Shurtleff Surgical Instruments Business - 2011
- Olsen Medical - 2011
- Kemac Technology - 2011

- Campbell Engineering - 2005
- Nemcomed - 2007
- Mirco Power Electronics - 2011
- Frontier Biomedical, LLC - 2007
- Earcut - 2008
- Tutela Medicus - 2007
- DePuy Orthopedic Instrument Facility - 2008

- MedSource Technologies - 2004
- Advantis Medical - 2007
- Precimed S.A. - 2007
- Leis Medical, Inc. - 2006
- Medtronic Facility, TN - 2008
- DePuy Mitek Facility, UT - 2006
- Specialty Surgical Instrumentation - 2007
- TNCO - 2007

- HV Technologies - 2002
- Medical Device Manufacturing - 2000
- Engineered Assemblies Corporation - 2007
- Quan Emerteg - 2007
- JKB Tool Company - 2007
- Mark Machine - 2005
- Doncasters Medical Technologies - 2007
- Ortho-Craft - 2005
- TNCO - 2007

- Rivo Technologies - 1999
- IntelliSensing - 2007
- Micro Precision Swiss - 2007
- Osteomac - 2005
- Clamonta Engineering - 2007

- G&D - 1999
- IntElect Medical - 2007
- Enpath Medical - 2007
- BIOMEC - 2007
- Keller Engineering - 2006
- Ortho Precision - 2005
- Everest Metal Finishing - 2006
- Riley Medical - 2006

- NanoGram Devices Corporation - 2004
- Unique Instruments - 2005
- Kellner Engineering - 2006
- Poly-Vac Orthopedic Solutions - 2005
- Kellner Engineering - 2006
- Poly-Vac - 1996

- Globe Tool and Manufacturing Company - 2002
- Unique Instruments - 2005
- Mettis - 2003
- Othy - 1996
### Orthopedic Contract Manufacturers

**M&A Valuations**

#### Representative Medical Device Sector M&A Activity

<table>
<thead>
<tr>
<th>Target Company</th>
<th>Acquirer</th>
<th>Date</th>
<th>Value</th>
<th>Sales</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teleflex Medical OEM, Orthopedics Business</td>
<td>Tecomet, Inc.</td>
<td>Aug-12</td>
<td>$45,200</td>
<td>1.3 x</td>
<td>NA</td>
</tr>
<tr>
<td>Sandvik Medical Solutions Ltd.</td>
<td>Orchid MPS Holdings, LLC</td>
<td>Mar-12</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Renmele Engineering, Inc.</td>
<td>RTI International Metals, Inc.</td>
<td>Feb-12</td>
<td>182,000</td>
<td>0.3 x</td>
<td>8.3 x</td>
</tr>
<tr>
<td>Codman &amp; Shurtleff, Inc., Surgical Instruments Business</td>
<td>Specialty Surgical Instrumentation, Inc.</td>
<td>Dec-11</td>
<td>165,687</td>
<td>2.4 x</td>
<td>8.0 x</td>
</tr>
<tr>
<td>Medisize Corporation</td>
<td>Phillips Plastics Corporation</td>
<td>Aug-11</td>
<td>142,094</td>
<td>0.8 x</td>
<td>NA</td>
</tr>
<tr>
<td>Kemac Technology, Inc.</td>
<td>Tecomet, Inc.</td>
<td>Jul-11</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Orchid Orthopedic Solutions, LLC</td>
<td>Altor Equity Partners; Altor Fund III</td>
<td>Jun-11</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Katen Products, Inc.</td>
<td>Cortec Group; Cortec Group Fund IV, L.P.</td>
<td>Sep-09</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Menry Corporation</td>
<td>SAES Getters SpA</td>
<td>Sep-08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tecomet, Inc.</td>
<td>Charlesbank Capital Partners, LLC</td>
<td>Sep-08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hi-Tech Rubber, Inc.</td>
<td>Parker-Hannifin Corporation</td>
<td>Apr-08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avail Medical Products, Inc.</td>
<td>Flextronics International Ltd.</td>
<td>Jan-08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrow International, Inc.</td>
<td>TFX Medical OEM</td>
<td>Oct-07</td>
<td>2,010,176</td>
<td>4.0 x</td>
<td>16.2 x</td>
</tr>
<tr>
<td>Seabrook International, LLC</td>
<td>FdG Associates LP</td>
<td>Jul-05</td>
<td></td>
<td></td>
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</tbody>
</table>

**Median of Orthopedic Contract Manufacturers:**

$165,687, 1.3x, 8.2x
HW&Co. believes that successful and well-positioned contract manufacturers will have a number of attractive exit opportunities in 2013.

- Contract manufacturing will benefit from ongoing economic recovery.
- 2013 is expected to be a favorable M&A environment, and interest in both healthcare platforms and contract manufacturing will be high.
- Corporate buyers are selective but willing to deploy capital for strategic assets.
  - Companies comprising the S&P 500 alone held an aggregate of $1.74 trillion in cash at the end of Q3 2012
- There is a large amount of private equity capital ready to be deployed, and the lending environment is very attractive and liquid for sponsored deals.
  - As of September 2012, there was an estimated $359 million in private equity “dry powder”
  - HW&Co. is routinely seeing total leverage of >5.0x for quality businesses
- There is expected to be a dearth of quality deals early in 2013, so high-quality companies will receive lots of attention.
Table of Contents

Contract Manufacturing Market Update 1

Appendix: Healthcare & Life Sciences Group 2
For further questions about HW&Co. or the contract manufacturing sector, please contact James Clark or Geoff Smith.

<table>
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<th>Title</th>
<th>Phone</th>
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