

Q4 2011: Inside this Issue

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

At Lincoln International, we specialize in providing unparalleled mergers and acquisitions advisory services to global corporations, financial sponsors and privately-held businesses. Our knowledge of the

healthcare sector, global footprint and commitment to understanding our clients' unique business models have allowed 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 present an interview with Warren Pinckert, former President and Chief Executive Officer of Cholestech Corporation and an advisor to Lincoln International's

Healthcare Group. This interview covers topics including the impact of healthcare policy changes on the industry as well as the dynamics of globalization on the market and commentary on mergers and acquisitions activity.

We hope that you find this newsletter a useful tool and welcome any comments.

Lincoln International

State of the Healthcare Industry: Interview with Warren Pinckert, former President and CEO of Cholestech Corporation



Warren Pinckert is an advisor to Lincoln International's Healthcare Group. Mr. Pinckert is the former President and Chief Executive Officer of

Cholestech Corporation, a medical device manufacturing company, and the former Chief Financial Officer of Sunrise Medical Inc., an international durable medical equipment manufacturer. He currently sits on the board of CHF Technologies, Inc. (BioVentrix) and was formerly on the board of MedQuist Inc. and PacifiCare Health Systems Inc.

How do you think the Patient Protection and Affordable Care Act (Obamacare) will impact the healthcare industry, markets and companies generally?

In many ways, the impact of healthcare reform has already been absorbed by industry participants. The portions of reform that were near-term, such as taxes on selected healthcare industries, were known, quickly managed and, in certain instances, passed along to end-users and patients in the form of higher prices. Other direct impacts of reform have yet to be understood by anyone, including industry participants, especially since all or portions of the bill are being contested through legal

channels.

One impact of reform, and the uncertainty around its eventual form, is in the area of innovation. Determining the growth potential, pricing pressures, areas of cost reduction and favored technologies/segments going forward will be difficult. A lack of funding not only stifles the creation of start-ups but also limits access to capital for early stage companies. This makes it challenging for investors because there is a lack of capital to support new innovation. In regions and countries with socialized medicine, such as Scandinavia, there has been very little innovation. This is particularly true for medical devices, diagnostics and other product areas of healthcare.

In the age of Obamacare, the best opportunities seem to be in services and technologies that can reduce costs in the healthcare system. Ideally, reform would reduce costs by incentivizing innovation through concepts such as preventative care and personalized medicine. However, there are so few incentives in the reform that cost reduction will only come about through force. Cost and patient management models, many of which are service or technology oriented, will thrive as reductions are sought throughout patient care. Of

course, the prospect of 30 million new patients entering the healthcare system will expand the market opportunity.

How has the regulatory environment evolved during your time in the industry? What impact does the current regulatory environment have on new product development?

When I first started in this industry over thirty years ago, there was not a lot of regulation. For example, take the diagnostic market where my former company Cholestech participated. Once the Clinical Laboratory Improvement Amendment (CLIA) was passed in 1988 and implemented in 1991, the industry changed dramatically. This caused a whole generation of products to be rendered obsolete in the US. Now the system is even more complex and has new regulations and modifications making it more difficult to navigate. Ultimately, this means that innovation tends to target large markets, like diabetes and cardiovascular disease, which are required to justify the investment risks taken for new technologies. Smaller, esoteric markets are going to have a harder time showing attractive investment returns, limiting investor appetite.

Regulation is driving the requirement for more data associated with new technologies and products. Data collection takes time, is cumbersome and has potential unforeseen risks, no matter the type of device or product. Even a 510(k) approval, which traditionally had fast track options, takes a long time to get products to market. As a result, companies are looking at European and Asian markets for first launch.

How has globalization impacted the healthcare market, especially outside the provider service areas that tend to be geographically limited?

Healthcare has always had an international component. However, there has been an evolution in how US and International companies approach the global healthcare market.

Traditionally, the US market was the gold standard for initial product approval and launch. As the largest market, it was the most critical to access; overseas markets were viewed as expansion opportunities. Now, due to regulation and lack of capital, companies are seeking approvals and launching products in European and Asian markets then entering the US once the resources, time and energy required to navigate the FDA are available.

European and Asian companies have been more aggressively buying US companies at attractive prices due to the devaluation of the dollar. Further, depending on how Obamacare plays out, you may see players that have participated in highly regulated / government controlled healthcare markets take a more active role in entering the US market, either organically or through acquisition.

How has M&A consolidation played a role in the evolution healthcare market? Where do you see opportunities going forward?

Consolidation has been a continuous cycle in many healthcare sectors over the last two decades. For example, the laboratory services, medical

device, diagnostic and laboratory equipment sectors had a rapid period of consolidation where many mid-sized companies (with enterprise values between \$250 million and \$1 billion) were rapidly acquired. This left a marketplace with smaller niche players and large players that tended to have a significant distribution channel advantage.

Of course, there are always areas that remain highly fragmented. Healthcare service models that focus on cost management / containment probably present the largest M&A opportunities. Not only companies that help manage the reimbursement and payment channel but also those that manage the patient closer to the point-of-care. Services and technologies that help make the delivery of care in hospitals and physician offices more efficient, thereby reducing costs, will also be in high demand. Companies like MedQuist that are focused on making a person's health records transportable and accessible by a number of providers are very attractive. I see companies with a high level of consumer interaction becoming involved in electronic health records at some point because of the breadth of their contact with the general public. I also know that technology network companies and those familiar with high database management, like Google and Microsoft, are interested in electronic record technologies, though just how remains to be seen.

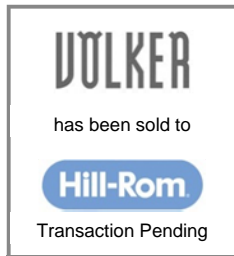
Historically, domestic private equity groups have been reluctant to buy companies with operations overseas because cash generally has to stay outside the US for tax reasons. However, it is only natural that as more business goes off shore, money will follow. I think the US market is going to be increasingly more difficult and foreign-based companies with access to growth economies, especially Brazil, Russia, India and China, offer attractive opportunities. Those countries are increasing their spending on healthcare and have fewer entrenched market participants.

Have the types of companies making acquisitions in the healthcare industry changed?

With Obamacare, there will be the same type of M&A rush to secure the products and services that operate well under regulation. Companies participating in the healthcare market will realign their strategies to fit with a more regulated market through the divestiture of selected product and service lines while acquiring platforms that will help them evolve, remain relevant and maintain growth potential. For example, achieving economies of scale in all markets will become important in a more government regulated healthcare market that will drive cost out of the system.

Healthcare is a very attractive industry that has historically and likely will remain a consistent growth market, even under Obamacare. This has already brought and will continue to bring numerous, non-traditional healthcare companies into the market. Chemicals companies are targeting high margin consumables for the academic, research and pharmaceutical laboratory market; industrial companies are seeking complementary technologies similar to those for industrial applications for medical markets; electronics manufacturers are looking for high volume instruments for near-patient applications; consumer companies are looking for the stickiness associated with healthcare consumer dollars; and aerospace and defense companies are targeting high tech and software opportunities within healthcare. Regardless of the healthcare sector, new entrants are sought after, creating a more competitive M&A environment...and for good reason!

Recent Lincoln International Healthcare Sector Transactions



December 2011
Medical Products & Technology

Lincoln advised Völker, a leading manufacturer of long-term care and acute care bed frames, surfaces and furniture, in its sale to Hill-Rom.



October 2011
Diagnostics & Research Tools

Lincoln advised Reichert, a portfolio company of Beecken Petty O'Keefe and leading designer and manufacturer of diagnostic instruments and equipment for ophthalmologists, optometrists and retail eye care centers, in its sale to Ametek.



August 2011
Medical Products & Technology

Lincoln advised Aurora Resurgence Management Partners in its sale of Lexington Precision Corporation's Rubber Group, a premier manufacturer of precision-molded rubber components which are critical to products in the medical device and automotive end markets, to Industrial Growth Partners.



August 2011
Healthcare Services

Lincoln advised California MedTech, a leading provider of fully integrated design, development and manufacturing solutions for life sciences products, in its sale to BIT.



July 2011
Healthcare Services

Lincoln advised Cardinal Equity Partners and its portfolio company, Advanced Physical Therapy, a leading provider of physical therapy, occupational hand therapy and corporate wellness consulting services in Indiana, in its sale to ATI Physical Therapy, a portfolio company of GTCR.

About Lincoln International

Lincoln International specializes in merger and acquisition 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 ten offices in Asia, Europe and North America, and strategic partnerships with leading institutions in China and India, Lincoln International has strong local knowledge and contacts in the key global economies. The organization 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. More information about Lincoln International can be obtained at www.lincolninternational.com

Lincoln Healthcare Focus

Diagnostics & Research Tools

Controls & Reagents, Diagnostic Instruments & Tests, Laboratory Equipment & Supplies, Molecular Diagnostics and Point-of-Care Diagnostics

Healthcare Services

Healthcare Information Technology, Laboratory Services, Outpatient Services, Outsourced Pharmaceutical Services, Contract Manufacturing and Wellness

Medical Products & Technology

Aesthetics, Cardiovascular, Orthopedics, Surgical Tools, Wound Care and General Devices & Equipment

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