



DURABLE MEDICAL EQUIPMENT MARKET UPDATE

MARCH 2016

Harris Williams & Co.
middle market®

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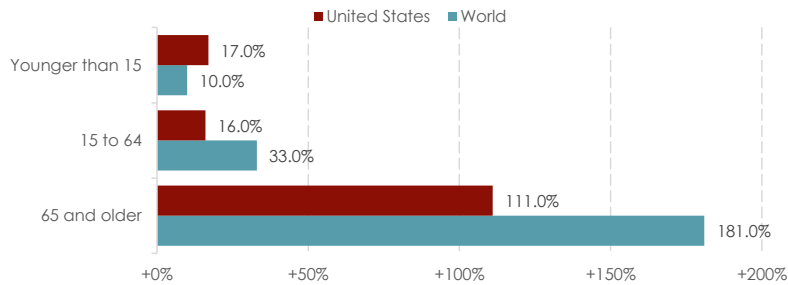
ATTRACTIVE INDUSTRY FUNDAMENTALS...

Strong demand drivers continue to support increased demand for DME products worldwide.

- Aging population.
- Patient preference for home-based care.
- Increase in insured population as a result of the Affordable Care Act.

STRONG FUNDAMENTAL DEMAND DRIVES...

Global population age 65 and older continues to grow rapidly...
 Estimated percent change in population, 2010 to 2050, by age, in the world and the United States



Global population is increasingly overweight and obese...

Top 10 populated countries where obesity affects 25%+ of the adult population

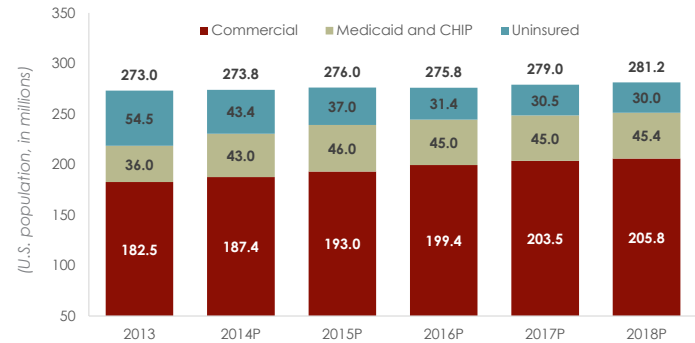
COUNTRY	POP. (MM)	COUNTRY	POP. (MM)
United States	321.4	South Africa	53.7
Russia	142.4	Columbia	46.7
Mexico	121.7	Argentina	43.4
Egypt	88.5	Algeria	39.5
United Kingdom	64.1	Poland	38.6

The top 10 affected countries account for 13.2% of global population

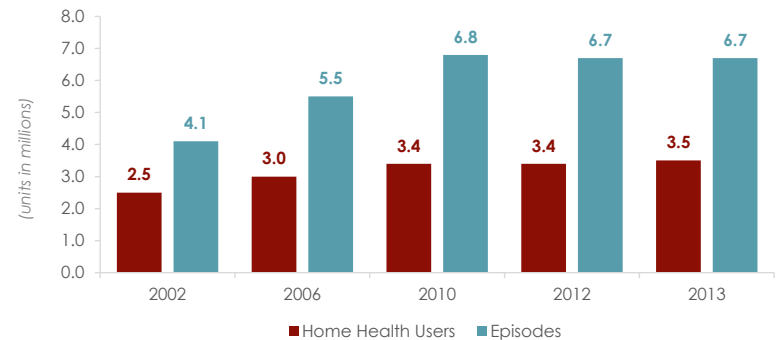
Note: excludes Iran; obesity defined as male or female with BMI $\geq 30\text{kg}/\text{m}^2$

...AN INCREASE IN HOME HEALTH CARE PATIENTS

Increased demand further supported by increasing number of insured...



...and increased utilization of home health care



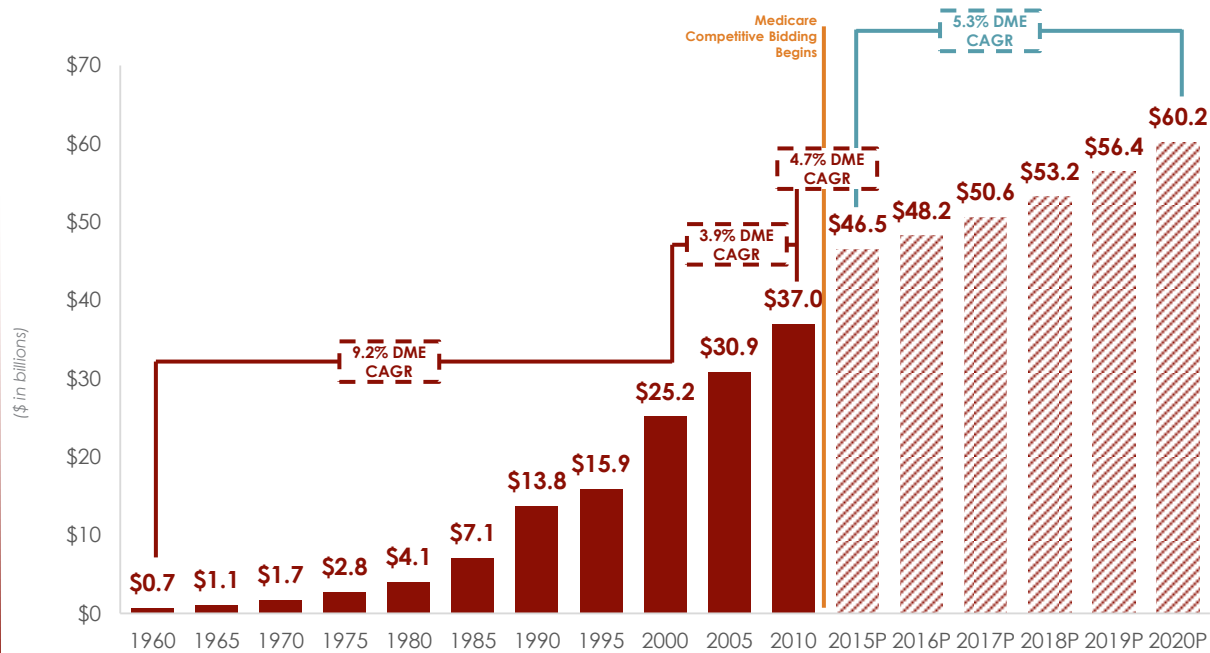
Source: Pew Research, World Health Organization, Congressional Budget Office, and MedPAC.

...SUPPORT ACCELERATED MARKET GROWTH

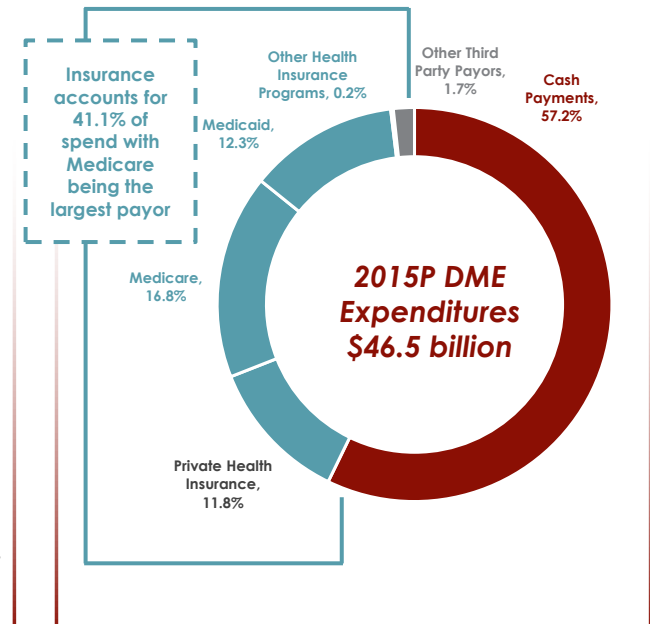
U.S. DME expenditures are expected to grow at a 5.3% CAGR from \$46.5 billion in 2015P to \$60.2 billion in 2020P.

- The DME industry is expected to accelerate due to demographic trends, patient preference for home-based care, and the increase in the insured population.
- Competitive bidding, an ongoing Medicare initiative to bring its reimbursement in line with other payors, has negatively impacted some DME distributors and manufacturers.

HISTORICAL AND PROJECTED U.S. DME EXPENDITURES



PAYOR BREAKDOWN










Source: CMS NHE estimates, company filings, and ThomsonOne.

COMPETITIVE LANDSCAPE

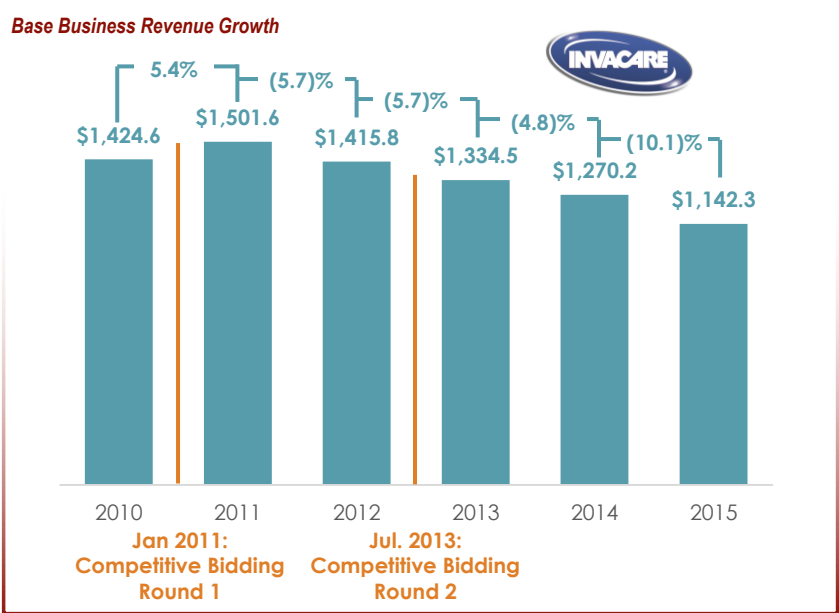
The DME industry is highly competitive and has a dynamic reimbursement environment.

- Medicare's competitive bidding program began in January 2011 with the first round of bidding, and the second round began in July 2013.
 - The first round of bidding was done in nine metropolitan areas and resulted in 32% lower pricing, while the second round was done in 91 metropolitan areas and resulted in 45% lower pricing
 - CMS started to phase in new rates in January 2016, and all regions will be lowered to a regional single payment amount on July 1, 2016
- Industry players with a comprehensive portfolio and low cost manufacturing are most likely to successfully capture market share in this environment.

COMPETITIVE LANDSCAPE

DME MANUFACTURER	EST. REVENUE (IN MILLIONS)	HEMOCARE	RESPIRATORY	SLEEP	LONG-TERM CARE	RETAIL / e-COMMERCE / DTC
	\$1,142	✓	✓	✓	✓	✓
	~\$700	✓	✓	✓	✓	✓
	~\$400	✓				✓
	~€350	✓				✓
	~\$350	✓				✓
	~\$200	✓	✓		✓	✓
	~\$175	✓	✓	✓		✓

RELATIVE EFFECTS OF COMPETITIVE BIDDING



Source: Company filings, company websites, and CapitalIQ.

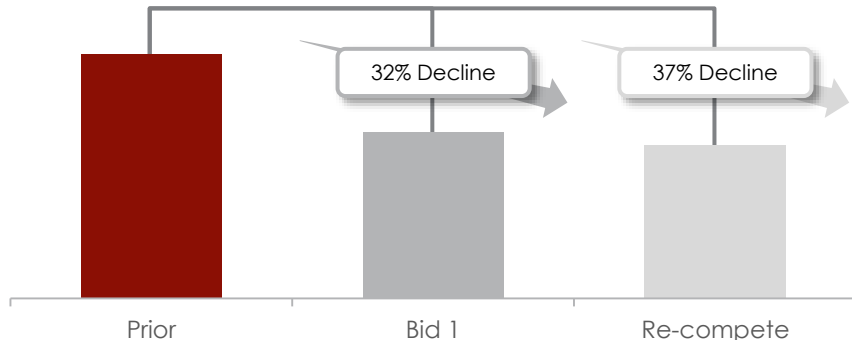
UPDATE ON REIMBURSEMENT ENVIRONMENT: NATIONAL COMPETITIVE BIDDING

Since its implementation, the Competitive Bidding Program has re-aligned payments amounts with new market prices, saving Medicare (and taxpayers) billions.

- At present, the program is restricted to certain categories of equipment, supplies and services.
 - Most notably respiratory systems, mobility products (both power and manual), general home medical equipment and beds are all encompassed under the current product categories
- In early February, the Obama administration made available its FY 2017 budget, which includes authority to expand competitive bidding to certain DME.
 - Proposal includes inhalation drugs; all prosthetics and orthotics; and ostomy, tracheostomy, and urological supplies which represent total estimated savings of \$3.8 billion over the next 10 years

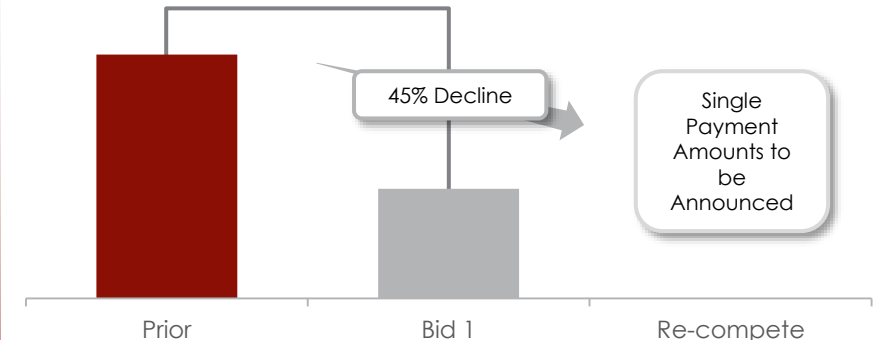
ROUND 1

- 9 Metropolitan Statistical Areas.
- Bid rates that took effect on January 1, 2011 were 32% lower on average than prior pricing in nine select categories.
- Contracts awarded for January 1, 2011 – December 31, 2013.



ROUND 2

- 91 Metropolitan Statistical Areas.
- Bid rates that took effect on July 1, 2013 were 45% lower on average than prior pricing.
- Contracts awarded for July 1, 2013 – June 30, 2016.
- Round 2 re-compete process closed in March 2015 and will be awarded by Spring 2016.



Source: CMS, HHS, and company filings.

UPDATE ON REGULATORY ENVIRONMENT: MEDICAL DEVICE SALES TAX

A two year moratorium on the Medical Device Tax was implemented with the December 18, 2015 signing of the Consolidated Appropriations Act of 2016.

- The tax, which imposes a 2.3% tax on the domestic sales of medical devices in the United States, to be paid by manufacturers or importers, was implemented in 2013 as part of the Affordable Care Act.
 - Tax applies to all domestic sales of medical devices including MRI machines, hospital beds, and surgical equipment
 - Does not apply to medical goods sold at retail for individual consumer use
- The Tax was originally implemented to generate roughly \$30 billion in funds to support the Affordable Care Act.
 - Assumed that greater access to healthcare coverage would create a larger market for medical devices
 - Determined to be ineffective, only raising some 60% of funds during initial period
- Private companies stand to experience \$3.4 billion in tax savings from 2016 – 2017.
 - Savings will be experienced across the industry with small-to-medium size medical device companies experiencing the largest benefit
 - Cost savings will allow manufactures to deploy additional spend to R&D and new innovative product launches
- The tax is presently set to be automatically reinstated on January 1, 2018.

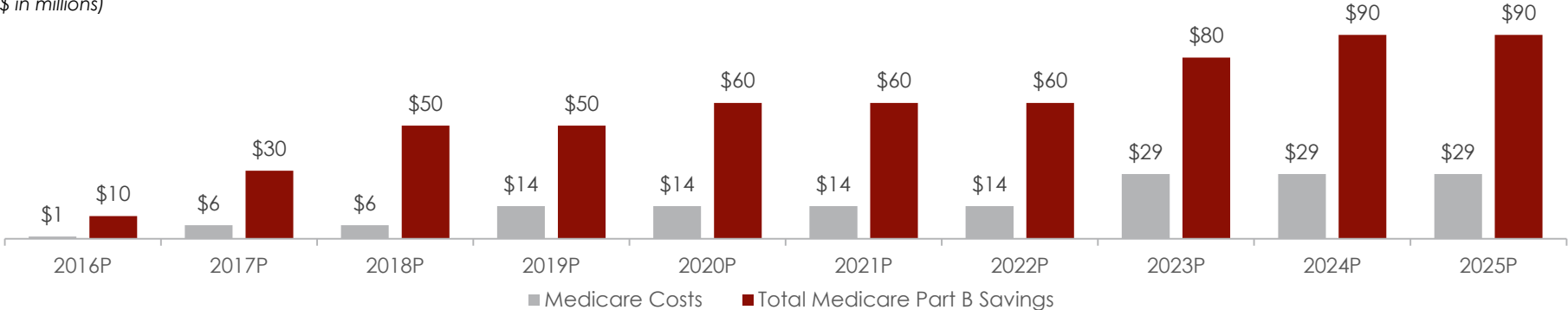
UPDATE ON REGULATORY ENVIRONMENT: PRIOR AUTHORIZATION PROCESS FOR CERTAIN DMEPOS

In December 2015, CMS issued a new rule establishing a prior authorization process for certain durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS).

- Final ruling issued February 2016 addresses concerns related to improper payments for DMEPOS and protects access to necessary care for Medicare and Medicaid beneficiaries.
- DMEPOS items that were flagged for unnecessary utilization comprise a Master List of 135 items that will potentially be subject to prior authorization.
 - CMS will initially test the new prior authorization rule on a subset of items from the Master List
 - Items automatically stay on the Master List for 10 years but can be removed earlier if prices fall below the payment threshold
- For items on the Required Prior Authorization List, relevant documentation must be submitted for prior authorization before beneficiaries can receive an item and submit a claim.
- CMS anticipates ~\$150 million in incremental Medicare costs associated with processing prior authorization requests through 2025P, compared to ~\$600 million in Medicare Part B savings from a reduction in unnecessary utilization.

MEDICARE POTENTIAL COSTS AND SAVINGS FROM PRIOR AUTHORIZATION

For the Period Ending December 31, 2016P – 2025P
(\$ in millions)



Source: CMS.

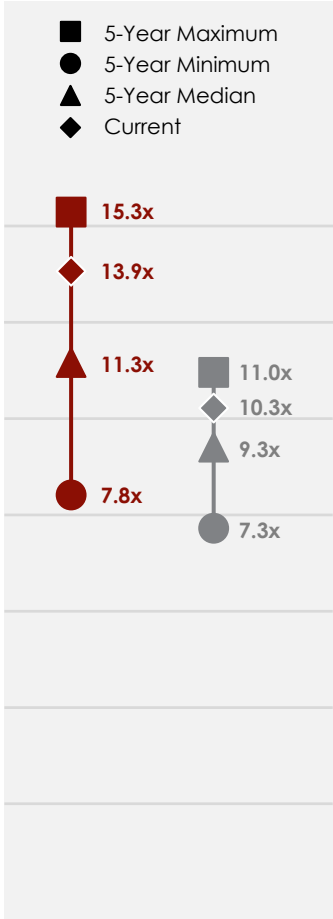
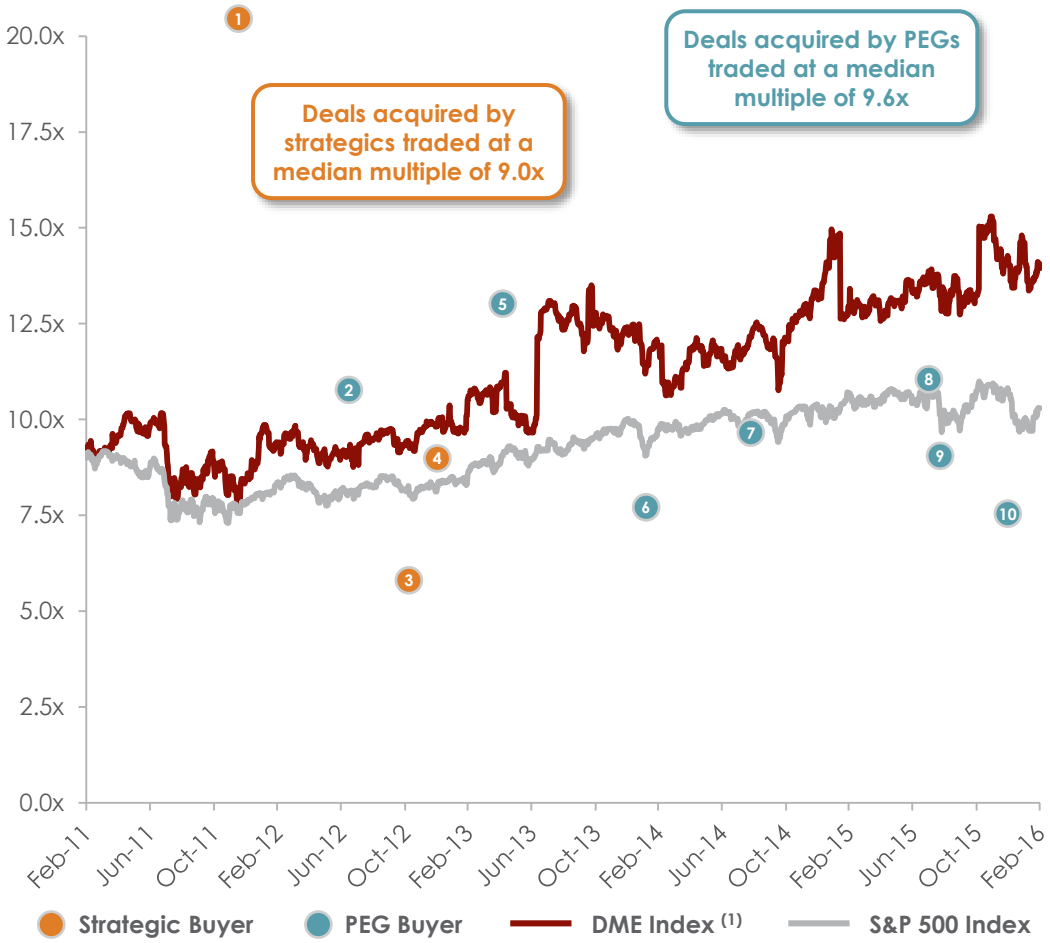
VALUATION OBSERVATIONS: PUBLIC COMPARABLES AND TRANSACTIONS

DME public comparables are trading near 5-year highs.

VALUATION OF PUBLIC COMPARABLES AND PRECEDENT TRANSACTIONS

Enterprise Value / LTM EBITDA for the period February 28, 2011 – February 29, 2016

- Relevant M&A Transactions**
- 1 M.C. Healthcare / Span-America Medical (21.4x)
 - 2 Harmar Mobility / Cortec Group (Confidential)
 - 3 Kinetic Concepts / ArjoHuntleigh AB (5.7x)
 - 4 ATG Rehab / Numotion (9.0x)
 - 5 Permobil AB / Investor AB (13.0x)
 - 6 Vantage Mobility / Evergreen Pacific (Confidential)
 - 7 Altimate Medical / Granite - RockWood (9.6x)
 - 8 Sunrise Medical / Nordic Capital (11.0x)
 - 9 National HME/ Tailwind Capital (Confidential)
 - 10 Ohio Medical / Tenex (Confidential)



















Source: Capital IQ, public filings, and Wall Street Research.

(1) DME Index includes: Getinge, Stryker, ResMed, and Hill-Rom.
Note: IVC excluded due to Company issues related to FDA consent decree.















NOTABLE INDUSTRY PARTICIPANTS

PRIVATE COMPANIES

Company	Ownership	Description
		Provider of home respiratory therapy products and other mobility-focused durable medical equipment.
		Manufacturer of standing solutions to support therapy for adults and children with disabilities.
		Provider of portable oxygen concentrators and other respiratory related medical devices.
		Manufactures and markets sports medicine and rehabilitative orthopedic products and services.
		Provider of home respiratory service and medical equipment such as seat cushions, lift chairs, and portable nebulizers.
		Branded manufacturer and distributor of home medical equipment and related products.
		Manufactures and distributes durable medical equipment in the home healthcare, surgical, and rehabilitation markets.
		Manufactures assistive products and solutions for disabled and elderly individuals including manual and power wheelchairs, lift systems, and scooters.














NOTABLE INDUSTRY PARTICIPANTS

PRIVATE COMPANIES (CONT.)

Company	Ownership	Description
		Designs, manufactures, and markets mobility and accessibility solutions focused primarily on lift and ramp products.
	Private Company	Designs, manufactures, distributes, and services personal mobility vehicles.
		Manufacturer and service provider of patient handling and wound care products for post-acute healthcare settings.
		Provider of FDA approved Phase I post-operative orthopedic rehabilitation products and services.
	Private Company	Manufactures and distributes wound care, respiratory products, lab supplies, and medical equipment.
		Provides hospice specific durable medical equipment, customer care services, and cost containment solutions to the hospice industry.
		Provides customized mobility, rehabilitation, and adaptive seating systems for individuals who have been diagnosed as having a permanent or long-term loss of mobility.
		Provides mobility solutions for individuals with complex medical mobility limitations.

NOTABLE INDUSTRY PARTICIPANTS

PRIVATE COMPANIES (CONT.)

Company	Ownership	Description
	TENEX	Develops, manufactures, and sells home respiratory therapy products.
		Designs, develops, manufactures, and sells high-end wheel chairs and other mobility products.
		Develops, manufactures, and sells wheelchairs and transport systems for individuals with functional disabilities.
		Provider of home healthcare products and services including respiratory therapy, durable medical equipment, rehabilitation equipment, infusion therapy and sleep diagnostic testing services.
	Private Company	Designs and manufactures personal mobility products for people with disabilities including power chairs, scooters, and lift chairs.
	NORDIC CAPITAL	Designs, manufactures, and markets medical products and assistive technology devices for the recovery, rehabilitation, and respiratory needs of patients in hospitals and homecare settings.
		Provider of respiratory medical devices, catheters, and other home medical equipment.
		Manufactures wheelchair accessible transportation and related mobility products

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