

Medical Manufacturing M&A Market Update

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Special points of interest:

- *Strategic deals have started to rule the market as credit markets have retracted*
- *Middle market transactions (<\$500 million) are generally commanding smaller multiples than larger market deals*
- *Venture capital funding of medical device and equipment companies was up 60% in the first half of 2007*

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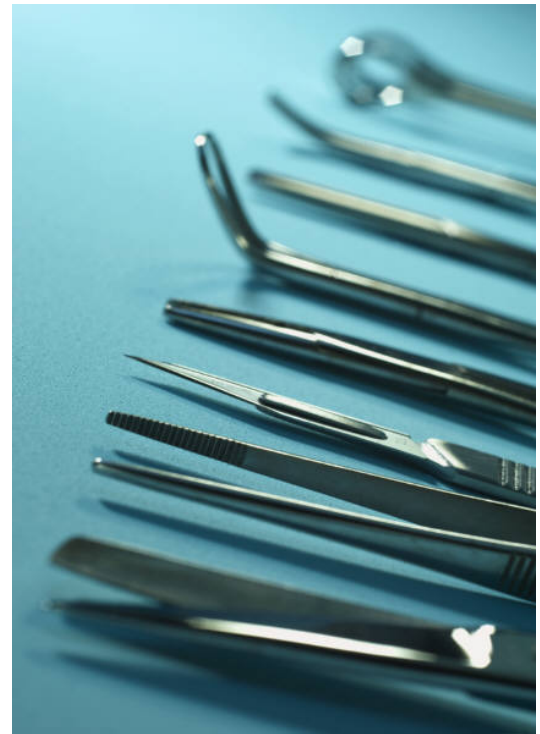
INDUSTRY SNAPSHOT

Medical device and equipment companies saw a total of \$2.1 billion in venture capital funding during the first half of 2007, an increase of more than 60% over the \$1.3 billion invested during the same period in 2006, according to a PricewaterhouseCoopers report.

Five orthopedics companies settled with the Justice Department recently over allegations that they paid kickbacks to surgeons in return for favoring their implants. The government got involved because they believed the practices, which supposedly included lavish gifts, vacations and “consulting fees”, constituted a defraud of Medicare. The total settlement amounted to over \$300 million.

Estimates now place the U.S. market size of the contract medical manufacturing segment in excess of \$5 billion annually. It is also estimated that over 25% of all medical equipment

production is outsourced to third party vendors, a number that is expected to grow to nearly 50% over the next five to seven years.



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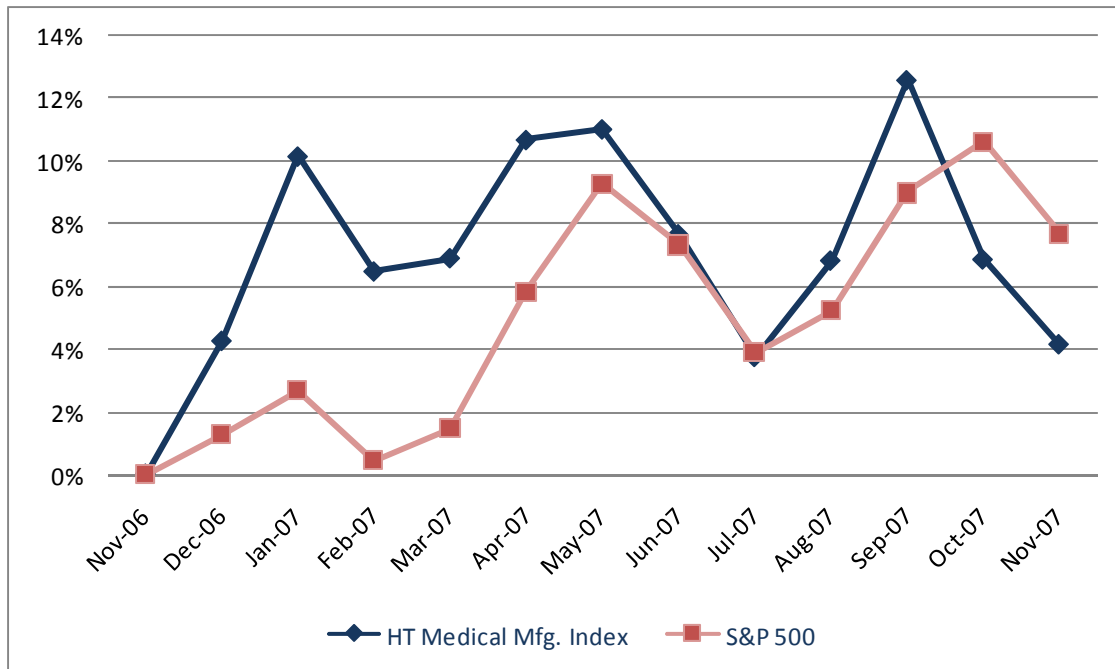
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HT Capital Medical Manufacturing Index ¹



INDUSTRY TRANSACTIONS

July 2007 saw the announcement of several highly strategic deals. Acquisitive contract device manufacturer Teleflex announced it would acquire catheter manufacturer Arrow International for nearly \$2 billion, or 4 times revenue and 16 times EBITDA. Ev3 paid 3.2 times revenue for fellow endovascular player and IP-rich Foxhollow Technologies. Siemens Medical announced on July 25 it would acquire Dade Behring, maker of lab testing equipment, for \$6.7 billion at comparable 3.7 times and 15.5 times multiples.

As summer turned to fall, smaller deals became the highlight. Flextronics International announced it would significantly expand its medi-

cal manufacturing business with the purchase of Avail Medical. Needle maker Popper and Sons and cardiovascular products maker Vascular Architects agreed to be acquired in September, and diagnostics company E-Z-Em and needle and wire manufacturer New England Precision Grinding did likewise in October.



¹ Source: HT Capital research & Yahoo Finance (Market Weighted Index composed of BDX, BCR, MDT, BSX, SYK, ZMH, SNN)

MAJOR INDUSTRY PARTICIPANTS ²

	Share Price 11/01/07	Price % of 52 week high	Revenue Multiple (EV / TTM Revenue) ³	EBITDA multiple (EV / TTM EBITDA) ⁴
Becton Dickinson (NYSE: BDX)	\$80.58	93.8%	3.17x	11.5x
C.R. Bard (NYSE: BCR)	\$80.79	89.9%	3.68x	12.7x
Medtronic (NYSE: MDT)	\$46.80	80.7%	4.49x	12.8x
Boston Scientific (NYSE: BSX)	\$13.30	71.2%	3.22x	12.2x
Stryker (NYSE: SYK)	\$69.57	93.2%	4.64x	16.9x
Zimmer (NYSE: ZMH)	\$68.90	73.0%	4.24x	10.6x
Smith & Nephew (NYSE: SNN)	\$63.70	93.9%	4.27x	16.1x

DEAL ENVIRONMENT

The leveraged debt markets pulled back sharply at the beginning of the period, putting significant pressure on buyouts, particularly in the upper end of the middle market (>\$500 million). Many deals in which terms of an agreement were reached, but a transaction had not closed, were re-evaluated. Purchase price adjustments and/or infusions of additional equity were necessary in some cases to bridge the gap and close the deal.

The transaction data this period demonstrate that smaller deals are generally commanding lower multiples from buyers. In a broad sense, this is due to the lack of scale, secure market position, or developed technologies typical in the sale of larger businesses.



² Source: Yahoo Finance

³ Enterprise Value (Equity + Funded Debt – Cash) / Trailing Twelve Months Revenue

⁴ Enterprise Value / Trailing Twelve Months Earnings Before Interest, Taxes, Depreciation and Amortization

SELECT RECENT TRANSACTIONS ⁵

Date	Target	Acquirer	Deal Size (\$ Millions)	Multiples	
				Revenue	EBITDA
07/02/07	Cozart PLC	Concateno PLC	\$127	3.7x	29.7x
07/03/07	Gish Biomedical	MEDOS Medizintechnik AG	n/a	n/a	n/a
7/20/07	Arrow International	TFX Medical OEM	\$1,984	3.9x	16x
7/21/07	Foxhollow Technologies	Ev3	\$630	3.2x	NM
7/25/07	Dade Behring	Siemens Medical Solutions USA	\$6,676	3.7x	15.5x
8/06/07	HemoSense	Inverness Medical Innovations	\$187	6.7x	NM
8/07/07	Microtek Medical	Ecolab	\$253	1.7x	16.5x
8/13/07	BioFX Laboratories	SurModics	n/a	n/a	n/a
8/23/07	ORTHOsoft	Zimmer	\$50	3.8x	NM
8/30/07	Avail Medical Products	Flextronics Intl.	n/a	n/a	n/a
9/17/07	Popper & Sons	Specialty Blades	n/a	n/a	n/a
9/20/07	Vascular Architects	LeMaitre Vascular	n/a	n/a	n/a
10/16/07	New England Precision Grinding	Riverside Partners	n/a	n/a	n/a
10/30/07	E-Z-Em	Bracco Diagnostics	\$197	1.4x	14.5x
			MEAN	3.5x	18.4x
			MEDIAN	3.7x	16.0x



⁵ Source: HT Capital Research, company records

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