

HEALTH ADVANCES

State of the MedTech Industry

Presented to:

MassMEDIC
Massachusetts Medical Device Industry Council

October 8, 2010

Cloudy with a Good Chance of Thunderstorms

The MedTech industry is under tremendous pressure from several forces, causing paralysis in many companies.

Healthcare Reform

Providers uncertain how to provide care for more people with less funds

FDA Changes

Political scrutiny is raising the bar for approval and compliance

Regulatory Deluge

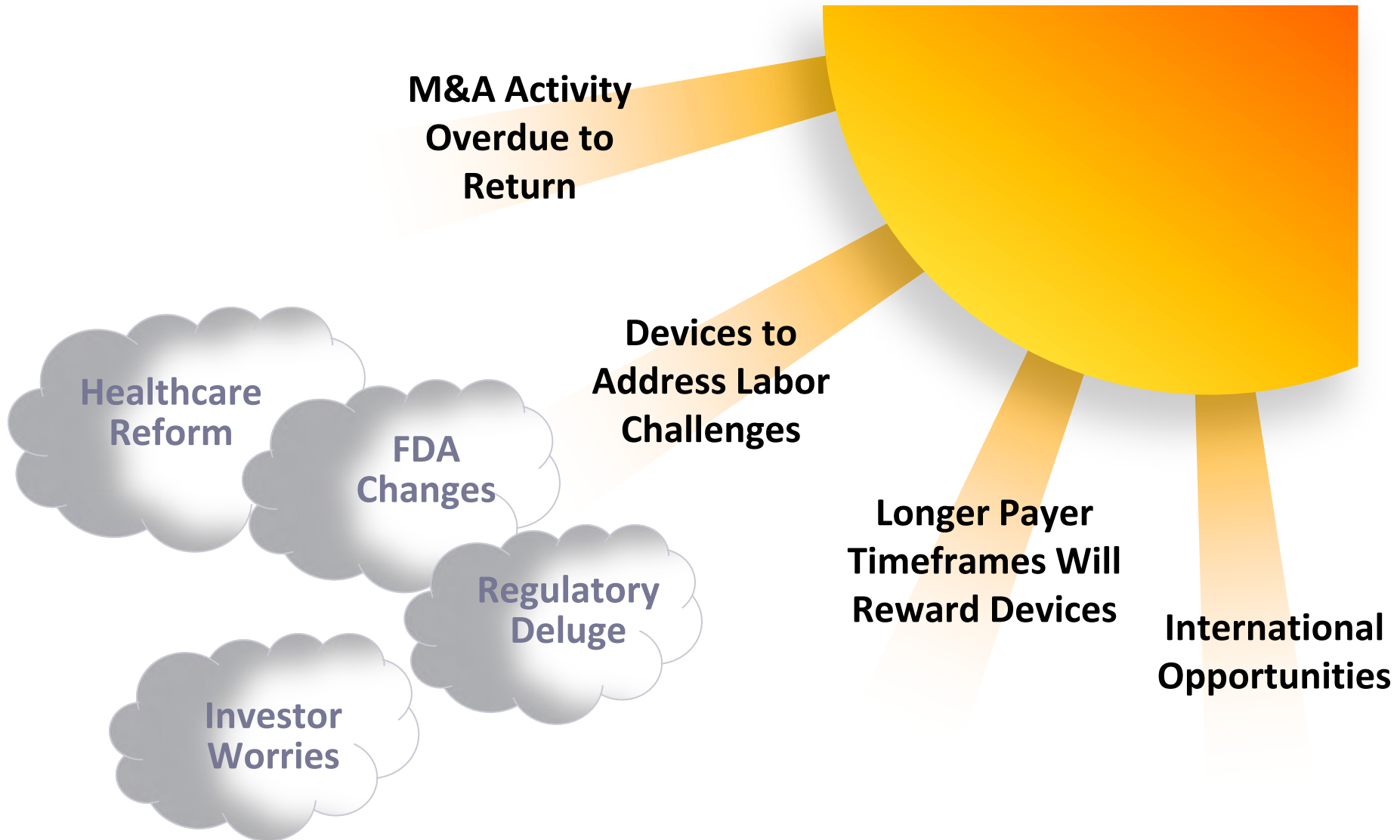
Restrictions on interacting with customers

Investor Worries

Low valuations and few exits

Breaking Clouds with Some Sunshine

Aggressive management teams are exploiting less obvious opportunities.

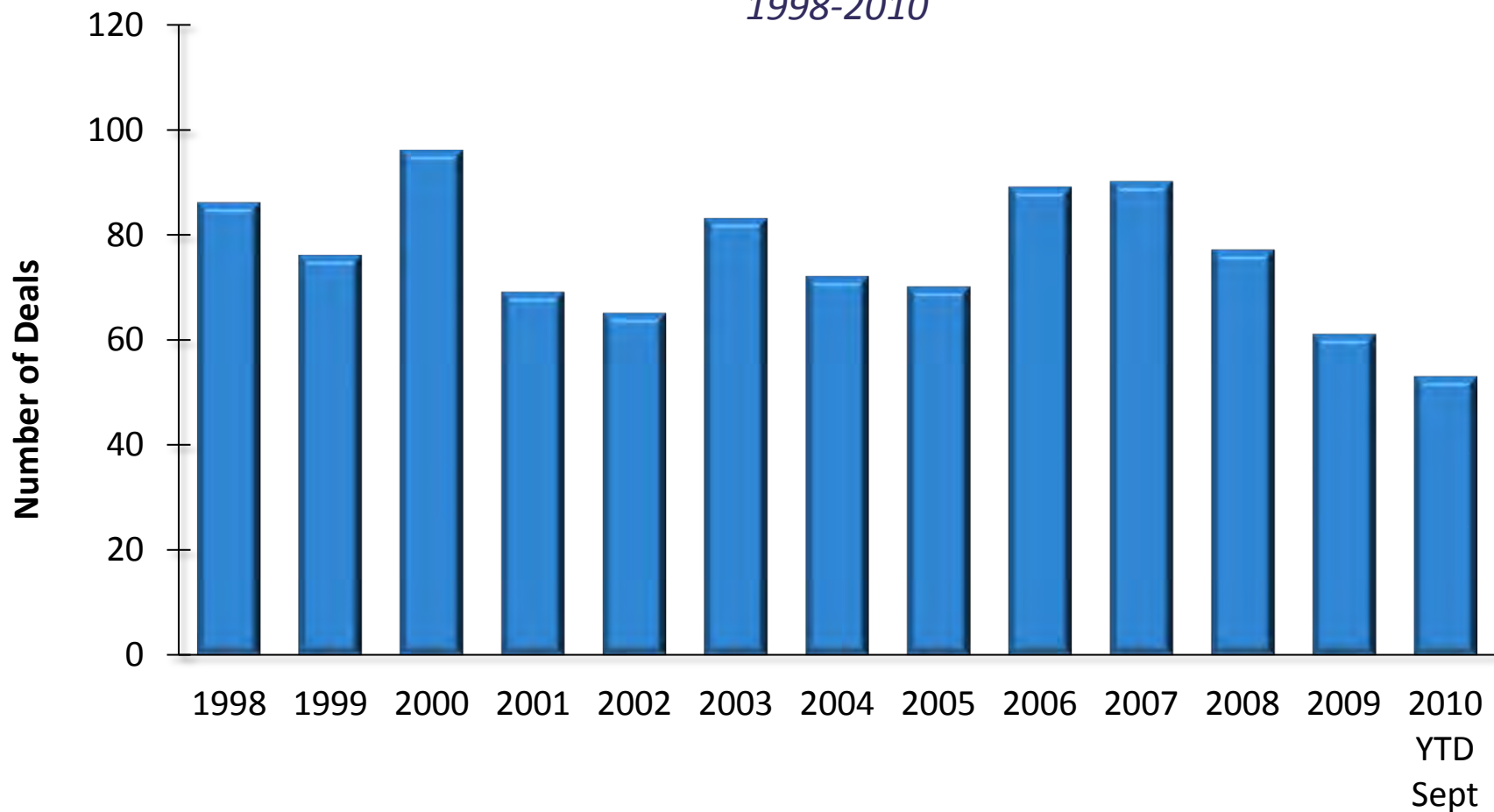


M&A Deal Activity is Due to Rebound

M&A transactions have declined for 3 years to a 12-year low.

Medical Device and Equipment M&A

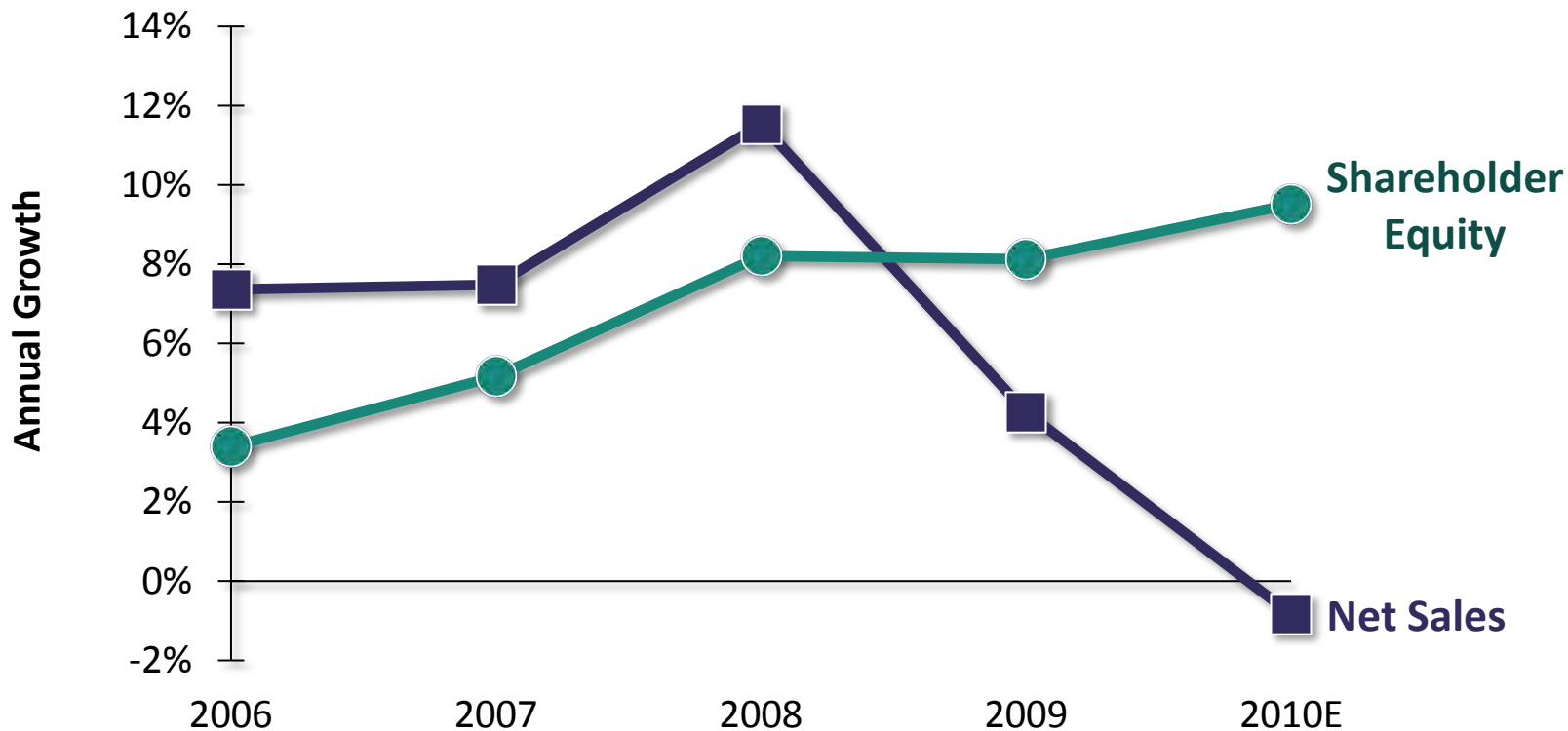
1998-2010



Source: Windhover's Strategic Transactions Database.

Balance Sheets Outpacing Sales Growth

Sales growth is slowing with price and utilization pressures while the balance sheets of major MedTech companies have grown rapidly.

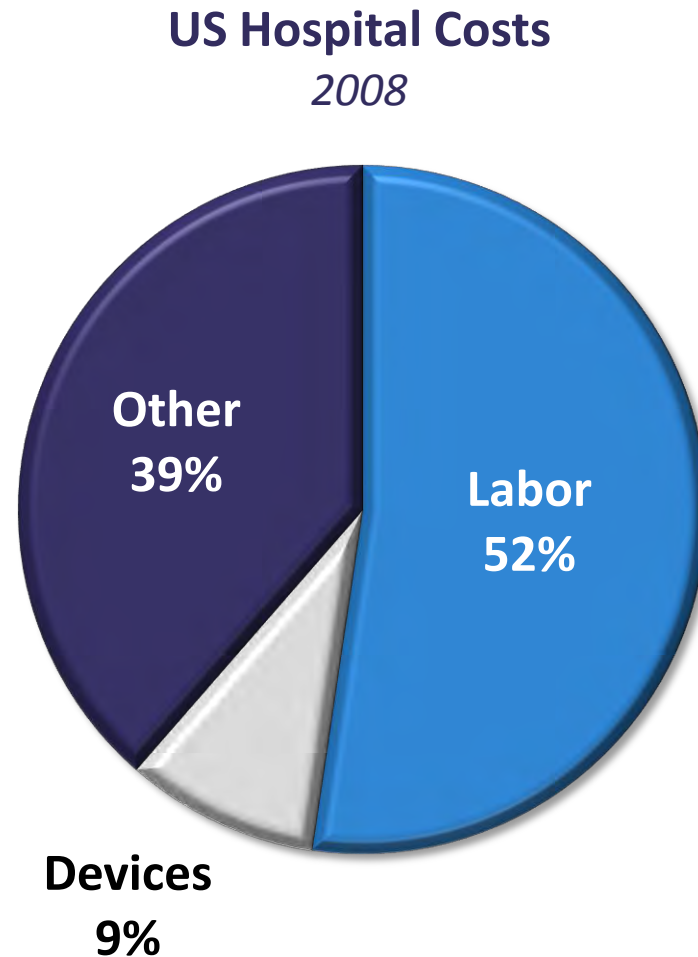


Note: Data is an aggregate of Bard, Becton Dickinson, Covidien, Medtronic, St. Jude, and Stryker
Source: Health Advances analysis, Company SEC Filings.

**What can the industry do
to increase product sales?**

Hospital Cost Structures are Dominated by Labor Costs

Rather than compete for “device dollars,” MedTech companies should focus on displacing “labor dollars.”

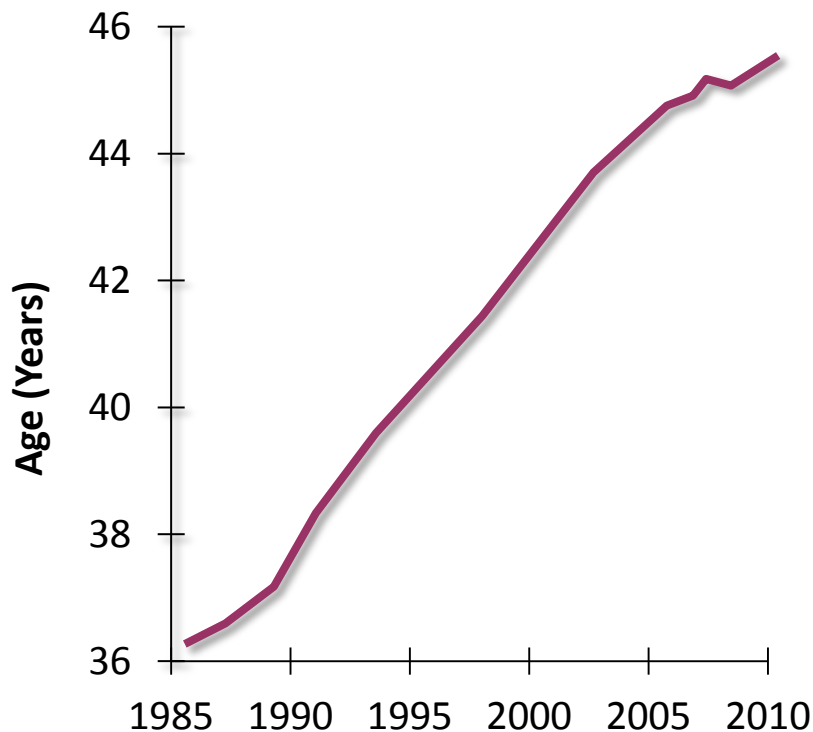


Source: Health Advances analysis, American Hospital Association 2008.

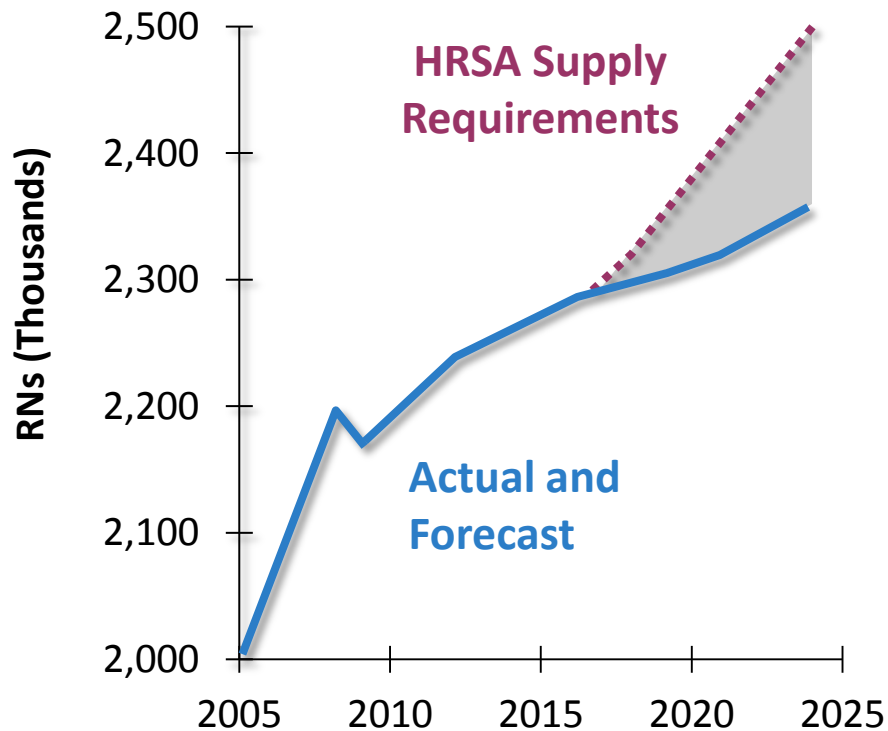
The US is Facing a Major Shortage of Nurses

Even if hospitals could afford them, there will not be enough nurses to meet the needs of healthcare providers by 2018.

Average Age of FTE RNs



Projected Supply and Demand for RNs



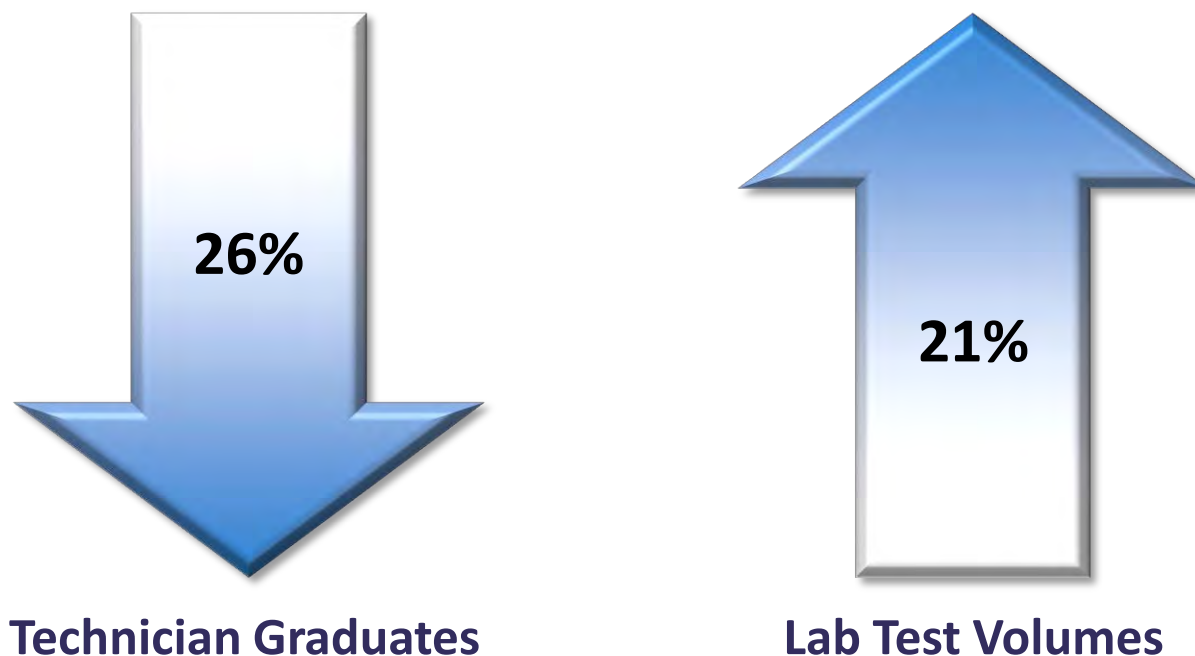
Note: HRSA = Health Resources and Services Administration, RN = registered nurse.
Source: Buerhaus PI, Health Affairs, 2009.

Similar Shortages are Apparent in Ancillary Medical Workers

Laboratory technicians, as an example, have become increasingly scarce.

US Lab Technician & Testing Trends

Percent Change from 2000 to 2006



Source: American Society for Clinical Pathology, Landro, 2009, Wall Street Journal.

Successful Labor Saving Devices

- Automated Lab Processes
- Accessories for Guidewire Systems
- Custom Kits
- Continuous Vitals Monitoring
- Disposable Gowns, Gloves, Hats, etc.
- Disposable Instruments
- Enteral Tube Placement Guidance System
- Infusion Pumps
- PowerPICC s
- POC Diagnostics
- Pre-filled Syringes
- Percutaneous Procedures
le.Tracheostomy, Gastrostomy
- Radio-Opaque X-Ray Gauze
- Telemetry
- Minimally Invasive Surgery
- Vaginal Sling
- Vascular Closure Devices
- Medication Dispensing Cabinets
- PCA Pump
- BPH Lasers
- EMR

Note: PCA = patient controlled analgesia, POC = point of care,
Source: Health Advances analysis.

Payments Continue to Capitate More Care

Payers are moving towards reimbursing episodes of care. Extended payer timeframes will create opportunities for many devices.

Progression of Coding for More Cost -Efficient Care

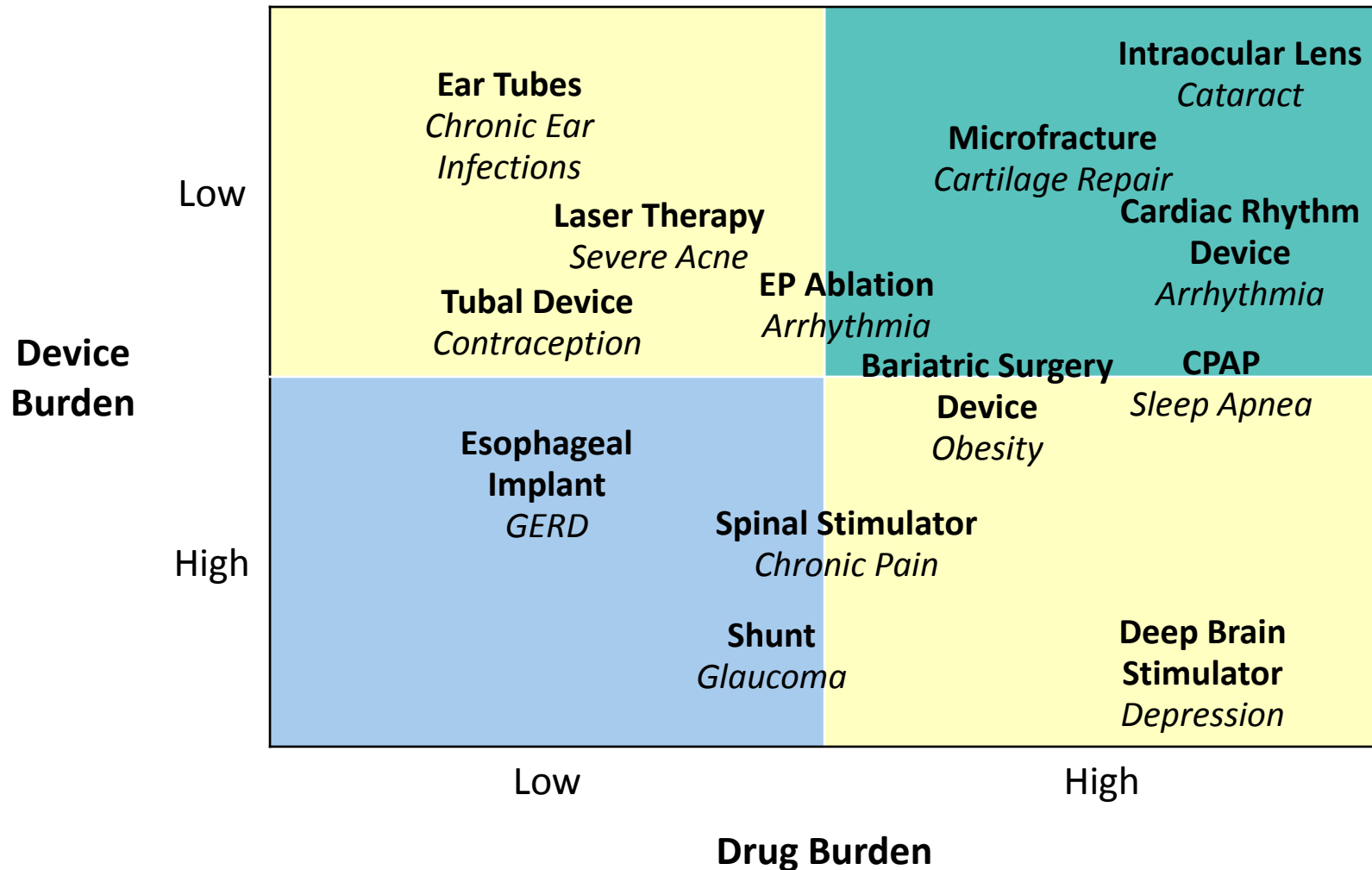


Source: Health Advances analysis

- Devices generally act more locally and may be safer than drugs which can have systemic side effects.
- Devices may provide better long-term clinical outcomes more cost-effectively than drugs.
- Devices have the added benefit of de facto compliance.
- Physicians can earn more fees when performing an in-office device-based procedures.
- Educated patients may demand devices given the cost differentials when compared to drug-based treatments for chronic conditions.

Devices Deserve More Respect

Devices are effectively competing against drugs for many indications.

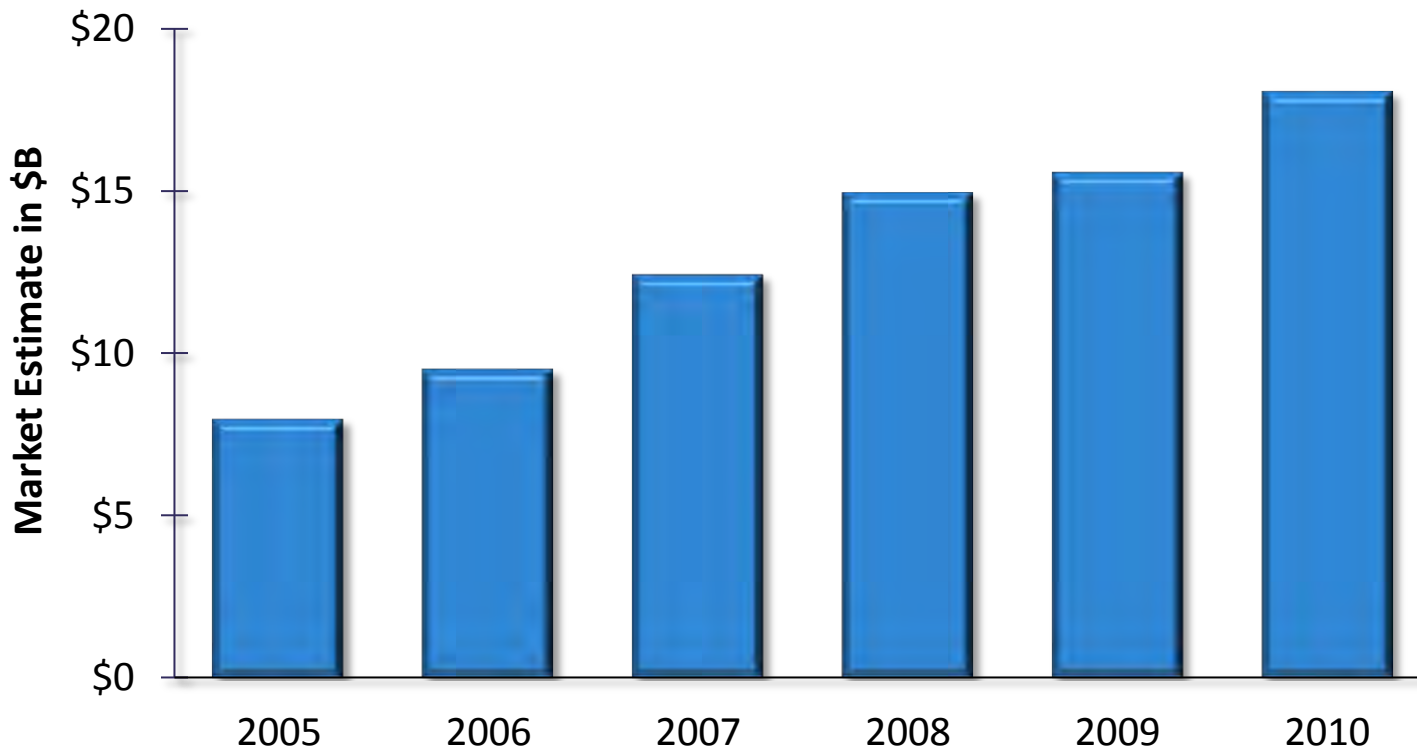


Source: Health Advances analysis.

International Opportunities

The MedTech market is growing rapidly in the developing world. BRIC has grown at 18% per year.

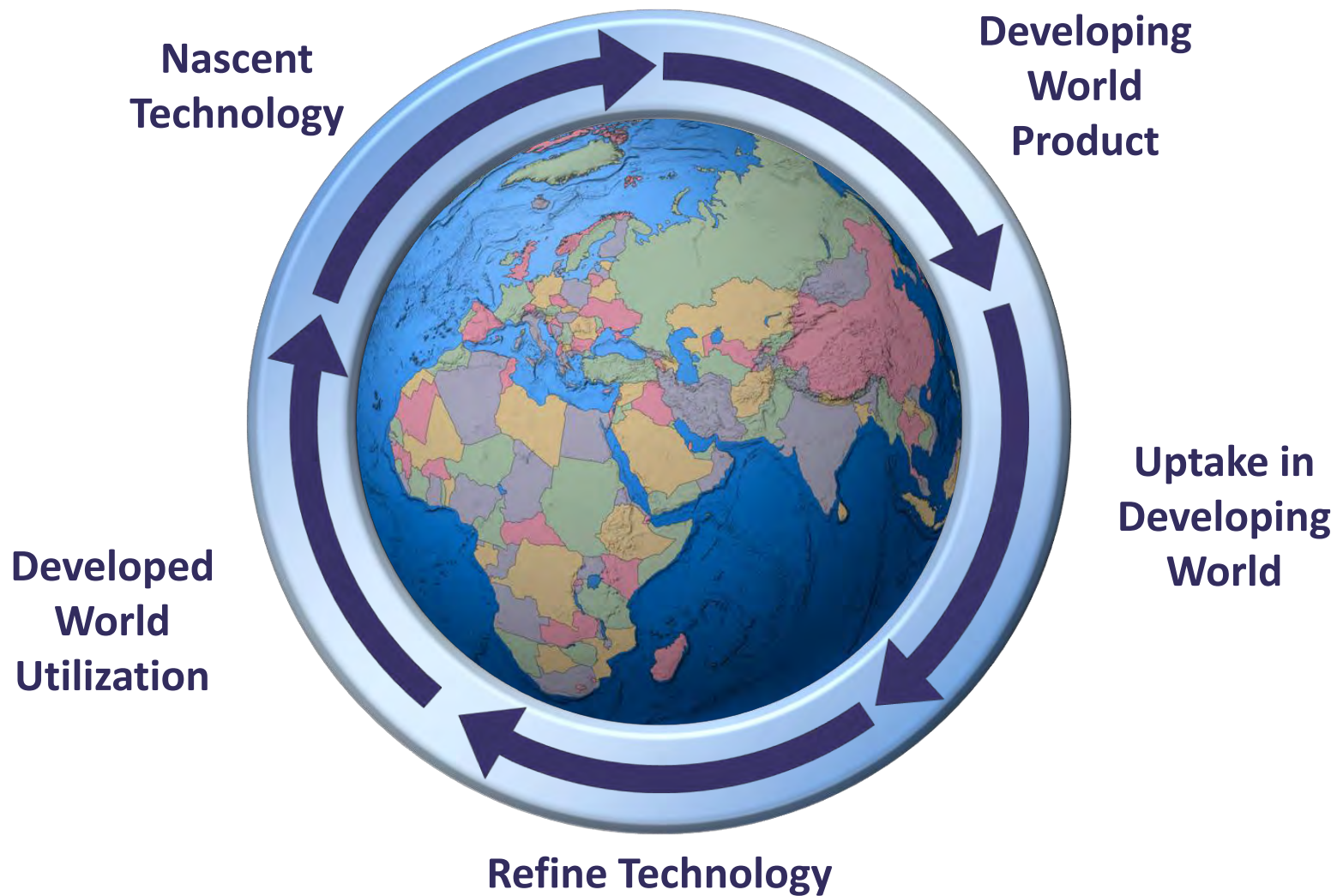
BRIC Medical Device Market
2005-2010



Note: BRIC = Brazil, Russia, India, China.

Source: Espicom, Medical Device Market Intelligence Reports, 2010.

Developing World Products May Pay Developed World Dividends



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