

Access MediQuip Investment Summary

Transaction Summary

Cohesive Capital Partners, L.P. (“Cohesive”) is investing \$11.0 million into the equity of Access MediQuip Holdings, LLC (“AMQ” or the “Company”) alongside Water Street Healthcare Partners (“Water Street”) as part of a balance sheet recapitalization. Proceeds from the recapitalization will be used to repay existing debt. Water Street originally acquired AMQ in September 2006 in its first fund and is investing another \$13.0 million, *pari passu* with Cohesive, as part of this transaction. The enterprise value of the transaction is \$56 million¹, which represents 11.2x 2012E adjusted EBITDA of \$5.0 million and 7.2x run-rate adjusted EBITDA of \$7.8 million. The variance in multiples reflects the fact that the Company is at an inflection point and is poised for significant growth due to a shift in customer focus to managed care insurance companies, leading to multiple significant contract wins.

Company Description

Access MediQuip was founded in 1997 and provides outsourced solutions to manage the pre-authorization, purchasing, delivery and reimbursement of implantable medical devices. The Company focuses on managed care insurance companies (“payors”) as its primary clients, but also serves healthcare facilities, physicians and equipment manufacturers. The Company’s core product offering is its Implant Management Program, which consists of (a) a facility submitting a request for a device to AMQ, (b) the Company contacting the appropriate payor to obtain pre-authorization for the surgery and device usage, (c) once received, AMQ contacting the manufacturer to order the device and coordinate delivery to the facility, (d) after the surgery, the Company submitting reimbursement requests to the payors, and (e) paying the manufacturer for the device after receiving reimbursement.

Investment Highlights

- *First-mover advantage:* AMQ is one of only two significant players currently operating in the outsourced medical implant management space. The Company has multiple key advantages which will facilitate maintaining its leading market position:
 - Data: The medical device market is characterized by fragmented and localized pricing with minimal cost transparency for the ultimate payor. AMQ has an extensive database of device pricing in local markets and case information from 15 years of medical implant operations, during which time it has managed more than 100,000 cases, utilizing over 400,000 devices.
 - Deep industry relationships: AMQ is the only company in the market who has purchasing relationships with all of the largest device manufacturers. The Company in total has relationships with over 175 manufacturers, allowing it to provide more flexibility and device choice to physicians than its competitors. The Company also has relationships with more than 2,500 healthcare facilities that utilize AMQ for device management solutions.
 - Long-term contracts with major national payors: The Company has demonstrated material realized cost reduction, allowing AMQ to offer a guaranteed fixed savings relative to payor’s current spending levels as part of a contract. As a result, the Company holds contracts with nearly all of the national payors including a new agreement to implement the full suite of AMQ’s products nationally across Cigna’s network.
- *Significant untapped market opportunity:* The market for management of commercial payor surgical spend is largely untapped and represents a significant portion total medical costs. Approximately 40% of all surgeries involve an implantable device, with that device often representing ~60% of the total surgical procedure cost. The four largest payors with whom AMQ works have a combined annual implantable medical device spend of ~\$7.5 billion. Small penetration gains from just those four customers would represent significant revenue for the Company.
- *Healthcare industry trends:* With rapidly rising costs in the healthcare industry, the government and payors are acutely focused on reducing the cost of providing care. This trend, which is expected to continue for the foreseeable future, will serve to accelerate adoption of solutions like AMQ’s that provide net cost savings to the system.
- *Attractive financial characteristics:* The Company’s asset-light model allows for significant margin benefits as new revenue comes online. Additionally, AMQ has a negative working capital position (it receives payment from payors before paying manufacturers) which eliminates the cash requirements usually associated with operations and growth.
- *Unique management team:* A new senior management team with direct experience in healthcare specialty benefits management was brought to AMQ in 2011. The CEO, Prakash Patel, has experience as a practicing orthopedic surgeon and also in various operational and corporate development roles at Magellan Health Services, giving him a unique combination of industry credibility and business acumen. In addition, the Chairman, Steve Shulman, brings over 35 years of healthcare executive leadership, including CEO positions at Magellan Health Services and Prudential Health.
- *Strong “Jockey / Horse” match:* Water Street is a middle-market private equity firm that is exclusively focused on investments in the Healthcare industry. The firm recently closed its third private equity fund. To date Water Street has made seven investments in outsourced healthcare services, including AMQ, which they have now owned for six years.

¹ Excluding fees and expenses