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# Orthopedic Contract Manufacturing Industry Overview

November 30, 2012

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**Contract Manufacturing Market Update**

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**Appendix: Healthcare & Life Sciences Group**

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# Current View of the US Healthcare Environment

The U.S. healthcare industry is in the midst of historically significant change characterized by coverage expansion and reimbursement pressure.

## Growth

- 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

## Reimbursement Pressures

- 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

## Equity Markets

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

## M&A Markets

- 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

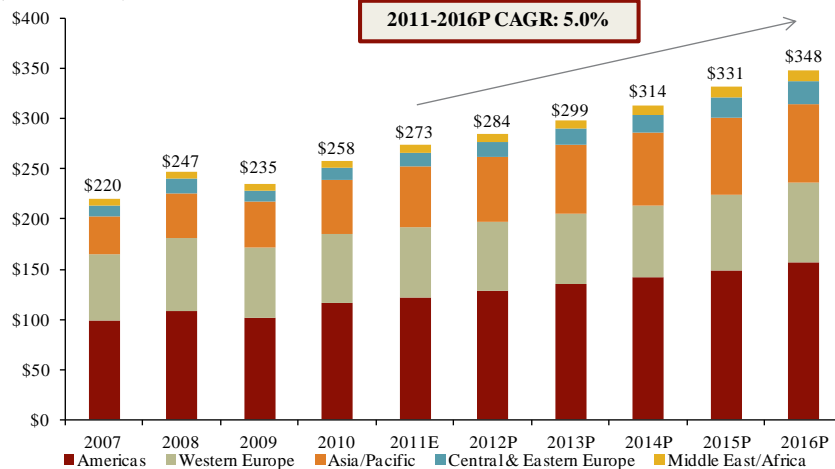
# Global Medical Device Market Overview

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

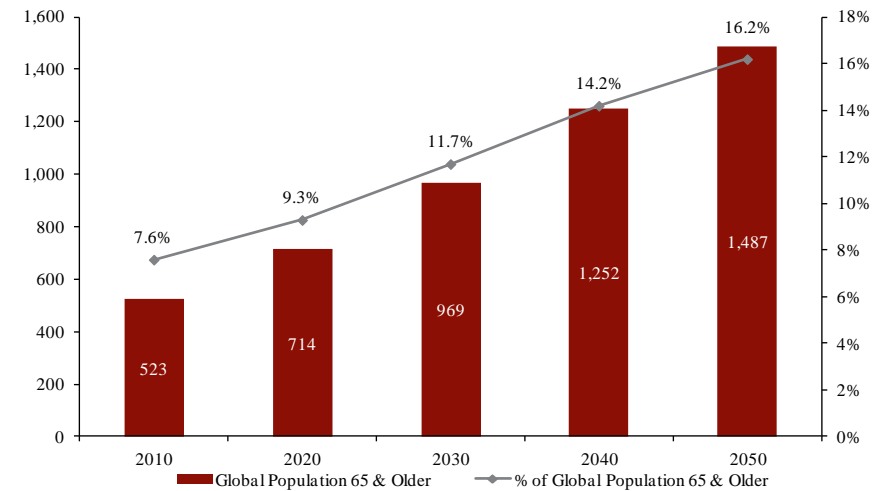
For the Years Ended and Ending December 31, 2007 – 2016P  
(\$ in billions)



Source: Epsicom Business Intelligence

## Global Demographic Trends

Millions of People from 2010 -2050



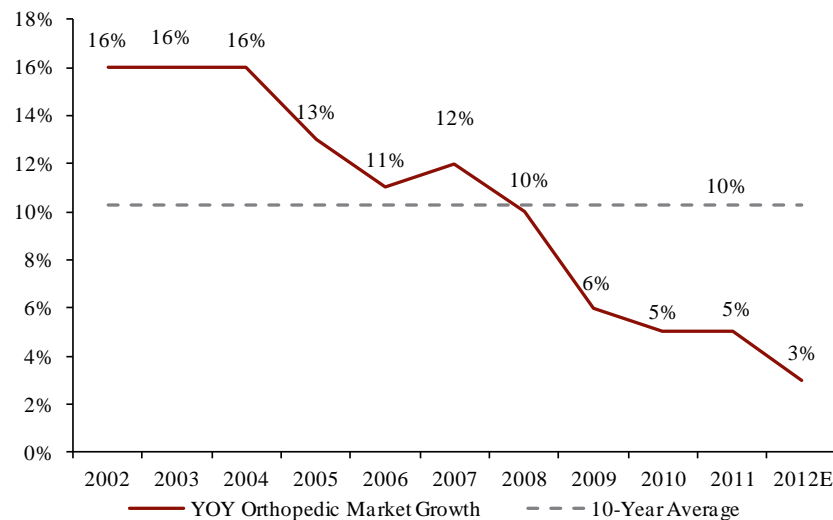
Source: United Nations Population Division

**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
  - Depressed hospital spending
  - Uncertainty in rollout of PPACA
- 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.

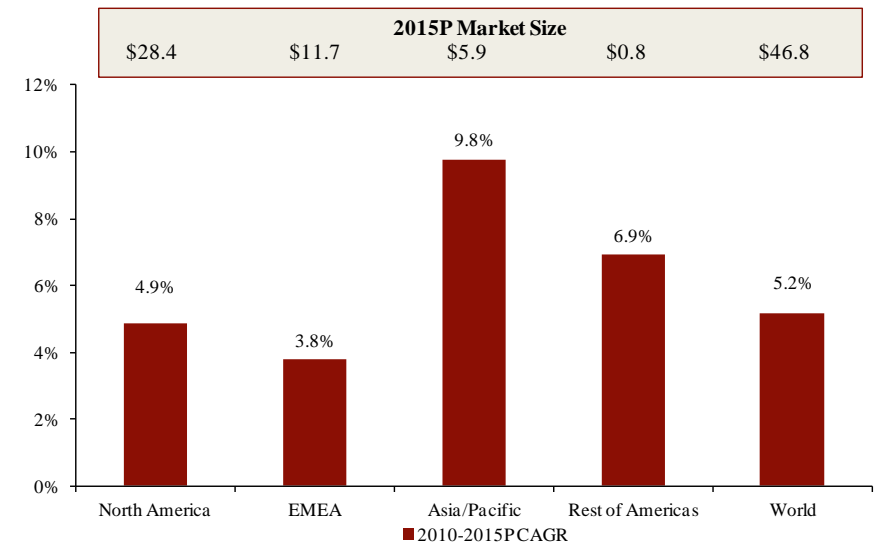
## Global Orthopedic Market Growth

For the Years Ending Dec. 31, 2000-2012E



Source: 2012 Orthopedic Industry Annual Report

## Global Orthopedic Growth by Region



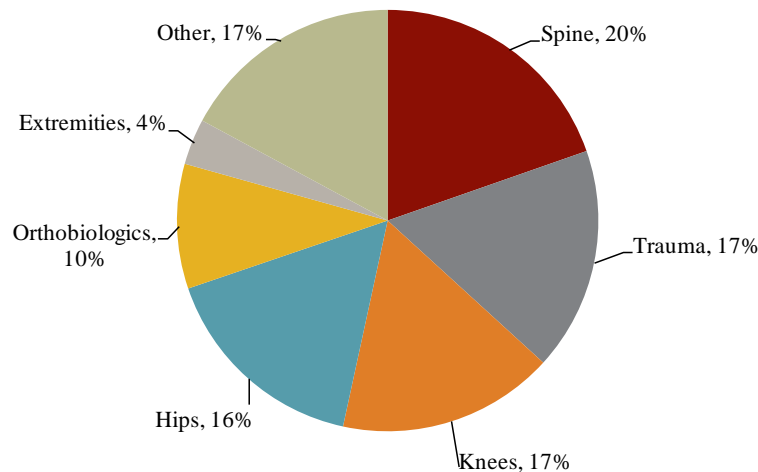
Source: www.IBISWorld.com

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.

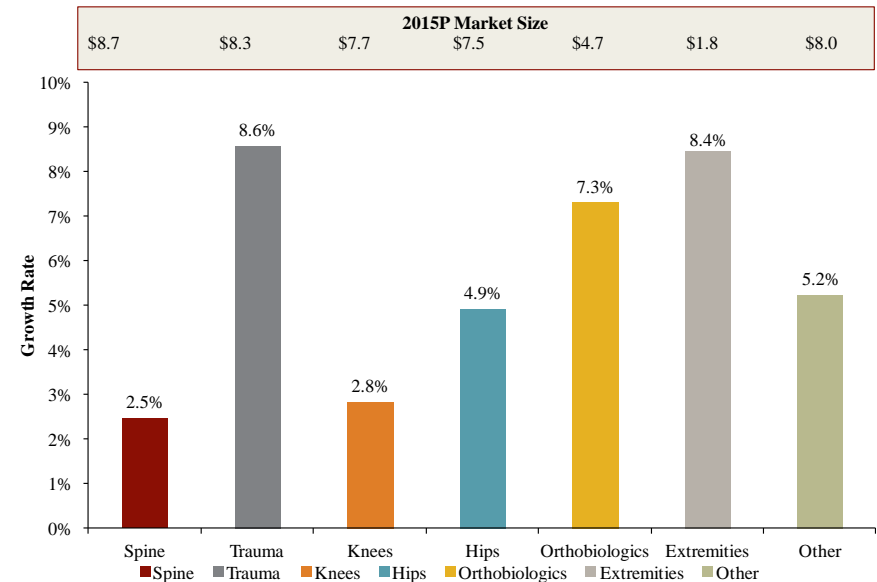
## Global Orthopedic Market By Segment

For the Year Ending Dec. 31, 2012



Source: Epsicom Business Intelligence

## Global Orthopedic Market Growth By Segment



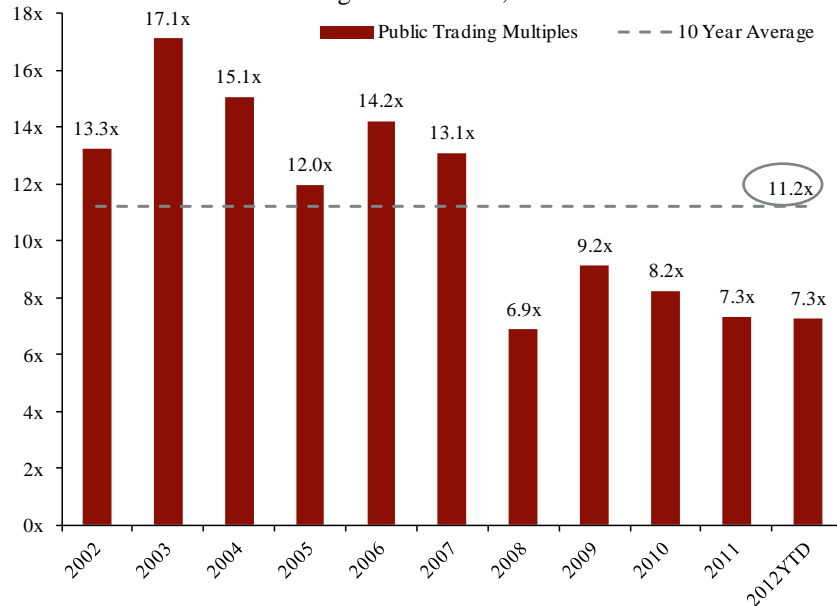
Source: Epsicom Business Intelligence

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

## Public Trading Multiples – TEV/LTM EBITDA

For the Years Ended and Ending December 31, 2002 – 2012 YTD

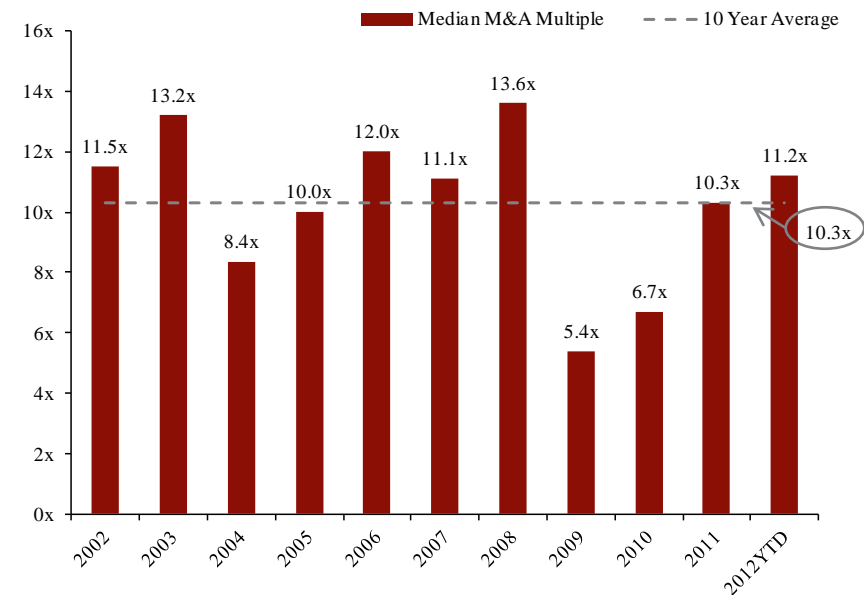


Source: CapitalIQ.

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

## M&A Multiples – TEV/LTM EBITDA

For the Years Ended and Ending December 31, 2002 – 2012 YTD



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







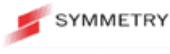

Trend		OEM Response
• Healthcare cost containment effort and increased regulation drive <u>margin pressure</u>	➔	• Focus on R&D and outsource non-core manufacturing operations
• Rapid innovation and <u>reduced product lifecycle</u> make time to market critical	➔	• Leverage outsourcing for design and manufacturing expertise and rapid turnaround
• New products rely on highly <u>specialized manufacturing capabilities</u> and equipment	➔	• Outsource manufacturing to CMOs with unique capabilities and scale
• Strong growth in devices requires significant <u>capital investment</u> to match growth	➔	• Leverage capital investment by CMOs



# Past Acquisitions of Orthopedic Contract Manufacturers

Member FINRA/SIPC

Acquisitive growth in this highly fragmented sector has been robust.

							
• Machining Technology Group - 2005	• NGI Instruments - 2009	• NeuroNexus Technologies - 2012	• Cencast Corporation - 2009	• Sandvik Medical Solutions - 2012	• OMC Precision Products - 2007	• Codman & Shurtleff Surgical Instruments Business - 2011	• Teleflex Medical Orthopedics Business - 2012
• Campbell Engineering - 2005	• Nemcomed - 2007	• Mirco Power Electronics - 2011	• Frontier Biomedical, LLC - 2007	• Eurocut - 2008	• Tutela Medicus - 2007	• Olsen Medical - 2011	• Kemac Technology - 2011
• MedSource Technologies - 2004	• Advantis Medical - 2007	• Precimed S.A. - 2007	• Leis Medical, Inc. - 2006	• Medtronic Facility, TN - 2008	• DePuy Mitek Facility, UT - 2006	• DePuy Orthopedic Instrument Facility - 2008	
• HV Technologies - 2002		• Engineered Assemblies Corporation - 2007		• JKB Tool Company - 2007	• Mark Machine - 2005	• Specialty Surgical Instrumentation - 2007	
• Medical Device Manufacturing - 2000		• Quan Emerteg - 2007		• 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		• Anzon Company - 2006	• Ortho Precision - 2005	• Everest Metal Finishing - 2006	
		• Enpath Medical - 2007		• MACDEE - 2006		• Riley Medical - 2006	
		• BIOMECH - 2007		• Keller Engineering - 2006		• Mettis - 2003	
		• NanoGram Devices Corporation - 2004		• Bio-Vac Orthopedic Solutions - 2005		• Poly-Vac - 1996	
		• Globe Tool and Manufacturing Company - 2002		• Unique Instruments - 2005		• Othy - 1996	

# Orthopedic Contract Manufacturers M&A Valuations

Member FINRA/SIPC

## Representative Medical Device Sector M&A Activity

Target Company	Acquirer	Date	Enterprise Value	Enterprise Value/LTM	
				Sales	EBITDA
<b>Orthopedic Contract Manufacturers</b>					
Teleflex Medical OEM, Orthopedics Business	Tecomet, Inc.	Aug-12	\$45,200	1.3 x	NA
Sandvik Medical Solutions Ltd.	Orchid MPS Holdings, LLC	Mar-12	NA	NA	NA
Remmele Engineering, Inc.	RTI International Metals, Inc.	Feb-12	182,000	0.3 x	8.3 x
Codman & Shurtleff, Inc., Surgical Instruments Business	Specialty Surgical Instrumentation, Inc.	Dec-11	165,687	2.4 x	8.0 x
Medisize Corporation	Phillips Plastics Corporation	Aug-11	142,094	0.8 x	NA
Kemac Technology, Inc.	Tecomet, Inc.	Jul-11	<i>Proprietary</i>		
Orchid Orthopedic Solutions, LLC	Altor Equity Partners; Altor Fund III	Jun-11	NA	NA	NA
Katena Products, Inc.	Cortec Group; Cortec Group Fund IV, L.P.	Sep-09	<i>Proprietary</i>		
Memry Corporation	SAES Getters SpA	Sep-08	<i>Proprietary</i>		
Tecomet, Inc.	Charlesbank Capital Partners, LLC	Sep-08	<i>Proprietary</i>		
Hi-Tech Rubber, Inc.	Parker-Hannifin Corporation	Apr-08	NA	NA	NA
Avail Medical Products, Inc.	Flextronics International Ltd.	Jan-08	<i>Proprietary</i>		
Arrow International, Inc.	TFX Medical OEM	Oct-07	2,010,176	4.0 x	16.2 x
Seabrook International, LLC	FdG Associates LP	Jul-05	<i>Proprietary</i>		
<b>Median of Orthopedic Contract Manufacturers:</b>			<b>\$165,687</b>	<b>1.3x</b>	<b>8.2x</b>

## **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.










**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.**

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