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First Quarter Highlights

- Middle market M&A deal volume increased by 34% in Q1 2010 on a year-over-year basis. Aggregate deal value rose by 63% during the same period.
- As of March 31, 2010 the S&P 500 and Dow Jones Industrial Average were up 5% and 4% YTD.
- The national unemployment rate fell to 9.7% in Q1 2010.
- According to the Bureau of Labor Statistics, Healthcare employment levels increased by 54,000 in Q1 2010.

Clarity

With the uncertainty of the Healthcare Reform Bill now behind us, the industry can now confront the new challenges that it has created. Late 2008 and early 2009 saw many companies become defensive, concentrating on internal operations with limited M&A activity. However, as the economy showed early signs of recovery in late 2009, deal volume and valuations reversed the downward trend.

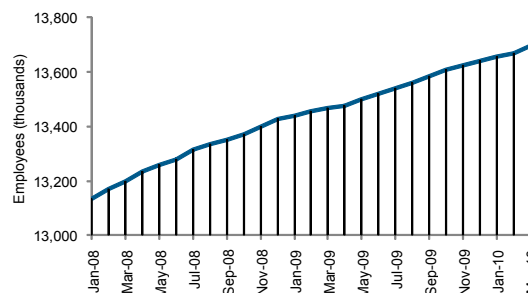
Initial activity in the Healthcare space, save a few exceptions, has focused on strategic acquirers exercising strong balance sheets to make key product and platform acquisitions and larger deals that open up new markets. Credit remains tight, but there are signs that leveraged deals can still get done. We anticipate the return of private equity players, slowly, throughout the next several quarters.

Reformed Strategies

We predict that the final passing of the Healthcare Reform Bill will herald a new approach to strategic acquisitions. There will be a heightened emphasis on companies, products, and technologies that can truly deliver superior clinical outcomes. Cost/benefit analysis will become the new catch phase of the Healthcare market.

With capital budgets expected to remain tight and reimbursement to contract, only

US Healthcare Employment



Source: Bureau of Labor Statistics

those technologies that meet both efficacy and cost criteria will be selected by hospitals and physicians. These technologies will be the ones that can reap the benefits of a market expanded by an additional 32 million insured lives, as proposed by the Healthcare Reform Bill.

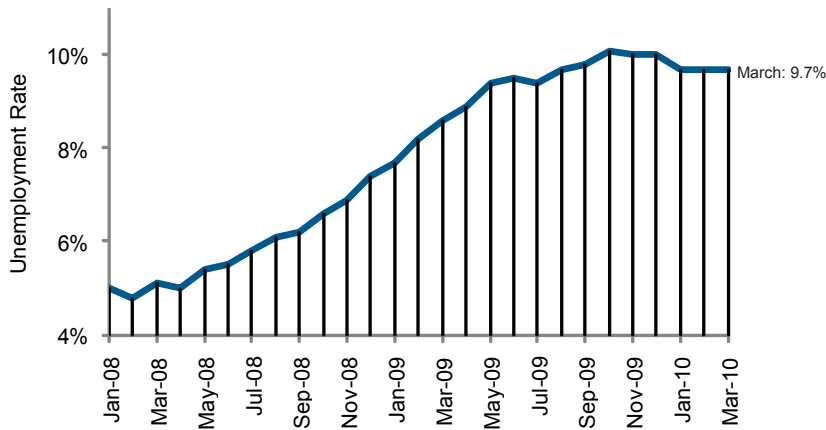
Prognosis

Key sectors to watch for continued consolidation are medical devices and diagnostics. The push for more accurate diagnosis – even to the extent that we call it personalized medicine – and the development of devices that enable minimally invasive procedures with reduced complications, will be key growth areas. We also anticipate continued cross-functional M&A activity as Big Pharma push into the diagnostics and device sectors, as observed with the Millipore-Merck and Novartis-Alcon transactions. There will be continued consolidation in the biopharma market as the few remaining large pharmaceutical companies look to enhance product pipeline through strategic acquisitions and licensing. We expect that acquisition of later stage biotechs will continue to increase with licensing of early-stage compounds being less favorable due to the risk and time for development.

Middle market M&A will continue to improve for those companies that can address the key concerns of the post-ObamaCare market: efficacy and cost. Renewed interest from the private equity community, driven by improvement in the general credit markets, could lead to a period of increased, and even sustainable, middle market Healthcare M&A activity.

Macroeconomic Factors

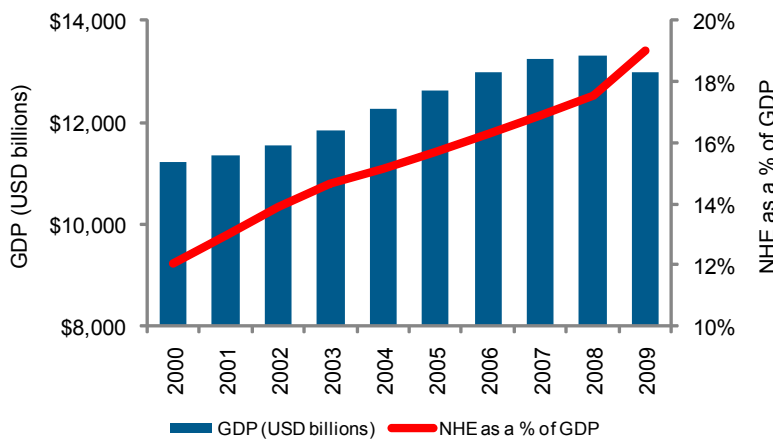
US Unemployment



Source: Bureau of Labor Statistics

After breaching the 10% threshold in October 2009, national unemployment fell to 9.7% in January 2010 and has remained unchanged into March. According to the Bureau of Labor Statistics, nonfarm employment added 162,000 jobs in March, driven primarily by temporary help services and the Healthcare sector. The federal government was a key contributor, as Census 2010 has demanded an increase in the hiring of temporary employees. Manufacturing employment also closed out a strong first quarter, adding 17,000 jobs in March and 45,000 for the quarter.

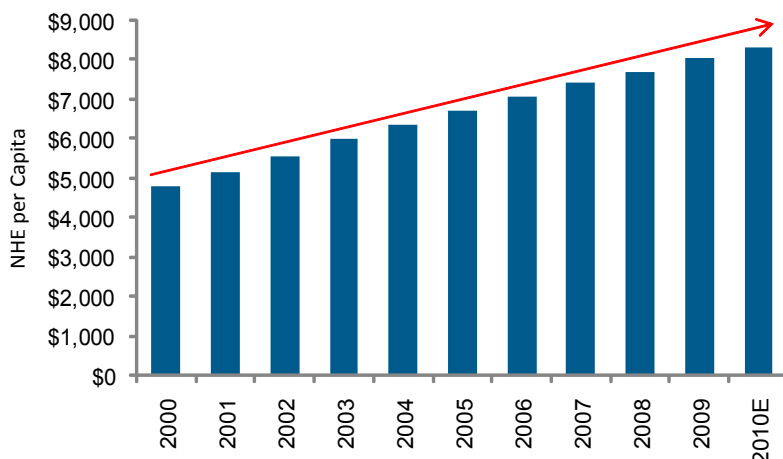
National Health Expenditures (NHE) vs. GDP



Source: Centers for Medicare and Medicaid Services

National Health Expenditures (NHE) have outpaced GDP growth over the past decade. In 2009, NHE nearly surpassed \$2.47 trillion, or 19% of GDP. A number of factors, including an aging population, rising Healthcare costs, and the expansion of coverage will only accelerate the growth of health expenditures. Additionally, innovative techniques and breakthroughs in technology continue to improve the survival rate of critically ill or injured patients, who, in turn, require extensive (and expensive) therapy and care as they recover from their injuries.

National Health Expenditures per Capita



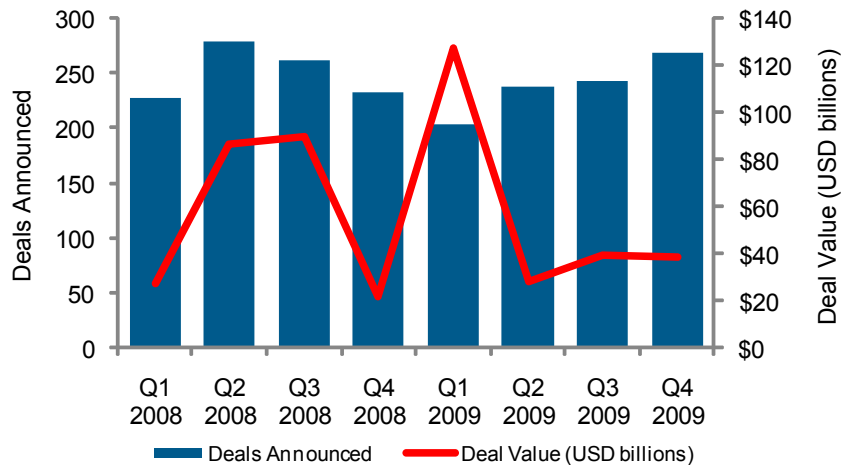
Source: Centers for Medicare and Medicaid Services

NHE per capita has increased by a CAGR of 5.6% over the past decade. In 2009, NHE per capita exceeded \$8,000, up from \$7,000 just three years earlier. As previously mentioned, the population of the US is aging, as many baby boomers enter the latter stages of life. Older people tend to have a higher incidence of injury and illness, leading to more frequent visits to doctors, hospitals, and care facilities. Combined with rising Healthcare costs and expensive care for critically ill patients, this trend should continue for the foreseeable future.

Healthcare M&A Activity

The number of Healthcare M&A transactions increased by nearly 11% in the fourth quarter of 2009. Since Q1 2009, deal volume has increased each quarter, as capital has become more accessible and markets have stabilized. Aggregate deal value decreased slightly in Q4 2009 to just under \$40 billion, after a \$12 billion increase in Q3 2009. Compared to 2008, deal volume decreased by just 5% in 2009, while aggregate deal value actually increased.

The first quarter of 2010 featured a series of multibillion dollar acquisitions in the BioPharma sector. Teva expanded its footprint in the generic pharmaceutical space with its acquisition of Ratiopharm for nearly \$5 billion. Merck's acquisition of Millipore and Novartis' acquisition of Alcon demonstrated Big Pharma's push into medical device and diagnostics sectors through cross-functional acquisitions. This trend should continue, as the desire for more accurate diagnosis continues to grow.



Source: Irving Levin Associates

Selected Healthcare Transactions

| Category | Announcement Date | Target | Acquirer | Enterprise Value (\$mm) | Enterprise Value to LTM | |
|-------------------|-------------------|---|---|-------------------------|-------------------------|--------|
| | | | | | Revenue | EBITDA |
| BioPharma | Mar-10 | ratiopharm GmbH <i>Generic pharmaceutical products</i> | Teva <i>Global provider of pharmaceutical products</i> | \$4,936 | 2.3x | 11.8x |
| BioPharma | Feb-10 | Millipore <i>Life science technology, services, and tools</i> | Merck <i>Pharmaceutical products and laboratory chemicals</i> | 6,903 | 4.2 | 16.9 |
| BioPharma | Feb-10 | OSI Pharmaceuticals <i>Molecular-targeted therapy development</i> | Astellas Pharma <i>Global provider of pharmaceutical products</i> | 2,953 | 7.3 | 20.2 |
| BioPharma | Jan-10 | Alcon <i>Ophthalmic pharmaceutical products and devices</i> | Novartis <i>Diagnostic testing solutions</i> | 50,996 | 7.8 | 20.6 |
| Diagnostics | Feb-10 | Home Diagnostics <i>Home glucose monitoring systems</i> | Nipro <i>Medical equipment and pharmaceutical products</i> | 200 | 1.6 | 16.5 |
| Diagnostics | Jan-10 | Standard Diagnostics <i>Diagnostic tools and test kits</i> | Inverness Medical Innovations <i>Medical and diagnostic products</i> | 250 | 5.0 | 10.1 |
| Diagnostics | Jan-10 | Diagnostic HYBRIDS <i>Cellular and molecular diagnostic test kits</i> | Quidel <i>Diagnostic testing solutions</i> | 130 | NA | NA |
| Healthcare IT | Mar-10 | TranSenda International <i>Clinical trial software and solutions</i> | BioClinica <i>Core lab and eClinical technologies</i> | 3 | NA | NA |
| Healthcare IT | Mar-10 | AMICAS <i>Medical image and information management</i> | Merge <i>Healthcare data and diagnostic workflow software</i> | 240 | 2.7 | 36.4 |
| Healthcare IT | Jan-10 | Global Med <i>Blood center information management software</i> | Haemonetics <i>Blood management supplies and solutions</i> | 57 | 1.8 | 21.6 |
| Medical Devices | Mar-10 | Sierra Scientific Instruments <i>Pressure imaging products</i> | Given Imaging <i>Diagnostic imaging systems</i> | 35 | 1.9 | NA |
| Medical Devices | Mar-10 | Orthofix, Vascular Business and AV-Impulse® <i>Maintenance of blood circulation in limbs</i> | Covidien <i>Diversified suite of healthcare equipment</i> | 28 | NA | NA |
| Medical Devices | Jan-10 | Invevec <i>Vascular intervention systems</i> | Medtronic <i>Medical devices and equipment</i> | 500 | 4.2 | NA |
| Services | Feb-10 | Excelsyn Limited <i>Drug substance research and development</i> | Albany Molecular Research <i>Drug discovery contract services</i> | 19 | 1.3 | NA |
| Services | Feb-10 | Kroll Laboratory Specialists <i>Substance abuse testing services</i> | Inverness Medical Innovations <i>Medical and diagnostic products</i> | 110 | NA | NA |
| Tools & Equipment | Jan-10 | Cezanne <i>Markers for cancer, prenatal diagnosis, and sepsis</i> | Thermo Fisher <i>Analytical instruments, equipment, and reagents</i> | 480 | NA | NA |
| Tools & Equipment | Jan-10 | AcroMetrix <i>Molecular and serological diagnostic products</i> | Life Technologies <i>Biotechnology tools & instruments</i> | - | NA | NA |

Sources: Capital IQ and 451 Group

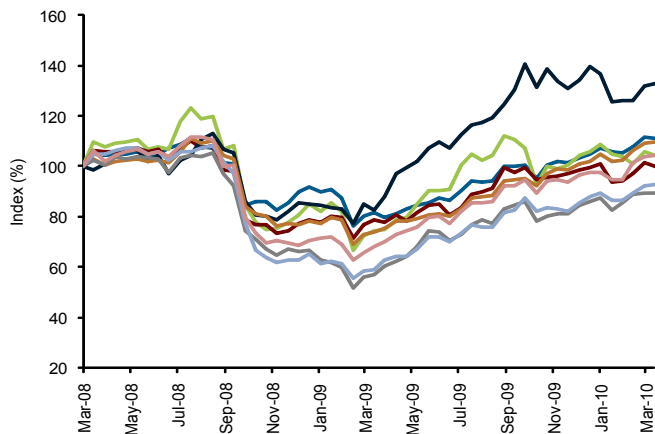
Public Trading Comparables

| | Stock Price Change | | | EV / Revenue | | EV / EBITDA | | P / E | |
|---------------------------------|--------------------|-------------|--------------|--------------|-------------|--------------|-------------|--------------|--------------|
| | 3 months | 6 months | 12 months | 2009E | 2010E | 2009E | 2010E | 2009E | 2010E |
| BioPharma - Large Cap | 5.7% | 14.2% | 37.8% | 3.8x | 3.5x | 9.2x | 8.1x | 14.4x | 13.0x |
| BioPharma - Small/Mid Cap | 1.6 | 0.3 | 49.6 | 4.4 | 4.0 | 11.1 | 9.3 | 15.8 | 14.7 |
| Diagnostics | 4.2 | (6.5) | 34.4 | 3.1 | 2.8 | 12.2 | 11.4 | 22.6 | 20.9 |
| IT Services - Healthcare | (0.9) | 1.8 | 51.0 | 2.1 | 2.1 | 13.6 | 11.1 | 27.2 | 23.2 |
| Medical Devices - Large Cap | 8.5 | 15.2 | 60.6 | 3.0 | 2.7 | 10.1 | 9.4 | 17.6 | 17.2 |
| Medical Devices - Small/Mid Cap | 6.2 | 5.9 | 62.2 | 1.7 | 1.5 | 11.5 | 9.7 | 25.3 | 21.5 |
| Services | 6.7 | 8.0 | 60.1 | 1.3 | 1.3 | 9.5 | 8.5 | 19.4 | 17.2 |
| Tools & Equipment | 6.8 | 13.0 | 44.3 | 2.3 | 2.2 | 12.8 | 10.9 | 21.3 | 18.9 |
| Overall Median | 6.0% | 6.9% | 50.3% | 2.6x | 2.4x | 11.3x | 9.5x | 20.3x | 18.1x |

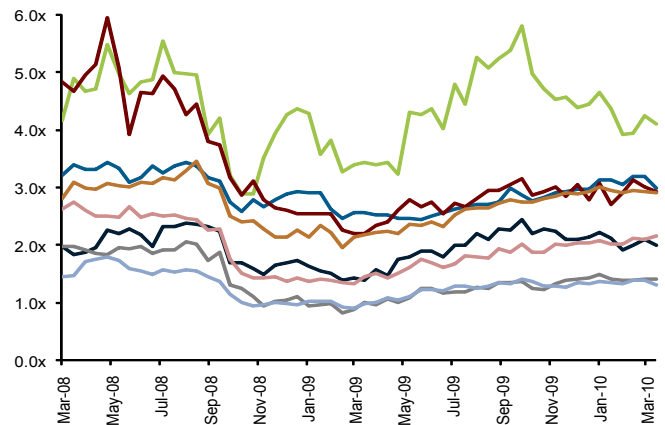
| | Index Price Change | | |
|------------------------------|--------------------|----------|-----------|
| | 3 months | 6 months | 12 months |
| NASDAQ Composite Index | 5.7% | 17.1% | 56.9% |
| Dow Jones Industrial Average | 4.1 | 14.4 | 42.7 |
| S&P 500 Index | 4.9 | 14.1 | 46.6 |

Note: Large Cap defined as market capitalization of more than \$1 billion as of March 31, 2010

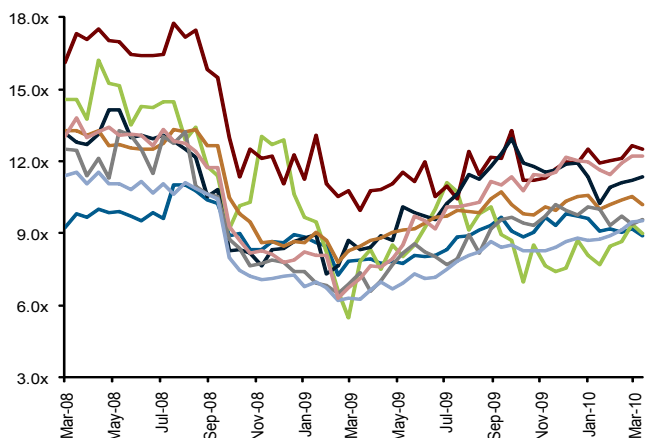
Stock Performance



EV/Revenue Multiples



EV/EBITDA Multiples






Legend

- BioPharma - Large Cap
- BioPharma - Small/Mid Cap
- Diagnostics
- IT Services - Healthcare
- Medical Devices - Large Cap
- Medical Devices - Small/Mid Cap
- Services
- Tools & Equipment

Sources: Capital IQ and company filings

Covington Associates

Recent Transactions

| | | | |
|---|--|---|--|
|  <p>acquired by</p>  <p>\$133,000,000</p> |  <p>entered into a development partnership with</p>  |  <p>acquired by</p>  |  <p>acquired by</p>  <p>\$63,400,000</p> |
|  <p>acquired by</p>  <p>\$12,500,000</p> |  <p>acquired by</p>  |  <p>acquired by</p>  <p>\$6,500,000</p> |  <p>acquired by</p>  <p>\$78,400,000</p> |

Industry Expertise

Business Services

- Consulting
- Government
- Payment & Transaction Processing
- Real Estate Services
- Research

Healthcare

- Clinical Trial Services
- Diagnostics
- Disease Management
- Healthcare Information Technology
- Medical Product Outsourcing
- Medical Devices
- Tools and Reagents
- Therapeutics

Consumer and Industrial

- Analytical Instrumentation
- Consumer Products
- Energy
- Manufacturing & Distribution
- Transportation & Logistics

Technology

- Communications
- Digital Media Technologies
- Enterprise Software
- Hardware
- IT Services
- Reseller/Distribution

About Covington

Covington Associates is a specialty investment banking firm founded in 1991 serving business services, consumer & industrial, healthcare, and technology companies throughout the country.

Focused on mergers and acquisitions, debt and equity capital raising, debt and equity restructuring, and strategic advisory assignments for middle market companies, Covington Associates has completed transactions ranging in value from \$10 million to close to \$2 billion for both private and publicly traded companies.

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