



Capstone Partners

MEDICAL DEVICE OUTSOURCING

Q1 2017

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M&A ACTIVITY

In 2016, 54 identified transactions were announced or closed in the Medical Device Outsourcing industry. Although the majority of transactions were conducted by strategic buyers, private equity was active in the sector both as buyers as well as sellers. Three notable private equity divestitures were completed including Riverside Partners sale of portfolio company Tegra Medical to Switzerland based SFS Group, TE Connectivity's acquisition of Creganna (which was owned by Permira Funds) and the sale of Golden Gate Capital backed Phillips-Medisize Corporation to Molex.

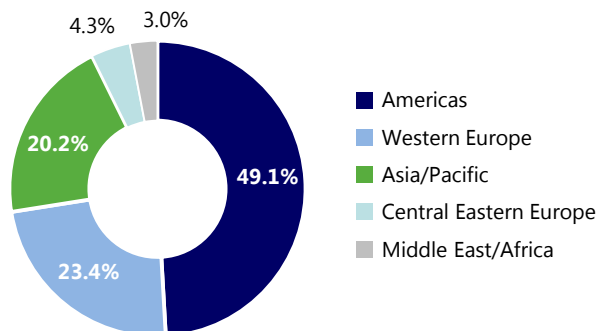
Although not quite as many mega mergers were completed as compared to 2015, the drive for scale among OEMs continued in 2016 and into early 2017 with the completion of Abbott Laboratories' \$25.0 billion purchase of St. Jude Medical, Stryker's \$2.8 billion acquisition of Sage Products and Medtronic's \$1.1 billion purchase of Heartware International. By necessity, outsourced providers will need to expand capacity and add capabilities to keep pace with the consolidation occurring among medical device OEMs.

INDUSTRY OUTLOOK

In addition to increased adoption and acceptance of outsourcing business models among medical device OEMs, several demographic and macroeconomic factors are contributing to ongoing growth in the Medical Device Outsourcing industry. One leading driver is increased healthcare utilization as baby boomers age. Prevalence of a number of chronic

illnesses, such as cancer, diabetes, and joint and cardiovascular diseases, are increasing as the US population ages. Individuals aged 65 and older are three times more likely to experience at least one hospital stay and visit a physician's office twice as often as the rest of the population. In 2016, the industry also benefitted from a two year moratorium on the 2.3% medical device excise tax with many expecting a corresponding boost in R&D as a result of the tax savings.

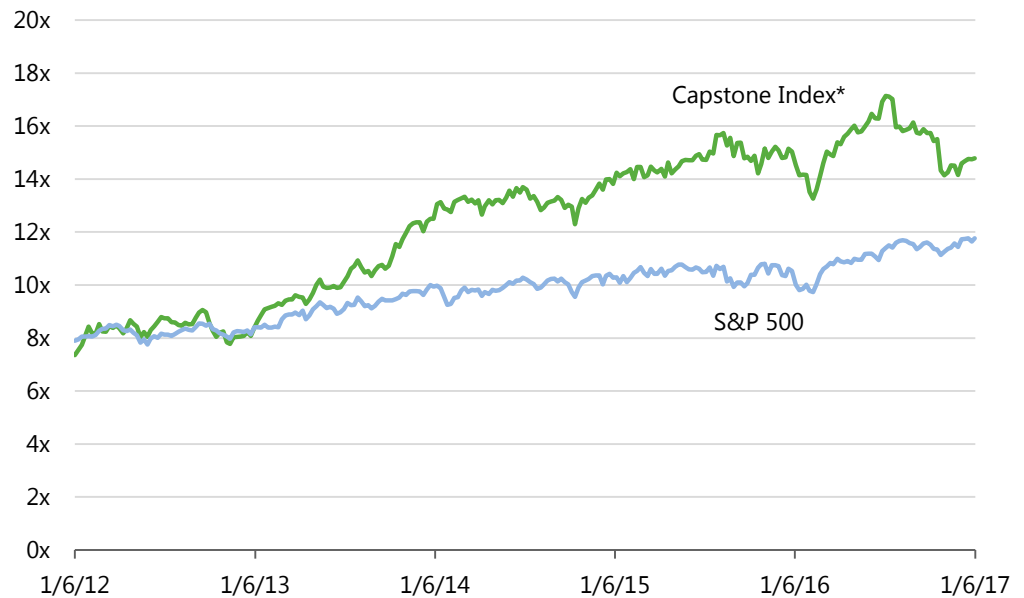
2016 Medical Device Market By Region



Source: 2016 ITA Medical Devices Top Markets Report, "Medical Devices Market: Forecast for Growth."

Other major trends impacting the sector include strong growth in emerging markets (including China, India, Russia and Brazil) as well as the migration to value based reimbursement models in the US. Both of these dynamics are spurring development of devices that not only improve patient outcomes but do so more cost effectively. Despite faster growth in emerging countries, the US will remain a vital region for OEMs since it accounts for nearly half of the global market. Additionally, uncertainty regarding tariffs and trade agreements and increased pressure from the current US administration to manufacture domestically may spur more cross-border deals.

MEDICAL DEVICE OEMS: AVERAGE PUBLIC COMPANY EBITDA MULTIPLE



*Boston Scientific Corp., CONMED Corp., Greatbatch Inc., Integra LifeSciences Holdings, Medtronic plc, NuVasive Inc., Stryker Corp., Teleflex Inc. and Zimmer Biomet
Sources: Capital IQ; Capstone Partners LLC Research

NOTABLE TRANSACTIONS

SFS Group acquires Tegra Medical (November 2016) – SFS Group, a Swiss provider of customized precision formed components and mechanical fastening systems, acquired Tegra Medical, a medical device outsourcing company owned by private equity firm Riverside Partners. Terms of the deal were not disclosed. Located in Massachusetts, Tegra Medical offers end-to-end medical device solutions including prototyping and development, manufacturing and assembly, and packaging. "This is a very exciting development for Tegra Medical," commented David Belluck, General Partner at Riverside Partners. "During our ownership, the company experienced a significant transformation and became a leading contract manufacturer through acquisitions, investments in technology, organic sales growth and new customer wins." Moving forward, Tegra Medical will operate as an independent division of SFS Group.

Molex acquires Phillips-Medisize Corporation (August 2016) – Molex, an electronic developer and one of the world's largest interconnect solutions companies, acquired Golden Gate Capital's portfolio company Phillips-Medisize for an undisclosed amount. As a leading medical device and pharmaceutical outsource provider, Phillips-Medisize has more than 17 locations throughout the US, Europe, Mexico and China and employs over 4,300 people. Approximately 85.0% of Phillips-Medisize's revenue is derived from medical device and diagnostic products and drug delivery. "Molex's global scale in electronics, coupled with Phillips-Medisize's strength in designing and manufacturing innovative products for medical device customers, will help us become a global leader in connected health solutions," stated Matt Jennings, Phillip's-Medisize President and CEO. Molex Senior Vice-President of Business Development and Corporate Strategy added, "Phillips-Medisize has a talented, experienced and innovative team that has strong customer relationships because of its outstanding ability to serve the unique needs of the medical solutions market."

MEDICAL DEVICE OUTSOURCING: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
12/22/16	CSafe	Thomas H Lee. Partners	Designs and manufactures cold chain solutions and mobile refrigeration units for the medical device sector.	-	-	-
12/05/16	MEDRON	Flexan	Manufactures percutaneous catheters and related medical devices for OEMs.	-	-	-
11/15/16	Avomeen	High Street Capital	Provides testing, development, and analytical services to pharma and medical device manufacturers.	CF	CF	CF
11/14/16	Tegra Medical	SFS Group	Provides contract manufacturing and assembly services for the medical device industry.	-	-	-
09/30/16	Tekna Seal	Winchester Electronics	Manufactures hermetically sealed connectors, hermetic seals and ceramic-to-metal seals.	\$10.5	-	-
09/19/16	ATEK Plastics	All-Plastics	Manufactures plastic injection molded products.	-	-	-
09/12/16	Motion Dynamics	Vance Street Capital	Manufactures custom wire components and wire assemblies.	-	-	-
09/01/16	Xeridiam Medical Devices	PPC Industries Kelpac Medical	Designs medical devices focused in gastroenterology and urology for healthcare companies.	\$10.5	-	-
08/17/16	Phillips-Medisize	Molex	Provides outsource design, development and manufacturing services.	-	-	-
08/09/16	ETE Medical	Confluent Medical Technologies	Manufactures biomedical textiles for device manufacturers.	-	-	-
08/04/16	inVentiv Health	Advent International	Leading provider of integrated commercial and consulting services to the life sciences industry.	\$3,800.0	1.7x	-
08/04/16	Validation Specialists	AM Technical Solutions	Engages in the compliance, verification and validation of medical device systems, equipment and processes.	-	-	-
08/01/16	Novex Clinical Research	BTC Network	Assists pharmaceutical and medical device companies in developing new and effective products.	-	-	-
07/14/16	Accel Biotech	Ximedica	Medtech design firm.	-	-	-
07/04/16	Aurum Healthcare	Accuron Technologies	Contract manufacturer of medical devices for cardiology, cardiovascular, pulmonology, orthopedics and anesthesiology.	-	-	-
06/27/16	Mold Rite	Sound-Rite Plastics	Operates as a custom plastic injection molding company.	-	-	-
06/21/16	Lathrop Engineering	Paramit	Engineers, develops, and manufactures diagnostic and analytical instrumentation on an outsourced basis.	-	-	-
06/13/16	CEA Medical Manufacturing	Graphic Controls	Manufactures final packaged critical care medical devices.	-	-	-
06/13/16	Specialty Silicone Fabricators	Trelleborg Sealing Solutions	Develops and manufactures silicone-based combination medical products.	-	-	-
06/10/16	Forum Plastics	Squadron Capital	Custom medical injection molder.	-	-	-
05/09/16	Mangar Industries	Oliver Products	Manufactures sterile barrier packaging products for medical device manufacturers.	-	-	-
02/02/16	Creganna Medical	TE Connectivity	Provides outsourced design services for minimally invasive medical device products.	\$895.0	3.6x	-
01/11/16	NorMedix	SurModics	Provides medical device design and development services	\$14.0	-	-

CAPSTONE PARTNERS: SELECT MEDICAL TRANSACTIONS

Capstone Partners recently advised Avomeen Analytical Services (“Avomeen”) on its recapitalization with High Street Capital. Avomeen specializes in providing outsourced formulation and product development life cycle support, and analytical laboratory and testing services. With an exceptional scientific staff including 22 Ph.D. chemists, Avomeen has developed an unparalleled track record for tackling the most complex analytical problems related to product development, quality and manufacturing.



“Avomeen has experienced rapid organic growth but we are only scratching the surface on the opportunity. We have reached a key inflection point and it’s time to get the word out on our unmatched ability to provide customized solutions for complex problems. I am quite pleased to be partnering with High Street Capital,” commented Avomeen Founder Shri Thanedar, Ph.D.

“We expect the robust M&A activity within the Lifesciences Outsourcing industry that we’ve seen in 2016 will continue in 2017,” Capstone Partner’s Mark Surowiak added, “Publicly traded outsourced providers are trading at high valuations and are aggressively pursuing acquisitions. Additionally, private equity is attracted to the sector due to its solid fundamentals, high fragmentation, strong growth dynamics and attractive exit options for businesses that achieve scale.”



THE MEDICAL DEVICE OUTSOURCING TEAM



Eric Williams, Managing Director
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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 2016, he received the "USA Deal of the Year" at the M&A Atlas Awards for his work on the acquisition of Progressus Therapy, LLC and in 2014 was awarded both "M&A North American Middle Market Deal of the Year" at the M&A Atlas Awards and "Cross Border Deal of the Year" from the M&A Advisor for his work on the sale of T-DOC Company LLC. 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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Matthew serves as an Associate with Capstone's Philadelphia investment banking team, where his focus includes providing advisory services, transaction execution and client engagements to multiple industries and sectors. Prior to joining Capstone, Matthew was pursuing a career in the NFL and was signed by the Kansas City Chiefs and Miami Dolphins. Matthew graduated from Southern Methodist University with a BA in Economics and earned a Masters in Finance from the University of Cincinnati. He is a Series 79 and 63 Registered Securities Representative.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, 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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