



Exit Strategies

Positioning a Medical Device Company for Acquisition

Summer 2007



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Introduction to West Ridge Associates, LLC

Approach And Principles In Transactions

- **Serve the client first.** The interests of the client always come first. Time constraints or economic interests of the advisor must never affect advice to the client.
- **Love the goal – not the deal.** Never lose sight of the client's goal. Relentless pursuit of the closing is a virtue only so long as the transaction is consistent with the client's goal.
- **Be open when possible.** While effective advocacy and confidentiality requirements affect and may limit the timing and extent of disclosure, the more information provided to the other side, the better business decision it can make. Agreements based on bad information seldom close.
- **Never lie – no exceptions.** Effective advocacy frequently requires taking strong positions and negotiating stances. It is always appropriate to put the facts in the most favorable light for the client. The advisor often may decline to answer a question. He may never mislead. The truth always comes out in due diligence.

Services

Corporate Finance

- **Middle-market companies in need of capital for growth and shareholder liquidity**
 - Private Equity
 - Later Stage Venture Capital
 - Strategic Corporate Investors

Mergers & Acquisitions

- **Divestitures of Closely Held Operating Businesses**
- **Equity and Debt Recapitalizations**
- **Corporate Divestitures**
- **Acquisition Advisory**
- **Bankruptcy Sales**

Value Proposition

- **Maximize transaction price and certainty**
- **Enable Client to focus on operation of business**
- **Protect Client and Client's business during the transaction process**
- **Provide support to Client and its team of professional advisors each step of the way**
- **Minimize representations and warranties**
- **Facilitate tax efficiency**
- **Manage the transaction process from beginning through close**

Management Team

CHARLES TROE, FOUNDER & SR. MANAGING DIRECTOR

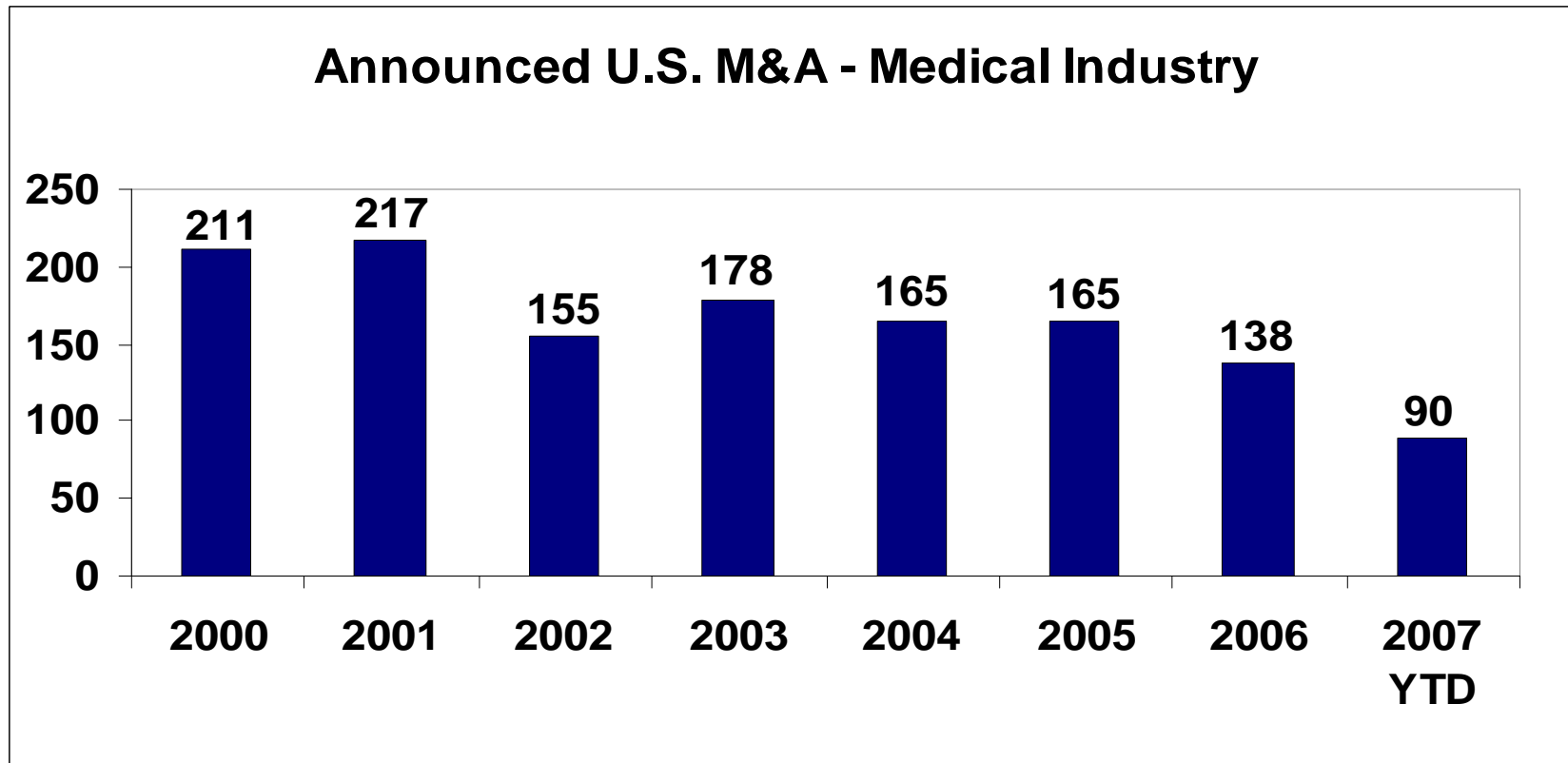
- More than 35 years of relevant experience
- Industry Experience
 - Medical products, technology, telecommunications, basic industry, manufacturing, distribution, banking and finance, insurance, real estate, lodging, and oil and gas
- Prior Firms:
 - Mosaic Capital; Taurus Capital; Barrington Associates; Adams, Duque & Hazeltine; Andrews & Kurth; and Mayer, Brown, Rowe & Maw
- Board Membership & Associations:
 - Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center, Life Science Industry Council, Southern California Biomedical Council, Creatable Media, Inc., Avalon Oil Company, and Hermosa Oil Company
- Education:
 - BBA, University of Iowa
 - JD, University of Chicago
- Professional Designations:
 - Admitted to State Bar in California, Colorado and Illinois
 - NASD Registered Representative (Series 7)

KAHLIL REID, MANAGING DIRECTOR

- More than 10 years of relevant experience
- Industry Experience:
 - Technology, media, telecommunications, manufacturing, metals and mining
- Prior Firms:
 - Etech Securities, Inc.
 - Citigroup Global Corporate and Investment Bank
 - Fried, Frank, Harris, Shriver & Jacobson
- Education:
 - BS, Cornell University
 - JD, Georgetown University
- Professional Designations
 - Admitted to the State Bar in New York
 - NASD Registered Representative (Series 7)

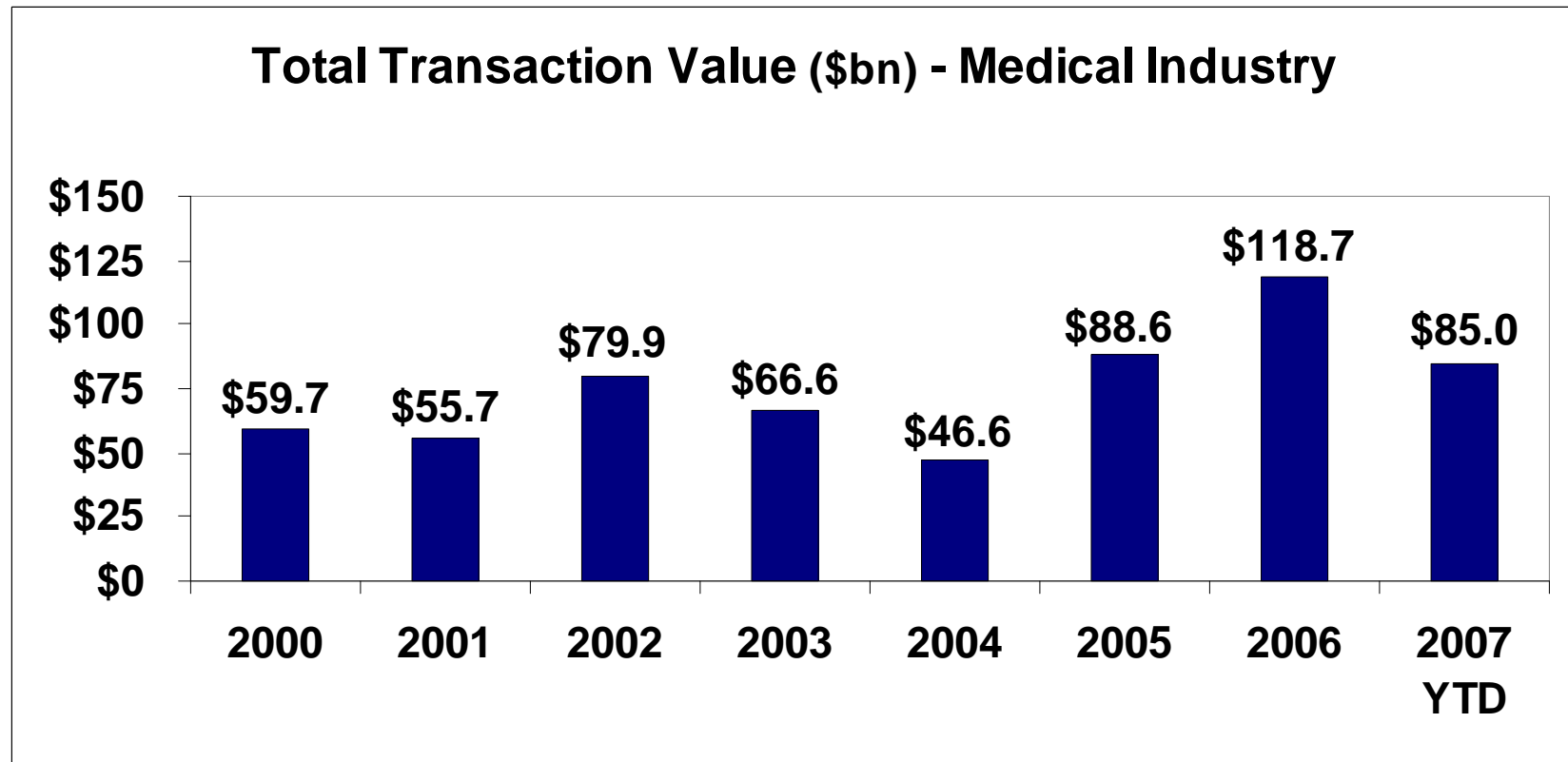
Industry Climate

Industry Climate



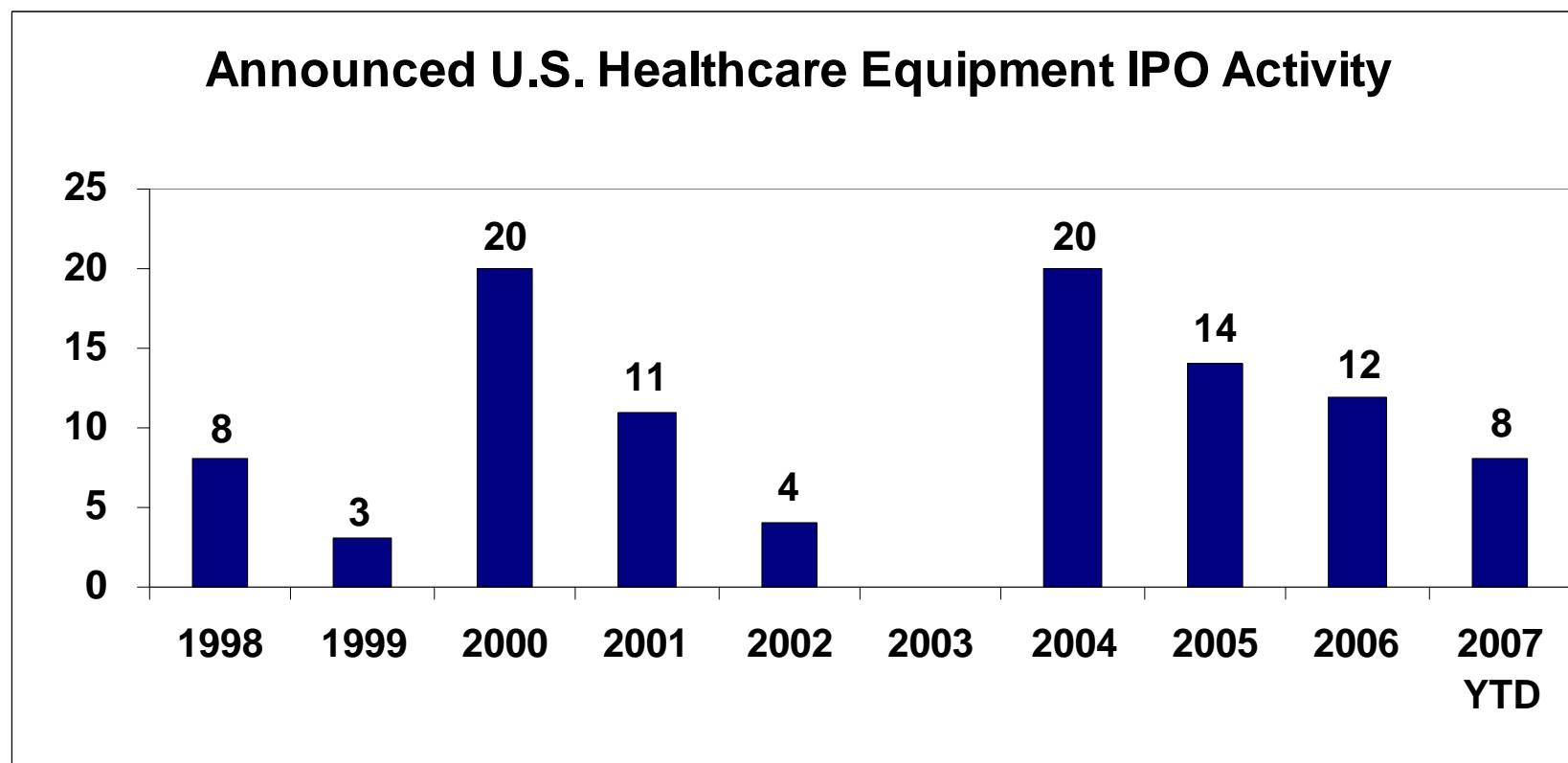
Source: Mergerstat

Industry Climate (cont.)



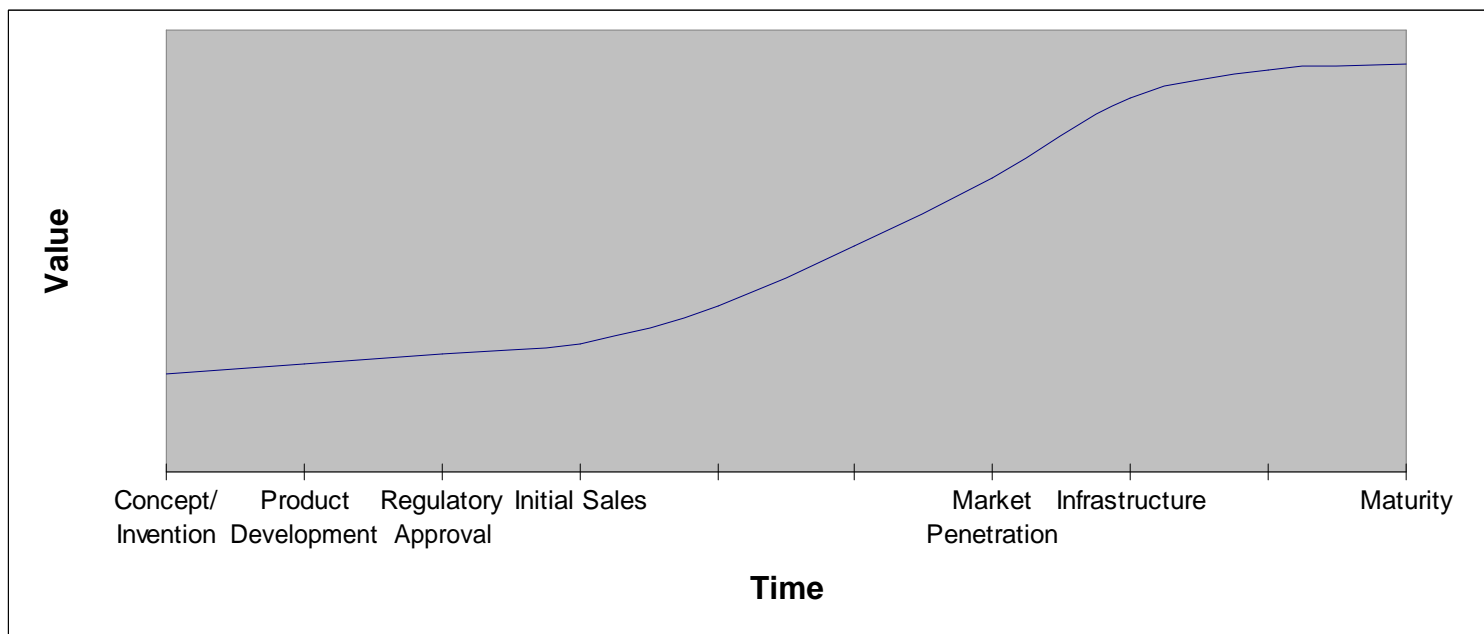
Source: Mergerstat

Industry Climate (cont.)

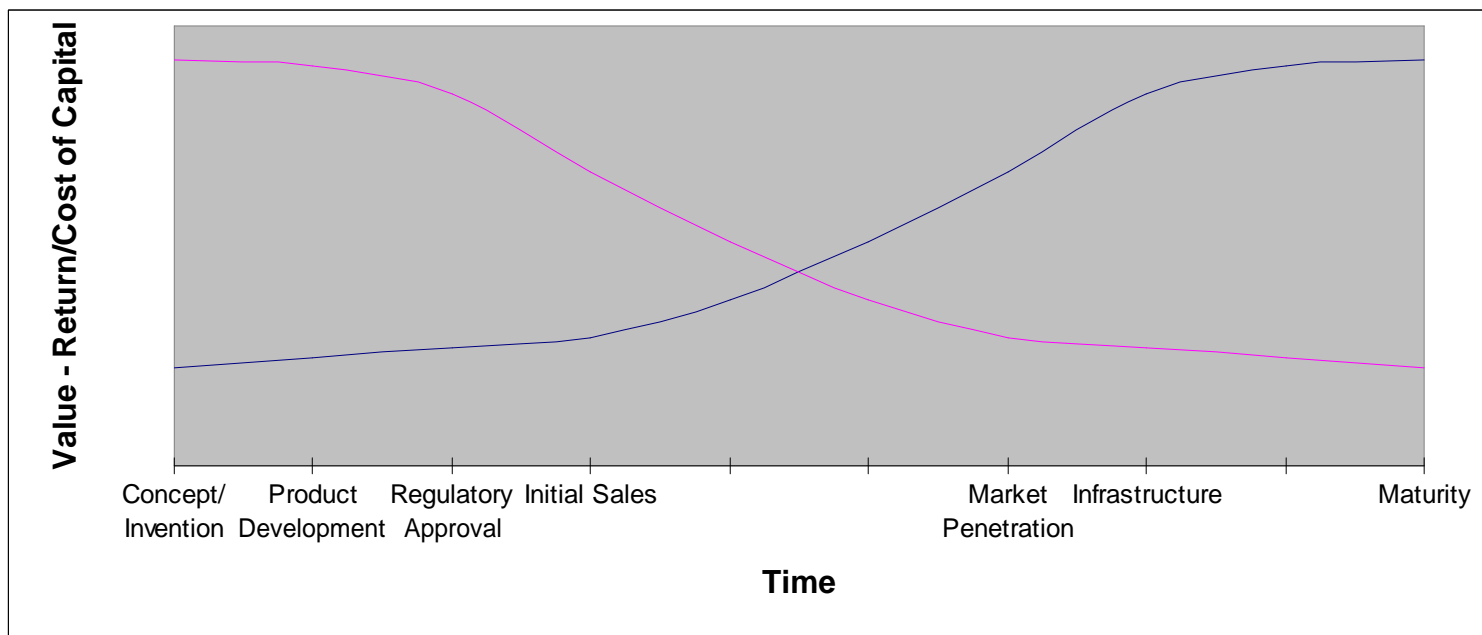


Source: Thomson Financial

Time/Value Continuum



Time/Value Continuum (cont.)

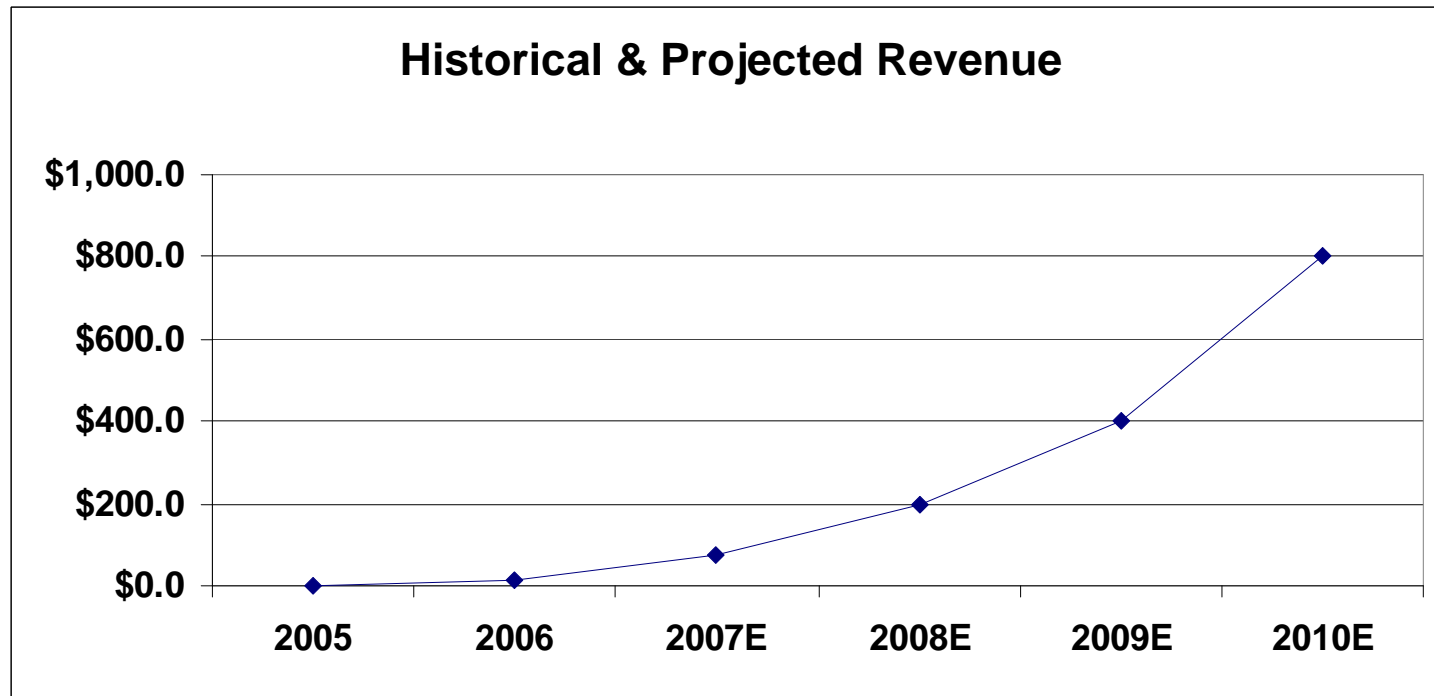


***Key Considerations When Positioning
Your Company for Sale***

Put Your Hockey Stick on Ice



Put Your Hockey Stick on Ice



Build Bottoms Up Models



Build Bottoms Up Models

Starting ASP	\$50
Reduction in ASP/Year	10%
Months Until Reimbursement Approval	27
Sales Cycle (Mos.) to Acquire Hospital Account	9
New Hospitals Projected Per Rep Per Month	3
Rep Conversion Success Rate (1 out of 3 Prospects)	33%
Minimum Sales Reps	0
Maximum Sales Reps	24
Sales Force Ramp-Up (Mos.)	18
<u>Hospital Account Penetration</u>	
PRE-Reimb. Penetration (7 out of 10 Patients)	70%
Start POST-Reimb. Penetration (7 out of 10 Patients)	70%
Max POST-Reimb. Penetration (8 out of 10 Patients)	80%
Months to Achieve Max POST-Reimb. Penetration	36
Total Patient Penetration	
Maximum Market Cap	50%

Don't Forget the Balance Sheet



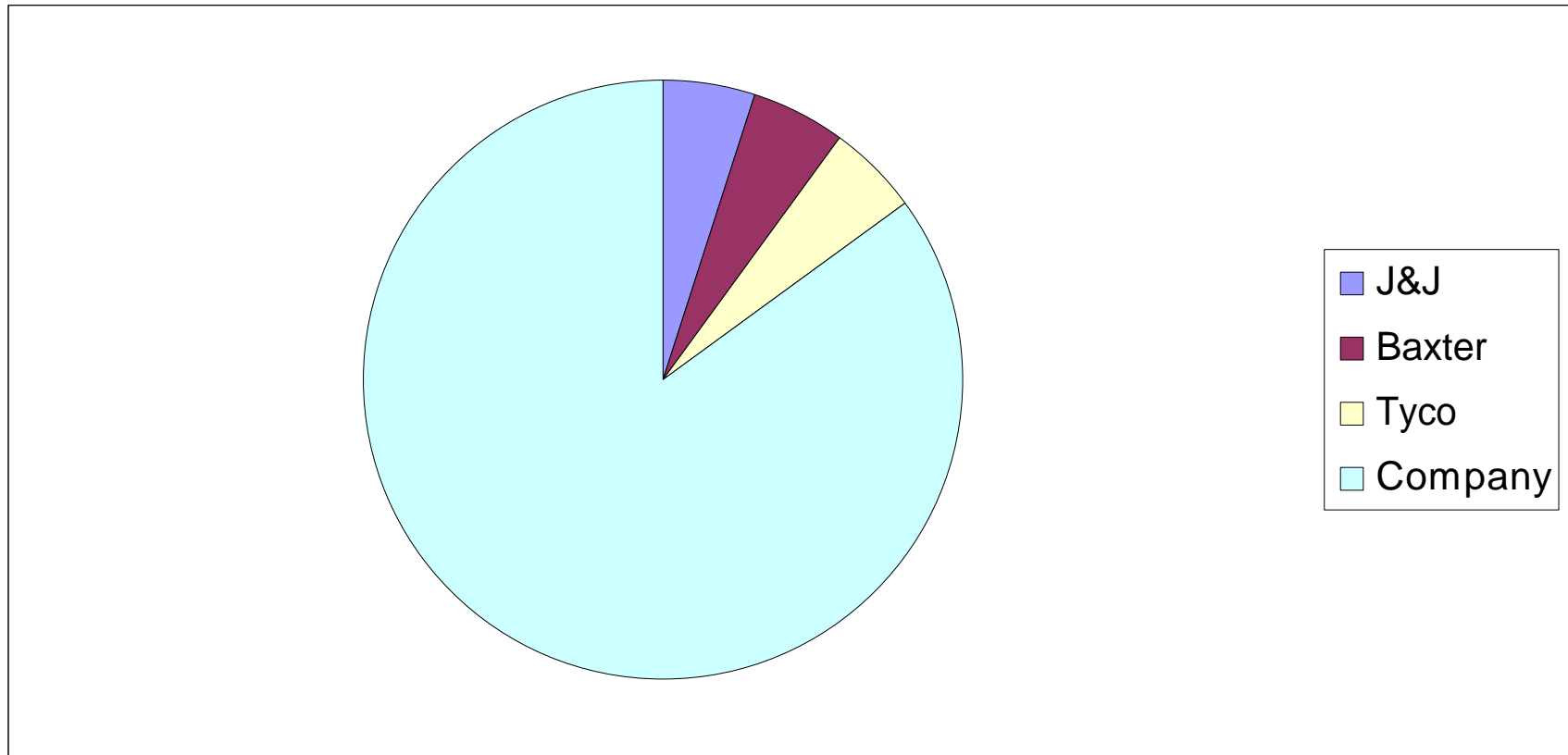
Don't Forget the Balance Sheet

Year	1	2	3
Revenue	\$20,524	\$12,930	2,777
GP	13,370	5,556	241
EBIT	9,296	1,360	(2,138)
Net Profit	2,695	(993)	(2,574)
 <u>Projection 1</u>			
Cash	7,691	9,643	9,170
Net Current Assets	10,385	9,268	6,570
Equity	11,637	10,644	8,070
 <u>Projection 2</u>			
Cash	438	5,268	9,111
Net Current Assets	10,385	9,268	6,570
Equity	11,637	10,644	8,070
 Net Difference in Cash	 (\$7,253)	 (\$4,375)	 (\$59)

It's Market Share



It's Market Share



What Do You Mean “Who’s Going to Pay for It?”



What Do You Mean “Who’s Going to Pay for It?”

- Health care providers will not buy the product if there is no means of recovering the cost of doing so.
 - Clinical outcomes are not sufficient motivation.
 - Economic outcomes must be positive overall.
- Cost avoidance is a very difficult sell.
- Reimbursement strategy is frequently left out or put at the end of the priorities.
- Related points:
 - Which practitioners are being adversely affected?
 - Sellers underestimate the cost of product introduction by companies with existing distribution infrastructure.

But We Already Own It



But We Already Own It

- Strategic “Alliances” frequently are a misnomer.
- A distribution “partner” frequently isn’t.
- If a product is sold under the name of a partner or incorporated into or sold with another product, when the time comes for a liquidity event, a significant part of the value belongs to someone else.
- An exclusive distribution arrangement may transfer significant value to the distribution partner.
 - The partner has the customer relationships and often the customer information.
 - The process of transition to a buyer’s sales force may be much more difficult and expensive than imagined.

What Does It Cost to Escape?



What Does It Cost to Escape?

- Distribution agreements **MUST** be terminable:
 - With reasonable (not too long) notice
 - At a fixed and determinable cost
 - With appropriate transfer of information and relationships
- If distribution agreements are not terminable or are terminable only with significant risk of dispute, most buyers will walk away.

No Mad Scientists Allowed



No Mad Scientists Allowed

(OR, YOU CHANGED – WHAT?!!!)

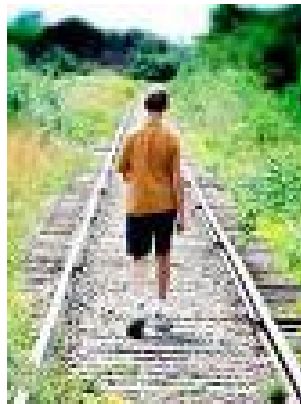
IF, the CEO is a physician, scientist, or engineer, then that
CEO **MUST**

- Previously
- Successfully
- Operated

A **Business**

(oh yes, and don't change an element of the demonstration
unless you've tried it before)

Thanks – But I Can Do It Myself



Thanks – But I Can Do It Myself

- Management must focus on running the business
- Outside perspective is essential
- The process maximizes value
- There is a skill set
- Don't negotiate with your future partners
- Identifying prospective buyers is the easy part