

Medical Device Outsourcing

Market Snapshot



Market Intelligence for Industry Players

Q1 2009

Medical Device Outsourcing

The medical device outsourcing (“MDO”) industry includes companies providing value-added manufacturing, materials processing, component manufacturing, engineering and assembly services to medical device original equipment manufacturers (“OEMs”). The precision and quality requirements of medical device OEMs has helped to create a fragmented outsourcing industry comprised of highly specialized niche providers. These suppliers specialize in services including, but not limited to, the following:

- *Assembly*
- *Electronic components*
- *Materials processing*
- *Packaging and cleanroom services*
- *Plastics, forming and molding*
- *Precision metal manufacturing*
- *Prototyping*
- *R&D and design*
- *Tubing, plastic and metal*
- *Wire forming*

Many players in the MDO industry operate as best-in-class manufacturers focusing on a specific process or product type. However, leading suppliers are increasingly adopting a one-stop-shop model and providing full-service contract manufacturing to medical device OEMs.

Despite the growth in the full-service model, the MDO industry remains highly fragmented. *Medical Products Manufacturing News* lists over 5,500 suppliers in its annual publication. *DeviceLink.com*, a medical device industry news source, displays over 1,400 companies that offer assembly services, 700 plastic molding companies and 500 outsourced manufacturing companies with Class 10,000 cleanrooms. The fragmented nature of the industry presents significant consolidation opportunities.

Industry Drivers

Medical device outsourcing is primarily driven by growth in the medical device industry, which is experiencing increasing demand due to the aging U.S. population. Adults over the age of 85 represent the fastest growing segment of the US population. By 2030, 20% of the population – 72 million people – will be 65 years or older, according to the US Census Bureau. While the overall device industry is expected to grow at approximately 3.6% annually, segments serving older patients are expected to grow 9.6% annually. These segments include pacemakers and cardio implantable devices, injection devices, cardiac catheters, orthopedic implants and oxygen assistance or delivery devices.

Aging consumers are increasingly demanding less invasive and safer healthcare, spurring innovation in the medical sector. According to Ernst & Young, two-thirds of medical technology revenues are derived from products developed within the last two years. As a result, medical OEMs are placing an increasing emphasis on innovation. This has placed the medical device industry at the nexus of modern medicine, design and high-tech manufacturing.

Successful OEMs are shifting their focus to innovation and design, rather than manufacturing. Consequently, various aspects of medical device manufacturing are increasingly outsourced. Ever-changing technology requirements can complicate capital equipment investment decision-making. Additionally, the growing complexity of medical devices makes it extremely difficult for OEMs to maintain all manufacturing in-house. Due to a greater number of unique components in a device or the requirement for specialized process expertise to manufacture a product, it is often more cost effective to outsource part or all of medical device production. Constant pressure to improve efficiency and profit margins is causing OEMs to consider outsourcing as a means to reduce costs. It is estimated that 40% to 55% of the medical device manufacturing process is currently outsourced. Due to an increasing focus on innovation, growing complexity of devices and continued pressures to improve efficiency, Capstone believes medical outsourcing will continue to grow.



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CAPSTONE PARTNERS LLC

176 Federal Street
Third Floor
Boston, MA 02110

www.capstonellc.com

Medical Device Outsourcing Team

Kevin Jolley
Managing Director
617.619.3330

kjolley@capstonellc.com

Timothy Schmidt
Vice President
617.619.3333

tschmidt@capstonellc.com

Justin Ross
Associate

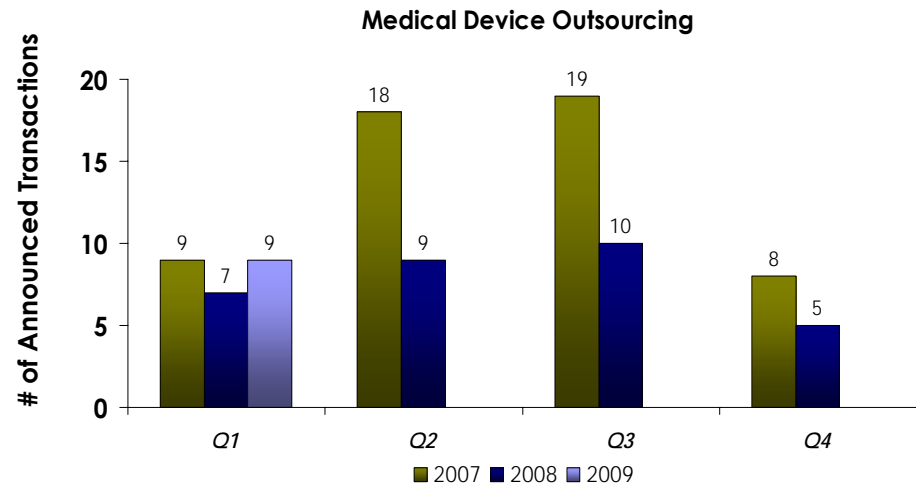
617.619.3310

jross@capstonellc.com

M&A Market Commentary

Current market conditions are hampering M&A activity among industry participants. These include business performance, valuation expectations and the challenge of securing debt financing. However, transactions are still closing in the MDO industry albeit at a slower pace. For example, nine transactions were announced in the first quarter of 2009, which is in line with the nine transactions announced in Q1 2007 and the seven transactions announced in Q1 2008.

- There were 31 transactions announced in 2008, compared to 54 in 2007.
- Only five deals were announced in the fourth quarter of 2008.
- Current activity is well below the market at peak levels. There were 18 MDO transactions announced in Q2 2007 and 19 in Q3 2007.



Capstone does not expect a return to peak levels. Still we believe that due to the nature of the industry and its past efforts to consolidate, transactions will continue to be announced at a normalized rate of 8 to 12 per quarter, for the next 12 to 18 months. Additionally, we believe that there is some pent up activity that is waiting for improvements in overall market conditions which could produce an up-tick in transaction activity as confidence in market conditions return.

M&A Market Trends

M&A activity in the MDO industry is likely to continue as the industry matures. OEMs are outsourcing more and more of the production cycle, creating new opportunities for outsourced manufacturers to expand their customer relationships. Additionally, OEMs are divesting manufacturing assets in order to focus on innovation and rationalization of overhead cost. At the same time, contract manufacturers that specialize in other industries outside the medical sector are aggressively targeting the medical device industry for growth. Capstone believes these factors are influencing three key trends currently occurring in MDO M&A, as outlined on the following page.

M&A Market Trends (continued)

One-Stop-Shop – There are several active acquirers in the MDO industry seeking to become a one-stop-shop or full-service manufacturer for medical device OEMs. These companies tend to focus on a specific segment of the medical device market, such as intravenous devices or orthopedic implants. These companies are being asked by their customers to expand the scope of services offered. For instance, a precision machining company serving the orthopedic market may expand into complementary services, such as laser marking or design solutions. Or a company specializing in a specific material, such as silicone tubing, may see increased demand for similar products made from different materials, such as thermoplastics. The acquisition strategy of one-stop-shops is typically based on adding specific manufacturing capabilities. Recent deals that fit this profile include IMDS's acquisition of Cencast Corporation in January and Vesta, Inc.'s acquisition of ExtruMed LLC in March. In both cases, the target company possessed manufacturing capabilities and material expertise not available to the acquirer.

Focusing on the Core – A number of medical device OEMs have recently divested parts of their manufacturing operations. Many of these companies have concluded that internal resources should be focused on their core product development activities. This string of divestitures supports the theory that it is often more cost effective for medical device OEMs to outsource manufacturing. OEMs such as DePuy, Medtronic and most recently in July 2008, Viasys, have all divested manufacturing assets. Typical acquirers of these assets include well-established medical device contract manufacturers seeking to add capabilities to their full-service offerings and, in some cases, an entrenched relationship with the divesting OEM.

Flight to Quality – Several contract manufacturing companies not serving the medical industry have completed acquisitions to gain medical customers and manufacturing capabilities. Contract manufacturers in out-of-favor industries such as automotive and industrial have turned to the medical device industry for growth and protection against the current economic downturn. These acquirers are seeking outsourced medical manufacturers with strong existing customer relationships, complementary services and robust growth prospects. Acquiring medical-focused contract manufacturers can be the quickest way to add medical manufacturing expertise or gain access to customers that would otherwise avoid working with suppliers with no medical experience. Recent examples of this strategy are SAES Getters SpA's acquisition of Memry Corporation in June of 2008 and TriMas Corporation's acquisition of DEW Technologies in 2007. This strategy is not fool-proof, however, due to the complexity of the medical industry. Schaeffler KG's recent sale of Lacey Manufacturing Company to Precision Engineered Products is an example of an automotive OEM moving away from the medical industry. Schaeffler divested Lacey in October 2008 after acquiring the company as part of the take-over of Lacey's former parent company in 2001.

Deal Briefs

Vesta, Inc. acquires ExtruMed, LLC - March 2009. ExtruMed is the largest independent manufacturer of precision thermoplastic tubing for diagnostic and therapeutic medical devices and procedures. Vesta's core competency is in silicone component manufacturing for the medical industry. Vesta has five production facilities and makes more than 60 million medical device components annually. While both companies are engaged in the manufacture of tubing and other components for the medical device industry, each company possesses an expertise in a different material. These materials require different manufacturing processes for which each company established itself as a leader in the niche. Together they will be able to provide a full range of thermoplastic and silicone products. This broadens the outsourcing solution the new company can offer its clients. "This is a merger of strategies and focuses, not a consolidation of facilities" between the two companies, said Jim Fitzgerald, Vesta's Vice President of Sales and Marketing. Additionally, the companies intend to leverage their strength in secondary processes such as cutting and assembly of balloon catheters.

Deal Briefs (continued)

Innovative Medical Device Solutions acquires Cencast Corporation - January 2009. Innovative Medical Device Solutions (IMDS) is a leading innovator in contract, full-service medical device development and manufacturing, primarily for the orthopedic industry. Cencast provides conventional and innovative precision metal casting solutions to the medical device industry. IMDS is the result of a focused growth and acquisition strategy. Its goal is to create a complete supply chain solution for OEM customers. To do this, IMDS first bought a platform company that specialized in contract manufacturing for orthopedic medical device OEMs (Leis Medical). Then IMDS acquired a design house that specializes in the research, development and design of medical devices (Medicinelodge), with the aim of being a single source for both development and manufacturing of orthopedic devices. Shortly thereafter, IMDS acquired a company that provides preclinical testing abilities, such as strength and fatigue testing and biomechanical testing (Frontier BioMedical, LLC). "Cencast Corporation, as part of IMDS, will bring improved lead times to our customers who outsource products that are manufactured from castings," stated Wade Fallin, President and CEO of IMDS.

Cretex Companies, Inc. acquires Meier Tool and Engineering, Inc - December 2008. Cretex is a diversified manufacturing company with multiple locations in the upper Midwest. Its Commercial Products group currently owns RMS, a medical implant and instrument machining company and Juno Inc., a custom molding and metal stamping company with a diversified client portfolio. Meier Tool and Engineering is a Minnesota-based specialty manufacturer of miniature and micro-sized stamped components for the medical device, aerospace, defense and specialty electronics markets. Meier provides services from design and prototype engineering all the way through full-scale production runs. Meier will maintain its management team, led by Rick Meier. Cretex sees Meier's core competencies as complimentary to both RMS and Juno. Additionally, this acquisition strengthens Cretex's position as a medical device parts supplier.

Precision Engineered Products acquires Lacey Manufacturing, Inc - October 2008. Precision Engineered Products ("PEP") of Attleboro, Massachusetts supplies specialty metals, precision stampings, electrical contacts, precision plated parts and precision injection moldings to the medical device, energy, electronics, defense and communications markets. Lacey Manufacturing of Bridgeport, Connecticut is a full-service, vertically integrated contract manufacturer of finished assemblies, subassemblies and precision components. Lacey's services include engineering, metal stamping, injection molding and assembly of products for the surgical and medical devices markets. Lacey, which had estimated 2008 sales of \$43 million, is a former subsidiary of Schaeffler Group KG, a manufacturer of parts for the automobile and aerospace industries. Schaeffler divested Lacey in order to focus on its core automotive and aerospace businesses, whereas PEP is actively seeking to expand into the medical segment.

Scientific Molding Corporation, Ltd. (SMC) acquires Stoesser-Gordon Plastics - August 2008. SMC operates as a design, molding and device manufacturing company that provides contract manufacturing services for the medical device and pharmaceutical industries. In the last couple of years, SMC has expanded from its Minnesota base to Wisconsin, Massachusetts, Mexico, the U.K. and India. Recently, SMC acquired Stoesser-Gordon, a plastic injection molding company located in Santa Rosa, California, that has experienced steady and strong growth in the medical industry over the last several years. With the acquisition of Stoesser, SMC is now able to provide solutions to its global customers desiring a strategic West Coast location. Company President, Chetan N. Patel said, "With facilities on the East Coast, in the Midwest, in India and now on the West Coast, we also offer our customers greater supply chain security by meeting their manufacturing needs in a location close to their operations and with the broad strengths of SMC."

Scientific Molding Corporation, Ltd. acquires Innovend - January 2008. Innovend is a plastic injection molding company located in "The Pioneer Plastics City," Leominster, Massachusetts. The company produces parts for the medical device industry. Innovend complements SMC's earlier acquisition of Cycles Inc. of Sterling, Massachusetts. Both companies give SMC top quality prototype and long run capabilities along with a strong East Coast presence.

Deal Briefs (continued)

Theragenics Corporation (TGX) acquires NeedleTech Products, Inc - July 2008. Theragenics is a medical device OEM that serves the surgical products and prostate cancer treatment markets. Its primary products are the TheraSeed, palladium-103 device and I-Seed, an iodine-125 based device used for the minimally invasive treatment of prostate cancer. Christine Jacobs, CEO of Theragenics, stated that although the company participates in a low-growth market, its products generate significant cash flow. This has provided Theragenics the opportunity to make acquisitions outside of its core market to fuel growth. NeedleTech's activities include needle point grinding, steel and plastic machining, injection molding, and assembly and sterile packaging. NeedleTech's core business is as a supplier to OEMs. Theragenics' rationale for the transaction was that NeedleTech provides customer diversity within the medical device industry. The other acquisitions made by Theragenics in the last three years include CP Medical, a medical device OEM producing sutures, bone wax and cardiac pacing cable, and Galt Medical, an outsourced medical device manufacturer specializing in catheter components and assemblies.

Charlesbank Capital Partners, LLC acquires Tecomet, Inc - July 2008. The sale of Tecomet is a prime example of an OEM shedding an auxiliary business to focus on core competencies. The Wilmington, MA-based contract manufacturer of orthopedic implants and precision components for the aerospace & defense, communications and medical industries is a former subsidiary of Viasys Healthcare, which was acquired by healthcare products and services giant Cardinal Health in 2007. As a contract manufacturer with \$50 million in annual sales, Tecomet was a non-core asset for Cardinal, which has annual sales of greater than \$90 billion. Charlesbank partnered with two operating executives with contract manufacturing experience to acquire Tecomet and expects to use the company as a platform for further acquisitions in the precision metal manufacturing space.

KRG Capital Partners, L.L.C acquires The MedTech Group - May 2008. KRG is a private equity firm focused on investments in middle-market companies. The MedTech Group, Inc. is a leading contract medical device manufacturer with facilities in New Jersey, Connecticut, Puerto Rico, Costa Rica and Singapore, and a design group called TDC Medical in Massachusetts. The MedTech Group, under the leadership of George Blank services medical device OEMs in OB-GYN, orthopedics, cardiovascular and pharmaceutical delivery. The MedTech group has expanded both through opening new operation and acquisitions.

Medical Device Outsourcing M&A Transactions

Announced/ Closed	Target / Acquirer	Target Description	Implied EV (\$mm)	EV/LTM Revenue
3/10/2009	ExtruMed, LLC Vesta, Inc.	Designs, develops, and manufactures precision extrusion solutions for the medical device industry	-	-
3/3/2009	Filtrona Extrusion, Inc. Saw Mill Capital LLC	Manufactures plastic products for high temperature, high impact and ultra violet resistant applications	\$115.0	0.9x
2/9/2009	Putnam Plastics Company LLC Foster Corporation	Manufactures and supplies co-extruded polyimide, multi-lumen, braided and extremely thin-wall tubing	-	-
2/6/2009	Oxford Performance Materials Inc. Arkema S.A.	Provides materials sciences and polymer products for the medical device industry	-	-
2/4/2009	TDC Medical The MedTech Group	Designs and develops products for the medical device markets	-	-
1/29/2009	Polymer Plainfield Companies, Inc. Kensington Capital Partners Limited	Engages in designing, manufacturing and supplying electro-mechanical insert molded products	-	-
1/26/2009	Cencast Corporation Innovative Medical Device Solutions	Provides medical precision castings	-	-
1/23/2009	Ethox International, Inc. Moog Inc.	Operates a contract manufacturer that designs, develops, manufactures and distributes medical devices	-	-
1/5/2009	Philadelphia Plastics Manufacturing Co. Schlotter Precision Products, Inc.	Operates as a plastic injection molding company	-	-
12/31/2008	TOLAS Healthcare Packaging, Inc. Oliver Medical Packaging, LLC	Provides sterilization packaging solutions for medical device and pharmaceutical markets	-	-
12/29/2008	Rose Leasing, L.L.P. Cretex Companies, Inc.	Manufactures metal stampings and sub-assemblies for medical, electronic, defense and aerospace applications	-	-

Source: Capital IQ EV = enterprise value; LTM = last 12 months

Medical Device Outsourcing M&A Transactions (cont.)

Announced/ Closed	Target / Acquirer	Target Description	Implied EV (\$mm)	EV/LTM Revenue
12/29/2008 12/29/2008	Meier Tool and Engineering, Inc. Cretex Companies, Inc.	Manufactures metal stampings for medical, electronic, defense and aerospace applications	-	-
10/31/2008 10/31/2008	Lacey Manufacturing Company, LLC Precision Engineered Products, LLC	Operates as a contract manufacturer of finished assemblies, sub-assemblies and precision components	-	-
10/10/2008 10/10/2008	Coeur, Inc. The Riverside Company	Offers design, molding, tubing extrusion, assembly and packaging of medical devices	-	-
9/12/2008 12/31/2008	ATS Inc., Precision Components Group Management Buyout	Manufactures precision components for the automotive, medical, consumer and electronic product markets	-	-
9/5/2008 9/5/2008	Medical Engineering & Design, Inc. Tacpro, Inc.	Manufactures and supplies catheters, medical extrusions and braided tubing for the medical device industry	-	-
9/3/2008 9/3/2008	Parylene Coating Services, Inc. Metal Improvement Company, LLC	Provides outsourced conformal coating services	\$7.6	2.5x
9/2/2008 9/2/2008	ExtruMed Livermore, LLC ExtruMed, LLC	Operates as a medical tubing contract manufacturer	-	-
8/21/2008 8/21/2008	Polster Tool Engineering, Inc. CT Systems, LLC	Provides machining, tooling and assembly of machined components	-	-
8/20/2008 8/20/2008	Nypro, Inc., Life Sciences Division Roush Enterprises, Inc.	Provides injection molding services for medical devices and life sciences applications	-	-
8/8/2008 8/8/2008	Stoesser-Gordon Plastics Scientific Molding Corporation, Ltd.	Provides plastic molding, ultra cleanroom molding, design engineering, mold building and quality system services	-	-
7/28/2008 7/28/2008	Mar - Lee Companies Inc. Texen S.A.S.	Designs, develops and engineers components and assemblies for the medical device markets	-	-
7/22/2008 9/26/2008	Tecomet, Inc. Charlesbank Capital Partners, LLC	Designs, develops, and manufactures orthopedic implants for surgical reconstruction and revision, trauma and spine	-	-
7/16/2008 7/28/2008	NeedleTech Products, Inc. Theragenics Corp.	Manufactures, and supplies needles and medical devices for medical device original equipment manufacturers	\$44.4	2.5x
6/30/2008 6/30/2008	Rathbone Precision Metals, Inc. Tre Ci S.r.l.	Designs and produces precision cold drawn shapes and cold rolled shapes	\$17.4	-
6/24/2008 9/29/2008	Memry Corp. SAES Getters SpA	Provide design and manufacturing services specializing in Nitinol used primarily for the medical device industry	\$73.9	1.4x
6/11/2008 6/11/2008	Specialty Coating Systems, Inc. Berwind Corporation	Provides parylene conformal coatings services for the medical device, electronics, and military markets	\$200.0	-
6/5/2008 6/5/2008	MicroGroup Blaine, LLC MultiSource Manufacturing, LLC	Provides precision machining services and manufactures metal components	-	-
5/30/2008 5/30/2008	The MedTech Group, Inc. KRG Capital Partners, L.L.C	Operates as a contract manufacturer of medical devices and components	-	-
5/6/2008 5/6/2008	Eurocut Ltd. Sandvik Materials Technology Company	Develops and manufactures orthopedic instruments and orthopedic implants for orthopedic device OEMs	\$0.5	0.1x
4/28/2008 5/29/2008	The Polymer Technology Group, Inc. Royal DSM N.V.	Engages in the research, development, design, scale-up and manufacture of polymers, medical devices and components	-	-
4/28/2008 4/28/2008	RDS Machine, Inc. Stremel Manufacturing Co.	Provides precision milling and precision turning services for the aerospace, defence, industrial and medical industries	-	-
4/4/2008 4/4/2008	Hi-Tech Rubber, Inc. Parker Hannifin Corporation	Provides outsourcing solutions to medical and high-technology original equipment manufacturers	-	-
3/28/2008 3/28/2008	Berkshire Manufactured Products Inc. Relativity Capital	Manufactures complex precision stamping and machined components for the medical device market	-	-
3/13/2008 3/13/2008	KEF, Inc. Coghlin Companies, Inc.	Provides precision-machined parts and assembly services for the medical device markets	-	-
3/4/2008 3/4/2008	Swiss-Tech, LLC Cornerstone Industrial Group, LLC; South Franklin Street Partners, LLC	Manufactures and markets machine components for use in medical devices	-	-
2/19/2008 2/19/2008	Spectrum Plastics Molding Resources, Inc. Midwest Plastic Components, Inc.	Provides design, pre-production prototyping and production of precision thermoplastic and silicone injection molded parts	\$6.4	0.5x
1/18/2008 1/18/2008	EL-Tronic Precision, Inc. Remmele Engineering, Inc.	Provides contract manufacturing services for medical device OEMs	-	-
1/15/2008 1/15/2008	Innovend Scientific Molding Corporation, Ltd.	Manufactures and markets plastic injected molded parts for medical devices and equipment	-	-
1/2/2008 1/2/2008	APEC Helix Medical, LLC	Operates as a contract manufacturer of thermoplastic and silicone components for the medical device industry	-	-

Source: Capital IQ EV = enterprise value; LTM = last 12 months

About Capstone Partners LLC

Capstone Partners LLC is a leading national investment banking advisory firm dedicated to serving the transaction needs of middle market companies. The firm provides corporate sale & divestiture, merger & acquisition and private placement advisory services across four major industry practices: Business Services, Specialty Products, Technology Solutions and Health & Wellness. Our team possesses significant experience spanning hundreds of M&A and financing transactions. All of our transactions are supported through industry-specific research and relationship coverage capabilities.



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