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The Vertical Group Opportunity and Approach

The Health Care Industry has historically been one of the largest and fastest growing sectors of the United States economy. Since 1970, national health care expenditures have expanded at a rate of approximately 12% per annum and reached an estimated \$1 Trillion, or over 14% of the Gross National Product in 1994. Since that time, government and managed care efforts to control health care costs have had a major impact on the industry, but have also created opportunities for products that improve the cost effectiveness of medical care. In addition, the aging of the population, advances in technology, and increased consumer awareness continue to be strong industry growth drivers. In September of 1998, a study by the Health Care Financing Administration estimated that health care spending is accelerating and will double to more than \$2.1 Trillion by 2007.

Medical devices and instruments have represented one of the fastest growing and most dynamic sectors of the health care industry. This market has benefited from an expanding technology base funded by the computer, aerospace, and defense industries. As a result, there has been a constantly advancing and expanding supply of "off-the-shelf" technology available to be adapted to the needs of the medical marketplace by responsive and entrepreneurial companies. Markets benefiting from such advancing technology include: devices for non-surgical treatments of coronary and peripheral vascular disease; external and implanted systems for treating heart rate disorders; devices for minimally invasive ("endoscopic") urology, gynecology, and ENT (ear, nose, and throat) procedures; less invasive, wireless patient monitoring systems; orthopedic and spinal surgery devices; and products benefiting from advanced materials.

The unifying principal underlying The Vertical Group's investment activities is the ability to leverage the medical device industry knowledge and experience of the firm's general partners. This knowledge and experience includes: direct and indirect involvement in medical device industry operations such as sales and marketing, research and development, and regulatory affairs; and also such areas as transaction structuring, tax planning, and portfolio management. Recognizing that leveraging knowledge and experience to drive value creation in the medical device industry can be a long term process, it is not uncommon for The Vertical Group to maintain investment positions for ten years or longer. Vertical's long term investment strategy is facilitated by the "evergreen" structure (i.e. without a defined end of life) of its partnerships.

Also critical to leveraging the general partners' medical device industry knowledge and experience is The Vertical Group's "vertical" investment philosophy. The Vertical Group does not restrict its investment activities by transaction type or company size. Accordingly, The Vertical Group participates in early stage and angel financings; later stage venture capital financings; buyouts of operating companies involved in a recapitalization or corporate spin-off; and investments in public companies of all sizes. The scale of The Vertical Group's investment depends on the nature of the transaction, with investment size ranging from \$500,000 to \$10,000,000 in venture capital transactions, to over \$25,000,000 in buyout or public stock transactions.