

# VALUE FOCUS

## MedTech Industry

**First Half 2015**

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# How to Value MedTech Venture Capital Portfolio Investments

Venture capital interest in MedTech is growing and has been for some time. A [recent report](#) by CB Insights noted that medical device & equipment have captured over one-third of all deals from the top venture capitalists within the healthcare sector since 2011. The *Wall Street Journal* [noted](#) that the number of MedTech “unicorns” increased to 7 in mid-2015 compared to 3 in the prior year. A number of factors are driving optimism towards MedTech which include technology advancement and increased availability and access to patient data.

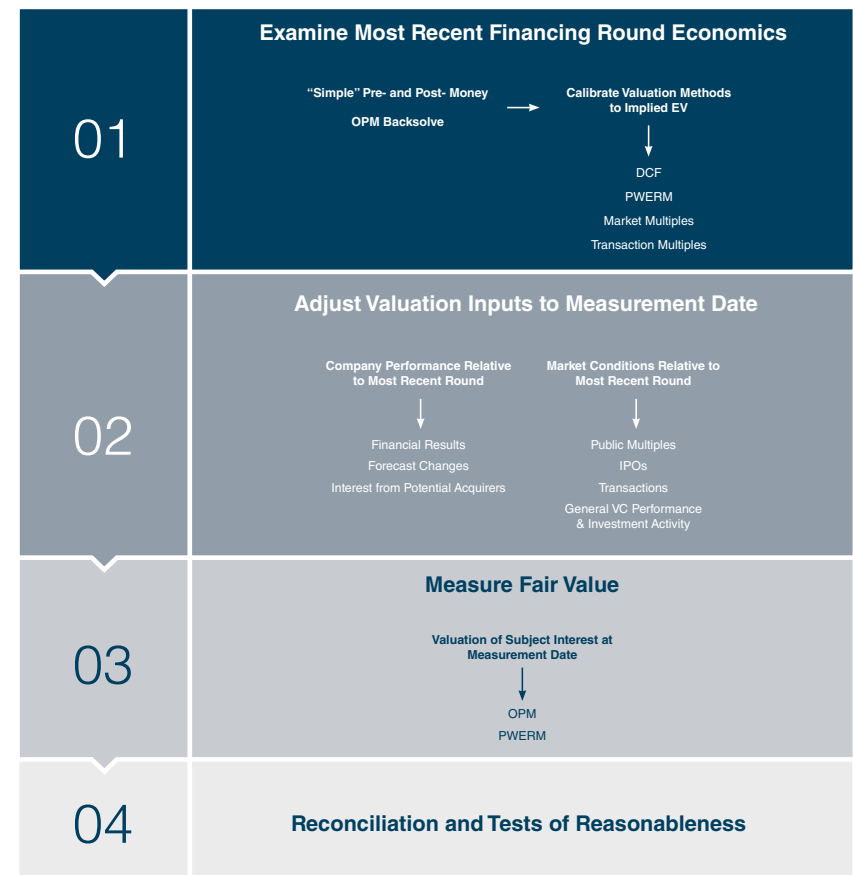
At the same time as the number of MedTech venture capital investments is growing, scrutiny related to VC fund valuation practices, which are often used to assess performance and determine compensation of fund managers, have come under greater scrutiny from VC investors (limited partners). Recently, venture capitalists have been criticized for their opportunistic investing choices in medical devices; moving away from early stage investment and into safer, later-stage deals that herald larger returns. VC investments also generally need to conform to accounting standards (US GAAP or IFRS) in order to provide useful information to investors and withstand auditor scrutiny. Lastly, valuing private equity investments can be difficult due to their illiquid nature and limitations in available information.

Against this backdrop, we thought it might be useful to examine how to value venture capital portfolio investments. While key valuation drivers such as profitability, growth prospects and risks vary among each MedTech niche, the process undertaken by an independent valuation firm should be robust and provide comfort to all interested parties (investors, fund managers, auditors, etc.).

The following outlines our process when providing periodic fair value marks for venture capital fund investments in pre-public companies.

## Examine the Most Recent Financing Round Economics

The transaction underlying the initiation of an investment position can provide three critical pieces of information from a valuation perspective:



- Size of the aggregate investment and per share price.
- Rights and protections accorded to the newest round of securities.
- Usually, but not always, an indication of the underlying enterprise value from the investor's perspective.

Deal terms commonly reported in the press (**example**) focus on the size of the aggregate investment and per share price. The term "valuation" is usually a headline-shorthand for implied pre or post money value that assumes all equity securities in the company's capital structure have identical rights and protections. While elegant, this approach glosses over the fact that for pre-public companies, securities with **differing rights and protections should and do command different prices**.

The option pricing method (OPM) is an alternative that explicitly models the rights of each equity class and makes generalized assumptions about the future trajectory of the company to deduce values for the various securities. Valuation specialists can also use the probability-weighted expected return method (PWERM) to evaluate potential proceeds from, and the likelihood of, several exit scenarios for a company. Total proceeds from each scenario would then be allocated to the various classes of equity based on their relative rights. The use of PWERM is particularly viable if there is sufficient visibility into the future exit prospects for the company.

The economics of the most recent financing round helps calibrate inputs used in both the OPM and PWERM.

- Under the OPM, a backsolve procedure provides indications of total equity and enterprise value based on the pricing and terms of the most recent financing round. The indicated enterprise value and a set of future cash flow projections, taken together, imply a rate of return (discount rate) that may be reasonable for the company. Multiples implied by the indicated enterprise value, juxtaposed with information from publicly traded companies or related transactions, can yield valuation-useful inferences.
- Under the PWERM, in addition to informing discount rates and providing comparisons with market multiples, the most recent financing round can inform the relative likelihood of the various exit scenarios.

When available, indications of enterprise value from the investor's perspective can further inform the inputs used in the various valuation methods.

In addition to the quantitative inputs enumerated above, discussions and documentation around the recent financing round can **provide critical qualitative information**, as well.

## Adjust Valuation Inputs at Measurement Date

Between a funding round and subsequent measurement dates, the performance of the company and changes in market conditions can provide context for any adjustments that may be warranted for the valuation inputs. Deterioration in actual financial performance may warrant revisiting projected cash flows, while improvements in market multiples for similar companies may suggest better pricing could be available at exit. Interest from potential acquirers (or withdrawal of prior interest) and general IPO trends can inform inputs related to the relative likelihood of the various exit scenarios.

## Measure Fair Value

Measuring fair value of the subject security entails using the OPM and PWERM, as appropriate and viable, in conjunction with valuation inputs that are relevant at the measurement date. ASC 820 defines fair value as, "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

## Reconciliation and Tests of Reasonableness

A sanity check to scrutinize fair value outputs is **an important element of the measurement process**. Specifically as it relates to venture capital investments in pre-public companies, such a check would reconcile a fair value indication at the current measurement date with a mark from the prior period in light of both changes in the subject company, and changes in market conditions.

Mercer Capital assists a range of alternative investment funds, including venture capital firms, in periodically measuring the fair value of portfolio assets for financial reporting purposes to the satisfaction of the general partners and fund auditors. Call us – we would like to work with you to define appropriate fund valuation policies and procedures, and provide independent opinions of value.



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## Related Links

- [Valuation Best Practices for Venture Capital Funds](#)
- [Market Participant Perspectives: An Inside Look at the YouTube Seed Round](#)
- [Valuation Best Practices for Alternative Investment Funds](#)

## Public Market Indicators

MedTech industry outperformed the overall market in 1H15

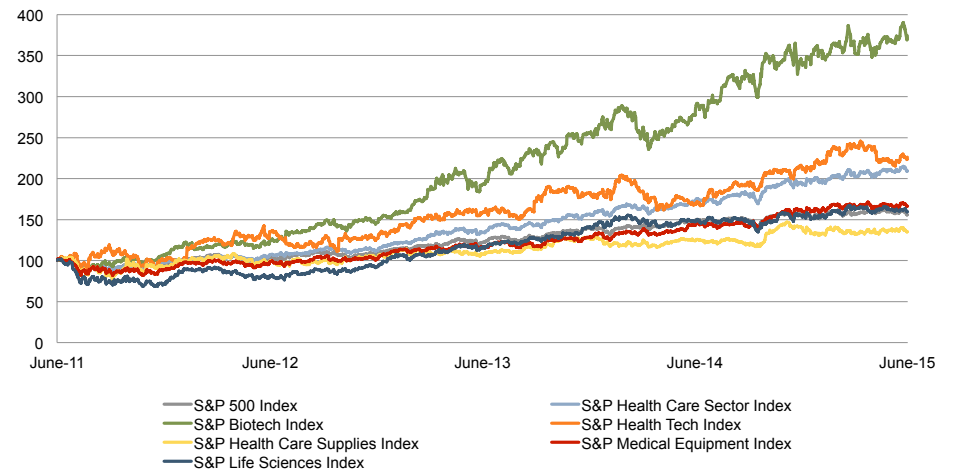
- All segments of the MedTech industry, excluding Healthcare Supplies, performed better than the S&P 500
- Aging population and new patients insured by the Affordable Care Act (ACA) continue to fuel demand for healthcare
  - Only 13.2% uninsured in March 2015 compared to 20.3% in October 2013

Industry multiples for the first half of 2015 indicate improved performance and favorable trends for the sector

- Forward P/E multiples for all segments exceed 24x
  - At a premium compared to overall market with S&P forward P/E at 17x (per Factset)
- Premium to overall market reflects favorable demographics as well as heightened growth expectations for the sector

Source: Modern Healthcare

Medical Technology Industry Total Returns



MedTech industry consists of Biotechnology, Healthcare Technology, Healthcare Supplies, Medical Equipment, and Life Science Tools and Services

### MedTech Industry Multiples

as of June 30, 2015

Segment	EV/ Revenue	EV/ EBITDA	EBITDA Margin	LTM P/E	Forward P/E	Revenue Growth (from LTM)	EBITDA Growth (from LTM)	Forward Price to Earnings / Growth*
Biotechnology	9.0	27.2	30.9%	45.7	30.5	19.9%	11.4%	0.7
Health Care Technology	5.1	21.3	24.2%	46.7	26.9	13.9%	25.3%	1.2
Health Care Supplies	3.7	14.6	20.6%	34.4	28.2	3.9%	6.6%	3.4
Medical Equipment	4.1	15.4	20.2%	32.3	24.1	6.5%	7.8%	3.1
Life Science Tools and Services	2.9	14.6	18.7%	28.1	26.0	5.6%	7.3%	0.9
<b>MedTech Industry</b>	<b>4.3x</b>	<b>17.2x</b>	<b>22.7%</b>	<b>35.5x</b>	<b>26.1x</b>	<b>7.7%</b>	<b>8.7%</b>	<b>1.8</b>

\*Price to Earnings to Growth (PEG) multiples calculated using forward P/E ratios and forward EPS growth estimates

Source: S&P Capital IQ

## Public Market Trends & Outlook

### Biotechnology

Sector largely driven by clinical and regulatory news

- Positive and negative news drives share prices

Mature biotechs expected to have strong growth over next 5 years

Concerns on whether drugs can maintain premium U.S. pricing may put pressure on potential for strong growth and margins of biotechs

Source: Bloomberg Intelligence

### Healthcare Technology

Could see increased growth as Big Data analytics is adopted and improved

- 2015 organization average analytics spending of \$1.9M
- \$50B market potentially in 2017
- Could save healthcare industry \$300B per year

Increased concern and spending for data privacy

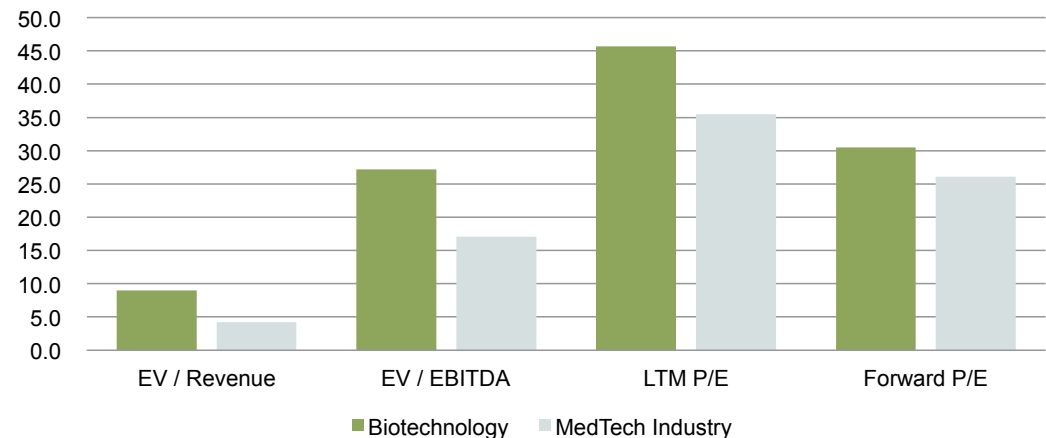
- Recent hacks at Anthem and Premera compromised 79M and 11M people's information, respectively
- Healthcare cloud security systems viewed as especially vulnerable
- Frequency and complexity of attacks are continuing to increase
- Data includes important personal, financial, and medical information
- Patients want greater convenience of access to data but simultaneously want better data security

Wearable technology continues to contribute to data analytics

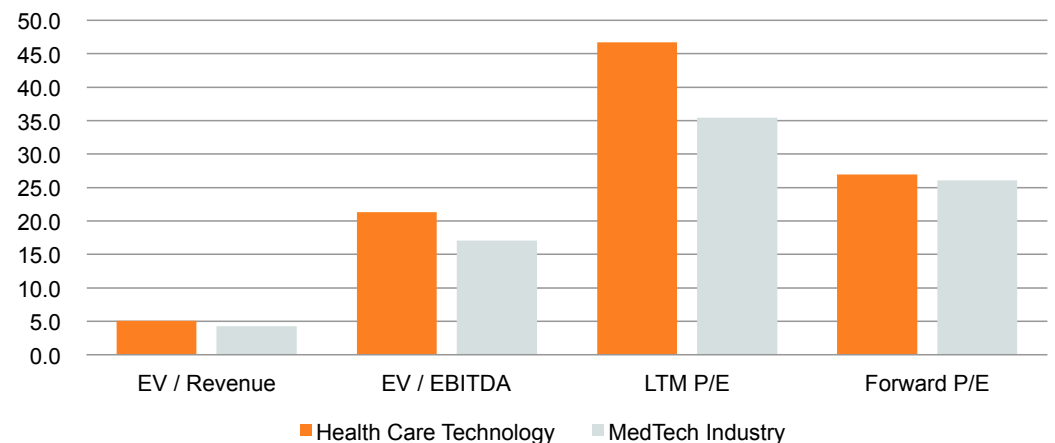
- Sending information to smartphones and directly to doctors
- Huge, growing databases of health information of general population
- Emphasis on prevention and taking responsibility of health

Sources: Bloomberg Intelligence, Wall Street Journal, CDW Healthcare

Median Biotechnology Multiples



Median Health Care Technology Multiples



## Public Market Trends & Outlook

### Healthcare Supplies

Insurer's payments are decreasing and fewer inpatient admissions pressure suppliers to lower the cost of supplies

- Smaller margins for manufacturers

Demand estimated to grow 4.1% per year to 2018 to \$49.3B

- Increased demand for specialty drugs
- New patients insured by ACA
- Aging population leads to increased hospital use
- Increased use of generics

Sources: Bloomberg Intelligence, MarketWatch

### Medical Equipment

Favorable factors impacting the sector include:

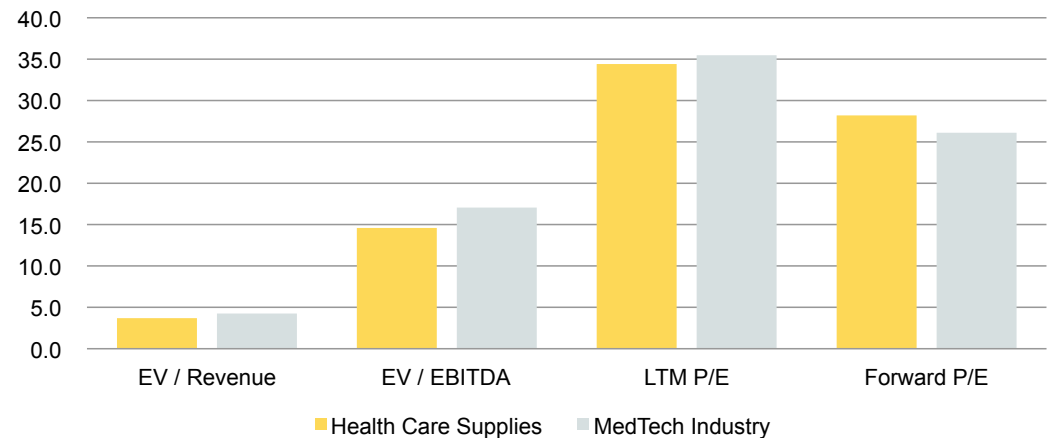
- Stronger demand, new products, and sales growth
- Aging population

Emerging markets provide revenue growth potential

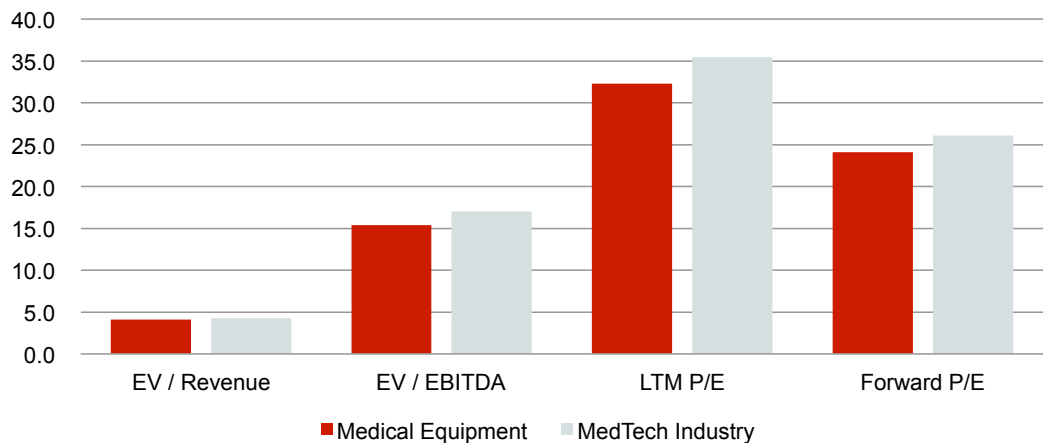
- Possible major catalyst in 2H 2015 from HeartWare's MVAD which is 70% smaller than current device
- Boston Scientific Watchman opening market that may reach \$500M by 2019 which may encourage St. Jude Medical to start own study

Source: Bloomberg Intelligence

Median Healthcare Supplies Multiples



Median Medical Equipment Multiples



## Public Market Trends & Outlook

### Life Science Tools & Services

Strong U.S. dollar lowered growth rates in 1Q15 for life science companies

- Currency impact lowered revenues by 6.7% on average
- Typically 60% of sales are international

Important launches are expected throughout 2015 building on past years

- New blockbuster drugs that will replace those coming off patent
- Patent expirations may affect \$42.5B of branded-drug sales in 2015-2017

Development costs continue to rise

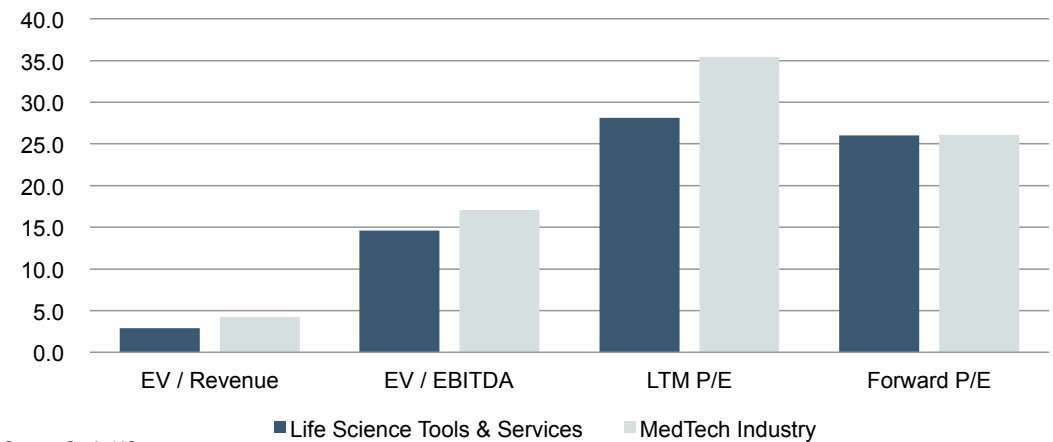
Aging population, increase in chronic diseases, and increasing population growth and wealth point towards rising life sciences sector growth

Potential for increased demand for specialty prescriptions from new patients insured by ACA

Specialty drugs rose 50% in 1Q15 compared to 1Q14

Source: Bloomberg Intelligence

Median Life Science Multiples



Source: Capital IQ

# MedTech M&A Trends & Outlook

## 1H15 vs. 1H14

234 total deals in first half of 2015, representing an 11% increase in total deals from 210 deals in 1H14

- Total deal value of \$240.9B in 1H15 (Increase of 533% from \$38B in 1H14)
- Average deal value of \$3.2B in 1H15 (Increase of 625% from \$442M in 1H14)
- Majority of deals were less than \$100M
- Medtronic PLC most active with 4 transactions
- Largest deal is Actavis PLC's acquisition of Allergan for \$72.9B

## Highlights

Healthcare Technology most active with 102 deals

Early stage innovative biotechs particularly in demand

- Large biotechs struggling with organic growth and looking to bolster pipelines may pursue acquisition of these early stage biotechs

Important Deals

- **Actavis PLC** acquisition of **Allergan** - \$72.9B (combination of \$129.22 in cash and 0.3683 Actavis shares for each share of Allergan common stock)
  - Creates one of largest drug makers
- **Medtronic** acquisition of **Covidien** - \$49.9B (combination of \$35.19 in cash and 0.956 Covidien shares for each share of Medtronic common stock)
  - Separate business with focus on surgical tools and hospital supplies
- **Zimmer** acquisition of **Biomet** - \$13.35B (\$10.35B cash and \$3B in stock)
  - Zimmer now the largest orthopedic company

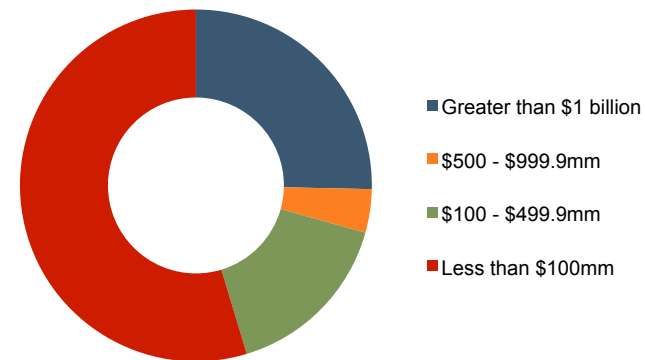
### MedTech Deal Activity

1H15 vs. 1H14

	1H15	1H14	% Change
# of Deals	234	210	11%
Total Reported Deal Value (\$M)	\$240,893	\$38,076	533%
Average Reported Deal Value (\$M)	\$3,212	\$443	625%
Source: Capital IQ			

### MedTech Deal Sizes

1H15



Source: Capital IQ



**MedTech Deal Activity**

1H15

Buyer	Target	Industry Segment	Date Closed	Total Trans. Value (\$M)	Implied EV/ EBITDA
Allergan PLC	Allergan Inc.	Healthcare Equipment	3/17/15	72,915	29.5
Medtronic PLC	Covidien PLC	Healthcare Equipment and Supplies	1/26/15	48,056	16.8
AbbVie Inc.	Pharmacyclics Inc.	Biotechnology	5/26/15	19,950	168.9
Valeant Pharmaceuticals International	Salix Pharmaceuticals Ltd.	Healthcare Equipment	4/1/15	14,039	87.5
Becton, Dickinson and Company	CareFusion Corporation	Healthcare Equipment and Supplies	3/17/15	13,793	13.6
Merck & Co. Inc.	Cubist Pharmaceuticals Inc.	Biotechnology	1/20/15	9,091	41.3
Albemarle Corporation	Rockwood Holdings, Inc.	Healthcare Supplies	1/12/15	7,637	22.2
Laboratory Corp. of America Holdings	Covance Inc.	Life Sciences Tools and Services	2/19/15	6,553	14.0
<b>Average</b>				<b>24,004</b>	<b>49.2</b>
<b>Median</b>				<b>13,916</b>	<b>25.8</b>

Source: S&amp;P Capital IQ

## MedTech IPOs

18 IPOs in first half of 2015

Total gross proceeds of \$1.7B (median \$76.9M)

As of 6/30/2015 three MedTech companies that went public in 2015 have a market cap greater than \$1B

Median return since IPO is 8.1%

## 1H15 MedTech IPOs

Ticker	Name	IPO Price	IPO Date	Gross Proceeds (\$M)	% Return Since IPO	6/30/15 Price	6/30/15 Mkt Cap (\$M)	6/30/15 Ent Val (\$M)	Rev. (\$M)	LTM		MedTech Niche	Description
										EBITDA (\$M)	Net Income (\$M)		
NVLS	Nivalis Therapeutics, Inc.	\$14.00	6/16/15	\$77	7.5%	\$14.75	219	233	nm	(14)	(15)	Pharma, Biotech, and Life Science	Clinical stage pharmaceutical company that focuses on the discovery, development, and commercialization of product candidates for patients with cystic fibrosis (CF).
CATB	Catabasis Pharmaceuticals, Inc.	\$12.00	6/24/15	\$60	8.2%	\$11.75	170	156	nm	(23)	(24)	Pharma, Biotech, and Life Science	Biopharmaceutical company that engages in the discovery and development of medicines for the treatment of inflammatory and metabolic diseases.
GKOS	Glaukos Corporation	\$18.00	6/24/15	\$108	8.7%	\$28.13	850	858	52	(6)	(9)	Healthcare Equipment	Develops and commercializes products and procedures designed for the treatment of glaucoma.
AXP	AirXpanders, Inc.	\$0.39	6/18/15	\$29	264.8%	\$0.41	29	30	nm	(6)	(7)	Healthcare Equipment	Designs, manufactures, sells, and distributes tissue expander for breast reconstruction procedures after mastectomy in the United States.
GI	ECPM Holdings, LLC (nka:EndoChoice Holdings, Inc.)	\$15.00	6/4/15	\$95	7.4%	\$16.60	406	412	64	(40)	(58)	Healthcare Equipment	Focuses on designing and commercializing products for gastrointestinal (GI) caregivers in the United States and internationally.
EVH	Evolent Health, Inc.	\$17.00	6/4/15	\$196	6.8%	\$19.53	1,112	1,184	118	(58)	(60)	Healthcare Equipment	Provides healthcare delivery and payment solutions in the United States.
VSN	Verseon Corporation	\$3.06	5/1/15	\$100	37.1%	\$3.47	523	545	0	(3)	(4)	Pharma, Biotech, and Life Science	Designs and develops novel therapeutics for various diseases in the United States.
IVTY	Invuity, Inc.	\$12.00	6/11/15	\$48	9.7%	\$14.00	175	164	15	(23)	(25)	Healthcare Equipment	Develops various surgical devices to address various surgical procedures in the United States.

Source: Capital IQ

## 1H15 MedTech IPOs (cont.)

Ticker	Name	IPO Price	IPO Date	Gross Proceeds (\$M)	% Return Since IPO	6/30/15 Price	6/30/15 Mkt Cap (\$M)	6/30/15 Ent Val (\$M)	Rev. (\$M)	LTM		MedTech Niche	Description
										EBITDA (\$M)	Net Income (\$M)		
PGND	PGA Holdings, Inc. (nka:Press Ganey Holdings, Inc.)	\$25.00	5/20/15	\$223	4.5%	\$28.22	1,497	1,901	291	94	18	Healthcare Equipment	Provides patient experience measurement, performance analytics, and strategic advisory solutions for healthcare organizations across the continuum of care.
LIFE	aTyr Pharma Inc.	\$14.00	5/6/15	\$75	9.6%	\$18.75	446	542	nm	(26)	(27)	Pharma, Biotech, and Life Science	Engages in the discovery and clinical development of protein based therapeutics for patients suffering from severe and rare diseases.
CLCD	CoLucid Pharmaceuticals, Inc.	\$10.00	5/5/15	\$55	8.6%	\$8.60	130	187	nm	(5)	(5)	Pharma, Biotech, and Life Science	Develops small molecule for the acute treatment of migraine headaches.
BPMC	Blueprint Medicines Corporation	\$18.00	4/29/15	\$147	8.1%	\$26.29	710	784	1	(43)	(45)	Pharma, Biotech, and Life Science	Focuses on the development of the highly selective kinase inhibitors for genomically defined cancer subsets.
CDTX	Cidara Therapeutics, Inc.	\$16.00	4/14/15	\$77	5.5%	\$14.14	189	206	nm	nm	(18)	Pharma, Biotech, and Life Science	Focuses on the discovery, development, and commercialization of novel anti-infectives for the treatment of diseases.
ADRO	Aduro BioTech, Inc.	\$17.00	4/14/15	\$119	10.2%	\$29.41	1,841	1,921	23	(20)	(26)	Pharma, Biotech, and Life Science	Clinical-stage immuno-oncology company that focuses on the development of technology platforms designed to stimulate robust and durable immune responses against cancer.
OPGN	OpGen, Inc.	\$6.00	5/4/15	\$17	10.1%	\$3.65	39	47	4	(6)	(7)	Pharma, Biotech, and Life Science	Operates as an early commercial stage company using molecular testing and bioinformatics to assist healthcare providers to combat multi-drug-resistant bacterial infections.
XBIT	XBiotech, Inc.	\$19.00	4/14/15	\$76	5.0%	\$18.08	584	532	nm	(25)	(25)	Pharma, Biotech, and Life Science	Clinical-stage biopharmaceutical company that engages in discovering and developing "True Human™" monoclonal antibodies for treating various different diseases.
BLPH	Bellerophon Therapeutics LLC	\$12.00	2/13/15	\$60	5.4%	\$7.75	100	37	nm	(58)	(58)	Healthcare Equipment	Clinical-stage therapeutics company that focuses on the development of various products for the treatment of cardio-pulmonary and cardiac diseases.
NVTA	Invitae Corporation	\$16.00	2/11/15	\$102	5.8%	\$14.88	473	284	3	(54)	(57)	Pharma, Biotech, and Life Science	Genetic information company that provides genetic diagnostics for various hereditary disorders.
<b>Median</b>				<b>\$77</b>	<b>8.1%</b>		<b>426</b>	<b>348</b>	<b>19</b>	<b>(23)</b>	<b>(24)</b>		

Source: Capital IQ

# MedTech Venture Capital Activity Overview

MedTech venture capital funding continues to increase

- Record \$3.9B raised in 1Q15
- IPO success, clinical trial success, and acquisition possibilities by large companies drive funding
- Biotech is most active segment

Sources: Advanced Medical Technologies Blog, Wall Street Journal

Company	Amount (\$M)	Company Description
<b>Intarcia Therapeutics</b>	225	Biopharmaceutical company merging technology and medicine to develop new therapies most recently in Type 2 Diabetes
<b>Outset Medical, Inc.</b>	91	Makers of Tablo, a hemodialysis system that is small, simple, and easy to use
<b>Calhoun Vision, Inc.</b>	69	Developers of the Light Adjustable Lens which is a vision correction technology for post-cataract surgery patients
<b>EndoChoice, Inc.</b>	57	Provides endoscopic imaging systems, devices, diagnostics, and infection control products to treat gastrointestinal diseases
<b>Apollo Endosurgery, Inc.</b>	50	Develops less invasive therapies to treat obesity and other gastrointestinal disorders
<b>Humacyte, Inc.</b>	50	Develops biological vascular grafts that have the potential to be human tissue replacements for use in regenerative medicine and vascular surgery
<b>MyoKardia, Inc.</b>	46	Develops treatments for genetic heart diseases that target the genetic mutations causing the diseases
<b>Semma Therapeutics, Inc.</b>	44	Develops and researches transformative therapies to treat Type 1 diabetes
<b>Shockwave Medical, Inc.</b>	40	Developers of the Lithoplasty family of balloon dilation catheters used to treat vascular disease and aortic stenosis
<b>Intact Vascular, Inc.</b>	39	Makers of the Tack Endovascular System which uses peripheral balloon angioplasty to treat peripheral artery disease

*A summary of selected MedTech venture capital financing activity in the first half of 2015. Covers selected financing rounds larger than \$15 million.*

Source: Advanced Medical Technologies Blog

## MedTech Venture Capital Activity Overview (cont.)

Company	Amount (\$M)	Company Description
<b>Svelte Medical Systems, Inc.</b>	38	Designs and develops balloon expandable coronary stents that are highly deliverable
<b>Autonomic Technologies, Inc.</b>	38	Develops the ATI Neurostimulation System which interfaces with the autonomic nervous system for the treatment of severe headache
<b>AEGEA Medical, Inc.</b>	36	Utilizes the properties of water vapor to treat women's health conditions
<b>HeartFlow</b>	36	Develops a non-invasive test for diagnosing coronary artery disease
<b>Scanadu</b>	35	Develops devices that allow the consumer to better monitor and track their health
<b>Ceterix Orthopedics, Inc.</b>	35	Develops new surgical tools for use in arthroscopic surgeries that allow surgeons to place stitches in very tight joint compartments without harming important nearby structures
<b>Neuronetics, Inc.</b>	34	Uses MRI-strength magnetic field pulses to treat psychiatric and neurological disorders
<b>Moximed, Inc.</b>	33	Focuses on improving care for those with osteoarthritis and improving therapies to treat affected joints
<b>CardioFocus, Inc.</b>	32	Develops advancements of ablation treatments for cardiac disorders including laser ablation treatments
<b>Transcend Medical, Inc.</b>	29	Researches and develops innovative devices for the treatment of glaucoma

*A summary of selected MedTech venture capital financing activity in the first half of 2015. Covers selected financing rounds larger than \$15 million.*

Source: Advanced Medical Technologies Blog

## MedTech Venture Capital Activity Overview (cont.)

Company	Amount (\$M)	Company Description
<b>NeuWave Medical, Inc.</b>	25	Develops tools that use microwave energy to treat various medical conditions including cancer
<b>SI-Bone, Inc.</b>	21	Developed the iFuse Implant System for the sacroiliac joint and focuses on helping patients with lower back pain caused by the sacroiliac joint
<b>EBR Systems, Inc.</b>	20	Develops devices that help stimulate the heart through wireless transmission of the energy to manage cardiac rhythm
<b>NeoChord, Inc.</b>	20	Developed a device that allows mitral valve repair to be performed on a beating heart and is working on other devices to treat other structural heart diseases
<b>Transmedics, Inc.</b>	20	Develops organ transplant technologies called Organ Care Systems that allow the organs to be kept in a warm and functioning state while being transported from donor to recipient
<b>Obalon Therapeutics</b>	20	Develops gastric balloon technology that aids in weight loss
<b>USGI Medical</b>	20	Committed to developing new surgery technologies that use the body's natural orifices and allow for incisionless surgery
<b>OrthoSensor, Inc.</b>	19	Develops sensor technology for orthopedic surgery that improves data collection and clinical outcomes
<b>Spirox, Inc.</b>	19	Developed an innovative system used to treat patients with nasal obstruction
<b>Trice Medical, Inc.</b>	18	Develops needle-based camera-enabled devices to improve in-office orthopedic diagnostics

*A summary of selected MedTech venture capital financing activity in the first half of 2015. Covers selected financing rounds larger than \$15 million.*

Source: Advanced Medical Technologies Blog

## MedTech Venture Capital Activity Overview (cont.)

Company	Amount (\$M)	Company Description
<b>Apama Medical, LLC</b>	18	Focuses on developing devices that provide the electrophysiology market with better means of treating atrial fibrillation
<b>Veniti, Inc.</b>	17	Provides stent devices that advance the treatment of chronic venous insufficiency and venous disease
<b>Vascular Dynamics, Inc.</b>	17	Develops a catheter-implanted stent that treats resistant hypertension
<b>Glooko, Inc.</b>	17	Created a unified diabetes management system that allows patients to sync, track, and share their diabetes data with their doctors
<b>Vascular Therapies</b>	16	Developing a drug-device product for perivascular implantation during arteriovenous fistula surgery to improve vascular access for hemodialysis
<b>Arsenal Medical, Inc.</b>	16	Developed foam technology to treat various forms of trauma and injury
<b>Accriva Diagnostics, Inc.</b>	16	Diagnostic company that provides devices that test for cardiovascular conditions
<b>Cardiac Dimensions, Inc.</b>	15	Develops non-surgical devices that treat heart failure and mitral valve regurgitation
<b>NinePoint Medical, Inc.</b>	15	Develops devices that allow for in-vivo pathology imaging

*A summary of selected MedTech venture capital financing activity in the first half of 2015. Covers selected financing rounds larger than \$15 million.*

Source: Advanced Medical Technologies Blog

# Venture Capital Case Study



"You guys should all try Fitbit, it's fantastic."

– Gio Colella,  
Co-founder and CEO,  
Castlight Health

**"A perfect storm of innovation within low power wireless connectivity, sensor technology, big data, cloud services, voice user interfaces, and mobile computing power is coming together and paves the way for connected wearable technology"**

– Johan Svanberg,  
Analyst  
Berg Insight

A new report by Juniper Research has found that fitness wearables in-use will almost triple by 2018, compared to an estimated 19 million in-use devices this year [2014]. Juniper expects fitness to remain the dominant wearables segment until that time, driven by intuitive use cases and lower retail prices.

– Juniper Research



# Venture Capital Case Study

## Background

Fitbit makes wearable connected fitness devices containing sensors that track daily physical activity such as steps taken, distance covered, calories burned, active minutes, and time slept in order to promote personal health and fitness.

The connected devices sync wirelessly with a free mobile application and free online dashboard that allow users to:

- See statistics and progress, set goals, log meals and workouts, earn badges for specific achievements, and connect with friends
- Use free compatible third party fitness and health applications
- Purchase a premium membership (\$49.99) that unlocks perks such as a personal trainer, nutritionist, and sleep consultant along with increased access to statistical reports and analytics

Source: Fitbit

### Fitbit Timeline

Year	Significant Corporate Events
2007	Company founded by Eric Friedman and James Park
2008	Raised Series A Funding of \$2M from True Ventures and SoftTech VC
2009	Debut of Fitbit's first connected health and fitness device: Fitbit Tracker
2010	Raised Series B Funding of \$9M from True Ventures, SoftTech VC, Foundry Group, and Felicis Ventures
2011	Second Fitbit device is launched with iPhone app
2012	Fitbit Android app launched Raised Series C Funding of \$12M from True Ventures, SoftTech VC, Foundry Group, and Felicis Ventures in order to support the growth of the company and hire more engineers
2013	Raised Series D Funding of \$43M on over \$300M valuation from True Ventures, Foundry Group, SoftBank Capital, Sapphire Ventures, and Qualcomm Ventures in order to fund the expansion of the corporate wellness program and fund hiring of more engineers
2014	Recall of Fitbit force due to reports of allergic reactions to wristband adhesive  Acquired Fitstar, a tech company that develops health and fitness apps
2015	Files an S-1 announcing plan for IPO: Plan to sell 22.4M shares between \$14 - \$16 per share for proceeds up to \$358M at valuation at midpoint of \$3.1B  Jawbone files lawsuit against Fitbit and former Jawbone employees currently working for Fitbit for theft of trade secrets

Sources: CrunchBase, Fitbit

# Venture Capital Case Study

## Wearable Fitness Industry

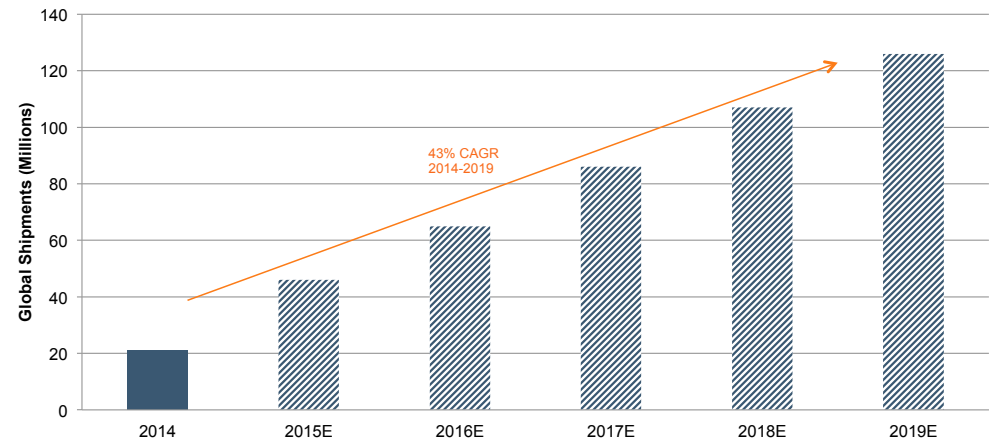
As seen in the graph, the smart wearable device industry is expected to be an extremely fast-growing market.

- Consumer spending in this segment is growing faster than any other segment in the global consumer electronics market
- Shipments totaled 21M in 2014 (over 3x 2013)
- Shipments forecast to increase to 114M in 2018 (\$33.7B revenue opportunity)
- 43% CAGR in shipments forecast from 2014-2019
- Smartwatches being introduced to the market may decrease Fitbit's market share

Wearable fitness devices are also acting to lower healthcare costs.

- In the environment of increasingly expensive healthcare premiums, corporate wellness programs utilizing fitness devices can reduce healthcare spending and boost productivity
- According to IBIS World, the corporate wellness industry is estimated to grow from \$7.4B in 2014 to \$10.4B in 2018 in the US
- Fitbit corporate wellness programs allow employees to opt for lower healthcare premiums leading to cost savings
- Positive outcomes from Fitbit and other fitness trackers pave the way for other digital health innovations to be approved by the FDA (to triple by 2018 for digital health devices according to an Accenture report)
- Individuals are forecast to spend less on healthcare and be healthier (\$100B in healthcare cost savings by 2018)

Projected Global Wearable Shipments



Source: International Data Corporation

# Venture Capital Case Study

## Fitbit Financials

Fitbit sells their connected wearable devices in over 45,000 retail stores in 50 countries.

- Sold 10.9M devices in 2014 (20.8M devices total)
- Largest share of the market in US with 68% of market share
- Steadily grown at a quick pace: 246% CAGR in revenue from 2010-2014
- First profit in 2014 with \$131.9M in net income and has continued to be profitable with \$48M in net income in Q1 of 2015

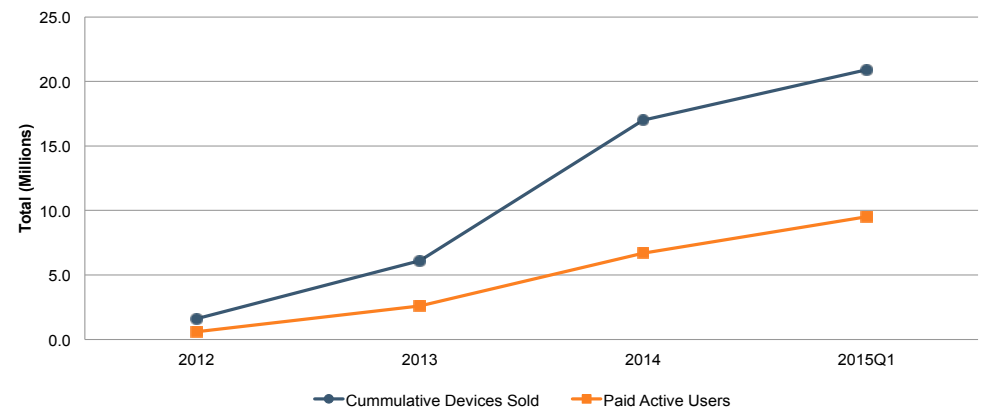
As Fitbit has sold 20.8M devices in total, 45% of those purchases lead to paid active users

- This implies that the number of devices sold has been increasing at a faster rate than the number of paid active users
- However, customers purchasing and using more than one Fitbit device may account for some of this gap; in addition, return customers buying newer Fitbit devices to replace older devices may also account for some of the gap.

Fitbit's margin has steadily improved

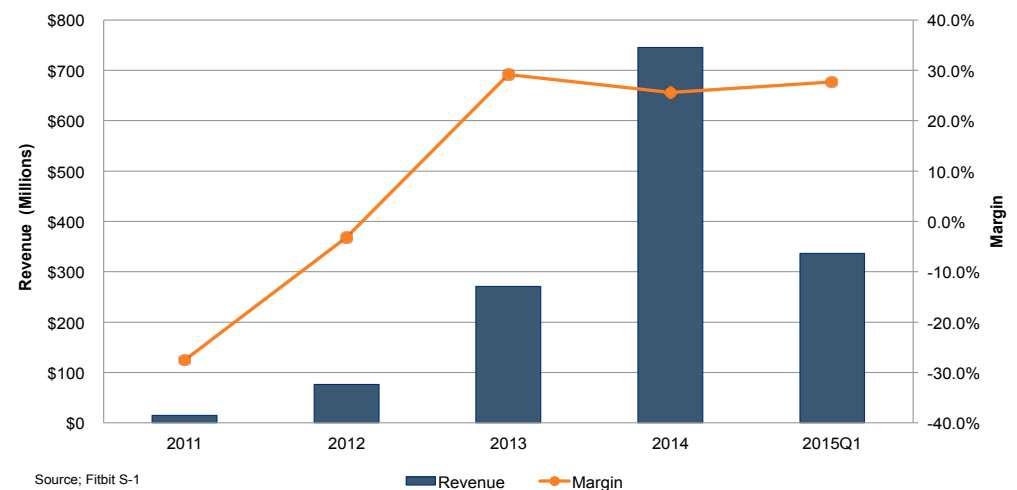
- Increase in revenue has allowed Fitbit to become profitable and experience margin expansion

### Cummulative Devices and Paid Active Users



Source: Fitbit S-1  
Paid Active Users are defined by Fitbit as a registered Fitbit user who, within the three months prior to the date of measurement, has an active Fitbit Premium or FitStar subscription, paired a health and fitness tracker or Aria scale with his or her Fitbit account, or logged at least 100 steps with a health and fitness tracker or a weight measurement using an Aria scale.

### Revenue and EBITDA Margin



Source: Fitbit S-1

Source: Fitbit S-1

# Venture Capital Case Study

## Pre-IPO

On May 7, 2015, Fitbit filed an S-1 announcing plans for an IPO. Plans at that time included:

- Fitbit selling 22.4M shares and private shareholders selling 7.5M shares for a total of 29.9M shares
- Prices expected to range between \$14-16 for proceeds up to \$358M
- Valued at \$3.1B at midpoint which is similar to GoPro pre-IPO valuation of \$2.96B
- No specific plans for the proceeds.

Days before the IPO, Fitbit announced a raise in their IPO price range to \$17-19 per share. Additionally, shareholders planned to sell an increased total of shares. This announcement values the company at \$3.7B at the midpoint.

Over the last eight quarters, Fitbit has managed to maintain gross margins of over 48% and operating margins over 21%.

In the first quarter of 2015, Fitbit sold 3.9M devices, earned \$336.8M in revenue, and had an adjusted EBITDA of \$93.4M.

In Q1 of 2015, according to the NPD Group, Fitbit captured 85% of the US connected activity device market. Fitbit is currently a clear leader in the connected fitness device market, and it will be interesting to see what happens to its market share after its IPO and during competition with digital watch makers.

Fitbit plans to expand its platform in the future to grow its target market to include the broader health and fitness market.

Sources: Fitbit S-1, NPD Group, Rock Health, Wall Street Journal, S&P Capital IQ

## Post-IPO

The graph shows Fitbit's share pricing since its IPO

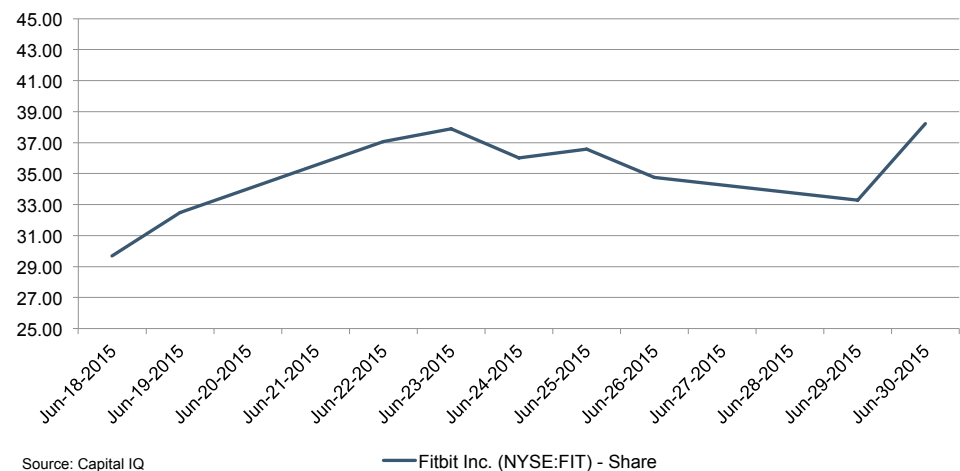
- Fitbit went public on June 18, 2015
- IPO priced at \$20/share
- Opened at \$30.40/share (a 52% increase)
- Proceeds of \$732M
- Sold 36.6M shares in IPO
- \$4.1B market cap
- Closed at \$29.68 on a first day return of 48.4%

This was the third largest IPO of the year. CEO James Park said that the proceeds will be used for R&D and acquisitions. Park said that spending on R&D will triple this year. The lock-up period is 181 days from the date of the prospectus (ends November 16, 2015).

As of 6/30/2015

- Return from IPO is 91.2%
- Closed at \$38.23

Fitbit Inc. (NYSE:FIT) - Share Pricing



# Venture Capital Case Study

## Fitbit

### Key Takeaways

- Fitbit has been able to satisfy a health market without having to deal with the intense regulation that often comes with the medical device industry.**
  - The whole of Fitbit's service provides a basic platform that gives the individual the power to effectively address personal health and fitness
- Focus on key trends allowed the development of a successful business model.**
  - Fitbit identified an increasingly health conscious population and a growing tendency to prefer mobile technology
  - By identifying this market, Fitbit pioneered and became the leader in a new hardware market that has seen increased competition from larger technology companies
  - The wearable device market, according to the IDC, is estimated to grow faster than any other market in the global consumer electronics market with 114M devices estimated to be shipped in 2018 for a \$33.7B revenue opportunity
- Corporate wellness programs, premium subscriptions, and retention rates provide potential revenue areas to expand upon in order to combat competitors**
  - Fitbit can take advantage of rising healthcare costs and partner with more businesses to increase awareness and use of Fitbit
  - As part of Fitbit's growth plan, introducing new and innovative features can increase premium subscription participation and retention rates

## Industry Articles of Note

### Personal Health in the Digital Age

*TechCrunch: Brian Tilzer*

<http://mer.cr/1T4gHTv>

### U.S. Health Care Costs Rise Faster Than Inflation

*Forbes: Mike Patton*

<http://mer.cr/1K4dNtc>

### With \$2.1B in Digital Health Funding, First Half of 2015 is Keeping Pace with 2014

*Rock Health: Malay Gandhi*

<http://mer.cr/1HrpvMB>

### Why Health Care May Finally Be Ready for Big Data

*Harvard Business Review: Nilay D. Shah and Jyotishman Pathak*

<http://mer.cr/1T4hnZe>

### Health Insurance Premiums Are Rising Faster Than Income

*Forbes: Mike Patton*

<http://mer.cr/1E8UPzL>

### Why Connected Medicine Is Becoming Vital to Health Care

*Wall Street Journal: Laura Landro*

<http://mer.cr/1ORo53F>

## Publicly Traded Companies

### Biotechnology

Company Name	Ticker	Price at 6/30/15	Market Cap (millions) 6/30/15	5 Year Beta	EV/Rev.	EV/ EBITDA	EBITDA Margin	LTM P/E	Forward P/E	Revenue Growth (from LTM)	EBITDA Growth (from LTM)	Forward Price to Earnings / Growth*
Gilead Sciences Inc.	GILD	\$117.08	\$172,061	0.70	6.2	8.9	69.3%	13.3	11.0	57.6%	80.5%	0.3
Amgen Inc.	AMGN	153.52	116,725	0.53	5.8	12.5	46.7%	20.7	16.0	5.7%	19.1%	1.7
Biogen Inc.	BIIB	403.94	95,019	1.01	9.2	18.6	49.6%	29.2	23.2	21.4%	36.9%	0.7
Celgene Corporation	CELG	115.74	91,795	0.99	11.4	25.5	44.6%	39.6	22.7	14.1%	48.0%	0.9
Regeneron Pharmaceuticals, Inc.	REGN	510.13	53,691	0.86	17.4	54.1	32.2%	163.7	45.3	22.6%	8.6%	nm
Alexion Pharmaceuticals, Inc.	ALXN	180.77	40,515	0.56	17.1	44.7	38.2%	61.9	36.3	18.0%	11.2%	3.0
Pharmacyclics Inc.	PCYC	261.25	20,137	0.49	23.6	170.6	13.8%	284.7	93.2	87.6%	-8.4%	nm
Medivation, Inc.	MDVN	114.20	8,987	0.97	11.5	28.8	39.9%	32.4	44.3	92.0%	494.0%	nm
United Therapeutics Corporation	UTHR	173.95	8,040	1.46	5.7	22.0	25.7%	48.4	16.5	10.2%	-31.7%	0.3
Cubist Pharmaceuticals Inc.	CBST	101.94	7,790	0.66	6.8	39.0	17.5%	118.9	nm	3.8%	45.1%	nm
INSYS Therapeutics, Inc.	INSY	35.92	2,566	1.79	9.8	33.2	29.5%	69.1	35.7	50.7%	31.4%	nm
Myriad Genetics Inc.	MYGN	33.99	2,361	0.42	3.1	11.4	27.2%	27.1	19.7	-7.2%	-34.8%	(11.2)
AMAG Pharmaceuticals, Inc.	AMAG	69.06	2,109	0.20	11.6	30.6	37.8%	12.7	14.6	117.0%	-1891.5%	nm
Ligand Pharmaceuticals Inc.	LGND	100.90	1,984	0.91	31.7	92.7	34.2%	200.6	53.0	16.3%	11.5%	nm
Acorda Therapeutics, Inc.	ACOR	33.33	1,426	1.11	3.4	22.9	14.7%	100.6	49.3	18.5%	31.1%	nm
Repligen Corporation	RGEN	41.27	1,356	1.03	19.1	73.9	25.9%	197.8	127.0	3.0%	-28.4%	nm
MiMedx Group, Inc.	MDXG	11.59	1,259	0.97	8.7	84.0	10.4%	118.7	56.1	76.0%	-2446.7%	nm
Emergent BioSolutions, Inc.	EBS	32.95	1,264	1.18	2.8	13.5	20.9%	42.9	25.3	30.9%	66.6%	19.3
PDL BioPharma, Inc.	PDLI	6.43	1,055	0.65	2.3	2.6	91.1%	3.4	3.7	16.7%	5.8%	0.3
Vanda Pharmaceuticals, Inc.	VNDA	12.69	530	1.84	6.3	(11.6)	-54.3%	13.5	nm	68.5%	-41.1%	nm
<b>Average</b>		<b>\$125.53</b>	<b>\$31,533</b>	<b>0.92</b>	<b>10.7</b>	<b>38.9</b>	<b>30.7%</b>	<b>80.0</b>	<b>38.5</b>	<b>36.2%</b>	<b>-179.6%</b>	<b>1.7</b>
<b>Median</b>		<b>\$101.42</b>	<b>\$5,178</b>	<b>0.94</b>	<b>9.0</b>	<b>27.2</b>	<b>30.9%</b>	<b>45.7</b>	<b>30.5</b>	<b>19.9%</b>	<b>11.4%</b>	<b>0.7</b>

Pricing as of June 30, 2015

\*Price to Earnings to Growth (PEG) multiples calculated using forward P/E ratios and forward EPS growth estimates

Source: S&amp;P Capital IQ

## Publicly Traded Companies

## Healthcare Technology

Company Name	Ticker	Price at 6/30/15	Market Cap (millions) 6/30/15	5 Year Beta	EV/Rev.	EV/ EBITDA	EBITDA Margin	LTM P/E	Forward P/E	Revenue Growth (from LTM)	EBITDA Growth (from LTM)	Forward Price to Earnings / Growth*
Simulations Plus, Inc.	SLP	\$6.27	\$106	0.59	6.9	17.5	39.4%	34.8	25.1	30.5%	26.8%	2.0
Cerner Corporation	CERN	69.06	23,762	0.51	6.7	23.7	28.4%	46.7	30.9	14.7%	24.3%	1.6
Computer Programs & Systems Inc.	CPSI	53.42	605	0.36	2.8	11.5	24.7%	19.5	19.4	-2.1%	-13.3%	1.2
HealthEquity, Inc.	HQY	32.05	1,818	nm	17.5	66.1	26.4%	140.3	98.1	44.1%	38.3%	nm
Healthstream Inc.	HSTM	30.42	948	1.21	5.1	29.4	17.3%	76.1	98.3	18.5%	25.3%	nm
Inovalon Holdings, Inc.	INOV	27.90	4,120	nm	9.8	27.5	35.5%	58.2	47.9	13.9%	25.6%	nm
Merge Healthcare Incorporated	MRGE	4.80	464	1.92	3.3	19.9	16.8%	46.7	20.4	0.1%	25.4%	nm
Omnicell, Inc.	OMCL	37.71	1,367	0.92	2.7	18.0	15.0%	45.5	26.9	12.0%	13.7%	0.5
Quality Systems Inc.	QSII	16.57	999	0.64	1.8	17.1	10.4%	36.8	25.1	8.2%	1.6%	(2.1)
IMS Health Holdings, Inc.	IMS	30.65	10,034	nm	5.1	21.3	23.9%	76.7	20.7	0.5%	2.1%	nm
Veeva Systems Inc.	VEEV	28.03	3,693	nm	9.7	40.0	24.2%	85.1	61.4	43.7%	78.7%	nm
<b>Average</b>		<b>\$30.63</b>	<b>\$4,356</b>	<b>0.88</b>	<b>6.5</b>	<b>26.5</b>	<b>23.8%</b>	<b>60.6</b>	<b>43.1</b>	<b>16.7%</b>	<b>22.6%</b>	<b>0.6</b>
<b>Median</b>		<b>\$30.42</b>	<b>\$1,367</b>	<b>0.64</b>	<b>5.1</b>	<b>21.3</b>	<b>24.2%</b>	<b>46.7</b>	<b>26.9</b>	<b>13.9%</b>	<b>25.3%</b>	<b>1.2</b>

Pricing as of June 30, 2015

\*Price to Earnings to Growth (PEG) multiples calculated using forward P/E ratios and forward EPS growth estimates

Source: S&amp;P Capital IQ

## Publicly Traded Companies

## Medical Supplies

Company Name	Ticker	Price at 6/30/15	Market Cap (millions) 6/30/15	5 Year Beta	EV/Rev.	EV/ EBITDA	EBITDA Margin	LTM P/E	Forward P/E	Revenue Growth (from LTM)	EBITDA Growth (from LTM)	Forward Price to Earnings / Growth*
Synergetics USA, Inc.	SURG	\$4.70	\$119	0.79	1.5	11.0	14.1%	27.7	18.4	11.7%	42.9%	(6.5)
Span-America Medical Systems Inc.	SPAN	18.42	55	0.37	0.9	10.5	8.4%	19.8	nm	-4.5%	-17.4%	nm
Align Technology Inc.	ALGN	62.71	5,064	2.17	5.9	21.2	28.0%	34.4	34.5	9.0%	7.9%	nm
Anika Therapeutics Inc.	ANIK	33.03	483	1.75	4.3	7.8	54.5%	18.8	25.9	-12.3%	-23.5%	0.6
ATRION Corp.	ATRI	392.31	731	0.75	5.0	14.2	35.2%	27.1	nm	3.9%	3.0%	nm
ICU Medical, Inc.	ICUI	95.66	1,509	0.59	3.7	16.1	22.7%	51.6	40.8	1.5%	4.5%	14.0
Merit Medical Systems, Inc.	MMSI	21.54	948	1.10	2.2	14.0	15.9%	37.2	24.0	6.9%	10.2%	(23.5)
Neogen Corp.	NEOG	47.44	1,757	1.20	6.1	27.6	22.0%	55.8	46.6	9.8%	13.9%	3.8
OraSure Technologies, Inc.	OSUR	5.39	304	1.57	2.0	178.5	1.1%	267.6	177.9	6.4%	-118.6%	nm
RTI Surgical Inc.	RTIX	6.46	371	1.48	1.8	13.5	13.3%	71.6	32.3	11.6%	124.8%	54.9
Utah Medical Products Inc.	UTMD	59.63	224	0.22	5.0	10.6	47.4%	19.9	nm	3.3%	5.9%	nm
Vascular Solutions Inc.	VASC	34.72	599	0.20	4.4	21.3	20.6%	51.1	34.0	11.2%	10.3%	4.8
Meridian Bioscience, Inc.	VIVO	18.64	778	1.45	3.8	12.5	30.8%	22.2	21.0	0.6%	-0.5%	17.0
DENTSPLY International Inc.	XRAY	51.55	7,207	1.34	3.0	14.6	20.3%	23.5	19.8	-3.5%	0.1%	5.4
The Cooper Companies Inc.	COO	177.97	8,648	0.08	5.6	18.9	29.7%	36.3	22.1	8.5%	11.7%	0.9
Haemonetics Corporation	HAE	41.36	2,111	0.76	2.6	18.8	13.9%	129.3	20.6	-3.5%	7.9%	(0.9)
West Pharmaceutical Services, Inc.	WST	58.08	4,179	0.70	3.1	15.4	19.8%	31.9	30.5	0.7%	6.6%	3.0
<b>Average</b>		<b>\$66.45</b>	<b>\$2,064</b>	<b>0.97</b>	<b>3.6</b>	<b>25.1</b>	<b>23.4%</b>	<b>54.5</b>	<b>39.2</b>	<b>3.6%</b>	<b>5.3%</b>	<b>6.1</b>
<b>Median</b>		<b>\$41.36</b>	<b>\$778</b>	<b>0.79</b>	<b>3.7</b>	<b>14.6</b>	<b>20.6%</b>	<b>34.4</b>	<b>28.2</b>	<b>3.9%</b>	<b>6.6%</b>	<b>3.4</b>

Pricing as of June 30, 2015

\*Price to Earnings to Growth (PEG) multiples calculated using forward P/E ratios and forward EPS growth estimates

Source: S&amp;P Capital IQ



## Publicly Traded Companies

## Medical Equipment

Company Name	Ticker	Price at 6/30/15	Market Cap (millions) 6/30/15	5 Year Beta	EV/Rev.	EV/ EBITDA	EBITDA Margin	LTM P/E	Forward P/E	Revenue Growth (from LTM)	EBITDA Growth (from LTM)	Forward Price to Earnings / Growth*
Zimmer Biomet Holdings, Inc.	ZBH	\$109.23	\$22,185	0.94	4.7	12.2	38.8%	27.9	15.6	-0.3%	6.4%	(55.1)
Intuitive Surgical, Inc.	ISRG	484.50	17,858	0.72	7.6	23.0	32.9%	38.4	27.8	7.5%	-1.4%	3.7
Edwards Lifesciences Corp.	EW	142.43	15,319	0.71	6.1	22.9	26.6%	17.7	33.3	12.3%	27.1%	2.7
CR Bard Inc.	BCR	170.70	12,674	0.69	4.0	13.2	30.1%	46.3	20.7	5.3%	21.4%	3.9
CareFusion Corporation	CFN	59.91	12,238	0.85	3.0	13.4	22.7%	25.5	nm	6.2%	7.8%	nm
Hologic Inc.	HOLX	38.06	10,694	1.14	5.4	15.0	36.1%	93.5	22.9	4.2%	7.7%	5.5
Varian Medical Systems, Inc.	VAR	84.33	8,416	0.85	2.6	12.2	21.5%	21.0	18.6	1.6%	-0.5%	11.3
ResMed Inc.	RMD	56.37	7,944	0.66	4.6	15.4	29.8%	22.8	21.7	5.5%	1.0%	3.9
Teleflex Incorporated	TFX	135.45	5,625	1.13	3.5	15.4	23.0%	32.6	21.0	3.3%	8.7%	6.3
Sirona Dental Systems Inc.	SIRO	100.42	5,579	1.10	4.6	19.7	23.4%	32.0	23.5	-1.7%	5.4%	(13.8)
Steris Corp.	STE	64.44	3,849	1.05	2.3	12.5	18.6%	28.6	19.9	11.0%	9.8%	1.8
Hill-Rom Holdings, Inc.	HRC	54.33	3,078	1.35	1.9	13.0	15.0%	35.5	20.4	10.5%	0.9%	1.9
ABIOMED, Inc.	ABMD	65.73	2,743	1.69	11.3	79.0	14.3%	24.8	118.8	21.4%	192.2%	5.6
Globus Medical, Inc.	GMED	25.67	2,436	0.07	4.6	12.9	35.4%	25.4	24.1	7.7%	11.3%	3.1
Thoratec Corp.	THOR	44.57	2,416	0.71	4.6	28.1	16.4%	58.1	35.5	-5.1%	-35.9%	(7.0)
NuVasive, Inc.	NUVA	47.38	2,291	0.96	3.1	17.3	17.6%	69.1	41.9	6.8%	16.6%	6.2

Pricing as of June 30, 2015

\*Price to Earnings to Growth (PEG) multiples calculated using forward P/E ratios and forward EPS growth estimates

Source: S&amp;P Capital IQ

## Publicly Traded Companies

### Medical Equipment (cont.)

Company Name	Ticker	Price at 6/30/15	Market Cap (millions) 6/30/15	5 Year Beta	EV/Rev.	EV/ EBITDA	EBITDA Margin	LTM P/E	Forward P/E	Revenue Growth (from LTM)	EBITDA Growth (from LTM)	Forward Price to Earnings / Growth*
Integra LifeSciences Holdings Corporation	IART	67.37	2,219	0.76	2.9	13.8	21.1%	55.8	20.6	7.6%	18.2%	2.7
Cantel Medical Corp.	CMN	53.67	2,230	1.66	4.2	22.0	19.3%	49.7	34.4	15.7%	17.2%	2.2
Masimo Corporation	MASI	38.74	2,024	0.88	3.4	18.0	18.8%	30.1	28.6	9.1%	16.1%	3.2
CONMED Corporation	CNMD	58.27	1,608	1.35	2.5	14.3	17.2%	54.0	29.8	-2.4%	0.9%	(12.4)
Cyberonics Inc.	CYBX	59.46	1,547	1.01	4.8	13.3	35.9%	27.4	22.5	3.4%	12.4%	6.7
Greatbatch, Inc.	GB	53.92	1,376	1.25	2.2	12.1	18.3%	28.8	19.8	-2.2%	4.2%	(9.0)
Natus Medical Inc.	BABY	42.56	1,378	0.81	3.6	19.8	18.4%	40.6	27.8	3.3%	7.3%	8.3
Abaxis, Inc.	ABAX	51.48	1,167	0.73	5.1	24.8	20.6%	56.6	41.6	15.0%	33.3%	2.8
ZELTIQ Aesthetics, Inc.	ZLTQ	29.47	1,138	0.03	5.6	115.2	4.9%	179.5	274.9	36.1%	-187.9%	7.6
Analogic Corporation	ALOG	78.90	982	0.99	1.6	13.5	12.1%	29.5	18.1	-2.6%	1.2%	(7.1)
Cynosure, Inc.	CYNO	38.58	855	1.29	2.5	18.7	13.6%	27.7	38.2	13.1%	-35.2%	2.9
Inogen, Inc.	INGN	44.60	860	nm	6.5	32.8	19.8%	131.4	95.3	31.1%	39.7%	3.1
<b>Average</b>		<b>\$82.16</b>	<b>\$5,455</b>	<b>0.94</b>	<b>4.3</b>	<b>23.0</b>	<b>22.2%</b>	<b>46.8</b>	<b>41.4</b>	<b>8.0%</b>	<b>7.4%</b>	<b>(0.3)</b>
<b>Median</b>		<b>\$57.32</b>	<b>\$2,426</b>	<b>0.94</b>	<b>4.1</b>	<b>15.4</b>	<b>20.2%</b>	<b>32.3</b>	<b>24.1</b>	<b>6.5%</b>	<b>7.8%</b>	<b>3.1</b>

Pricing as of June 30, 2015

\*Price to Earnings to Growth (PEG) multiples calculated using forward P/E ratios and forward EPS growth estimates

Source: S&amp;P Capital IQ

## Publicly Traded Companies

### Life Science Tools & Services

Company Name	Ticker	Price at 6/30/15	Market Cap (millions) 6/30/15	5 Year Beta	EV/Rev.	EV/ EBITDA	EBITDA Margin	LTM P/E	Forward P/E	Revenue Growth (from LTM)	EBITDA Growth (from LTM)	Forward Price to Earnings / Growth*
pSivida Corp.	PSDV	\$3.77	\$111	1.37	3.0	9.3	32.1%	15.1	nm	661.5%	-167.2%	nm
Affymetrix Inc.	AFFX	10.92	844	0.45	2.4	20.5	12.0%	73.9	32.8	3.9%	72.7%	nm
Bruker Corporation	BRKR	20.41	3,439	1.09	1.9	14.9	12.8%	63.8	26.3	-7.1%	-8.9%	(2.6)
Illumina Inc.	ILMN	218.36	31,466	0.92	15.9	45.8	34.7%	75.5	62.0	22.7%	54.8%	1.6
Luminex Corporation	LMNX	17.26	745	0.46	2.8	14.3	19.9%	17.8	31.2	4.6%	25.2%	2.5
PAREXEL International Corporation	PRXL	64.31	3,548	1.11	1.8	12.2	14.9%	23.5	21.1	3.3%	6.0%	0.6
Sequenom Inc.	SQNM	3.04	359	0.43	2.7	nm	-0.4%	22.0	nm	6.7%	-98.1%	nm
Bio-Techne Corp.	TECH	98.47	3,658	0.57	8.6	19.2	44.7%	33.7	27.3	19.4%	3.3%	(411.3)
Agilent Technologies Inc.	A	38.58	12,855	1.49	1.8	10.1	17.5%	24.6	nm	30.0%	8.0%	nm
Bio-Rad Laboratories, Inc.	BIO	150.61	4,367	1.07	1.9	13.0	14.7%	43.9	40.4	-0.7%	6.6%	(4.8)
Cambrex Corporation.	CBM	43.94	1,376	0.78	3.5	14.9	23.8%	21.4	25.7	12.0%	32.6%	0.5
Charles River Laboratories International, Inc.	CRL	70.34	3,331	1.28	3.0	13.8	22.0%	26.1	19.1	7.9%	6.2%	1.8
Covance Inc.	CVD	106.42	6,062	0.94	2.2	12.5	17.4%	32.9	nm	1.3%	9.1%	nm
PerkinElmer Inc.	PKI	52.64	5,959	0.74	3.0	19.6	15.6%	35.8	19.8	1.5%	-16.4%	nm
Thermo Fisher Scientific, Inc.	TMO	129.76	51,652	0.90	3.9	16.2	23.9%	30.1	17.3	13.6%	21.8%	1.2
Waters Corporation	WAT	128.38	10,616	0.79	4.9	15.0	33.0%	23.7	22.0	4.3%	11.8%	2.2
<b>Average</b>		<b>\$72.33</b>	<b>\$8,774</b>	<b>0.90</b>	<b>4.0</b>	<b>(24.1)</b>	<b>21.1%</b>	<b>35.2</b>	<b>28.7</b>	<b>49.1%</b>	<b>-2.0%</b>	<b>(40.8)</b>
<b>Median</b>		<b>\$58.48</b>	<b>\$3,603</b>	<b>0.91</b>	<b>2.9</b>	<b>14.6</b>	<b>18.7%</b>	<b>28.1</b>	<b>26.0</b>	<b>5.6%</b>	<b>7.3%</b>	<b>0.9</b>

Pricing as of June 30, 2015

\*Price to Earnings to Growth (PEG) multiples calculated using forward P/E ratios and forward EPS growth estimates

Source: S&amp;P Capital IQ

## Publicly Traded Companies

### Conglomerate Companies

Company Name	Ticker	Price at 6/30/15	Market Cap (millions) 6/30/15	5 Year Beta	EV/Rev.	EV/ EBITDA	EBITDA Margin	LTM P/E	Forward P/E	Revenue Growth (from LTM)	EBITDA Growth (from LTM)	Forward Price to Earnings / Growth*
3M	MMM	\$154.30	\$97,879	1.15	3.3	11.9	27.4%	20.4	19.0	-1.0%	2.6%	2.7
Agilent Technologies	A	38.58	12,855	1.49	1.8	10.1	17.5%	24.6	21.2	30.0%	8.0%	0.9
Abbott Laboratories	ABT	49.08	73,068	0.34	3.5	15.6	22.6%	36.8	22.4	4.3%	20.3%	(1.6)
Allergan	AGN	303.46	119,221	0.28	9.4	34.4	27.3%	NM	16.5	75.3%	73.2%	nm
Baxter International	Bax	69.93	38,009	0.63	2.8	11.3	24.8%	20.6	19.3	0.0%	-1.9%	4.7
Becton Dickinson	BDX	141.65	29,660	0.89	4.4	21.0	21.1%	26.0	17.7	12.8%	-9.2%	(5.7)
Boston Scientific Corporation	BSX	17.70	23,730	1.07	3.8	15.9	24.0%	NM	18.9	1.7%	6.7%	nm
Danaher	DHR	85.59	60,583	1.20	3.0	13.5	22.6%	23.7	19.7	2.9%	3.3%	1.3
Endo Health Solutions	ENDP	79.65	16,296	1.28	6.9	28.9	23.8%	NM	16.8	28.1%	-10.8%	nm
General Electric	GE	26.57	267,717	1.37	4.2	21.9	19.1%	226.9	18.7	6.4%	5.3%	(1.6)
Corning Life Sciences	GLW	19.73	24,831	1.73	2.7	8.3	32.0%	10.9	12.9	8.6%	16.4%	19.4
Hospira	HSP	88.71	15,327	0.82	3.5	17.9	19.8%	44.9	27.0	8.3%	55.9%	(14.3)
IDEX	IDXX	64.14	6,003	0.80	4.4	20.3	21.7%	17.5	30.4	6.1%	-1.1%	2.5
Johnson & Johnson	JNJ	97.46	270,261	0.56	3.6	11.0	32.7%	17.4	15.7	-2.3%	-4.5%	4.9
Kimberly-Clark	KMB	105.97	38,584	0.21	2.4	10.5	22.8%	27.1	18.1	2.1%	20.6%	(1.0)
Medtronic	MDT	74.10	104,952	1.05	6.0	19.4	31.1%	30.7	16.9	19.1%	11.2%	(6.0)
Pall	PLL	124.45	13,297	1.50	4.7	20.0	23.5%	35.0	31.4	5.4%	15.5%	3.0
Stryker	SYK	95.57	36,165	0.98	3.6	13.5	26.7%	54.9	18.5	5.7%	-0.8%	(5.1)
<b>Average</b>		<b>\$90.92</b>	<b>\$69,357.64</b>	<b>0.96</b>	<b>4.1</b>	<b>17.0</b>	<b>24.5%</b>	<b>41.2</b>	<b>20.1</b>	<b>11.9%</b>	<b>11.7%</b>	<b>0.3</b>
<b>Median</b>		<b>\$82.62</b>	<b>\$37,086.84</b>	<b>1.02</b>	<b>3.6</b>	<b>15.7</b>	<b>23.7%</b>	<b>26.0</b>	<b>18.8</b>	<b>5.9%</b>	<b>6.0%</b>	<b>0.9</b>

Pricing as of June 30, 2015

\*Price to Earnings to Growth (PEG) multiples calculated using forward P/E ratios and forward EPS growth estimates

Source: S&amp;P Capital IQ

# Mercer Capital

Medical Technology  
Industry Services

Mercer Capital has expertise providing business valuation and financial advisory services to companies in the medical technology industry.

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## Contact Us

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# Erickson Partners Merges with Mercer Capital



**Mercer Capital**, a national business valuation and financial advisory firm specializing in Corporate Valuation, Litigation Support, Financial Reporting Valuation, and Transaction Advisory Consulting, and **Erickson Partners, Inc.**, a Texas-based Valuation and Litigation Support firm, announce their merger effective July 1, 2015.

Mercer Capital, with its strong presence throughout the Southeast and Midwest, and Erickson Partners, with its strong presence in Texas and Oklahoma, are a perfect fit.

Both firms maintain the highest standards of quality for financial analysis and client service and believe deeply in hiring and developing the best professionals.

"The culture of both firms is so similar and that was important to us. The professionals of Erickson Partners are well-known in the valuation profession as some of the best and brightest. Their work product and reputation are stellar. This merger not only allows us to broaden our geographic reach but also our industry expertise," said **Matt Crow**, President of Mercer Capital.

Erickson Partners enhances Mercer Capital's broad base of industry concentrations with their exceptional history working with and knowledge of professional sports franchises and the energy sector.

"Over our 30 plus year history, Mercer Capital has developed several industry concentrations. By adding the knowledge, insight, and expertise of Don Erickson, Bryce Erickson, and the rest of the professionals of Erickson Partners, we now bring deep experience and insight to a broader range of industries than we could as separate firms," said **Chris Mercer**, CEO of Mercer Capital.

"Combining with Mercer Capital, we will now be able to offer new or expanded services that complement our existing services, as well as additional industry expertise," said **Bryce Erickson**, Managing

Director of Erickson Partners. "In addition to our sports franchise and energy industry concentrations, we will be able to offer deep industry concentrations in construction and building materials, agribusiness, manufacturing and financial institutions, which includes depository institutions, insurance companies, fintech companies, asset management firms, and PE firms."

"The combined firm will have over 40 valuation professionals positioned in five markets throughout the southwest and southeast. Such a deep bench will provide us with a tremendous opportunity to better serve the expanding needs of our clients," said **Don Erickson**, President of Erickson Partners. "Joining with Mercer Capital gives us national resources that will benefit our clients in Texas and beyond."

## About Mercer Capital

Mercer Capital is a national business valuation and financial advisory firm offering corporate valuation, litigation support, financial reporting valuation, and transaction advisory consulting services to a national client base. Clients include private and public operating companies, financial institutions, asset holding companies, high-net worth families, and private equity/hedge funds.

## About Erickson Partners, Inc.

Erickson Partners is a professional valuation and advisory firm specializing in business valuation, litigation support, financial investigations and strategic corporate advisory services. Founded by Don & Bryce Erickson, Erickson Partners has served large and small clients by providing complex financial and economic analysis, leading to reasonable valuation opinions that withstand scrutiny.

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