

Medical Device Outsourcing

M&A Update Report

Market Intelligence for Business Owners

Q2 2013



Capstone Partners
Investment Banking Advisors



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INDUSTRY CONSOLIDATION CONTINUES

Reflective of the M&A environment in general, a flurry of acquisitions were reported in the medical device outsourcing industry in the final quarter of 2012, as buyers and sellers worked to complete transactions in advance of the capital gains tax rate increase that went into effect in early 2013. Following the spike, middle market M&A activity has tempered a bit thus far in 2013, although transactions are still being completed in the medical device outsourcing sector.

Acquisitions continue to be motivated by contract manufacturers who are feeling pressure to implement new and differentiated services in an effort to deepen relationships with OEMs and offer a more compelling value proposition that is less prone to pricing pressure. Moreover, OEMs continue to require a broader range of services and demand “one-stop” solutions from outsourced partners.

As a result, consolidation in the industry continues, often with larger players acquiring smaller niche companies that add specific competencies to the portfolio of products and services. In such cases, the buyer’s goal is to develop into a significant integrated outsource provider that can deliver not only high quality manufacturing, parts or complete devices, but a turnkey solution offering engineering, product development, regulatory, quality assurance and distribution services. For their part, smaller contract manufacturers are looking for partners to help ease the burden of the industry’s growing quality and regulatory requirements.

This review of recent transactions in the medical device outsourcing industry shows a diverse group of targets that include companies specializing in EMS, grinding, machining, stamping, casting and plastic injection molding or extrusions. These companies cover a wide range of medical devices, and many offer additional services and solutions including product development, design and engineering, tooling, prototyping, assembly, sterilizing, packaging and/or supply chain management and logistics.

Favorable market conditions are expected to continue to support M&A activity in the industry. Generally speaking, strategic acquirers have strong balance sheets and a need to supplement organic growth; private equity firms have larger amounts of capital to deploy; and the debt markets remain favorable, featuring available capital, low interest rates and reasonable lending conditions. In addition, as the medical device industry grows, and market factors support increased use of contract manufacturers, the outsourcing space is attracting the attention of automotive and defense contract manufacturers, who are making acquisitions to gain access to the attractive medical market. We also expect activity in the industry will get an additional boost once buyers have greater visibility regarding either the potential repeal or lasting effects of the new medical device excise tax.

Transaction valuations are also at healthy levels, which further drives M&A activity. High-quality businesses continue to generate competitive buyer interest, while rising stock prices could be pushing private company valuations up as well. Based on these positive market conditions for both buyers and sellers alike, Capstone expects that M&A activity in the industry will continue at a healthy pace.

SELECTED MEDICAL DEVICE OUTSOURCING TRANSACTIONS

Date	Target	Target Business Description	Acquirer	Enterprise Value (\$mm)	EV / LTM	
					Revenue	EBITDA
May-13	EDAC Technologies Corp.	Provides design & manufacturing services to medical device and other OEMs.	Greenbriar Equity Group LLC	\$145.1	1.3x	9.9x
May-13	Smart Electronics & Assembly, Inc.	Provides electronic manufacturing services to aerospace and medical device OEMs.	Secure Communication Systems, Inc.	-	-	-
Apr-13	Exemplar Pharma, LLC	Provides contract product development and manufacturing of pharmaceutical medical devices.	Allergan Inc. (NYSE:AGN)	\$20.0	-	-
Mar-13	Trident Manufacturing, Inc.	Provides electronics contract manufacturing services to medical device and other OEMs.	Probe Manufacturing Inc. (OTCPK:PMFI)	\$0.1	-	-
Feb-13	Biomedical Structures, LLC	Designs and manufactures biomedical textiles and custom plastic components for device manufacturers.	Modified Polymer Components, Inc.	-	-	-
Feb-13	Pacifica Engineering, Inc.	Provides engineering services including medical components/equipment design & manufacturing.	M.Torres Diseños Industriales S.A.U	-	-	-
Jan-13	Source Scientific, LLC	A contract manufacturer for medical device and other OEMs.	BIT Analytical Instruments GmbH	-	-	-
Jan-13	Mountain Molding LLC	Provides contract manufacturing for medical device and other markets.	Arcady Capital, Inc.	-	-	-
Jan-13	Accu-Mold, LLC	Produces plastic parts for a variety of OEMs, including medical device manufacturers.	Mno-Bmadsen	-	-	-
Dec-12	Team Technologies, Inc.	Operates as a contract manufacturer of dental, medical, cosmetic and industrial products.	The Riverside Company	-	-	-
Dec-12	DTx Inc.	Provides design, engineering, manufacturing & supply chain management to medical device and other OEMs.	Contec Co., Ltd. (TSE:6639)	\$20.8	0.8x	-
Dec-12	HK Plastics Engineering, Inc.	Through Truer Medical, provides medical product design and development, as well as device assembly.	Balda AG (XTRA:BAD)	-	-	-
Dec-12	Thomas Medical Products Inc. (Div. of GE Healthcare)	Designs and manufactures Class II and Class III medical devices for OEM customers.	Merit Medical Systems, Inc. (NasdaqGS:MMSI)	\$167.0	4.5x	10.1x
Dec-12	Tenere, Inc.	Provides rapid prototyping and high-precision manufacturing for medical device and other OEMs.	The Watermill Group	-	-	-
Dec-12	Venta Medical, LLC	Operates as a medical device contract manufacturer.	Laserage Technology Corporation	-	-	-
Dec-12	Spectralytics, Inc.	Provides contract manufacturing services to the medical device industry.	CreteX Companies, Inc.	-	-	-
Dec-12	Micross Components, Inc.	Designs and manufactures electronics solutions for medical device and other OEMs.	Insight Equity	-	-	-
Nov-12	EMS Sandberg Industries, Inc.	Provides contract electronic manufacturing services for medical device and other OEMs.	Unit Industries Inc.	-	-	-
Nov-12	Onyx EMS, LLC	Provides contract manufacturing services to a range of industries, including medical devices.	Sparton Corp. (NYSE:SPA)	\$43.3	-	-
Oct-12	Affinity Medical Technologies, LLC	Manufactures interconnect systems including contract manufacturing for medical device OEMs.	Molex Incorporated (NasdaqGS:MOLX)	\$55.3	-	-
Oct-12	MedVenture Technology Corporation	Designs and manufactures surgical tools for medical device companies.	Helix Medical, LLC	-	-	-
Oct-12	Coeur, Inc.	Operates as a contract manufacturer of disposable syringes and other medical devices.	Illinois Tool Works Inc. (NYSE:ITW)	-	-	-
Sep-12	MedTorque, Inc.	Provides contract manufacturing and assembly services for orthopedic medical devices.	Inland Midwest Corporation	-	-	-
Sep-12	Latshaw Enterprises, Inc.	Through MC Electronics, is a contract manufacturer for the medical and electronic industries.	Caledonia Investments plc; Nova Capital Management	\$48.6	0.5x	-
Jul-12	Hi-Tech Manufacturing, LLC	Manufactures precision machined components and assemblies for the medical device and other markets.	Yukon Partners; May River Capital	-	-	-
Jun-12	DaveCo Industries, Inc.	Provides precision sheet metal & machining for medical device and other OEMs.	Anchor Fabrication, Ltd.	-	-	-
Jun-12	OakRiver Technology, Inc.	Provides manufacturing engineering technology and services to manufacturers of medical devices.	PaR Systems, Inc.	-	-	-
Jun-12	Advent Tool & Mold, Inc.	Manufactures medical device parts and assemblies for OEMs.	Röchling Engineering Plastics KG	-	-	-
May-12	Alliance Medical Products, Inc.	A contract manufacturer for the pharmaceutical, medical device and laboratory markets.	Siegfried Holding AG (SWX:SFZN)	\$58.0	2.9 x	-
May-12	Absolute Manufacturing, Inc.	Provides machining, assembly and program management services for medical & other markets.	Roanwell Corp.	-	-	-

LTM = last twelve months; EV = enterprise value

Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases

CAPSTONE PARTNERS: COMPLETED HEALTH & MEDICAL TRANSACTIONS

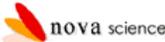


has been acquired by



Capstone Partners recently completed a transaction in which it successfully advised Tricore, Inc. on its sale to High Road Capital Partners' portfolio company, Dowden Medical Communications Group. Tricore is an outsourced provider of customized learning development and mobile training solutions to meet the increasingly complex training needs of the global pharmaceutical and life sciences sectors. This transaction reflects the industry trend of consolidation as players look to capitalize on the inherent growth in outsourcing and acquire firms to enhance their value proposition to clients by expanding service capabilities, geographic presence and professional resources.

Capstone Partners has successfully advised on a number of transactions related to the sale of medical device contract manufacturers and OEMs. These and other health & medical transactions are shown below.

<p>CONFIDENTIAL</p> <p><i>corporate sale (IN PROCESS)</i></p> <p>MEDICAL DEVICE MANUFACTURER</p>	 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p> 	 <p><i>has divested assets to</i></p> 	<p>AGGU * MET LASER, Inc.</p> <p><i>has been acquired by</i></p> <p>RiversidePartners™</p>
 <p><i>has acquired</i></p> <p>CERTIFIED IT & TRICITY FREEDOM DATA</p>	 <p><i>has divested assets to</i></p> 	 <p><i>has secured financing from</i></p> <p>NEWVA CAPITAL PARTNERS, LP</p>	 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p> <p>BHG Behavioral Health Group</p>
 <p><i>has been acquired by</i></p> <p>RESPIRONICS™</p>	<p>INTERLEUKIN GENETICS</p> <p><i>acquisition advisory</i></p> 	<p>Catalyst on-line</p> <p><i>has been acquired by</i></p> 	<p>Squire Cogswell aercs</p> <p><i>has been acquired by</i></p>  <p>a portfolio company of MVC CAPITAL</p>	<p>angioLINK</p> <p><i>has been acquired by</i></p> 
 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p> 	<p>binax</p> <p><i>has been acquired by</i></p> <p>inverness medical innovations</p>	<p>Radius Medical TECHNOLOGIES, INC.</p> <p><i>has divested assets to</i></p> 	<p>NEPG New England Precision Grinding Company</p> <p><i>has been acquired by</i></p> <p>RiversidePartners™</p>

THE MEDICAL DEVICE TEAM

Eric Williams, Managing Director

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Eric serves as Managing Director and Head of the Eastern 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 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He has successfully completed over 100 transactions in a wide range of industries including medical device outsourcing, health care services, pharmaceutical services, and education and training. He has also 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.

Mark Surowiak, Director

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Mark is a Director in the Philadelphia office, supporting the management of the Eastern 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 the post-secondary education, government and defense contracting, 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.

SELECTED INDUSTRY AWARDS



M&A ADVISOR AWARDS

2012 WINNER

STRATEGIC ACQUISITION OF THE YEAR



M&A ADVISOR AWARDS

2012 WINNER

PROFESSIONAL SERVICES DEAL OF THE YEAR



THE M&A ATLAS AWARDS

AMERICAS M&A ATLAS AWARDS

2012 WINNER

NORTH AMERICAN MIDDLE MARKET DEAL OF THE YEAR



INTERNATIONAL M&A AWARDS

2012 WINNER

GLOBAL M&A BOUTIQUE FIRM OF THE YEAR

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading international investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in the Health & Medical sector. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

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