

M&A VOLUME STRONG DUE TO SECTOR RESILIENCY

MEDICAL DEVICE OUTSOURCING SECTOR UPDATE | MARCH 2023



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Medical Device Outsourcing

M&A Volume Strong Due to Sector Resiliency

KEY SECTOR TAKEAWAYS

Capstone Partners' [Healthcare Group](#) is pleased to share its Medical Device Outsourcing report. Merger and acquisition (M&A) activity in the sector has continued at a robust pace in 2022, slightly trailing record levels of deal volume in 2021. Outsourced medical device manufacturing partners have benefitted from suppliers and original equipment manufacturers (OEMs) reshoring production. Several key report takeaways are outlined below.

1. A noticeable shift towards outsourcing strategies favoring more diversified and local production, rather than low-cost-country sourcing solutions.
2. Supply chain reshoring efforts have begun to ease production pressures for OEMs and provide additional outsourcing opportunities for sector players.
3. Continuously evolving regulatory standards in the U.S. have fueled demand for outsourced regulatory consulting and testing providers.
4. Sponsor-backed platform companies have continued to drive M&A activity, as private equity remains bullish on the long-term growth prospects for the industry.
5. Capstone's Medical Device Outsourcing public company index continues to trade at a premium relative to the S&P 500 on an EBITDA multiple basis.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction.

To learn more about Capstone's wide range of advisory services and Medical Device Outsourcing sector knowledge, please [contact us](#).

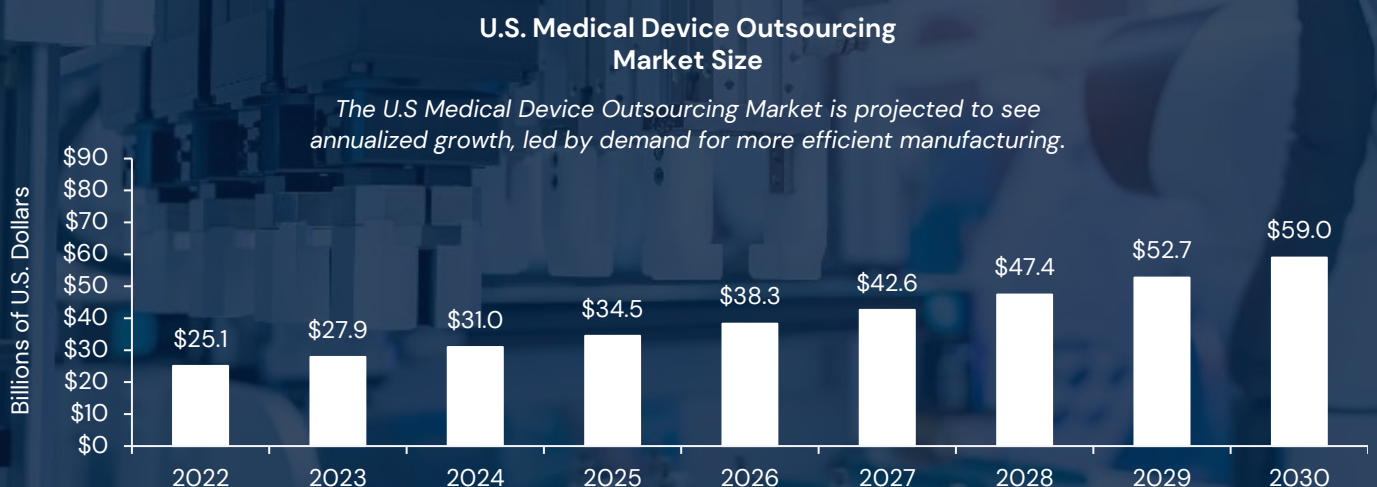
SECTOR GROWS DESPITE SUPPLY & LABOR CHALLENGES

Despite facing unprecedented production, labor, and supply challenges in 2022, the Medical Device Outsourcing sector enjoyed topline growth. Notably, medical device outsource manufacturer Integer (NYSE:ITGR), reported a 19% year-over-year (YOY) sales increase to \$372 million in 2022, while generating \$116 million in cash flow from operating activities, according to its full year 2022 earnings report.¹ Despite Integer's solid performance, supply chain challenges have remained a persistent issue for OEMs and outsourced contract manufacturers, as the COVID-19 pandemic has continued to affect global manufacturing, sourcing, and labor availability. Industry participants have made concerted efforts to move operations and source materials onshore or nearshore to mitigate the risk of future supply chain disruptions. Re-shoring efforts can provide additional opportunities for contract manufacturers to expand and strengthen relationships with OEMs who are recognizing the importance of a sourcing strategy that balances costs and efficiency with stability and dependability in the supply chain.

The U.S. Federal Government has also implemented measures in recent years incentivizing manufacturers to re-shore production. These efforts have included \$100 million authorized by the 2020 CARES Act to boost medical technology manufacturing in the U.S., and the passing of the 2022 CHIPS Act, which includes

\$52 billion in reshoring incentives for semiconductor chip manufacturers and suppliers, according to the Semiconductor Industry Association.² The CHIPS Act is expected to help relieve significant semiconductor chip supply and demand imbalances, which bodes well for outsourced partners seeking to expedite time-to-market in a competitive sector.

Demand for medical devices and outsourced contract manufacturing is expected to remain healthy in 2023 due to the necessity of non-elective medical procedures and the "graying" of America. Additionally, with lower COVID cases and related hospitalizations, the negative impact of COVID on elective surgeries should be significantly less in 2023 than in the past few years. During the pandemic, many hospitals and medical facilities had to prioritize resources for COVID patients, resulting in the postponement or cancellation of many elective surgeries. Moreover, patients may have been hesitant to undergo elective surgeries due to concerns about the risk of COVID-19 exposure in medical facilities. In addition, long term sector optimism has been evidenced by projections for the Medical Device Outsourcing market to reach \$59 billion by 2030, growing at a compound annual rate of 11.2%, according to Research and Markets.³ As surgical procedure volume has begun to normalize to pre-COVID levels, outsourced manufacturing players will benefit from increased demand.



Source: Research and Markets

REGULATORY CONSULTING AND TESTING COMPANIES IN HIGH DEMAND

Outsourced providers offering compliance and regulatory testing solutions have seen heightened M&A interest from both private equity and strategic suitors. The increasingly complex pathway to secure clearance and approvals from the FDA, coupled with more onerous government regulations is accelerating the trend among OEMs to utilize third party experts for their compliance, regulatory, and testing needs. Outsourced providers can provide specialized knowledge and experience to help bring new products to market more efficiently and ensure compliance with regulatory requirements. As of 2021, the Healthcare Regulatory Affairs Outsourcing market was valued at \$7.3 billion and is projected to reach \$15 billion by 2028 growing at a compound annual rate of 11.0%, according to The Insight Partners.⁴

Of note, Arlington Management-backed Millstone Medical Outsourcing, completed the acquisitions of medical device regulatory testing service providers Mycoscience Labs and Ethide Labs in November of 2022 for undisclosed amounts. Ethide Labs has more than 60 years of experience in regulatory testing services for the medical device industry, completing over 5,000 tests annually on 100 unique products, according to a press release.⁵ Ethide's capabilities include ethylene oxide residual, microbiology, bioburden, sterility, and package testing and environmental monitoring. Mycoscience Labs is a Connecticut-based advanced laboratory and environmental testing service provider for medical device manufacturers. These acquisitions are expected to strengthen Millstone's end-to-end expert sourcing and support services through in-house access to a full range of specialty precision testing services.

Notable Platform Investment in Regulatory Testing and Lab Services



In September 2022, private equity firm Ampersand Capital Partners agreed to acquire iuvo BioScience for an undisclosed amount. iuvo BioScience is a specialty contract research organization (CRO) serving small- and mid-sized biotech and medical device companies globally. The company provides laboratory services, toxicology and preclinical testing, clinical development and trial execution, and scientific and regulatory consulting.

Ampersand Capital Partners specializes in growth equity investments in the Life Sciences and Healthcare sectors. iuvo expects the acquisition to expand its laboratory capacity and integrated service portfolio and support an active inorganic growth strategy.

"iuvo's partnership with Ampersand comes at a pivotal moment in the company's history. With support from Ampersand, iuvo is well-positioned to continue its strong growth trajectory and expand our abilities to provide unrivaled service to our customers. Ampersand's deep industry expertise, broad network, and capital resources will fortify iuvo's position as a leading specialty CRO," said iuvo President and CEO, Ben Burton, in a press release.⁶

Leading Regulatory and Testing Outsourced Providers

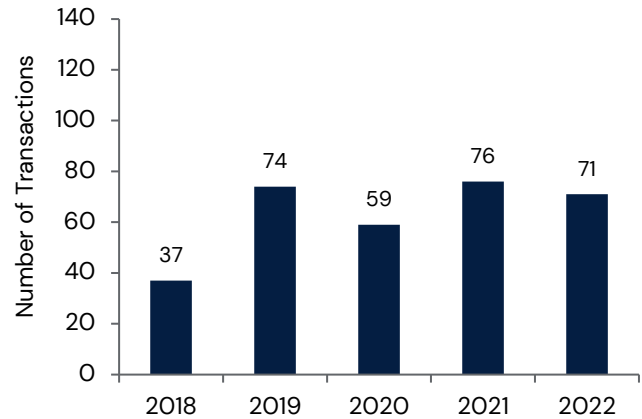


Source: Medical Product Outsourcing, ComplianceGate, and Dot Compliance

ADD-ON ACQUISITIONS LEAD RESILIENT SECTOR M&A VOLUME

M&A volume has continued at a consistent pace with 20 deals announced or completed in Q4 and 71 deals total in 2022. This marks a 5.3% increase quarter-over-quarter (QOQ), highlighting the robust pace of Medical Device Outsourcing sector M&A in 2022. Total sector transaction activity dropped 6.6% YOY, following historic levels of M&A deal volume in 2021. However, Medical Device Outsourcing sector M&A activity outperformed the broader middle market, which declined 15.9% compared to 2021, according to Capstone Partners. Consolidation among strategics contributed to the consistency of deal volume in 2022 (31.0% of transactions), but private equity buyers drove the majority of transaction activity (69.0%) for the third consecutive year. Private equity platform acquisitions accounted for 32.4% of deal activity in 2022, while private equity add-ons comprised 36.6% of M&A deals in another strong year for activity among financial buyers.

**Medical Device Outsourcing M&A Approaches
Historic Levels in 2022**



Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Sponsor-backed platform companies in the space have continued to lead sector M&A activity, with private equity firms favoring buy-and-build strategies to capture market share in 2022. Notably, Veranex, completed three add-on acquisitions in the Medical Device Outsourcing space in 2022 after being acquired by Accelmed Partners and Lauxera Capital Partners in May 2022. Veranex has used acquisitions to gain capabilities and provide an integrated service offering for the medical technology industry that includes design, engineering, regulatory, preclinical research, clinical development, commercial strategy, and market access solutions. Veranex acquired medical device consultancy service provider, Medidee Services (September 2022, undisclosed), biotechnology CRO, Clarvin Group (October 2022, undisclosed), and medical device contract manufacturer, Fusion Biotec (December 2022, undisclosed). Additionally, American Industrial Partners-backed ADDMAN Engineering and Odyssey Investment Partners-backed Pexco each completed three add-ons in the space in 2022.

BUYER SPOTLIGHT



Founded: 2011
Headquartered: Bloomfield Hills, Michigan
Sponsor: The Jordan Company

ARCH Medical Solutions is a main subsidiary of ARCH Global Precision, a platform company of private equity firm The Jordan Company that provides contract manufacturing for OEMs in the Orthopedics and Surgical Robotics end markets. ARCH Medical Solutions has continued its aggressive acquisition streak and announced or completed four transactions in the Medical Device Outsourcing sector in 2022, the most by any buyer in the Medical Device Outsourcing sector tracked by Capstone. Between 2021 and 2022, the company completed eight total acquisitions in the space, the result of an aggressive buy-and-build strategy implemented by The Jordan Company following its acquisition of ARCH Global Precision in April 2019 for an undisclosed amount. Notable recent acquisitions include MedTorque (July 2022, undisclosed), a contract manufacturer for orthopedic medical device OEMs, Market Services Corporation (March 2022, undisclosed), a manufacturer of ultrasonic sub-systems for the Laboratory Diagnostics market, and Titan Medical Manufacturing (July 2021, undisclosed), a surgical implant contract manufacturer.

NOTABLE TRANSACTIONS



Acquires



Jordan Company-backed ARCH Medical Solutions (ARCH), a precision manufacturer of high-quality components, parts, and instruments for various medical devices, acquired Alpha Manufacturing & Design (Alpha) in November for an undisclosed amount. Founded in 2008 and based in Indiana, Alpha is an ISO 13485-certified contract manufacturer of surgical instruments and assemblies for spine, trauma, large joint, and dental device uses and applications

"We are excited with this opportunity to have Alpha join forces with ARCH. Being located in Warsaw, IN, Alpha brings access to a well-established Orthopedics manufacturing infrastructure while furthering ARCH's strategy of geographically co-locating with our medical device customer base," said Paul Barck, Divisional President of ARCH Medical Solutions, in a press release.⁷ With the acquisition, ARCH adds to its collection of precision-manufacturing solutions for medical OEM's, further solidifying its position as a leading supplier in the Medical Device Contract Manufacturing market.

Spirax-Sarco Engineering plc

Acquires



Industrial and commercial heating and pumping services provider, Spirax-Sarco Engineering, acquired Durex International Corporation in September for an enterprise value of \$342.2 million, equivalent to 4.6x EV/Revenue and 13.5x EV/EBITDA. Durex, an Illinois-based manufacturer of temperature sensors and controls used in medical devices, will join Spirax-Sarco's Electric Thermal Solutions (ETS) business, alongside two of the company's previous transactions, Thermocoax (March 2019) and Chromalox (May 2017). Spirax-Sarco expects the acquisition to expand its ETS business to 2,700 employees total across 18 manufacturing facilities worldwide, according to a press release.⁸

"We are excited about this opportunity to further strengthen our ETS business and look forward to welcoming colleagues from Durex into our group. We have great respect and admiration for Durex that has grown and developed under the skillful leadership of Ed Hinz who founded the business over 40 years ago. Ed's impending retirement provided an excellent opportunity for us to broaden our capabilities in key target sectors, accelerating the development of our ETS business in line with our long-term plans," said Nicholas Anderson, Group Chief Executive at Spirax-Sarco Engineering, in a press release.⁹



Acquires



Frazier Healthcare Partners-backed EPTAM Precision Solutions, an outsourced manufacturer of medical device components, acquired plastic injection molding and Liquid Silicone Rubber (LSR) component manufacturer, Sterling Manufacturing, in September for an undisclosed amount. Sterling is a Massachusetts-based company that serves a wide range of Medical and Life Science markets, including the Medical Device, Molecular Diagnostics, and BioPharma verticals.

EPTAM expects the acquisition to diversify its capabilities in order to become a one-stop-shop for medical customers requiring both thermoplastic and LSR injection molded components, according to a press release.¹⁰ The transaction also includes the acquisition of Sterling's wholly-owned subsidiary, Albright Silicone, a silicone injection and tooling firm. "By welcoming the professionals from Sterling and Albright to our team, EPTAM adds world-class, highly automated, thermoplastic and LSR injection molding expertise, while also expanding our front-end engineering support offering and benefitting from Sterling's proximity to many of the leading Molecular Diagnostic and BioPharma OEMs located in the greater New England area," said EPTAM CEO, Mark Kemp, in the press release.



CAPSTONE CASE STUDY: TOXSTRATEGIES

Capstone Partners advised ToxStrategies – a multidisciplinary scientific consulting firm – on its recapitalization to Renovus Capital. Terms of the deal were not disclosed.

ToxStrategies, is a scientific consulting firm specializing in toxicology, epidemiology, regulatory compliance, and safety. The company has a strong reputation for scientific excellence and advancing innovative solutions to address the complex regulatory and technical challenges confronting its clients in sectors including pharmaceuticals, medical devices, food and additives, chemical, government, and consumer products. With unique capabilities in assessing potential health effects and exposure to chemicals, biological contaminants, natural products, radionuclides, and pharmaceutical and biopharmaceutical products, ToxStrategies is a valued partner for both public and blue-chip private clients.

The company's highly collaborative team of toxicologists, epidemiologists, industrial hygienists, engineers, exposure scientists, biostatisticians, and regulatory specialists are recognized leaders in their respective disciplines—frequently serving in leadership positions in professional societies and publishing in leading scientific journals. "With Renovus' investment, ToxStrategies will leverage its reputation, knowledge base, customer relationships, and specialized regulatory and scientific expertise to make substantial new advances, further expand its existing client base, and develop new end markets," said ToxStrategies Co-Founder, Mark Harris.



“Hats off to the Capstone team for creating a highly competitive M&A process and finding a great partner to help further scale our business. Their attention to detail, responsiveness, and sound advice made a complicated process understandable for my partners and myself and resulted in a great outcome for ToxStrategies.”

Mark Harris
Co-Founder, ToxStrategies



Eric Williams,
Head of Healthcare Investment Banking

“ToxStrategies, with its exceptional scientific staff, sterling reputation, and innovative approach to tackling complex technical and regulatory issues critical for public health and brand integrity, is well positioned to capitalize on a number of market trends as well as legislation driving demand for consulting solutions including the CARES Act – OTC Drug Monograph Reform, FDA’s Food Safety Modernization Act, rising consumer concern regarding exposure to PFAS chemicals and ongoing pressures to reduce animal testing.”



SELECT M&A TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV/LTM Revenue	EBITDA
01/06/23	ToxStrategies	Renovus Capital Partners	Provides toxicological and epidemiological testing services to medical device manufacturers.	CF	CF	CF
12/01/22	Ethide Labs	Millstone Medical Outsourcing	Provides microbiological, biological and ethylene oxide residual testing services.	-	-	-
11/29/22	Nextek	Katek (DB:KTEK)	Delivers electronic manufacturing services including electronic assembly and engineering.	-	-	-
11/21/22	Elite-Medical	Marle International	Offers contract manufacturing for orthopedic implants, surgical instrument assembly, and silicone handle cells.	-	-	-
11/21/22	Accusite Surgical Services	Slightpath Medical	Provides cataract surgery equipment outsourcing.	-	-	-
11/17/22	Mycoscience Labs	Millstone Medical Outsourcing	Offers syringe and vial filling of viscous materials for medical devices.	-	-	-
11/14/22	Alpha Manufacturing & Design	ARCH Medical	Provides contract manufacturing of surgical medical devices.	-	-	-
11/08/22	Fairchild Auto-Mated Parts	Fairchild Industries	Develops machined parts for use in medical device applications.	-	-	-
11/03/22	Formula Plastics	Investindustrial	Manufactures machinery products intended for the Medical industry.	-	-	-
11/02/22	HARBEC	ADDMAN Engineering	Offers 3D-printed metals and plastics, machined and injection-molded components for the Medical industry.	-	-	-
11/02/22	Polyzen	Solexis Medical Technologies	Develops customized medical devices and specialty components for medical device OEM companies.	-	-	-
10/26/22	MME Group	Seaway Plastics Engineering	Provides plastic and liquid silicone rubber injection molding for the Healthcare market.	-	-	-
10/26/22	ETM Electromatic	Teledyne (NYSE:TDY)	Offers design manufacturing of high-power electronic products for Medical markets worldwide.	\$85.0	-	-
10/17/22	Porzio Life Sciences	RLDatix	Provides compliance services and solutions to the Life Sciences industry serving medical device companies.	-	-	-
10/14/22	D&K Engineering	The Burke Porter Group	Offers product design and contract manufacturing services for products serving the Medical market.	-	-	-
10/11/22	ScanMed	DirectMed Parts & Service	Manufactures magnetic resonance imaging (MRI) coils and receive antennas for the Medical Imaging market.	-	-	-
10/11/22	UPG Company	The Partner Companies	Develops complex assembly products intended for the Medical markets.	-	-	-
10/06/22	Enviropas	Aurora Plastics	Provides customized products, flame retardants, glass, and UV stabilized products serving the Medical industry.	-	-	-
09/28/22	iuvo BioScience	Ampersand Management	Provides laboratory services, toxicology and preclinical testing, clinical development, and regulatory consulting.	-	-	-
09/28/22	Durex Industries	Spirax-Sarco (LSE:SPX)	Manufactures electric heaters and temperature sensors for Medical Device markets.	\$342.2	4.6x	13.5x
09/19/22	Sterling Manufacturing	EPTAM Precision	Provides vertically integrated injection molding services intended to serve Medical industries.	-	-	-
09/07/22	JordiLabs	RQM+	Provides analytical and lab testing for medical devices.	-	-	-

Blue shade indicates Capstone advised transaction; CF = confidential
Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

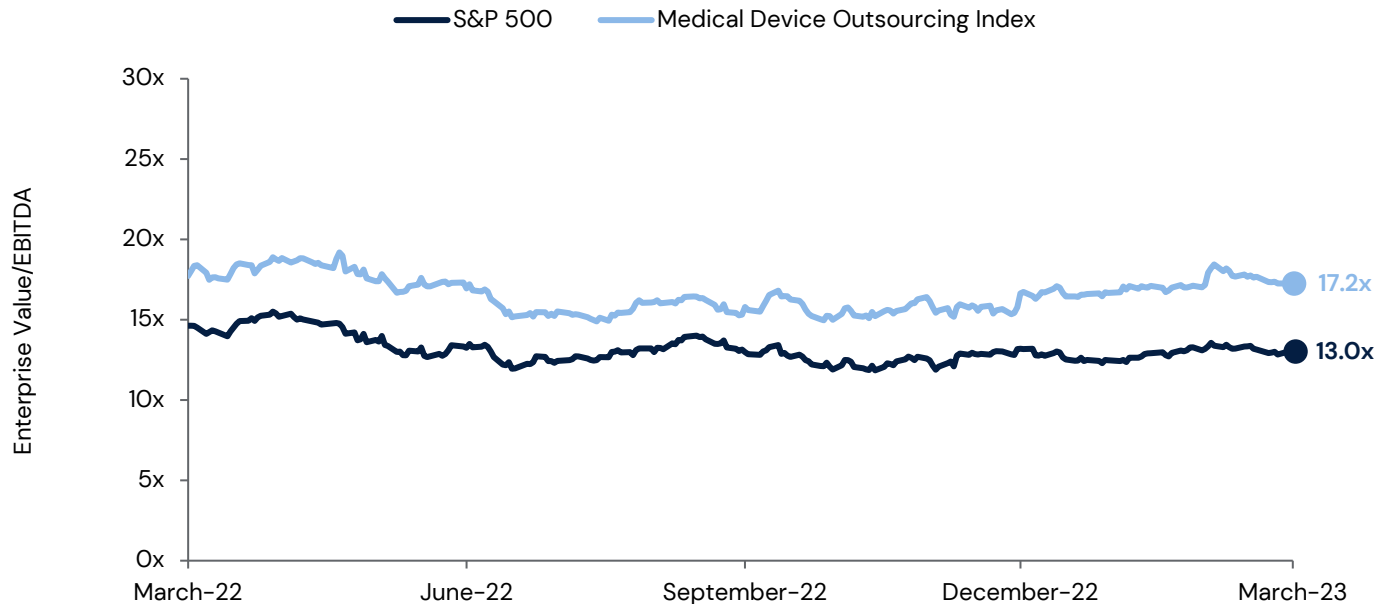


PUBLIC COMPANY DATA

Company	Price 03/01/23	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Boston Scientific Corporation	\$46.72	95.6%	\$67,032.9	\$75,447.9	\$12,682.0	\$3,260.0	25.7%	NM	23.1x
CONMED Corporation	\$96.19	61.9%	\$2,933.7	\$3,978.3	\$1,045.5	\$164.4	15.7%	3.8x	24.2x
Integer Holdings Corporation	\$74.98	84.6%	\$2,492.0	\$3,477.8	\$1,376.1	\$247.4	18.0%	2.5x	14.1x
Integra LifeSciences Holdings	\$55.62	81.4%	\$4,540.6	\$5,682.6	\$1,557.7	\$413.7	26.6%	3.6x	13.7x
Medtronic plc	\$82.80	72.4%	\$110,155.2	\$127,323.2	\$30,771.0	\$9,644.0	31.3%	4.1x	13.2x
NuVasive, Inc.	\$43.23	71.5%	\$2,256.3	\$3,015.6	\$1,201.9	\$218.2	18.2%	2.5x	13.8x
Stryker Corporation	\$262.88	92.6%	\$99,587.2	\$111,185.2	\$18,449.0	\$4,536.0	24.6%	NM	24.5x
Teleflex Incorporated	\$238.23	66.8%	\$11,183.5	\$12,694.4	\$2,791.0	\$765.5	27.4%	4.5x	16.6x
Zimmer Biomet Holdings, Inc.	\$123.87	91.7%	\$26,020.7	\$31,783.3	\$6,939.9	\$2,246.4	32.4%	4.6x	14.1x
							Mean	24.4%	3.7x
							Median	25.7%	3.8x
							Harmonic Mean	23.0%	3.5x

EV = enterprise value; LTM = last twelve months
\$ in millions, except per share data
NM = Not Meaningful

Average Medical Device Outsourcing EBITDA Multiples Outperform S&P 500



Index includes BSX, CNMD, IART, MDT, NUVA, SYK, TFX, ZBH, ITGR
Market capitalization weighted
Source: Capital IQ as of March 1, 2023



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He has also executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. Previously, Eric worked as a senior executive with Newport Securities Corporation. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.

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Mark is a Director in the Philadelphia office with over 15 years of experience in mergers & acquisitions, private placements and financial advisory services. While Mark's primary focus includes clients in the health and medical industry, his experience spans a broad range of industries, including government and defense contracting, manufacturing and outsourced business services sectors. Prior to investment banking, he enjoyed a career in the social services field.

Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney's Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses.

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FIRM TRACK RECORD

Capstone Partners maintains an active [Healthcare Group](#) in the middle market, with Medical Device Outsourcing being an important vertical within our focus. This market presence allows Capstone to provide Medical Device Outsourcing companies with up-to-date market data and access to key decision makers among the industry's most active acquirers and investors.

 <p>HAS BEEN ACQUIRED BY</p>  <p>a portfolio company of THE JORDAN COMPANY</p>	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN RECAPITALIZED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 
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