



Capstone Partners

MEDICAL DEVICE OUTSOURCING

Q2 2016

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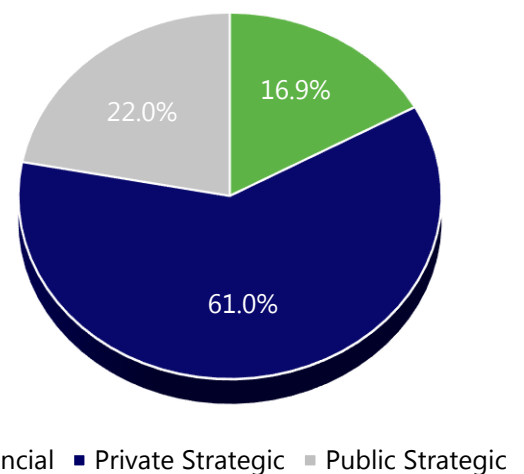
INDUSTRY OUTLOOK

In 2015, the Medical Device Outsourcing industry experienced strong growth and an active M&A environment. The outsourcing market, in large part, is directly impacted by the health of the Medical Device industry which is benefiting from greater healthcare utilization due to millions of additional insured individuals through the Affordable Care Act, an aging population, technological advancements and the development of novel innovative devices. As evidenced by the robust valuations afforded publicly-traded medical device companies (EBITDA multiples are near 10 year highs and more than double the trough valuations experienced in 2008), these favorable dynamics have outweighed challenging headwinds including on-going pressure from insurance carriers to control costs and constricted hospital budgets.

M&A ACTIVITY OVERVIEW

The prevailing theme for 2016 is that scale does matter. Outsourced providers are striving to keep pace as the clients they service have reached mammoth proportions through their own mega deals including Medtronic's purchase of Covidien and Zimmer's acquisition of Biomet. Greatbatch's acquisition of Lake Region Medical for \$1.7 billion, which only a year earlier had merged with Accellent, was the highest profile example of a scale driven acquisition within the outsourcing sector. In total, about 83.0% of transactions in the industry were completed by strategic acquirers. The high proportion of strategic deals is reflective of the mounting pressure for players to achieve scale. Scale not only in size, but in the breadth of services and range of capabilities. The market continues to reward companies that develop innovative and comprehensive outsourcing solutions which will be important as Medicare and commercial carriers migrate to value-based reimbursement models.

2015 Transactions by Buyer Type



Capstone expects to see a strong level of M&A activity in the highly fragmented medical device outsourcing industry, illustrated by increased M&A activity in 2016. Through May 2016, 25 deals were announced in the industry compared to only 15 during the same time period in 2015. Consolidation will continue as growth oriented outsourced providers seek to capitalize on favorable industry conditions and acquire firms to expand service capabilities, geographic presence, client relationships and technical expertise.

AVERAGE PUBLIC COMPANY EBITDA MULTIPLE



Sources: Capital IQ; Capstone Partners LLC Research
Data represents the average of multiples for the following companies: Boston Scientific Corp., CONMED Corp., Greatbatch Inc., Integra LifeSciences Holdings, Medtronic plc, NuVasive Inc., Stryker Corp., Teleflex Inc. and Zimmer Biomet

NOTABLE TRANSACTIONS

TE Connectivity acquires Creganna Medical (February 2016) – TE Connectivity (TE), a manufacturer of connectivity and sensor solutions, recently acquired Creganna Medical (Creganna) for \$895.0 million, and at a strong revenue multiple of 3.6x. The acquisition of Creganna, a developer of minimally invasive medical devices and outsourcing solutions, will help establish TE as a leading provider of harsh environment solutions where patient safety is an upmost concern. Tom Lynch, Chairman and CEO of TE, commented, “This transaction builds on our AdvancedCath acquisition and establishes TE as a leading supplier to the high-growth minimally invasive interventional segment. Our existing medical product offering, coupled with these acquisitions, positions TE with the broadest range of products and technologies serving this high-growth space.”

Greatbatch acquires Lake Region Medical (August 2015) – In a blockbuster deal, Greatbatch, Inc. acquired Lake Region Medical for \$1.7 billion, creating of one of the world’s largest medical device outsourcing manufacturers with combined revenues of \$1.5 billion. “The combination of Greatbatch and Lake Region Medical brings together two highly complementary organizations that can provide a new level of industry leading capabilities and services to OEM customers while building value for shareholders,” Greatbatch President & CEO Thomas Hook said. “Through this transformative deal, we are going to be at the forefront of innovating technologies and products that help change the face of healthcare, providing our customers with a distinct advantage as they bring complete systems and solutions to market. In turn, our customers will be able to accelerate patient access to life enhancing therapies.”

MEDICAL DEVICE OUTSOURCING: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
04/20/16	SteriPack's Packaging Bus.	Bemis	Offers medical device packaging solutions.	-	-	-
04/04/16	Nelson Laboratories	Sterigenics	Provides life-cycle microbiology testing services for the medical device and pharmaceutical industries.	-	-	-
03/14/16	PCT	Hitachi Chemical	Provides contract cell therapy development and manufacturing services.	\$97.5	-	-
03/08/16	eResearch Technology	Nordic Capital	Offers patient safety and efficacy endpoint data collection solutions for clinical drug development.	-	-	-
03/01/16	Howard Precision	Lampin	Offers contract manufacturing of small precision components and multipart assemblies.	-	-	-
03/01/16	Johnson Precision	Molded Rubber & Plastic	Manufactures thermoplastic injection molded components and sub-assemblies.	-	-	-
02/17/16	Hyperion Development	Navitar	Provides custom lens design, optical design, prototyping and the production of OEM optical assemblies.	-	-	-
02/08/16	Peerless Injection Molding	IRP Medical	Offers secondary post-molding services.	-	-	-
02/03/16	AlphaImpactRx	IMS Health	Provides primary research-based insights, analytics and solutions.	-	-	-
02/02/16	Creganna Medical	TE Connectivity	Provides outsourced design services for minimally invasive medical device products.	\$895.0	3.6x	-
02/01/16	Griswold Engineering	Segula Technologies	Offers research and mechanical product design services.	-	-	-
01/28/16	Eveo	ALPHAEON	Provides e-marketing strategies to pharmaceutical, biotech and medical device industries.	-	-	-
01/25/16	Ven-Tel Plastics	National Molding	Offers insert molding and complicated 3D plastic components.	-	-	-
01/20/16	MedQualis	Keyrus Biopharma	Provides clinical research services to medical device, pharmaceutical and biotech industries.	-	-	-
01/11/16	NorMedix	SurModics	Provides medical device design and development services.	\$14.0	-	-
01/11/16	MO BIO Laboratories	Qiagen	Develops DNA and RNA isolation and protein extraction tools.	-	-	-
01/11/16	VitalMED	Kelpac Medical	Manufactures various stock components for the medical device industry.	-	-	-
01/07/16	Specialty Coating	KISCO	Provides parylene conformal coating services and technologies.	-	-	-
01/06/16	Boyd Coatings Research	Precision Coating	Manufactures high-performance coatings to medical device, industrial and aerospace markets.	-	-	-
12/21/15	ALKU	WestView Capital	Provides FDA compliance and quality assurance consulting solutions.	-	-	-
12/15/15	Whitehouse Laboratories	Albany Molecular Research	Provides analytical laboratory testing services for pharmaceutical and medical device companies.	CF	CF	CF
12/08/15	Ci Medical Technologies	Technimark	Manufactures injection-molded components that are used in medical and pharmaceutical devices.	-	-	-
12/08/15	Farm Design	Flextronics International	Offers medical device outsourcing including development of instruments for diagnostics.	-	-	-

MEDICAL DEVICE OUTSOURCING: SELECT M&A TRANSACTIONS (CONTINUED)

Ann. Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
12/08/15	Precision Extrusion	Pexco	Manufactures thermoplastic tubing for the medical device industry.	-	-	-
12/08/15	Quality Compliance Labs	SGS	Provides analytical testing services to pharmaceutical, personal care and medical device industries.	-	-	-
11/17/15	Ansonia Plastics	Tonka Bay Equity	Provides precision tooling and injection molded parts in medical device manufacturing.	-	-	-
11/15/15	Mikrotek Laboratories	National Technical Systems	Provides materials testing, R&D and consulting to aerospace, energy and medical device industries.	-	-	-
11/04/15	Terumo's Surgical Assets	Michigan Critical Care Consultants	Comprises a cardiac surgery medical device manufacturing facility.	-	-	-
11/03/15	Mound Laser & Photonics	Resonetics	Provides laser machining services to medical device, microelectronics and defense industries.	-	-	-
11/02/15	Corporate Translations	RWS	Provides translation services to pharmaceutical, biotech and medical device industries.	\$70.0	3.0x	14.6x
10/31/15	The PIC Group	TRIGO	Provides third party inspection and quality engineering to medical device manufacturers.	-	-	-
10/29/15	B & B Manufacturing	Met-Con	Offers contract manufacturing to food and medical customers.	-	-	-
09/24/15	Clarke Engineering	Harbert, Tenth Street and Red Oak	Offers engineering support services for pharmaceutical and medical device industries.	-	-	-
09/21/15	Synowledge	BioClinica	Provides drug safety, regulatory and IT services to pharmaceutical, biotech and medical device companies.	-	-	-
09/01/15	Avarent	NSF International	Provides business compliance and consulting services for pharmaceutical, medical device and cosmetic industries.	-	-	-
08/27/15	Lake Region Medical	Greatbatch	Manufactures components for medical devices as well as end products for cardio, vascular and surgical markets.	\$1,730.0	2.1x	11.6x
08/18/15	Bridge Design	Ximedica	Offers industrial design, product engineering, user experience, and design research and strategy services.	-	-	-
08/03/15	Interface Associates	Nitinol Devices & Components	Provides outsourced solutions for balloon catheter manufacturing.	-	-	-
07/28/15	Raydiance	Coherent	Offers precision laser manufacturing for consumer electronics, medical device and industrial markets.	-	-	-
07/15/15	Avalign Technologies	Arlington Capital	Manufactures instruments, cutting tools and thermoformed cases and trays for medical device OEMs.	-	-	-
07/15/15	Tigermed-BDM	Frontage Laboratories	Offers contract research services in biostatistics and data management for medical device companies.	-	-	-
06/30/15	Port City	Pace Industries	Manufactures aluminum and zinc die castings, and provides mechanical assembly and testing services.	-	-	-
06/22/15	Alvogen	CVC, Temasek and Vatera	Provides product development, contract manufacturing and contract research services.	-	-	-
06/17/15	Devicix	Nortech	Offers mechanical, electrical, software and biomedical engineering services for medical device manufacturers.	\$7.8	-	-
06/09/15	Coils Unlimited	Renco Electronics	Manufactures standard and custom wound magnetic components for medical devices.	-	-	-
06/09/15	Kupuna Monitoring	American Medical Alert	Provides medical device distribution and installation services.	-	-	-

CAPSTONE PARTNERS: SELECT MEDICAL TRANSACTIONS



has been acquired by



Capstone Partners recently advised Whitehouse Analytical Laboratories (Whitehouse Labs) on it's sale to Albany Molecular Research (AMRI). Whitehouse Labs specializes in providing outsourced analytical testing, material qualification and packaging services to the global pharmaceutical, biotechnology, medical device and personal care industries.

Through the transaction, AMRI will extend its biopharmaceutical analytical offerings while Whitehouse Labs will benefit from AMRI's international reach. As standards in the life sciences sector continue to tighten, organizations that manufacture pharmaceutical products and medical devices face new challenges requiring more testing and complexity. This growing trend is driving demand for outsourced analytical testing that is provided by Whitehouse Labs.

Mark Surowiak, of Capstone Partners, said, "We expect to see a strong level of M&A activity in the highly fragmented pharmaceutical outsourcing industry in 2016. Responding to pricing pressures and the shift of development dollars from blockbusters to niche busters (medicines for smaller, targeted populations), drug manufacturers are seeking to reduce internal fixed costs and generate efficiencies by outsourcing a greater percentage of functions including R & D, clinical trial management, manufacturing and analytical testing."

CONFIDENTIAL

corporate sale
(UNDER LOI)

**CONTRACT
MANUFACTURER OF
NUTRACEUTICALS**

CONFIDENTIAL

corporate sale
(UNDER LOI)

**PROVIDER OF
OUTSOURCED
THERAPY SERVICES**

CONFIDENTIAL

corporate sale
(IN MARKET)

**PROVIDER OF
OUTSOURCED CLINICAL
SERVICES**



has been acquired by



a portfolio company of
AUDAX GROUP, INC.



has been acquired by




has been acquired by




has divested assets to




has been acquired by




has been acquired by




has been acquired by




has secured financing from




has been acquired by



THE MEDICAL DEVICE OUTSOURCING TEAM



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Eric serves as Managing Director and Head of the Atlantic Region for Capstone, based out of Philadelphia. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has more than 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He is head of Capstone's Health and Medical practice and has successfully completed over 100 transactions in a wide range of industries including medical device, contract manufacturing, pharmaceutical outsourcing, health care services and education and training. In 2013, he received the M&A Advisor's "M&A Deal of the Year" award for his work on the acquisition and majority recapitalization of Invo HealthCare Associates, Inc. In 2014, Eric won the M&A Advisor's "Cross-Border Middle-Market Deal of the Year" award and the Global M&A Network's "North American Deal of the Year" award for his work on the sale of T-DOC Company. Eric has executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.



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Mark is a Director in the Philadelphia office, supporting the management of the Atlantic Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney's Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses. Mr. Surowiak's experience spans a broad range of industries including health and medical, nutraceuticals, post-secondary education, contract manufacturing and outsourced business services sectors. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.



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Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice in New York and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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