Third Quarter 2013: Spotlight on Mobility Related and Assistive Products

Welcome to the most recent issue of Lincoln International's Healthcare DealReader, a newsletter focused on market dynamics, M&A trends and events of interest to owners and managers of healthcare businesses globally.

At Lincoln International, we specialize in providing unparalleled M&A advisory services to corporations, financial sponsors and privately-held businesses worldwide. Our knowledge of the healthcare sector, global footprint and commitment to understanding clients' unique business models allows us to successfully pair our clients with partners who are ideally suited to meet long-term growth objectives.

In this issue, we are pleased to share our thoughts on the mobility (orthotics, prosthetics and other rehab and musculoskeletal) and related assistive products and services markets and recent trends that are driving M&A activity.

Lincoln International

Lincoln International Healthcare Group professionals have advised on the following related transactions:

- River Associates Investments, LLC has sold ROSCOE MEDICAL to TENEX CAPITAL MANAGEMENT
- Incline Equity Partners has sold The Orthotic Group to FRAZIER HEALTHCARE
- SUMMER STREET CAPITAL PARTNERS has acquired NEOPS New England Orthotic and Prosthetic Systems
- The Orthotic Group a portfolio company of Incline Equity Partners has acquired AZafo ARIZONA
- MERIT CAPITAL PARTNERS has sold Dr. Comfort to DJO GLOBAL

Categories of Mobility Related and Assistive Products

Mobility related and other assistive products span multiple categories and primarily assist patients with motion and mobility related conditions and provide therapeutic relief to chronic conditions. The following highlights the cross-section of product manufacturers.

	Product Categories				
	Ambulatory DME	Orthopedic Soft Goods	Rehab	Specialized/Custom Orthotics	Lower Extremity Prosthetics
Example Products	Crutches Walkers Orthotics	Knee Braces Ankle Braces	Casts & Splints Cont. Passive Motion Boots Robotic Aid	Diabetic Shoes AFOs Custom Orthotics	Microprocessor Feet, Ankles and Knees Prosthetic Knees Prosthetic Feet
Modalities	Walking (typically geriatric)	Walking / Limb Movement	Walking / Limb Movement	Walking	Walking / Limb Movement
Customization	Low	Low	Medium-High	Medium-High	High
Primary Payers	Medicare	Commercial Medicare	Commercial Workers Comp	Medicare Commercial	Commercial VA Medicare
Relative Price	Low	Low	Medium	Medium	Medium-High
Competitive Environment	High / Very Fragmented	High / Very Fragmented	Medium	High / Very Fragmented	Medium
Example Manufacturers and Distributors	GF, drive, Invacare, Medline, Roscoe Medical	Breg, BSN medical, Cramer, DJO, Össur, United Orthopedic Group	AliMed, DJO, Dynasplint Systems, PerformanceHealth	Boston Brace, BSN medical, Hanger Orthopedic Group Inc., Cranial Technologies, Dr. Comfort, The Orthotic Group, OrthoFeet, Vasyli	Freedom Innovations, iWalk, Orthocare Innovations, Össur, Otto Bock

These product markets are also supported by manufacturers and suppliers of component products and accessories, such as American Prosthetic Components (prosthetic component manufacturer), Silipos (manufacturer of comfort gels) and Knit Rite (specialty textile manufacturer).

Demand Drivers

The demand for mobility related and assistive products is driven by global population dynamics, advancements in technology and materials, and growing access to care and products. The impact of each demand driver varies by product category depending on the condition being treated.

Healthcare reform and patient access. The Accountable Care Act will increase access to care and increase utilization of treatment and comfort products that were previously unavailable to large portions of the population. An additional 30 million individuals in the U.S. now have access to healthcare, which will further support and increase demand for prescribed mobility related and assistive products.

Aging population that is living longer. The U.S. Census Bureau estimates that the percentage of the population age 65 and older will increase from 12.4% in 2005, to 14.5% in 2015, to 19.7% in 2030. According to the AARP, the first of the baby boom generation reached age 65 in 2011 and, for the next 18 years, baby boomers will be turning 65 at a rate of about 8,000 a day. Individuals are also living longer, often with multiple chronic diseases in the later stages of life, and they will require ongoing care, support and significant assistive and comfort healthcare products and equipment.

Chronic conditions are underdiagnosed and growing. The number of individuals who suffer from one or more chronic conditions is large and growing. Chronic conditions in the U.S. are also significantly underdiagnosed (e.g., diabetes). Individuals with chronic conditions have multiple product needs and, as awareness of chronic conditions continues to increase and conditions are diagnosed, demand for mobility related and assistive products will continue to rise.

Advancements in technology and materials are resulting in new treatment options for practitioners and patients. New products and technologies are coming to market rapidly and further increasing demand for mobility related and assistive products. New products include custom bracing, such as ankle-foot orthoses ("AFOs"), designed to improve balance, and higher technology prosthetics, including microprocessor knees, microprocessor ankles and lighter versions of prosthetic feet. New products coming to market serve to increase utilization, enable mobility and improve comfort.

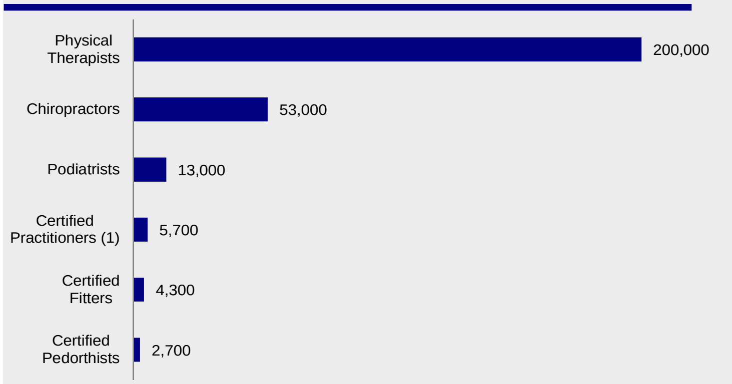
Practitioners focusing on product sales. Mobility products are prescribed and dispensed to end users and patients through a variety of healthcare practitioner channels. Given reimbursement pressures on provider services, healthcare practitioners have focused on increasing product sales to offset lost revenue and margin declines. Healthcare practitioners are also consolidating, which is resulting in greater professionalization and identification of incremental revenue and profitability.

Healthcare consumerism. Given trends in reimbursement, a growing awareness of health conditions among at-risk individuals and an increase in the use of disposable income for comfort, assistive and performance products, consumer cash purchases will continue to drive growth in overall healthcare product utilization. This trend is also driven, in part, by an overall increase in product retailing by the dispensing channels.

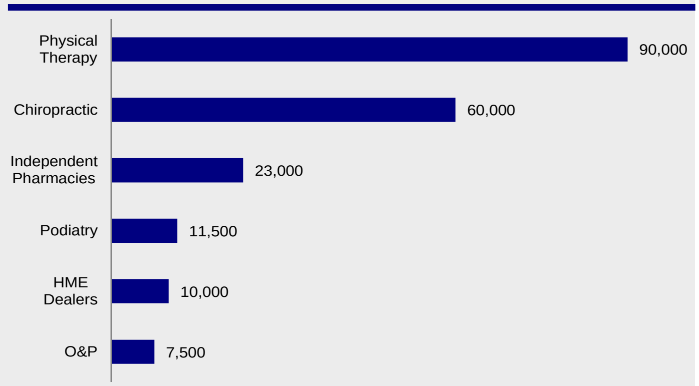
Healthcare Practitioner Distribution Channels

Mobility and related assistive and therapeutic products described in this DealReader are primarily prescribed and dispensed by board certified professionals through multiple healthcare practitioner channels. The following highlights the groups of healthcare practitioners prescribing and dispensing these important products and the dynamics impacting each end market:

Number of Practitioners in the U.S.



Number of Healthcare Clinics in the U.S.

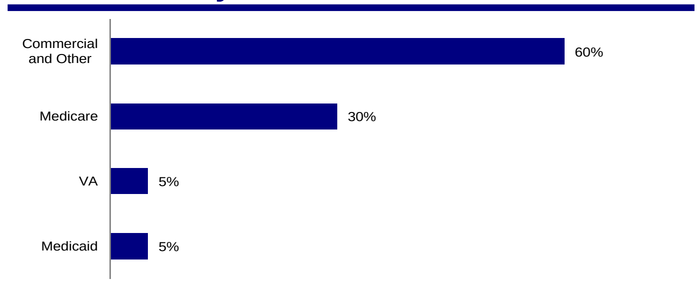


Source: American Board for Certification in Orthotics, Prosthetics and Pedorthics, Inc., Bureau of Labor Statistics, IBIS World
(1) Includes certified orthotists and certified prosthetists

Underlying Reimbursement

The payment for mobility and related products comes from multiple sources, including commercial payers, workers comp, government payers, the veterans administration and out-of-pocket payment by the patient or user. While there is limited information available regarding the global payment for these products and reimbursement varies significantly by product category, the adjacent exhibit provides an estimate of the payer mix for these products. We used the payer mix for Hangar, the publicly traded O&P clinic business, as a proxy for the overall industry payer mix.

Estimated Payer Mix in the U.S.



Source: Lincoln International estimates

M&A Themes and Activity

While overall industry growth is stable and in the mid-to-high single digits, a number of factors drive interest in mobility and related products and provide support for a vibrant M&A market. For example, financial buyers are seeking investment opportunities to participate in the favorable industry dynamics discussed in this DealReader and without the direct reimbursement pressures that may affect revenue and margins of healthcare providers that prescribe and dispense many of these products. Strategic buyers have also been particularly acquisitive historically and have used M&A as a strategic vehicle to supplement organic growth. For example, strategic buyers of mobility and related product businesses have utilized M&A to:

- Take share by acquiring in-market competing products and brands;
- Enter new complementary product markets;
- Enter new end markets and distribution channels;
- Improve operations by acquiring new capabilities, such as overseas (Asian) sourcing; and
- Leverage the target/acquirer's sales and marketing resources.

Reimbursement at the healthcare provider level is also a factor that is affecting the mobility and related products M&A market. Recent cuts in the payment for these products by Medicare and other government and commercial payers have the potential to be disruptive to the large industry incumbents and create new opportunities for smaller, more agile businesses to take market share. For example, middle market and emerging companies have the opportunity to offer customers more cost effective products by leveraging new technologies, a smaller and more efficient infrastructure and differentiated sourcing capabilities.

Recent Mobility Related and Assistive Products M&A Transactions and Growth Investments

Quarter	Target	Acquiror	Products
Q2 2013	Cramer Products	Performance Health	Physical Therapy & Rehab
Q2 2013	Roscoe Medical	Tenex Capital Management	Mobility, Pain Management, HME
Q2 2013	Tibion	Alter G	Robotic Brace
Q2 2013	TeamOlmed	Ossur	Prosthetics, Foot Orthotics
Q1 2013	Orthotic Holdings	Frazier Healthcare	Custom Foot Orthotics, AFOs
Q4 2012	Exos Corp	DJO Global	Bracing
Q3 2012	Performance Health	Gridiron Capital	Physical Therapy & Rehab
Q3 2012	Ossur	William Deman Invest	Prosthetics, Compression, Bracing
Q3 2012	iWalk	Gilde Healthcare Partners	Prosthetics
Q2 2012	BSN Medical	EQT Partners	Compression, Bracing, Splints
Q2 2012	Breg	Water Street Healthcare Partners	Bracing, Cold Therapy
Q1 2012	Freedom Innovations	Health Evolution Partners	Prosthetics
Q4 2011	Cranial Technologies	Cortec Group	Cranial Orthotics
Q3 2011	Arizona AFO	The Orthotic Group	Ankle Foot Orthotics
Q3 2011	Orthofeet	Equis Capital	Therapeutic Footwear, Orthotics
Q2 2011	Dr. Comfort	DJO Global	Therapeutic Footwear, Orthotics
Q1 2011	Circle City / Bell-Horn	DJO Global	Bracing, Compression
Q1 2011	Townsend Design	Thuasne	Bracing
Q1 2011	Vionic Group	Alpine Investors	Therapeutic Footwear
Q1 2011	Orliman	The Riverside Company	Bracing, Compression
Q1 2011	Elastic Therapy	DJO Global	Compression
Q3 2010	Orthocare Innovations	Schooner Capital	Prosthetics (components)

Sources: Capital IQ, Company announcements, MergerMarket

Recent Lincoln International Healthcare Transactions

River Associates Investments, LLC has sold ROSCOE MEDICAL to TENEX CAPITAL MANAGEMENT

DELTA has sold DEUTSCHE FACHPFLEGE HOLDING to CHEQUERS CAPITAL

LINEAGE CAPITAL, LLC has sold Bioreclamation

Incline Equity Partners has sold The Orthotic Group to FRAZIER HEALTHCARE

Serent Capital has sold equinox healthcare to AXELACare a portfolio company of EXCELLERE PARTNERS

BWK has sold WIELAND DENTAL to ivoclar vivadent

Riverside has sold Wildlife International, Ltd. to EAG a portfolio company of ODYSSEY INVESTMENT PARTNERS, LLC

EEF and TRANSITION have sold Santé Pediatric Services to epic a portfolio company of WEBSTER capital

defibtech has been sold to NIHON KOHDEN

ONYX has been sold to sparton

Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. With fifteen offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies. The firm provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest.

Lincoln Healthcare Focus

Healthcare Services	Home Healthcare; Hospice; Home and Specialty Infusion; Outpatient Services; Dental Services; Behavioral Health; Specialty Pharmacy; Institutional Pharmacy; Home Medical Supplies
Medical Devices and Products	Orthopedics; Custom Mobility, O&P and HME; Institutional Equipment and Products; Dental Products; Surgical Tools; Wound Care; Respiratory and Sleep; Minimally Invasive; Components and Supplies
Diagnostics & Research Tools	Diagnostic Systems; Diagnostic Equipment; Assays; Research Equipment; Research Instruments; Laboratory Services; Research Services; Diagnostic Supplies; Consumables
Outsourcing Services	Analytical Lab; Contract Research; Process Development and Design; Contract Manufacturing; Marketing Services; Contract Device Services; Clinical Site Management; Regulatory and Reimbursement
Healthcare Business Services	Emergency Department Management; Contract Behavioral; Business Process Outsourcing; Rental Distribution; Outcomes Management; Wellness and Population Health; Healthcare IT; Employer Services; Institutional Care Outsourcing

Officer Contacts

Shahab Fatheazam
Global Head of Healthcare
sfatheazam@
lincolninternational.com
+1-312-506-2770

Barry Freeman
Managing Director
bfreeman@
lincolninternational.com
+1-312-506-2775

Nick Konstantinou
Managing Director
nkonstantinou@
lincolninternational.com
+1-312-506-2706

Michael Weber
Managing Director
mjweber@
lincolninternational.com
+1-312-506-2763

Tony Crisman
Director
tcrisman@
lincolninternational.com
+1-312-506-2771

James Gilmore
Director
jgilmore@
lincolninternational.com
+1-312-506-2713

Ross Gordon
Director
rgordon@
lincolninternational.com
+1-312-506-2772

Phillip Knotts
Vice President
pknotts@
lincolninternational.com
+1-312-506-2759

Lincoln INTERNATIONAL

Contributors
Michael Weber, Managing Director
Phillip Knotts, Vice President
Megan Lemmerman, Analyst

THE INTERNATIONAL, INDEPENDENT MID-MARKET ADVISOR

AMSTERDAM BEIJING CHICAGO FRANKFURT LONDON LOS ANGELES MADRID
MILAN MOSCOW MUMBAI NEW YORK PARIS SÃO PAULO TOKYO VIENNA