

### Continued Consolidation for Medical Supplies

#### Recent Deal Notables

**Midwest Medical acquires Harris Hospital Supply.** Harris Hospital Supply is a Chicago-based distributor of hospital products. The acquisition is expected to boost Midwest's revenues by at least \$1.5mm per month and open up distribution channels in the Chicago area. Terms were not disclosed.

**Henry Schein completes all-cash acquisition of Colonial Surgical.** Colonial Surgical is a leading examination glove distributor with annual revenues of approximately \$40mm. The acquisition is expected to be accretive and will augment Henry Schein's disposable medical products offerings. Terms were not disclosed.

**DMS Health Group acquires North Star Medical Systems.** North Star Medical Systems markets patient monitors, respiratory products and medical supplies to health care facilities. The acquisition is expected to expand DMS Health's line of cardiac and monitoring products in Minnesota, North and South Dakota, and Iowa. Terms were not disclosed.

**Sola International acquires three ophthalmic companies.** Sola acquired Copeland Optical, Kansas City Ophthalmics and Siouxland Ophthalmic Laboratories, all three of which manufacture and distribute optical goods. Their estimated combined revenues are approximately \$9mm. The acquisitions will increase Sola's distribution capabilities in the mid- and southwest regions. Terms were not disclosed.

**Integra Lifesciences acquires JARIT Surgical for \$44.5mm.** JARIT develops and markets surgical instruments and achieved revenues of approximately \$40mm. The acquisition broadens Integra's existing customer base and allows it to expand into new market segments.

#### Sector Snapshot

**Cost of Doing Business Continues to Rise:** Cuts in Medicare reimbursements, as well as inquiries into fraud and other abuses of the Medicare system, have squeezed the profit margins of most medical manufacturers. The fierce competition between smaller medical supply manufacturers continues to exacerbate the downward pressure on prices.

**Consolidation on the Horizon:** Hospitals and physicians have formed large, consolidated buying groups (CBGs) to capture economies of scale and leverage their purchasing power. These CBGs have reduced the ability of smaller medical manufacturers to compete on pricing. Pricing pressures and demand for single-source vendors have forced many medical suppliers to pursue strategic mergers and acquisitions in order to scale their businesses.

**Home Healthcare Emerges as a Hot Sector:** Home healthcare companies have emerged as important new buyers of medical supplies, as many medical services previously offered only in hospitals are now available in the home. The high-growth, cost-effective home healthcare industry is gaining favor as hospitals drastically reduce the length of patient stays.

**Baby Boomers Fueling Growth:** Advancements in healthcare have extended the lifespan of this large, aging demographic. A more affluent group than previous generations, baby boomers are expected to fuel growth and demand for medical procedures, particularly in orthopedic and cardiac surgeries.

#### Public Equities and Capstone Index

Company Name	Operating Data			Valuation Data		
	EBITDA Margin	EBIT Margin	Earnings Margin	EV / Revenue	EV / EBITDA	EV / EBIT
<b>Medical Manufacturers</b>						
ALARIS Medical Systems Inc. (AMI)	20.8%	15.7%	NM	2.9x	8.9x	18.4x
CONMED Corporation (CNMD)	19.5%	17.1%	7.1%	1.8x	9.2x	10.5x
Diagnostic Products Corporation (DP)	24.2%	21.3%	15.6%	3.1x	12.7x	14.6x
Merit Medical Systems, Inc. (MMSI)	30.8%	19.7%	14.6%	3.2x	10.4x	16.2x
Sybron Dental Specialties (SYD)	18.3%	16.4%	11.4%	2.7x	15.0x	16.7x
Young Innovations, Inc. (YDNT)	23.6%	20.3%	9.4%	2.4x	10.1x	11.7x
Cooper Companies, The (COO)	30.0%	26.5%	16.2%	3.5x	11.5x	13.1x
<b>Average</b>	23.9%	19.6%	12.4%	2.8x	11.1x	14.5x
<b>Median</b>	23.6%	19.7%	13.0%	2.9x	10.4x	14.6x
<b>Harmonic Mean</b>	23.1%	19.0%	11.3%	2.7x	10.8x	14.0x
<b>Medical Distributors</b>						
Henry Schein, Inc. (HSIC)	8.0%	7.0%	4.2%	0.9x	11.2x	12.9x
Owens & Minor, Inc. (OMI)	2.7%	2.3%	1.3%	0.3x	9.9x	11.6x
Priority Healthcare Corporation (PHCC)	5.8%	5.7%	3.6%	0.6x	9.5x	9.7x
PSS World Medical, Inc. (PSSI)	3.2%	2.1%	NM	0.5x	15.7x	23.3x
SRI/Surgical Express, Inc. (STRC)	6.9%	2.9%	1.0%	0.5x	7.2x	17.5x
West Pharmaceutical Services (WST)	15.8%	8.2%	3.7%	1.2x	7.5x	14.5x
<b>Average</b>	7.1%	4.7%	2.8%	2.0x	10.7x	14.6x
<b>Median</b>	6.4%	4.3%	3.6%	2.5x	10.4x	14.5x
<b>Harmonic Mean</b>	5.0%	3.5%	2.0%	1.1x	10.3x	13.9x

EV = Enterprise Value = (Market Cap + Net Debt + Minority Interest + Preferred Stock)

Sources: Capital IQ and company data

#### Acquirers on the Hunt

**Large, public national medical supply distributor** seeking to acquire profitable, regional and niche manufacturers of all sizes, primarily those located on the west coast.

**Leading medical products manufacturer** looking for plastics and disposable medical supply manufacturers with revenues between \$5-25mm, primarily in the western half of the United States.

**Private medical supply distributor** looking to expand its national presence through acquisitions of full-line or niche distributors. Its primary focus is on those located in the southeast, but would also consider other companies.

**Large, public medical products manufacturer** seeking private niche manufacturers of disposable medical products, particularly companies with an emphasis on operating-room medical supplies with revenues between \$10-50mm.

**Mid-sized medical products manufacturer and distributor** in search of niche cardiology and radiology medical supply manufacturers. Desirable companies would have revenues between \$1-150mm and can be located anywhere within the United States.

