



**Epsilon Securities, LLC**  
advisors in healthcare

# Medical Contract Manufacturing & Engineering Observations

March 2011

# Current State of the Medical CM / CE Market

*An Industry in High Demand*

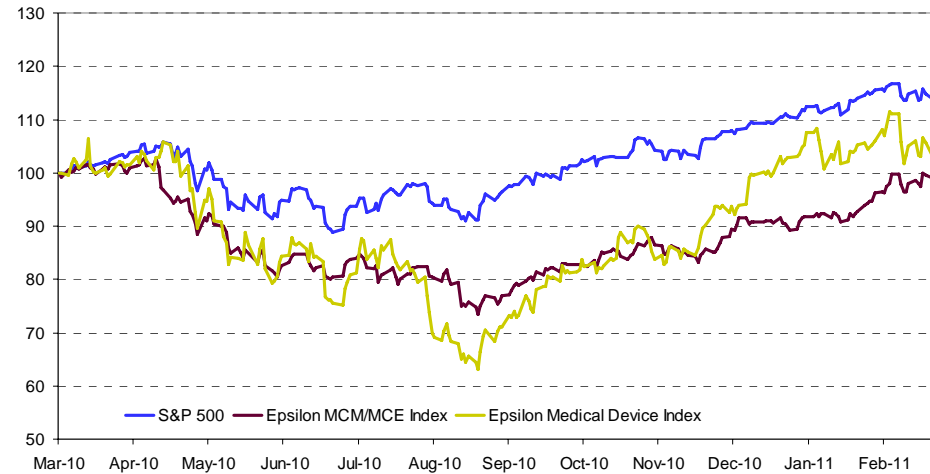
## A Strong Growth Industry

- The medical device contract manufacturing industry is expected to grow from \$13.9bn globally in 2007 to \$25.4bn in 2011, according to a report by Kalorama Information
- The authors of the same report believe that the industry is in a similar state to the electronics industry 20 years ago, where approx. 20% of the costs were outsourced. Today, over 85% of those costs are outsourced. Medical manufacturing costs are currently estimated to be 30% outsourced
- The strongest future growth is expected in the orthopedics and cardiovascular sectors

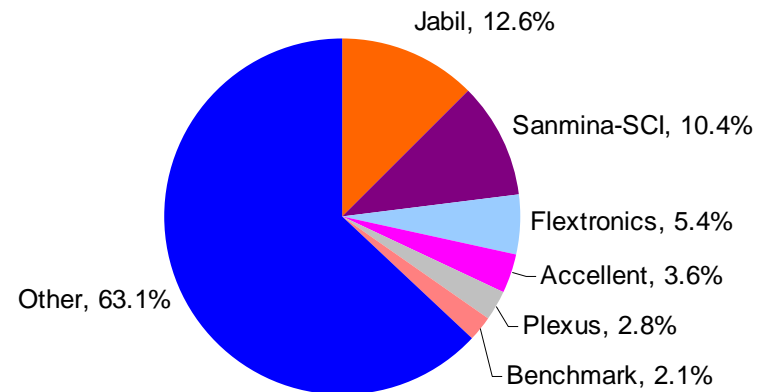
## High Fragmentation & Specialization

- Over 63% of the industry's revenue are derived from smaller, specialized companies outside of the top 6 vendors, unlike most sectors of medical devices which tend to be highly concentrated
- Many medical CMs / CEs have developed product or therapeutic expertise; this specialization can enhance margins and create a defensible strategy
- High barriers to entry due to regulatory requirements, quality control and safety concerns

## Relative MCM/MCE Index Performance YTD



## Revenue Segmentation by Vendor



# Comparable Companies Analysis

Limited Pure Play Medical Contract Manufacturing / Engineering Public Universe

## Contract Manufacturing / Engineering

Company	Share Price	52 Week		Price as a % of 52-wk High	Market Cap	Enterprise Value	Enterprise Value to LTM:			Price to Earnings
		High	Low				Rev	EBITDA	EBIT	
Benchmark Electronics Inc.	\$17.97	\$22.82	\$13.91	78.7%	\$1,098.8	\$763.8	0.3 x	5.6 x	7.9 x	13.9 x
Flextronics International Ltd.	\$7.41	\$8.50	\$4.86	87.2%	\$5,631.7	\$6,264.2	0.2 x	5.5 x	9.4 x	11.6 x
Jabil Circuit Inc.	\$20.22	\$23.09	\$10.17	87.6%	\$4,405.1	\$5,089.0	0.4 x	7.1 x	11.8 x	17.8 x
Plexus Corp.	\$28.84	\$39.66	\$21.08	72.7%	\$1,169.1	\$1,152.5	0.5 x	7.7 x	10.8 x	12.2 x
Sanmina-SCI Corp.	\$14.16	\$20.30	\$8.92	69.8%	\$1,135.1	\$1,915.4	0.3 x	5.8 x	8.1 x	13.0 x
Symmetry Medical, Inc.	\$8.75	\$12.05	\$8.06	72.6%	\$318.0	\$398.3	1.1 x	7.9 x	13.7 x	22.4 x
<b>Mean</b>							<b>0.5 x</b>	<b>6.6 x</b>	<b>10.3 x</b>	<b>15.2 x</b>
<b>Median</b>							<b>0.3 x</b>	<b>6.5 x</b>	<b>10.1 x</b>	<b>13.5 x</b>

Notes:

- Calculated as of March 11, 2011

## Medical Devices

Company	Share Price	52 Week		Price as a % of 52-wk High	Market Cap	Enterprise Value	Enterprise Value to LTM:			Price to Earnings
		High	Low				Rev	EBITDA	EBIT	
Baxter International Inc.	\$52.11	\$60.24	\$40.25	86.5%	\$30,193.9	\$32,124.9	2.5 x	9.2 x	11.4 x	21.8 x
Boston Scientific Corporation	\$7.44	\$7.96	\$5.04	93.5%	\$11,333.9	\$16,558.9	2.1 x	8.9 x	15.8 x	NM
Covidien plc	\$52.52	\$53.75	\$35.12	97.7%	\$25,936.9	\$29,146.9	2.8 x	10.4 x	12.7 x	16.6 x
Medtronic, Inc.	\$38.63	\$46.35	\$30.80	83.3%	\$41,310.0	\$48,601.0	3.1 x	8.1 x	9.5 x	12.9 x
St. Jude Medical Inc.	\$48.28	\$50.36	\$34.00	95.9%	\$15,716.2	\$17,703.8	3.4 x	11.2 x	13.2 x	17.6 x
Stryker Corp.	\$62.92	\$65.21	\$42.74	96.5%	\$24,617.2	\$21,258.9	2.9 x	9.3 x	11.3 x	19.7 x
<b>Mean</b>							<b>2.8 x</b>	<b>9.5 x</b>	<b>12.3 x</b>	<b>17.7 x</b>
<b>Median</b>							<b>2.8 x</b>	<b>9.2 x</b>	<b>12.1 x</b>	<b>17.6 x</b>

Notes:

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# Private Equity Activity in the MCM / MCE Space

## Representative Portfolio Companies

Portfolio Company	Fund(s)	Active / Realized	Notes
	 	Active	<ul style="list-style-type: none"> <li>Accellent, Inc. provides fully integrated, outsourced manufacturing services to the medical device industry in the cardiology, endoscopy and orthopedic markets</li> <li>Was taken private for \$1.6bn in Oct '05</li> </ul>
		Active	<ul style="list-style-type: none"> <li>Avalign Technologies is a leading provider of outsourced services to medical device OEMs. Avalign provides its customers with a full-service offering including instruments, delivery systems and precision machining</li> <li>Roundtable acquired in Oct '05</li> </ul>
		Active	<ul style="list-style-type: none"> <li>CI Medical Technologies is a full-service supplier of components for precision medical devices. The company contract manufactures high volume injection molded products</li> <li>Altaris invested in Jan '03 and made an European add-on acquisition in '09</li> </ul>
	 	Active	<ul style="list-style-type: none"> <li>CIRTEC Medical Systems has wide ranging contract manufacturing experience including disposables, implantable devices, surgical equipment, diagnostic devices, and interventional devices</li> <li>CharterOak acquired in May '07, recapped the company in Dec '10 with Century Park Capital Partners</li> </ul>
		Realized	<ul style="list-style-type: none"> <li>Colorado MEDtech, Inc. is a medical device outsourcing and critical components company, providing advanced engineering, scientific and medical expertise for the research and development, design and manufacturing needs of its clients</li> <li>Was merged with several companies and sold to Roper Industries in '05 for \$120mm</li> </ul>

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