

**Deutsche Bank Securities Inc.**

# **Hospital Supplies/Medical Devices Coverage Overview**

**Tao L. Levy**

**March 26, 2008**



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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

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**Deutsche Bank** 

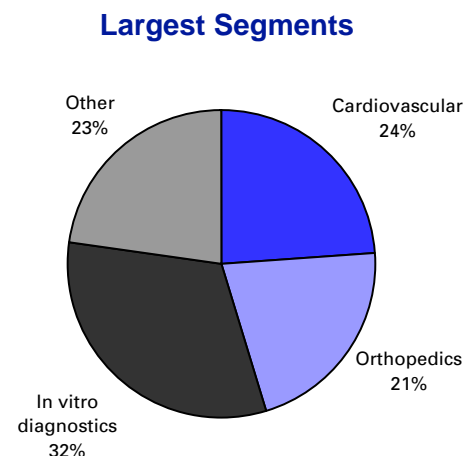
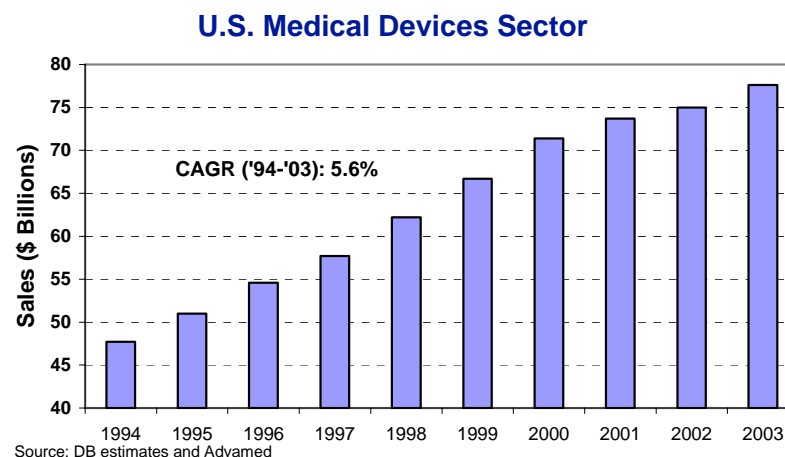
| DEUTSCHE BANK SECURITIES  |                             |                |                    |                        |                         |                |                 |          |          |        |       |                      |                |            |          |          |       |            |       |  |
|---|-----------------------------|----------------|--------------------|------------------------|-------------------------|----------------|-----------------|----------|----------|--------|-------|----------------------|----------------|------------|----------|----------|-------|------------|-------|--|
| MEDICAL DEVICE/HOSPITAL SUPPLY VALUATION SUMMARY (IN MILLIONS, EXCEPT PER SHARE DATA) |                             |                |                    |                        |                         |                |                 |          |          |        |       |                      |                |            |          |          |       |            |       |  |
| Rating  | Company                     | Ticker/<br>FYE | 3/24/2008<br>Price | 12-Month<br>Price Tgt. | '09 Implied<br>Multiple | Market<br>Cap. | 52 Wk<br>Hi/Low | CY EPS   |          | CY P/E |       | 2009/2008<br>EPS Gr. | 2008E<br>P-E-G | CY Revenue |          | EV/Sales |       | Rev Growth |       |  |
|   |                             |                |                    |                        |                         |                |                 | 2008E    | 2009E    | 2008E  | 2009E |                      |                | 2008E      | 2009E    | 2008E    | 2009E | 2008E      | 2009E |  |
| NR  | Abbott Laboratories         | ABT / 12/07    | \$55.66            | NE                     | NM                      | 86,268         | \$61-50         | \$3.22   | \$3.59   | 17.3x  | 15.5x | 12%                  | 1.3            | \$28,326   | \$30,634 | 3.4      | 3.1   | 9%         | 8%    |  |
| NR  | Baxter International Inc.   | BAX / 12/07    | \$58.05            | NE                     | NM                      | 36,783         | \$65-49         | \$3.18   | \$3.60   | 18.3x  | 16.1x | 13%                  | 1.2            | \$12,095   | \$13,002 | 3.1      | 2.9   | 7%         | 7%    |  |
| NR  | Beckman Coulter Inc.        | BEC / 12/07    | \$64.04            | NE                     | NM                      | 4,003          | \$77-60         | \$3.59   | \$4.04   | 17.8x  | 15.9x | 12%                  | 1.3            | \$2,990    | \$3,211  | 1.6      | 1.5   | 8%         | 7%    |  |
| NR  | Becton Dickinson & Co.      | BDX / 09/07    | \$88.31            | NE                     | NM                      | 21,553         | \$93-72         | \$4.45   | \$5.00   | 19.8x  | 17.7x | 12%                  | 1.4            | \$7,130    | \$7,687  | 3.1      | 2.9   | 12%        | 8%    |  |
| NR  | C.R. Bard Inc.              | BCR / 12/07    | \$99.66            | NE                     | NM                      | 9,985          | \$100-77        | \$4.39   | \$5.03   | 22.7x  | 19.8x | 15%                  | 1.4            | \$2,444    | \$2,688  | 3.9      | 3.6   | 11%        | 10%   |  |
| HOLD  | Covidien Ltd.               | COV / 09/07    | \$42.86            | \$46                   | 16.3x                   | 21,516         | \$50-37         | \$2.45   | \$2.83   | 17.5x  | 15.1x | 16%                  | 1.0            | \$9,779    | \$10,407 | 2.5      | 2.4   | 8%         | 6%    |  |
| BUY   | Johnson & Johnson           | JNJ / 12/07    | \$65.38            | \$74                   | 16.2x                   | 188,896        | \$69-60         | \$4.42   | \$4.56   | 14.8x  | 14.3x | 3%                   | NM             | \$63,217   | \$62,754 | 3.0      | 3.0   | 3%         | -1%   |  |
| <b>Hospital Supply Stocks Average</b>   |                             |                |                    |                        |                         | \$52,715       |                 |          |          | 18.3x  | 16.4x | 12%                  | 1.3x           |            |          | 2.9      | 2.8   | 8%         | 7%    |  |
| BUY   | Boston Scientific Corp.*    | BSX / 12/07    | \$12.43            | \$16                   | 15.6x                   | 18,644         | \$17-11         | \$0.75   | \$1.02   | 16.5x  | 12.1x | 36%                  | 0.3            | \$8,170    | \$8,435  | 3.1      | 3.0   | -3%        | 3%    |  |
| BUY   | Medtronic Inc.              | MDT / 04/07    | \$48.53            | \$57                   | 17.6x                   | 55,082         | \$58-44         | \$2.88   | \$3.25   | 16.9x  | 15.0x | 13%                  | 1.2            | \$15,121   | \$16,360 | 3.8      | 3.6   | 11%        | 10%   |  |
| BUY   | St. Jude Medical Inc.       | STJ / 12/07    | \$42.64            | \$48                   | 20.0x                   | 14,839         | \$48-37         | \$2.12   | \$2.40   | 20.1x  | 17.8x | 13%                  | 1.4            | \$4,146    | \$4,588  | 3.8      | 3.4   | 10%        | 11%   |  |
| <b>Cardiovascular Stocks Average</b>  |                             |                |                    |                        |                         | \$29,521       |                 |          |          | 17.8x  | 15.0x | 21%                  | 1.0x           |            |          | 3.6      | 3.3   | 6%         | 8%    |  |
| BUY   | Smith & Nephew PLC (ADS)    | SNN / 12/06    | \$64.57            | \$79                   | 22.0x                   | 11,658         | \$68-54         | \$3.03   | \$3.60   | 21.3x  | 17.9x | 19%                  | 0.9            | \$3,878    | \$4,242  | 3.3      | 3.1   | NM         | 9%    |  |
| HOLD  | Stryker Corp.               | SYK / 12/07    | \$64.21            | \$76                   | 22.4x                   | 26,853         | \$77-58         | \$2.88   | \$3.40   | 22.3x  | 18.9x | 18%                  | 1.0            | \$6,868    | \$7,790  | 3.6      | 3.1   | 14%        | 13%   |  |
| BUY   | Zimmer Holdings Inc.        | ZMH / 12/07    | \$78.55            | \$87                   | 18.3x                   | 18,444         | \$94-63         | \$4.23   | \$4.75   | 18.6x  | 16.5x | 12%                  | 1.4            | \$4,309    | \$4,661  | 4.2      | 3.9   | 11%        | 8%    |  |
| <b>Large Cap Orthopedic Stocks Average</b>  |                             |                |                    |                        |                         | \$18,985       |                 |          |          | 20.7x  | 17.8x | 16%                  | 1.1x           |            |          | 3.7      | 3.4   | 13%        | 10%   |  |
| HOLD  | Alphatec Holdings Inc.      | ATEC / 12/07   | \$4.60             | \$5                    | 2.1x                    | 211            | \$7-3           | (\$0.19) | (\$0.08) | NM     | NM    | NM                   | NM             | \$94       | \$112    | 2.0      | 1.7   | 18%        | 19%   |  |
| NR  | ArthroCare Corp.            | ARTC / 12/07   | \$35.14            | NE                     | NM                      | 942            | \$66-33         | \$1.93   | \$2.47   | 18.2x  | 14.2x | 28%                  | 0.5            | \$382      | \$452    | 2.5      | 2.1   | 20%        | 18%   |  |
| NR  | Exactech Inc.               | XAC / 12/07    | \$27.53            | NE                     | NM                      | 320            | \$28-14         | \$0.92   | \$1.19   | 29.8x  | 23.1x | 29%                  | 0.8            | \$155      | \$173    | 2.1      | 1.9   | 25%        | 11%   |  |
| NR  | NuVasive Inc.               | JUVA / 12/07   | \$32.97            | NE                     | NM                      | 1,165          | \$45-22         | \$0.03   | \$0.54   | NM     | 60.6x | NM                   | NM             | \$209      | \$273    | 5.2      | 4.0   | 35%        | 31%   |  |
| NR  | Orthofix International N.V. | OFIX / 12/07   | \$40.28            | NE                     | NM                      | 686            | \$62-36         | \$1.50   | \$2.57   | 26.9x  | 15.7x | 72%                  | 0.2            | \$536      | \$595    | 1.7      | 1.5   | 9%         | 11%   |  |
| NR  | RTI Biologics Inc.          | RTIX / 12/07   | \$8.33             | NE                     | NM                      | 248            | \$12-7          | \$0.17   | \$0.37   | 47.9x  | 22.4x | 114%                 | 0.2            | \$163      | \$219    | 1.4      | 1.1   | 84%        | 34%   |  |
| NR  | Wright Medical Group Inc.   | VMGI / 12/07   | \$23.01            | NE                     | NM                      | 840            | \$32-21         | \$0.63   | \$0.86   | 36.6x  | 26.9x | 36%                  | 0.7            | \$440      | \$493    | 1.8      | 1.6   | 14%        | 12%   |  |
| <b>Small Cap Orthopedics Stock Average</b>  |                             |                |                    |                        |                         | \$630          |                 |          |          | 31.9x  | 27.2x | 56%                  | 0.5x           |            |          | 2.4      | 2.0   | 29%        | 19%   |  |
| <b>Large Cap Average</b>  |                             |                |                    |                        |                         | \$39,578       |                 |          |          | 18.8x  | 16.4x | 15%                  | 1.2x           |            |          | 3.3      | 3.0   | 8%         | 8%    |  |
| <b>S&amp;P 500</b>  |                             |                | 1,350              |                        |                         | 1576-1257      | \$88.30         | \$94.6   | 15.3x    | 14.3x  | 7%    | 2.0x                 |                |            |          |          |       |            |       |  |

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|---|------------------------------------|----------------|--------------------|------------------------|-------------------------|----------------|-----------------|----------|----------|--------|-------|----------------------|----------------|------------|---------|----------|-------|------------|-------|-----|
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| Rating  | Company                            | Ticker/<br>FYE | 3/24/2008<br>Price | 12-Month<br>Price Tgt. | '09 Implied<br>Multiple | Market<br>Cap. | 52 Wk<br>Hi/Low | CY EPS   |          | CY P/E |       | 2009/2008<br>EPS Gr. | 2008E<br>P-E-G | CY Revenue |         | EV/Sales |       | Rev Growth |       |     |
|   |                                    |                |                    |                        |                         |                |                 | 2008E    | 2009E    | 2008E  | 2009E |                      |                | 2008E      | 2009E   | 2008E    | 2009E | 2008E      | 2009E |     |
| NR  | Accuray Inc.                       | ARAY / 06/07   | \$8.68             | NE                     | NM                      | 467            | \$28-8          | \$0.35   | \$0.39   | 24.7x  | 22.1x | 12%                  | 1.8            | \$249      | \$267   | 1.1      | 1.0   | 81%        | 7%    |     |
| BUY   | Align Technology Inc.              | ALGN / 12/07   | \$11.39            | \$21                   | 40.8x                   | 819            | \$30-10         | \$0.24   | \$0.52   | 47.9x  | 22.1x | 117%                 | 0.2            | \$308      | \$366   | 2.2      | 1.9   | 8%         | 19%   |     |
| NR  | American Medical Systems Holding   | MMD / 12/07    | \$13.74            | NE                     | NM                      | 993            | \$22-12         | \$0.61   | \$0.85   | 22.7x  | 16.1x | 41%                  | 0.4            | \$510      | \$566   | 3.2      | 2.9   | 10%        | 11%   |     |
| NR  | Edwards Lifesciences Corp.         | EW / 12/07     | \$45.60            | NE                     | NM                      | 2,581          | \$53-42         | \$2.35   | \$2.72   | 19.4x  | 16.8x | 16%                  | 1.1            | \$1,177    | \$1,278 | 2.2      | 2.0   | 8%         | 9%    |     |
| BUY   | Gen-Probe Inc.                     | PRO / 12/07    | \$47.13            | \$67                   | 34.9x                   | 2,587          | \$72-45         | \$1.72   | \$1.92   | 27.4x  | 24.5x | 12%                  | 2.1            | \$452      | \$492   | 4.8      | 4.4   | 12%        | 9%    |     |
| NR  | Hologic Inc.                       | HOLX / 09/07   | \$57.31            | NE                     | NM                      | 7,293          | \$73-48         | \$2.48   | \$3.10   | 23.1x  | 18.5x | 25%                  | 0.7            | \$1,765    | \$2,061 | 4.1      | 3.5   | 139%       | 17%   |     |
| NR  | Hospira Inc.                       | HSP / 12/07    | \$43.00            | NE                     | NM                      | 6,820          | \$45-37         | \$2.51   | \$2.88   | 17.1x  | 14.9x | 15%                  | 1.0            | \$3,693    | \$3,942 | 2.4      | 2.2   | 7%         | 7%    |     |
| HOLD  | Integra LifeSciences Holdings Corp | IART / 12/07   | \$43.36            | \$47                   | 19.1x                   | 1,141          | \$53-39         | \$2.03   | \$2.46   | 21.3x  | 17.6x | 21%                  | 0.8            | \$642      | \$709   | 2.1      | 1.9   | 17%        | 10%   |     |
| BUY   | Intuitive Surgical Inc.            | ISRG / 12/07   | \$300.69           | \$360                  | 54.4x                   | 11,624         | \$360-114       | \$5.05   | \$6.62   | 59.5x  | 45.5x | 31%                  | 1.5            | \$840      | \$1,085 | 13.3     | 10.3  | 40%        | 29%   |     |
| BUY   | Kinetic Concepts Inc.              | KCI / 12/07    | \$48.75            | \$71                   | 16.7x                   | 3,519          | \$67-41         | \$3.87   | \$4.25   | 12.6x  | 11.5x | 10%                  | 1.2            | \$1,803    | \$1,993 | 1.8      | 1.7   | 12%        | 11%   |     |
| BUY   | Masimo Corp.                       | MASI / 12/07   | \$27.50            | \$41                   | 58.7x                   | 1,650          | \$42-19         | \$0.52   | \$0.70   | 53.4x  | 39.3x | 36%                  | 1.1            | \$290      | \$356   | 6.0      | 4.9   | 23%        | 23%   |     |
| NR  | Mindray Medical International Ltd. | IMR / 12/07    | \$26.02            | NE                     | NM                      | 2,782          | \$45-23         | \$1.03   | \$1.43   | 25.3x  | 18.2x | 40%                  | 0.5            | \$460      | \$664   | 5.5      | 3.8   | 51%        | 44%   |     |
| NR  | Mentor Corp.                       | MNT / 03/07    | \$24.90            | NE                     | NM                      | 840            | \$50-24         | \$1.60   | \$2.02   | 15.6x  | 12.3x | 26%                  | 0.5            | \$402      | \$466   | 1.2      | 1.1   | NM         | 16%   |     |
| NR  | ResMed Inc.                        | RMD / 06/07    | \$41.68            | NE                     | NM                      | 3,235          | \$55-38         | \$1.67   | \$2.03   | 24.9x  | 20.6x | 21%                  | 1.0            | \$899      | \$1,068 | 3.4      | 2.9   | 25%        | 19%   |     |
| NR  | Respironics                        | RESP / 06/07   | \$65.96            | NE                     | NM                      | 4,897          | \$66-39         | NM       | NM       | NM     | NM    | NM                   | NM             | NM         | NM      | NM       | NM    | NM         | NM    |     |
| NR  | TomoTherapy Inc.                   | TOMO / 12/07   | \$13.88            | NE                     | NM                      | 690            | \$28-13         | \$0.36   | \$0.64   | 38.8x  | 21.6x | 80%                  | 0.3            | \$302      | \$394   | 1.6      | 1.3   | 30%        | 30%   |     |
| NR  | Varian Medical Systems Inc.        | VAR / 09/07    | \$46.87            | NE                     | NM                      | 5,882          | \$55-37         | \$2.16   | \$2.50   | 21.7x  | 18.8x | 16%                  | 1.2            | \$2,086    | \$2,337 | 2.7      | 2.4   | 17%        | 12%   |     |
| <b>Mid Cap. Medical Device Stocks Average</b>   |                                    |                |                    |                        |                         | \$3,401        |                 |          |          | 28.5x  | 21.3x | 32%                  | 1.0x           |            |         | 3.6      | 3.0   | 32%        | 17%   |     |
| NR  | Angiotech Pharmaceuticals Inc.     | ANPI / 12/07   | \$1.84             | NE                     | NM                      | 157            | \$8-2           | \$0.05   | \$0.21   | 35.4x  | 8.6x  | NM                   | NM             | \$304      | \$324   | 2.1      | 2.0   | 6%         | 7%    |     |
| HOLD  | Aspect Medical Systems Inc.        | ASPM / 12/07   | \$6.05             | \$8                    | 1.2x                    | **             | 108             | \$18-5   | \$0.10   | \$0.20 | 59.6x | 30.9x                | 93%            | 0.3        | \$102   | \$114    | 0.0   | 0.0        | 5%    | 11% |
| BUY   | BioMimetic Therapeutics Inc.       | BMTI / 12/07   | \$12.67            | \$22                   | NM                      | 214            | \$20-10         | (\$1.67) | (\$1.30) | NM     | NM    | -22%                 | NM             | \$3        | \$3     | NM       | NM    | -64%       | 9%    |     |
| NR  | Conceptus Inc.                     | CPTS / 12/07   | \$16.87            | NE                     | NM                      | 503            | \$22-14         | \$0.08   | \$0.66   | NM     | 25.5x | NM                   | NM             | \$103      | \$138   | 4.4      | 3.3   | 61%        | 33%   |     |
| NR  | Cyberonics Inc.                    | CYBX / 04/07   | \$12.64            | NE                     | NM                      | 346            | \$23-10         | (\$0.10) | \$0.13   | NM     | 95.8x | NM                   | NM             | \$131      | \$151   | 3.0      | 2.6   | NM         | 16%   |     |
| NR  | Given Imaging Ltd.                 | GIVN / 12/07   | \$16.07            | NE                     | NM                      | 470            | \$33-13         | \$0.09   | \$0.43   | NM     | 37.8x | NM                   | NM             | \$131      | \$156   | 1.6      | 1.3   | 16%        | 19%   |     |
| NR  | Greatbatch Inc.                    | GB / 12/07     | \$18.47            | NE                     | NM                      | 415            | \$35-17         | \$1.27   | \$1.64   | 14.5x  | 11.2x | 29%                  | 0.4            | \$500      | \$548   | 1.2      | 1.1   | 57%        | 10%   |     |
| NR  | Hansen Medical Inc.                | HNSN / 12/07   | \$14.25            | NE                     | NM                      | 313            | \$39-13         | (\$1.91) | (\$1.16) | NM     | NM    | -39%                 | NM             | \$35       | \$72    | 7.7      | 3.7   | 245%       | 107%  |     |
| HOLD  | Home Diagnostics Inc.              | HDIX / 12/07   | \$6.31             | \$9                    | 12.8x                   | 121            | \$12-6          | \$0.49   | \$0.71   | 12.9x  | 8.9x  | 44%                  | 0.2            | \$122      | \$133   | 0.7      | 0.7   | 5%         | 9%    |     |
| BUY   | Restore Medical Inc.               | REST / 12/06   | \$1.19             | \$3                    | NM                      | 19             | \$4-1           | (\$0.67) | (\$0.47) | NM     | NM    | -30%                 | NM             | \$5        | \$6     | 0.1      | 0.1   | 12%        | 9%    |     |
| NR  | SonoSite Inc.                      | SONO / 12/07   | \$26.06            | NE                     | NM                      | 436            | \$39-25         | \$0.82   | \$1.34   | 31.9x  | 19.4x | 64%                  | 0.3            | \$237      | \$274   | 0.5      | 0.5   | 16%        | 15%   |     |
| BUY   | Stereotaxis Inc.                   | STXS / 12/07   | \$4.48             | \$8                    | NM                      | 163            | \$17-3          | (\$1.02) | (\$0.51) | NM     | NM    | -49%                 | NM             | \$51       | \$77    | 2.9      | 1.9   | 30%        | 51%   |     |
| NR  | Volcano Corp.                      | VOLC / 12/07   | \$11.22            | NE                     | NM                      | 527            | \$23-11         | (\$0.01) | \$0.22   | NM     | 50.8x | NM                   | NM             | \$160      | \$195   | 2.1      | 1.7   | 23%        | 21%   |     |
| <b>Small Cap/Emerging Growth Medical Device Stocks Average</b>                        |                                    |                |                    |                        |                         | \$292          |                 |          |          | 30.9x  | 32.1x | 11%                  | 0.3x           |            |         | 2.2      | 1.6   | 34%        | 24%   |     |

\*BSX EPS excludes amortization  
 \*\*Valuation based on price/sales  
 NR=Not Rated; NE=No Estimates; NM=Not Meaningful  
 Source: Deutsche Bank Securities estimates, company data, and FactSet.

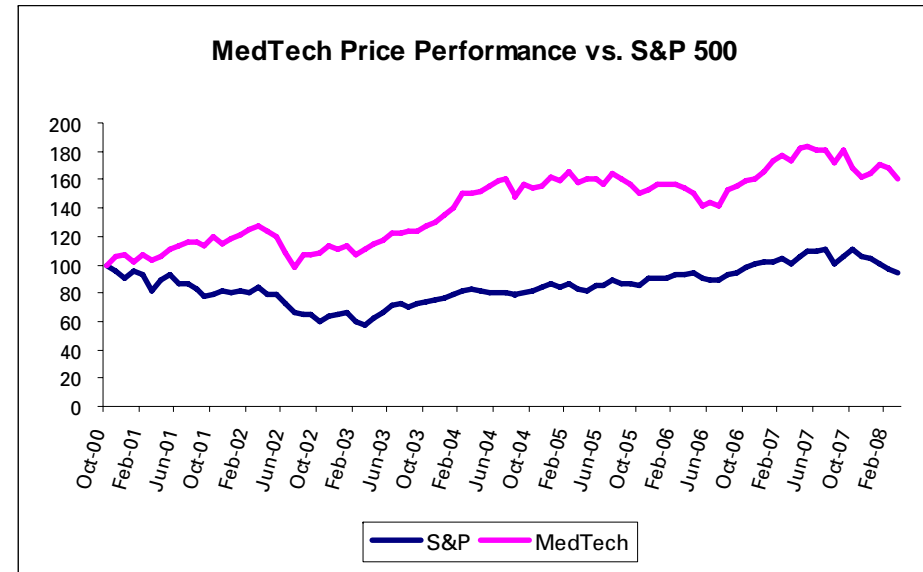
## So What is the Medical Device Sector? A Large & Growing Industry

- The Medical Devices sector recorded US sales of over \$90 billion in 2007
- Over the past nine years the sector has grown consistently (CAGR '94-'03: 5.6%)
- The primary segments within this diverse market include:
  - Cardiovascular (stents, defibrillators, pacemakers, heart valves): \$18 billion in sales
  - Orthopedic (hip/knee replacement, spine surgery): \$16 billion in sales
  - In vitro diagnostics (pap smear, BNP, various blood tests): \$24 billion in sales
  - Numerous additional products (wound care, imaging, ophthalmology, dental, oncology, etc.) make up almost 25% of market : \$17 billion in sales



## MedTech Stocks Have Significantly Outperformed Since 2000

- ...but significantly underperformed in 2005 & 2006
  - Up 10% in 2007 (vs. S&P 500 +4%)
  - Up 7% in 2006 (vs. S&P 500 +14%)
  - Down 3% in 2005 (vs. S&P 500 +3%)
  - Up 123% since 2000 (vs. S&P 500 -9%)
- Perceived as “defensive growth”
  - 80% outperformance in down years
  - Investors pay for earnings predictability
- “New” markets have excited investors
  - Cardiac resynchronization therapy
  - Drug-eluting stents
  - Artificial discs



Source: FactSet

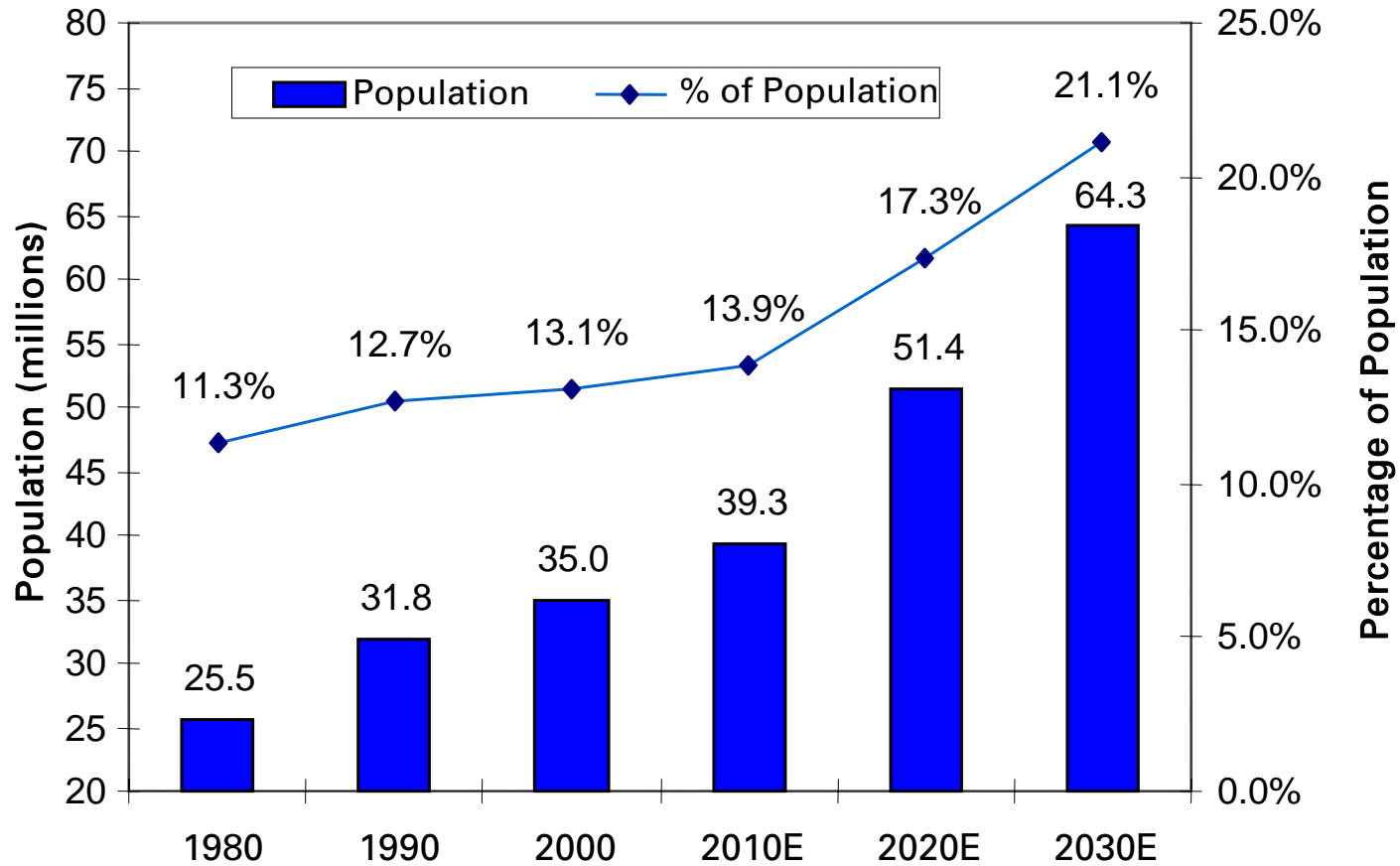
\*MedTech price performance data include the following stocks: ABT, BAX, BDX, BSX, BMET, JNJ, MDT, STJ, SYK, ZMH

## Current Key Drivers Should Persist

1. Powerful demographics are driving healthy procedure demand
  - Over 65 population projected to grow 50% in the next 20 years
2. Significant innovation has fueled robust new product flows into key markets
  - Cardiac Resynchronization Therapy, Drug-Eluting Stents
  - Artificial Discs
3. Margin expansion opportunities create earnings leverage
  - EBIT margins in 2002: 26%
  - EBIT margins in 2006: 29%
  - Average selling prices are holding steady, and in many cases increasing
4. Foreign currency to provide tailwind in 2007 and 2008
  - 2005 impact: 0.6%
  - 2006 impact: 0.1%
  - 2007 impact: 4.0%
  - 2008E impact: 2.6%

## Demographics Driving Demand

### US Population Over 65 Years

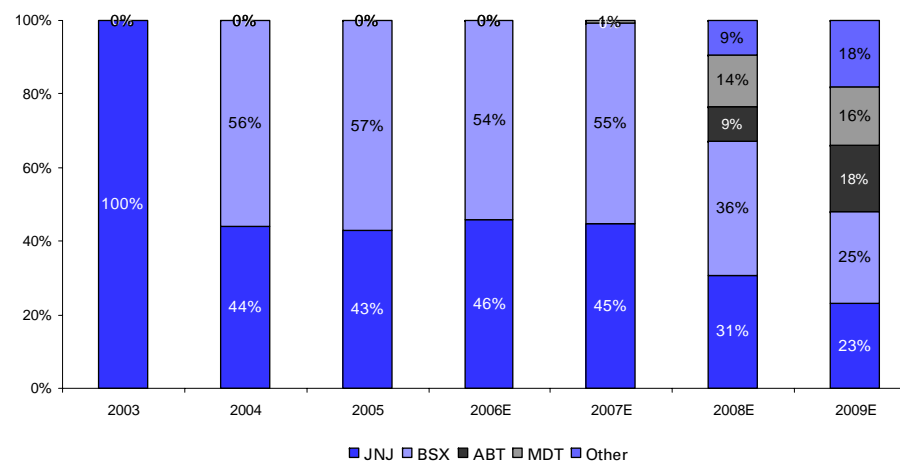


Source: Social Security Administration

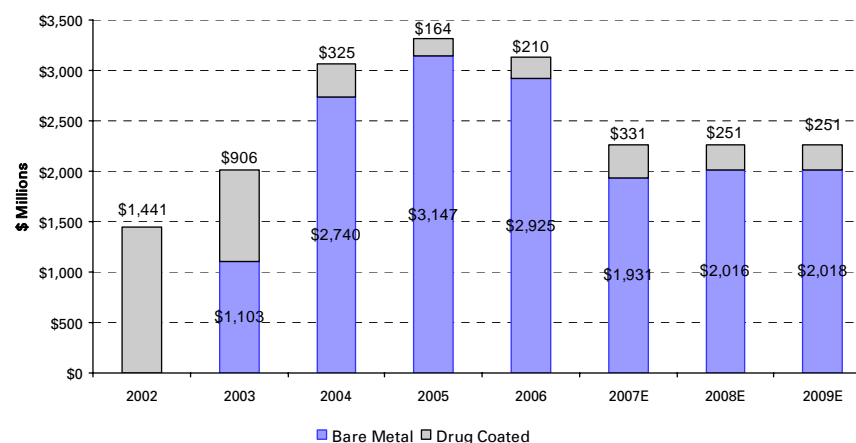
## Key Markets: Drug-Eluting Stents

- Fastest growth seen in medical device history
- Rapid adoption by interventional cardiologists
- However, owing to safety concerns, DES penetration has dropped to the low 70% range from a peak of ~90%
- BSX and JNJ expected to maintain US duopoly through most of 2007, with MDT entering market at end of 2007 / early 2008
- Timelines dictate company fortunes
- BSX first to commercialize 2<sup>nd</sup> generation DES: Taxus Liberte

US Drug-eluting Stent Market Shares

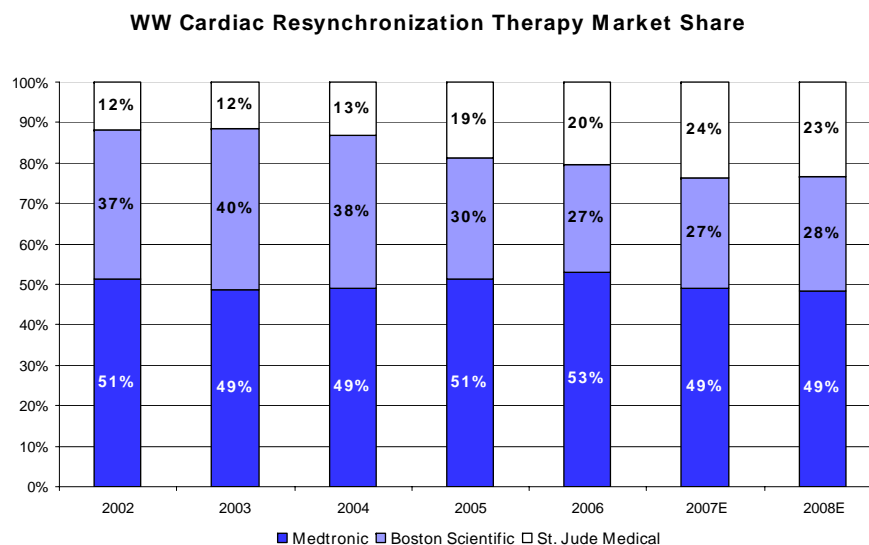
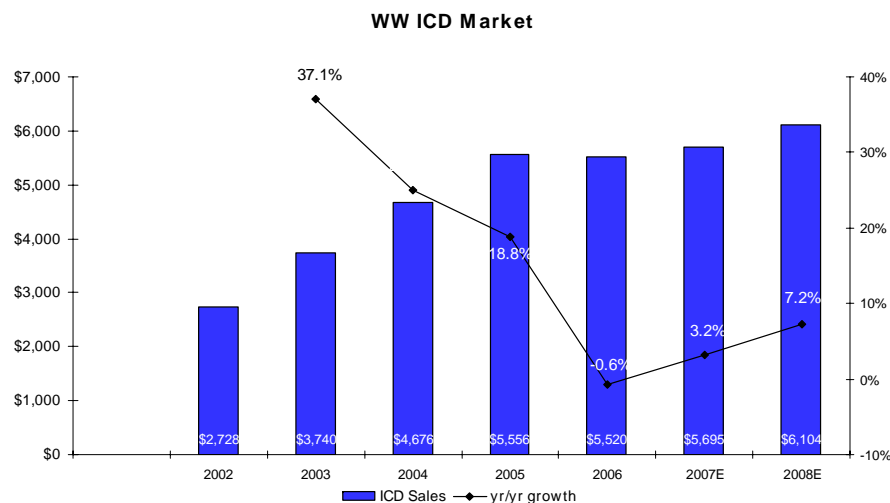


US Stent Market



## Key Markets: Cardiac Resynchronization Therapy

- Rapid penetration of technology
- Medtronic is the market leader in ICDs, followed by Boston Scientific and St. Jude
- Product issues for BSX have led to share gains for STJ and MDT
- Market growth has decelerated meaningfully in recent quarters; we anticipate recovery in 2008
- International growth significantly outpacing US due to lower penetration rates
- Companies are investing significantly in initiatives to reinvigorate the ICD market and drive long-term growth: sales force expansion, DTC ads, clinical trials to expand indications and increase utilization



Source: Deutsche Bank Securities, Inc. estimates and company reports

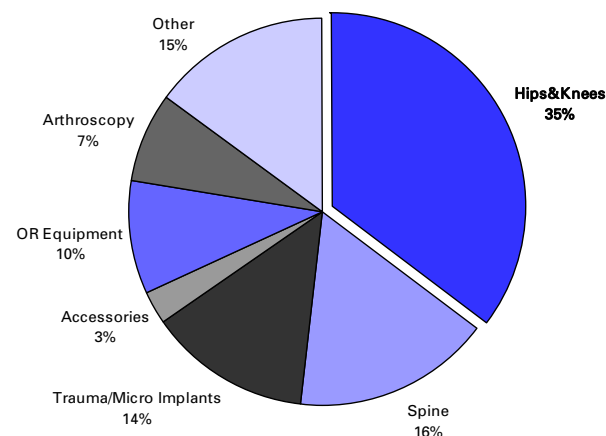
**Deutsche Bank**



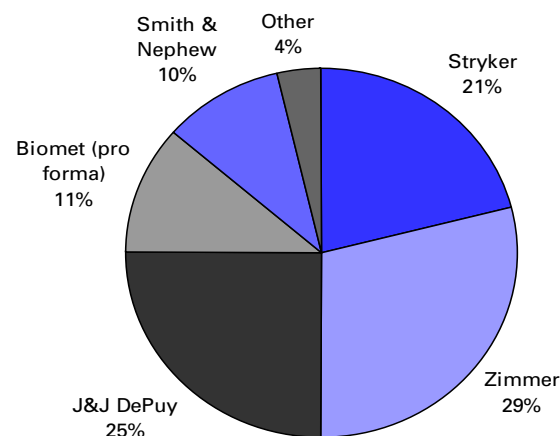
## Key Markets: Hips & Knees

- Hips, Knees, and Spine comprise the largest segments within orthopedics
- Concentrated market: Top 5 players account for over 90% of the Hips and Knees markets; stable market shares
- Hips: growth has slowed over last several quarters (~30% to high single-digits) driven by increase in number of knee implants, lack of new technology, tougher pricing environment, and difficult comps  
**CAGR ('03-'07) 13%**
- Knees: solid growth over last several quarters driven by higher unit demand, better economics, and new product launches.  
**CAGR ('03-'07) 15%**

Worldwide Orthopedic Market



Worldwide Hips & Knees Market Share



Source: Deutsche Bank Securities, Inc. estimates and company reports

Deutsche Bank



## Foreign Currency: From Headwind to Tailwind

- 2006: The impact was almost negligible as the 1H headwind was offset by favorable exchange rates in 2H.
- 2007: Currency strength throughout the year positively impacted most companies.
- 2008: We expect an average top-line benefit of 2.6%, concentrated heavily in 1H08

### Historical and projected impact of FX on top-line growth for large-cap companies

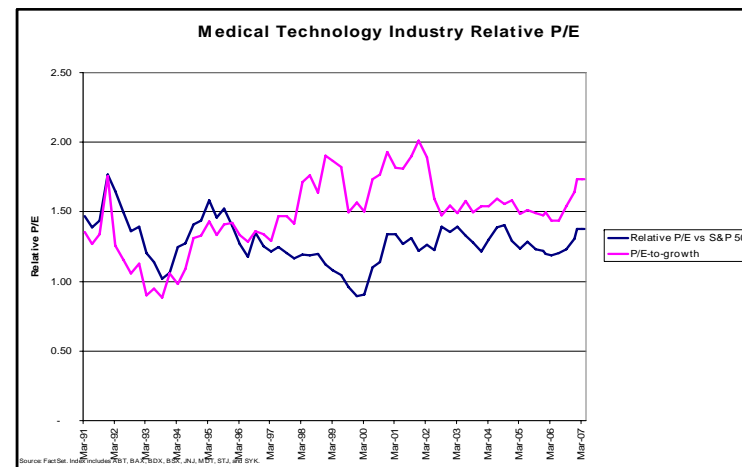
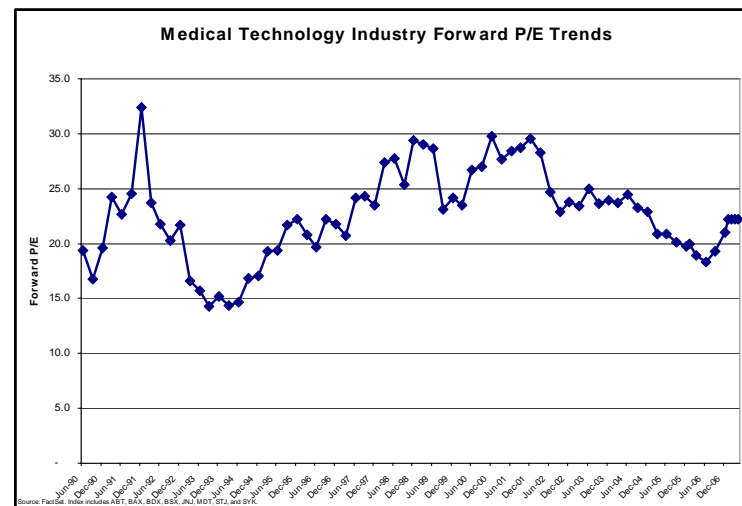
| Large Caps            | 1Q06A        | 2Q06A        | 3Q06A       | 4Q06A       | 2006A        | 1Q07A       | 2Q07A       | 3Q07A       | 4Q07A       | 2007A       | 1Q08E       | 2Q08E       | 3Q08E       | 4Q08E       | 2008E       |
|-----------------------|--------------|--------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| BSX                   | -2.3%        | -1.0%        | 0.5%        | 2.0%        | 0.0%         | 2.3%        | 1.0%        | 2.0%        | 3.5%        | 2.2%        | 3.8%        | 4.1%        | 3.4%        | 1.9%        | 3.3%        |
| COV                   |              |              |             |             |              |             | 2.0%        | 2.0%        | 5.0%        | 3.0%        | 4.7%        | 4.6%        | 3.8%        | 1.9%        | 3.7%        |
| JNJ                   | -2.3%        | -0.1%        | 1.2%        | 2.3%        | 0.3%         | 2.4%        | 2.4%        | 3.0%        | 4.7%        | 3.1%        | 5.9%        | 5.6%        | 4.6%        | 2.3%        | 4.6%        |
| MDT                   | -2.5%        | 0.2%         | 1.1%        | 1.9%        | 0.2%         | 1.5%        | 1.6%        | 2.4%        | 3.6%        | 2.3%        | 3.6%        | 3.8%        | 3.2%        | 1.7%        | 3.1%        |
| STJ                   | -3.2%        | -0.7%        | 0.7%        | 1.8%        | -0.2%        | 2.3%        | 2.3%        | 2.5%        | 4.0%        | 2.8%        | 4.4%        | 4.6%        | 3.8%        | 2.0%        | 3.7%        |
| SYK                   | -2.5%        | -0.4%        | 0.6%        | 1.8%        | -0.1%        | 1.8%        | 1.8%        | 2.3%        | 2.6%        | 2.1%        | 3.5%        | 3.7%        | 3.1%        | 1.6%        | 3.0%        |
| ZMH                   | -1.0%        | -1.0%        | 1.0%        | 2.0%        | -1.0%        | 2.0%        | 2.0%        | 2.0%        | 4.8%        | 2.7%        | 5.5%        | 5.4%        | 4.5%        | 2.3%        | 4.4%        |
| <b>Large Cap Avg.</b> | <b>-2.3%</b> | <b>-0.5%</b> | <b>0.9%</b> | <b>2.0%</b> | <b>-0.1%</b> | <b>2.1%</b> | <b>1.9%</b> | <b>2.3%</b> | <b>4.0%</b> | <b>2.6%</b> | <b>4.5%</b> | <b>4.5%</b> | <b>3.8%</b> | <b>2.0%</b> | <b>3.7%</b> |
| Small Caps            | 1Q06A        | 2Q06A        | 3Q06A       | 4Q06A       | 2006A        | 1Q07A       | 2Q07A       | 3Q07A       | 4Q07A       | 2007E       | 1Q08E       | 2Q08E       | 3Q08E       | 4Q08E       | 2008E       |
| IART                  | -1.9%        |              |             |             |              |             |             |             | 2.0%        | 2.0%        | 2.5%        | 2.3%        | 2.0%        | 0.9%        | 1.9%        |
| KCI                   | -1.0%        | 1.0%         | 2.0%        | 2.0%        | 1.0%         | 1.9%        | 2.0%        | 2.0%        | 4.0%        | 2.5%        | 3.9%        | 3.7%        | 3.1%        | 1.5%        | 3.0%        |

\*All exchange rates as of 3/24/2008

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## Absolute/Relative Valuations are in Line with Historical Average

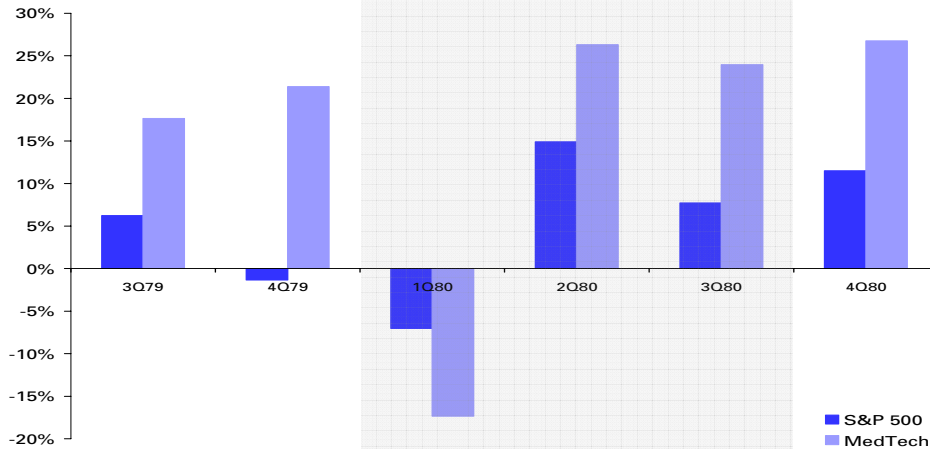
- Absolute P/E multiples for the large cap medical technology stocks have continued to contract, reflecting growth deceleration
- Relative P/E multiples have also trended lower
- Valuation accentuates the importance of careful stock selection
- Assuming low double-digit EPS growth and maintenance of historical average multiples, we expect 10% to 12% stock return from our large caps and faster for small caps



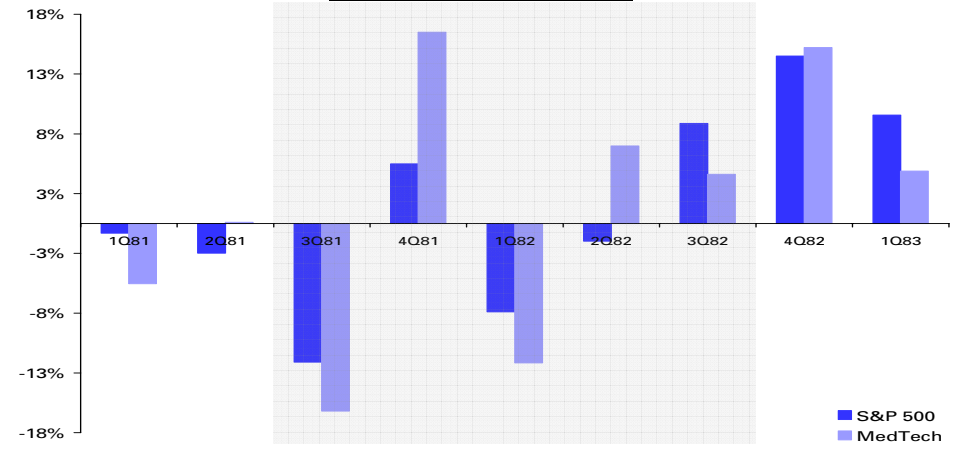
## Defensive Industry = Good Visibility

- MedTech has outperformed the S&P during most recessionary periods resulting in average multiple expansion of about 20% in periods prior to an economic growth inflection (Shaded area indicates recession period)

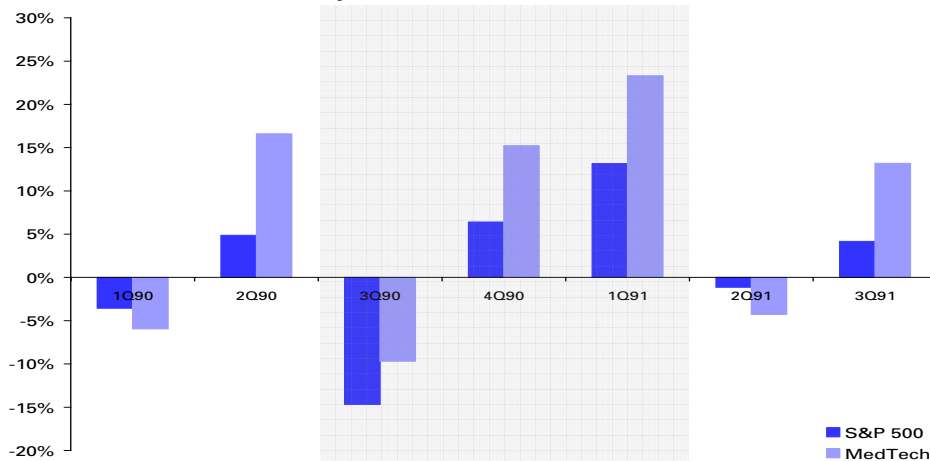
**January 1980 to July 1980**



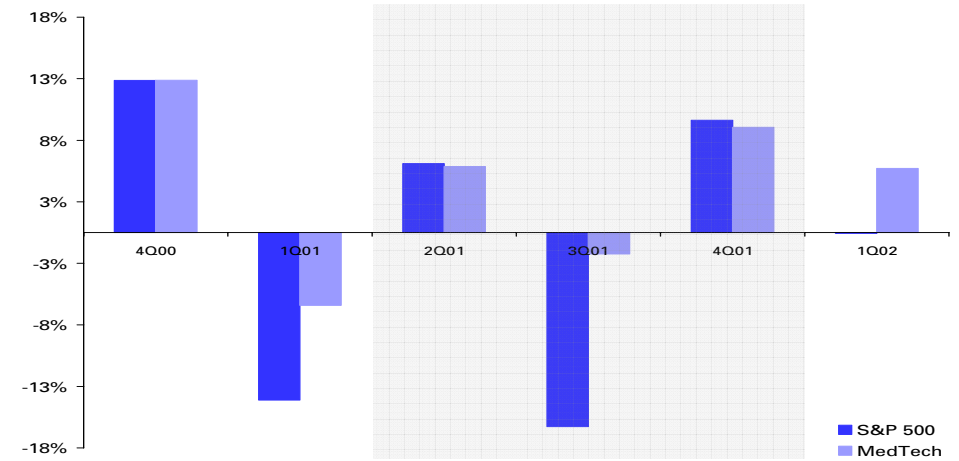
**July 1990 to March 1991**



**July 1981 to November 1982**



**March 2001 to November 2001**





## Group also has its Challenges

- Some key markets may slow
  - US ICD market has contracted
  - Worldwide DES penetration and safety issues
  - Artificial discs could cannibalize spinal hardware sales (in '07-'08)
- Reimbursement always in focus
- Department of Justice initiated several investigations into medtech industry/customer practices



## Sector Summary

- MedTech Stocks Have Significantly Outperformed
  - Strong revenue and earnings growth -- driving the “E” in “P/E”
  - Investors’ flight to “defensive growth” -- driving the “P” in “P/E”
- Key Drivers Should Persist
  - Powerful demographics are driving healthy procedure demand
  - Significant innovation is fueling new product flows
  - Margin expansion opportunities create earnings leverage
- But Group Also Has Its Challenges
  - Some key markets (CRM, stents) are slowing/declining
  - Medical device pricing pressure

## Align Technology (NASDAQ: ALGN) BUY Rating, \$21 Target

Align Technology, Inc. designs, manufactures, and markets the Invisalign System, a method for treating the misalignment of teeth. The company's system corrects the misalignment using a series of clear, removable appliances that move teeth to a desired final position.

### Street Opinions

|             |          |
|-------------|----------|
| <b>Buy</b>  | <b>5</b> |
| <b>Hold</b> | <b>4</b> |
| <b>Sell</b> | <b>1</b> |

### Billion dollar under penetrated market opportunity

- Invisalign can address approximately 700,000 of the 2 million annual US orthodontic patient starts
- Current penetration is only ~7% of the applicable orthodontist market, but new products should increase applicable market opportunity (Vivera retainers, teen product)
- Heightened customer awareness through DTC advertising
- Significant P&L leverage, as exhibited in 2007 results

### GP market remains biggest opportunity

- Over 26,000 GPs have been trained, and company is committed to train approximately 2-3K new dentists annually
- Invisalign could apply to roughly 20% of the 70 million adult Americans who regularly visit a dentist and have crooked teeth

### Shares rated BUY with \$21 price target

- Our \$21 PT is based on a blend of a Price-to-Sales multiple of 4x and 40x multiple on our '09 fully-taxed EPS estimate- both at the high end of other rapidly growing small cap companies (average 30x and 4x, respectively) with unique products on a 2008 basis.
- Macroeconomic concerns will weigh near-term on shares

**Risks:** Lower-than expected utilization of Invisalign and competition.

| Share and Price Data | 3/24/08 |
|----------------------|---------|
| Closing price        | 11.39   |
| 52-w week range      | \$30-10 |
| Shares outstanding   | 71.9    |
| Market cap (\$MM)    | 818.53  |

| Valuation Analysis |      |
|--------------------|------|
| 2008E Price/Sales  | 2.7x |
| 2009E Price/Sales  | 2.2x |

| DB Revenue Estimates (\$ in millions) | 1Q | 2Q | 3Q | 4Q | FY  |
|---------------------------------------|----|----|----|----|-----|
| 2007A                                 | 64 | 77 | 71 | 73 | 284 |
| 2008E                                 | 73 | 75 | 75 | 85 | 308 |
| 2009E                                 |    |    |    |    | 366 |

| DB EPS Estimates | 1Q     | 2Q     | 3Q     | 4Q     | FY     |
|------------------|--------|--------|--------|--------|--------|
| 2007A            | \$0.05 | \$0.13 | \$0.09 | \$0.05 | \$0.32 |
| 2008E            | \$0.03 | \$0.04 | \$0.07 | \$0.10 | \$0.24 |
| 2009E            |        |        |        |        | \$0.52 |

### Stock Price Trends - 2 year chart



## Alphatec Holdings (NASDAQ: ATEC) HOLD Rating, \$5 Target

Alphatec Holdings designs, develops, manufactures, and markets products for the surgical treatment of spine disorders via spinal fusion.

### Street Opinions

|             |          |
|-------------|----------|
| <b>Buy</b>  | <b>4</b> |
| <b>Hold</b> | <b>1</b> |
| <b>Sell</b> | <b>0</b> |

### "One-stop shop" for spinal fusion products

- Full line of spinal hardware, on par with larger players
- Expanding portfolio through internal development, acquisitions, in-licensing
- Product licensing deals a positive (Dynamo dynamic stabilization, V-Stent, osteoporosis screw, GLIF)

### Partnering with surgeons

- "Real-time" responsiveness to spine surgeons' needs through direct involvement of customers in R&D process
- Engineering and manufacturing capabilities for rapid turnaround

### ATEC is a "show me" story following recent hiccups

- Since making changes, new management has started to execute, however, given disappointing financial results, investor confidence will take time to be regained

### Remaining on the sidelines with a \$5 price target

- Our \$5 PT is based on 2.5x our new 2009 US revenue forecast (plus 1x international sales) which is in line with where the small cap ortho group trades on average on an '08 basis.

**Risks:** Competition, challenges with sales force expansion and reimbursement cuts for spinal fusion procedures

| Share and Price Data | 3/24/08 |
|----------------------|---------|
| Closing price        | 4.6     |
| 52-week range        | \$7-3   |
| Shares outstanding   | 45.9    |
| Market cap (\$MM)    | 211     |

| Valuation Analysis |      |
|--------------------|------|
| 2008E Price/Sales  | 2.2x |
| 2009E Price/Sales  | 1.9x |

| DB Revenue Estimates (\$ in millions) | 1Q     | 2Q     | 3Q     | 4Q     | FY      |
|---------------------------------------|--------|--------|--------|--------|---------|
| 2007A                                 | \$19.6 | \$18.8 | \$20.3 | \$21.3 | \$80.0  |
| 2008E                                 | \$22.5 | \$23.1 | \$21.7 | \$27.0 | \$94.3  |
| 2009E                                 |        |        |        |        | \$111.8 |

| DB EPS Estimates | 1Q      | 2Q      | 3Q      | 4Q      | FY      |
|------------------|---------|---------|---------|---------|---------|
| 2007A            | -\$0.08 | -\$0.05 | -\$0.09 | -\$0.06 | -\$0.28 |
| 2008E            | -\$0.06 | -\$0.05 | -\$0.05 | -\$0.03 | -\$0.19 |
| 2009E            |         |         |         |         | -\$0.08 |

Stock Price Trends - 2 year chart



## Aspect Medical Systems (NASDAQ: ASPM) HOLD Rating, \$15 Target

Aspect Medical Systems, Inc. develops, manufactures, and markets an anesthesia monitoring system called the BIS system. The company's system enables anesthesia providers to assess and manage a patient's level of consciousness during surgery. Aspect Medical markets its product in the United States, as well as internationally through distributors and marketing partners.

### Street Opinions

|             |          |
|-------------|----------|
| <b>Buy</b>  | <b>1</b> |
| <b>Hold</b> | <b>5</b> |
| <b>Sell</b> | <b>0</b> |

### BIS progressing toward becoming standard of care

- Market-leading anesthesia monitoring technology
- Only FDA-approved system for intra-operative awareness reduction on label

### Growth continues to decelerate

- Increasing recurring revenue positively impacting profitability (sensor gross margin ~85%) and improving visibility
- However, revenue and earnings growth is slowing: seven consecutive quarters of decelerating revenue growth
- Positive data from neuroscience studies (depression, Alzheimer's) could excite investors
- Supply agreements for BIS module with patient monitoring OEMs accounting for >90% of global market
- Aggressive hardware discounting to continue
- Following termination of BSX neuro alliance, ASPM is solely responsible for all R&D which will dampen profits materially over the next few quarters

### Significant momentum already reflected in valuation

- Our \$15PT is based on 2.0x EV to 2009 sales

**Risks:** Slower-than-expected uptake of BIS, competition, termination of BSX partnership

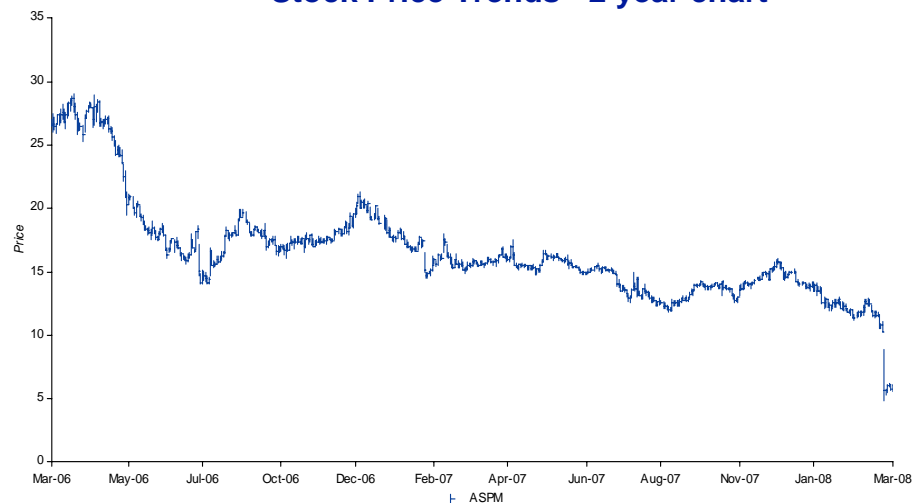
| Share and Price Data | 3/24/08 |
|----------------------|---------|
| Closing price        | 6.05    |
| 52-w week range      | \$18-5  |
| Shares outstanding   | 17.8    |
| Market cap (\$MM)    | 108     |

| DB Revenue Estimates (\$ in millions) | 1Q   | 2Q   | 3Q   | 4Q   | FY    |
|---------------------------------------|------|------|------|------|-------|
| <b>2007A</b>                          | 24.1 | 26.6 | 22.6 | 24.0 | 97.4  |
| <b>2008E</b>                          | 24.9 | 25.3 | 25.2 | 26.7 | 102.1 |
| <b>2009E</b>                          |      |      |      |      | 113.8 |

| Valuation Analysis |       |
|--------------------|-------|
| 2008E P/E          | 59.6x |
| 2009E P/E          | 30.9x |
| 2008E Price/Sales  | 1.1x  |
| 2009E Price/Sales  | 0.9x  |

| DB EPS Estimates | 1Q     | 2Q     | 3Q      | 4Q      | FY     |
|------------------|--------|--------|---------|---------|--------|
| <b>2007A</b>     | \$0.02 | \$0.07 | -\$0.01 | -\$0.01 | \$0.06 |
| <b>2008E</b>     | \$0.01 | \$0.02 | \$0.03  | \$0.04  | \$0.10 |
| <b>2009E</b>     |        |        |         |         | \$0.20 |

Stock Price Trends - 2 year chart



## BioMimetic Therapeutics (NASDAQ: BMTI) BUY Rating, \$22 Target

BioMimetic Therapeutics develops and commercializes biologically active drug-device combination products for the healing of injuries and diseases of the skeleton and associated tissues, including periodontal, orthopedic, spine, and sports injury applications.

### Street Opinions

|             |          |
|-------------|----------|
| <b>Buy</b>  | <b>6</b> |
| <b>Hold</b> | <b>0</b> |
| <b>Sell</b> | <b>0</b> |

### PDGF safety & efficacy is well studied/understood

- Preclinical studies have shown PDGF stimulates healing of bone, cartilage, ligaments & tendons
- PDGF approved for periodontal bone growth in 2005; lessens regulatory risk associated with product candidates
- BioMimetic has exclusive rights to PDGF for musculoskeletal applications
- Positive randomized clinical data supports our positive outlook for GEM OS1 with performance similar to autograft but without the need to remove bone from the patient during a second procedure

| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 12.67   |
| 52-week range        |  | \$20-10 |
| Shares outstanding   |  | 16.9    |
| Market cap (\$MM)    |  | 214     |

| DB Revenue Estimates (\$ in millions) |     |     |     |     |     |
|---------------------------------------|-----|-----|-----|-----|-----|
|                                       | 1Q  | 2Q  | 3Q  | 4Q  | FY  |
| 2007A                                 | 0.4 | 0.5 | 1.7 | 4.5 | 7.0 |
| 2008E                                 | 0.6 | 0.6 | 0.6 | 0.6 | 2.5 |
| 2009E                                 |     |     |     |     | 2.7 |

| DB EPS Estimates |         |         |         |         |         |
|------------------|---------|---------|---------|---------|---------|
|                  | 1Q      | 2Q      | 3Q      | 4Q      | FY      |
| 2007A            | -\$0.34 | -\$0.35 | -\$0.31 | -\$0.38 | -\$1.37 |
| 2008E            | -\$0.35 | -\$0.40 | -\$0.41 | -\$0.51 | -\$1.67 |
| 2009E            |         |         |         |         | -\$1.30 |

### Product candidates address large markets

- GEM OS1 (foot/ankle fusion, foot/ankle fracture, other fracture) - ~\$2.5B
- GEM OS2 (VCF, closed fracture) - ~\$1.7B

### Clinical and regulatory milestones to drive stock near-term

- Enrollment in US and EU pivotal studies for GEM OS1 ongoing
- Filing of GEM OS1 in Canada in 1Q08
- Recent sale of dental assets provide ample cash position to reach US approval for GEM OS1

### Significant share price upside potential

- \$22 PT based on 35x 2012 EPS, discounted 30% over 4 yrs

**Risks:** Poor clinical data, product approval delays, mfg/supply issues

### Stock Price Trends - 2 year chart



## Boston Scientific (NYSE: BSX) BUY Rating, \$16 Target

Boston Scientific is a leading player in the medical technology industry. The company sells a broad line of cardiology devices, including stents, balloon catheters and related accessories; and cardiac rhythm management devices such as ICDs and pacemakers. Other products include devices for the endosurgery, endoscopy, urology and electrophysiology industries.

### Street Opinions

|      |    |
|------|----|
| Buy  | 8  |
| Hold | 13 |
| Sell | 1  |

### 2 primary businesses remain challenging

- In drug-eluting stents, we expect procedure volumes to decline until we anniversary the impact of the Courage trial (by 2H08). In addition, growing competition should lower prices. Boston Scientific should remain the worldwide market leader given its comprehensive cath lab product portfolio, including the Taxus and Promus drug-eluting stents.
- In ICDs, we expect the overhang of Medtronic's Fidelis lead recall will limit growth. However, we believe the worst is behind BSX and see their market share stabilizing and increasing.

### Restructuring in progress

- With a new CFO on board, Boston has already sold several non-core franchises and investments to pay down debt and announced a restructuring plan which should reduce operating expenses going forward.

### Shares offer meaningful upside for LT investors

- While we expect declines in drug-eluting stents, we believe this will be offset by improvement in its cardiac rhythm management (CRM) franchise (ICDs, pacemakers) and continued growth in its endosurgery business.
- Our \$16 price target is based on the shares trading at 16x our 2009 adjusted EPS forecast (excludes acquisition-related amortization). This multiple is in line with where the cardio group currently trades on a 2008 basis.

**Risks:** Additional recalls, potential manufacturing hiccups, headline risk stent litigation, and emerging competition

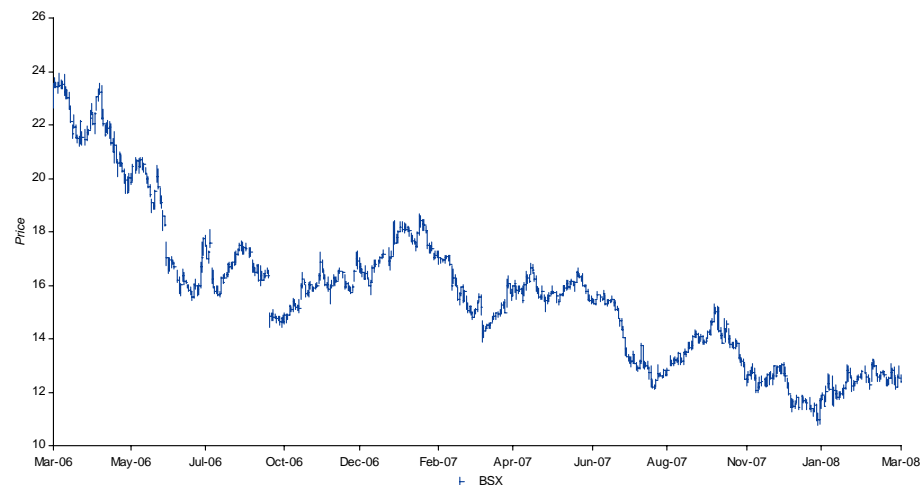
| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 12.43   |
| 52-w week range      |  | \$17-11 |
| Shares outstanding   |  | 1499.9  |
| Market cap (\$MM)    |  | 18,644  |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2008E P/E             | 56.9x |
| 2009E P/E             | 12.1x |
| 2008E PE-to-LT Growth | 5.7x  |
| 2009E PE-to-LT Growth | 1.2x  |

| DB Revenue Estimates (\$ in millions) |       |       |       |       |       |
|---------------------------------------|-------|-------|-------|-------|-------|
|                                       | 1Q    | 2Q    | 3Q    | 4Q    | CY    |
| 2007A                                 | 2,086 | 2,071 | 2,048 | 2,152 | 8,357 |
| 2008E                                 | 2,033 | 2,069 | 1,974 | 2,094 | 8,170 |
| 2009E                                 |       |       |       |       | 8,435 |

| DB EPS Estimates (ex. amortization) |        |        |        |        |        |
|-------------------------------------|--------|--------|--------|--------|--------|
|                                     | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
| 2007A                               | \$0.17 | \$0.16 | \$0.20 | \$0.22 | \$0.94 |
| 2008E                               | \$0.18 | \$0.19 | \$0.17 | \$0.22 | \$0.75 |
| 2009E                               |        |        |        |        | \$1.02 |

Stock Price Trends - 2 year chart



## Covidien, Ltd. (NYSE: COV) HOLD Rating, \$46 Target

Covidien, Ltd. Is a global leader in developing, manufacturing and distributing medical devices and supplies, diagnostic imaging agents, pharmaceuticals and other healthcare products for use in clinical and home settings.

### Street Opinions

|      |   |
|------|---|
| Buy  | 5 |
| Hold | 3 |
| Sell | 0 |

### Near-term overhangs will weigh on shares for now

- Will take time before investors gain confidence that the outlook is better than the current state of affairs
- The next 12 months will be highlighted by (1) limited near-term growth, (2) decreasing profitability, and (3) the potential divestiture of low-performing franchises

### Positioning for LT growth requires higher NT investments

- While Covidien has many leading franchises, we believe several years of underinvestment has left the company with limited near-term growth drivers
- Greater investment in R&D is an important first step but will require some time to bear fruit
- Ongoing restructuring efforts across segment
- Higher R&D and SG&A spend near-term essential for long-term growth but likely to dampen profits near-term

### Shares fairly valued

- Our PT of \$46 is based on COV shares trading at 16x our forward EPS estimate, 12 months hence of \$2.72. This multiple is at a slight discount to its hospital supplies peer group (average 18x) given the slower sales growth, declining profitability, and near-term risks

**Risks:** Product recalls, patent/shareholder litigation, management hiccups post-separation, and delays in generating growth and improving profitability

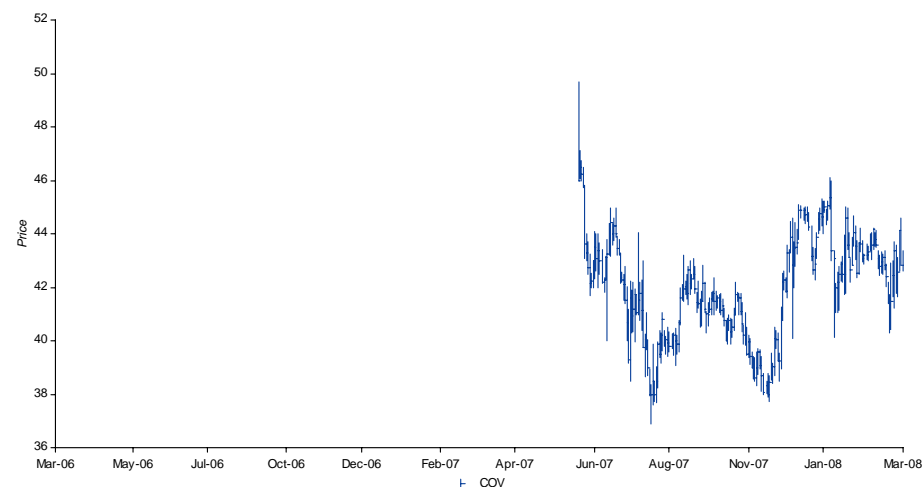
| Share and Price Data | 3/24/08 |
|----------------------|---------|
| Closing price        | 42.86   |
| 52-week range        | \$50-37 |
| Shares outstanding   | 502.0   |
| Market cap (\$MM)    | 21,516  |

| Valuation Analysis (FYE 9/30) |       |
|-------------------------------|-------|
| 2008E Price/Sales             | 2.2x  |
| 2009E Price/Sales             | 2.1x  |
| 2008E P/E                     | 17.9x |
| 2009E P/E                     | 15.8x |

| DB Revenue Estimates (\$ in millions) |       |       |       |       |        |          |
|---------------------------------------|-------|-------|-------|-------|--------|----------|
| FYE 9/30                              | 1Q    | 2Q    | 3Q    | 4Q    | FY     | CY       |
| 2007A                                 | 2,128 | 2,200 | 2,269 | 2,298 | 8,895  | \$9,083  |
| 2008E                                 | 2,316 | 2,393 | 2,460 | 2,461 | 9,629  | \$9,779  |
| 2009E                                 | 2,466 | 2,547 | 2,620 | 2,628 | 10,261 | \$10,407 |

| DB EPS Estimates |        |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|--------|
| FYE 9/30         | 1Q     | 2Q     | 3Q     | 4Q     | FY     | CY     |
| 2007A            | \$0.68 | \$0.67 | \$0.64 | \$0.62 | \$2.61 | \$2.51 |
| 2008E            | \$0.59 | \$0.59 | \$0.61 | \$0.61 | \$2.40 | \$2.45 |
| 2009E            | \$0.64 | \$0.67 | \$0.70 | \$0.71 | \$2.72 | \$2.83 |

### Stock Price Trends, July 2007-Present



## Home Diagnostics, Inc. (NASDAQ: HDIX) HOLD Rating, \$9 Target

Home Diagnostics, Inc. manufactures a full line of blood glucose monitoring products (meters and strips) for diabetes disease management. The company markets testing products under its own brands as well as in a co-branded fashion with its partners.

### Street Opinions

|             |          |
|-------------|----------|
| <b>Buy</b>  | <b>3</b> |
| <b>Hold</b> | <b>2</b> |
| <b>Sell</b> | <b>0</b> |

### Blood glucose monitoring is a multibillion dollar market

- There are ~200 million diabetics worldwide--a number expected to double by 2030
- The blood glucose testing market is \$4B US and \$6B worldwide
- We estimate 3% to 5% growth for the glucose testing market
- HDI has a full suite of testing products that are competitive with larger players in the space
- Launch of True-Result to weigh on margins in 2008

| Share and Price Data 3/24/08 |        |
|------------------------------|--------|
| Closing price                | 6.31   |
| 52-w week range              | \$12-6 |
| Shares outstanding           | 19.2   |
| Market cap (\$MM)            | 121    |

| DB Revenue Estimates (\$ in millions) |      |      |      |      |       |
|---------------------------------------|------|------|------|------|-------|
|                                       | 1Q   | 2Q   | 3Q   | 4Q   | FY    |
| <b>2007A</b>                          | 28.1 | 28.1 | 31.7 | 27.8 | 115.6 |
| <b>2008E</b>                          | 23.7 | 32.5 | 34.1 | 31.6 | 122.0 |
| <b>2009E</b>                          |      |      |      |      | 132.9 |

| Valuation Analysis |       |
|--------------------|-------|
| 2008E Price/Sales  | 1.0x  |
| 2009E Price/Sales  | 0.9x  |
| 2008E P/E          | 12.9x |
| 2009E P/E          | 8.9x  |

| DB EPS Estimates |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|
|                  | 1Q     | 2Q     | 3Q     | 4Q     | FY     |
| <b>2007A</b>     | \$0.13 | \$0.09 | \$0.25 | \$0.11 | \$0.58 |
| <b>2008E</b>     | \$0.00 | \$0.16 | \$0.17 | \$0.16 | \$0.49 |
| <b>2009E</b>     |        |        |        |        | \$0.71 |

### Co-branding strategy

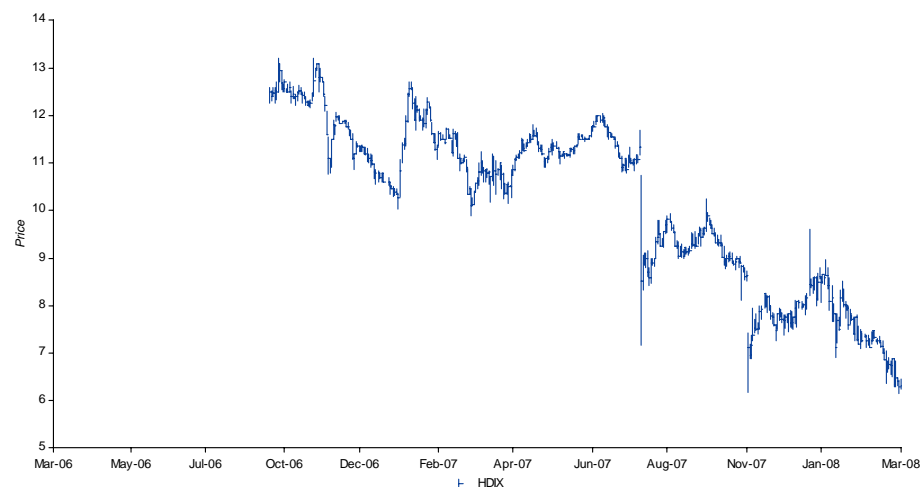
- HDI sells products under its own brand as well as in a co-branded fashion with its partners
- Co-branding brings important value proposition (better margins and branding) to HDI's partners

### HDIX shares are Hold rated with \$9 price target

- Our \$9 PT represents 13x our 2009 EPS est. and is at a discount to its peer group (15x). We feel this is reasonable given the company's poor track record, lack of execution, and continued questions surrounding management credibility.

**Risks:** Include market share loss, reimbursement cuts, and a competitor emerging with a similar business model

Stock Price Trends - 2 year chart



## Integra LifeSciences (NASDAQ: IART) HOLD Rating, \$47 Target

Integra LifeSciences is a fully integrated medical device company that develops and markets products across a number of segments. Product lines include implants for neurosurgery, spinal surgery, and reconstructive surgery, as well as medical surgical equipment products which include hand-held instruments, powered instruments, image-guided surgery systems and monitors that measure brain parameters. In addition, the company operates in the field of tissue regeneration.

### Street Opinions

|      |   |
|------|---|
| Buy  | 5 |
| Hold | 7 |
| Sell | 0 |

### Solid business model has reshaped company

- Integra's products address a \$3.6 billion market
- Over the past 5 years, revenues have grown from \$118 million (2002) to \$549 million (2007) representing a 36% CAGR
- The company has acquired approximately 30 companies over the past 9 years at an average price to sales multiple of 1.5x
- Integra sells its products through a direct and distributor network which addresses various surgeon types in offices ranging from podiatry to dentistry to neurosurgery
- Recent IsoTis acquisition broadens the company's orthobiologic portfolio and helps address a new customer base (orthopedic spine surgeons) which should increase utilization of other product lines (DuraGen)

### Market leader in Neuro, however growth presents a challenge

- Brands such as DuraGen, IsoTis, CUSA, and Mayfield headline a market leading product portfolio.
- Organic growth has slowed which may point to additional acquisitions

### Discounted valuation due to recent financial performance volatility

- \$47PT based on a 19x P/E multiple, which represents a 15% discount to its peer group.

**Risks:** Integration difficulties, slowdown in organic business, missing expectations

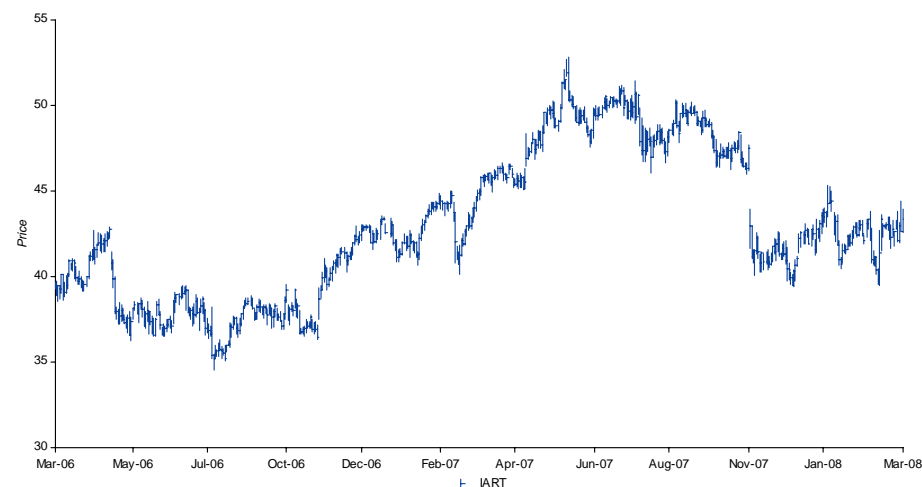
| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 43.36   |
| 52-week range        |  | \$53-39 |
| Shares outstanding   |  | 19.2    |
| Market cap (\$MM)    |  | 832     |

| Valuation Analysis |       |
|--------------------|-------|
| 2008E Price/Sales  | 1.3x  |
| 2009E Price/Sales  | 1.2x  |
| 2008E P/E          | 21.5x |
| 2009E P/E          | 17.0x |

| DB Revenue Estimates (\$ in millions) |       |       |       |       |       |
|---------------------------------------|-------|-------|-------|-------|-------|
|                                       | 1Q    | 2Q    | 3Q    | 4Q    | FY    |
| 2007A                                 | 123.0 | 134.8 | 135.0 | 157.6 | 550.4 |
| 2008E                                 | 154.0 | 158.9 | 157.7 | 173.1 | 643.7 |
| 2009E                                 |       |       |       |       | 692.0 |

| DB EPS Estimates |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|
|                  | 1Q     | 2Q     | 3Q     | 4Q     | FY     |
| 2007A            | \$0.33 | \$0.41 | \$0.39 | \$0.50 | \$1.62 |
| 2008E            | \$0.40 | \$0.44 | \$0.50 | \$0.68 | \$2.02 |
| 2009E            |        |        |        |        | \$2.55 |

### Stock Price Trends - 2 year chart



## Intuitive Surgical, (NASDAQ: ISRG) BUY Rating, \$360 Target

ISRG manufactures the da Vinci robotic surgical system for use in urological, cardiac and general surgical procedures, with new indications under development. The acquisition of Computer Motion puts ISRG as the clear leader in robotics with an installed base exceeding 600 systems. With smaller instruments and improved visualization, Intuitive is shifting treatment paradigms toward robotic surgery.

### Street Opinions

|      |   |
|------|---|
| Buy  | 4 |
| Hold | 5 |
| Sell | 0 |

### Paradigm shifting technology

- Advanced robotic surgery allows the average surgeon to reproduce techniques and achieve results once limited to most skilled laparoscopic and conventional surgeons
- Targets \$1.1 billion annual disposable instruments opportunity

### New indications key

- Over 50% of radical prostatectomies in the US were removed robotically in 2007
- Potentially significant opportunities exist in CABG, heart valves, hysterectomies, gastric bypass, gynecologic oncology
- We expect GYN oncology to be the next blockbuster market

### Leveraging installed base

- Significant installed base of over 800 systems driving procedure growth
- New procedures driving increased instrument utilization throughout current installed base
- Increasing mix of recurring instrument and service sales improves top-line visibility

### Shares rated Buy with \$360 price target

- Price target based on a 1.4x PEG, in line with comps

**Risks:** Increasing utilization, system placements, new procedure development and sector rotation

| Share and Price Data | 3/24/08   |
|----------------------|-----------|
| Closing price        | 300.69    |
| 52-week range        | \$360-114 |
| Shares outstanding   | 38.657    |
| Market cap (\$MM)    | 11,624    |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2008E P/E             | 59.5x |
| 2009E P/E             | 45.5x |
| 2008E PE-to-LT Growth | 1.7x  |
| 2009E PE-to-LT Growth | 1.3x  |

| DB Revenue Estimates (\$ in millions) | 1Q    | 2Q    | 3Q    | 4Q    | CY      |
|---------------------------------------|-------|-------|-------|-------|---------|
| 2007A                                 | 114.2 | 140.2 | 156.9 | 189.4 | 600.8   |
| 2008E                                 | 174.1 | 204.4 | 211.7 | 249.3 | 839.5   |
| 2009E                                 |       |       |       |       | 1,084.8 |

| DB EPS Estimates | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
|------------------|--------|--------|--------|--------|--------|
| 2007A            | \$0.62 | \$0.79 | \$0.95 | \$1.24 | \$3.60 |
| 2008E            | \$0.92 | \$1.22 | \$1.25 | \$1.66 | \$5.05 |
| 2009E            |        |        |        |        | \$6.62 |

### Stock Price Trends - 2 year chart



## Johnson & Johnson (NYSE: JNJ) BUY Rating, \$74 Target

JNJ is one of the largest companies in the world with a highly diversified revenue base divided among three divisions: Pharmaceuticals, Medical Devices and Diagnostics, and Consumer. The majority of the company's sales are generated in the Pharm business, where J&J holds leading franchises in several therapeutic areas. The second largest division is the Medical Devices and Diagnostics, where the company is a leader in cardiovascular devices, orthopaedics, and other segments.

| Street Opinions |    |
|-----------------|----|
| Buy             | 15 |
| Hold            | 7  |
| Sell            | 0  |

### Growth profile remains lackluster, more M&A likely

- Recently acquired Pfizer's OTC business,
- Additional M&A likely given growth slowdown in MD&D and pharma
- Strong cash flows, solid balance sheet, AAA credit rating provides significant M&A flexibility

### Several leading franchises under assault

- Competition: Procrit/Eporex, Remicade, Duragesic, Cypher
- Patents: Duragesic, Eprex
- Presently launching Prevista (HIV); late-stage pharma pipeline suggests improving Pharma outlook offset by patent expiry
- Cypher: DES market to get more competitive

### Shares Buy rated with \$74 price target

- Our PT is based on a 16x multiple on our 2009 EPS estimate, 12 months hence. This multiple is in line with historical average forward P/E and PE-to-Growth multiples. We balance the company's diverse revenue streams, leadership positions in many of its markets, stock buyback program, against the slowdown in the stent market and generic competition in pharmaceuticals.

**Risks:** Delays in product approvals, generic Rx competition

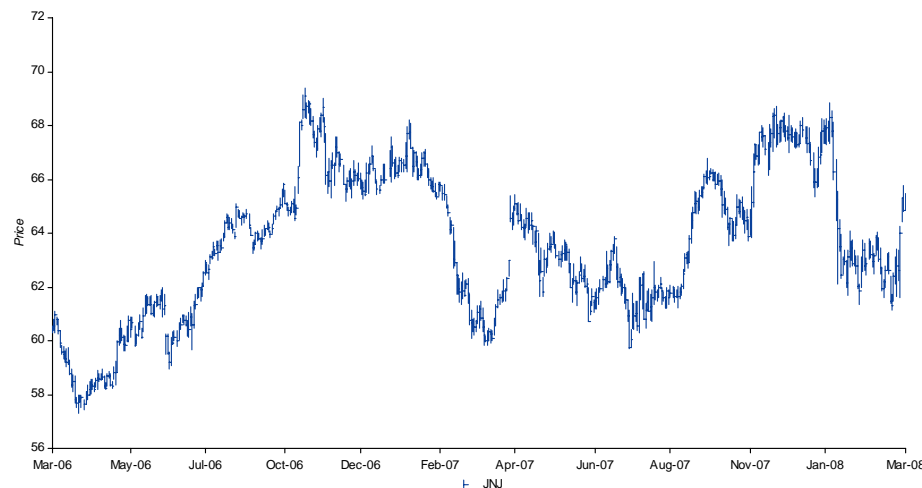
| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 65.38   |
| 52-week range        |  | \$69-60 |
| Shares outstanding   |  | 2889.2  |
| Market cap (\$MM)    |  | 188,896 |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2008E P/E             | 14.8x |
| 2009E P/E             | 14.3x |
| 2008E PE-to-LT Growth | 1.5x  |
| 2009E PE-to-LT Growth | 1.4x  |

| DB Revenue Estimates (\$ in millions) |        |        |        |        |        |
|---------------------------------------|--------|--------|--------|--------|--------|
|                                       | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
| 2007A                                 | 15,037 | 15,130 | 14,970 | 15,957 | 61,094 |
| 2008E                                 | 15,664 | 15,748 | 15,442 | 16,364 | 63,217 |
| 2009E                                 |        |        |        |        | 62,754 |

| DB EPS Estimates |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|
|                  | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
| 2007A            | \$1.16 | \$1.05 | \$1.06 | \$0.88 | \$4.15 |
| 2008E            | \$1.18 | \$1.15 | \$1.10 | \$0.99 | \$4.42 |
| 2009E            |        |        |        |        | \$4.56 |

Stock Price Trends - 2 year chart



## Kinetic Concepts (NYSE: KCI) BUY Rating, \$71 Target

KCI is a leading medical technology company with strong market positions in wound care and therapeutic surfaces. In wound care, which is the company's main growth driver, KCI has developed a unique and proprietary technology called the V.A.C. system to improve outcomes in difficult-to-treat wounds. KCI's second line of businesses is therapeutic surfaces.

### Street Opinions

|             |          |
|-------------|----------|
| <b>Buy</b>  | <b>3</b> |
| <b>Hold</b> | <b>2</b> |
| <b>Sell</b> | <b>2</b> |

### Significant market opportunity for V.A.C.

- \$3.2 billion US market opportunity
- Under-penetrated: < 30% penetration of US market
- Large international opportunity (>\$3 billion)
- New products and expanding markets

### Important competitive advantages

- Service center network-broad global reach
- Strong and growing sales force, solid customer relationships
- Expertise in third party reimbursement
- New CEO very highly regarded by peers and Wall Street; is committed to diversifying revenue stream

### Competitive bidding, pricing concerns overblown

- Medicare revenue represents ~15% of VAC revenue
- Private pay prices more sticky than Medicare
- Smith & Nephew (BlueSky) market share gains not meaningful following court victory, Medela same as SNN

### \$71 price target based on 17x blended estimate

- Our PT is based on a 17x multiple on our '09E EPS of \$4.25. This multiple represents a slight discount to the hospital supply and mid-cap comp group on a '08 basis (19x and 24x) due to some of the risks in KCI's business.

**Risks:** Competition and pricing pressure

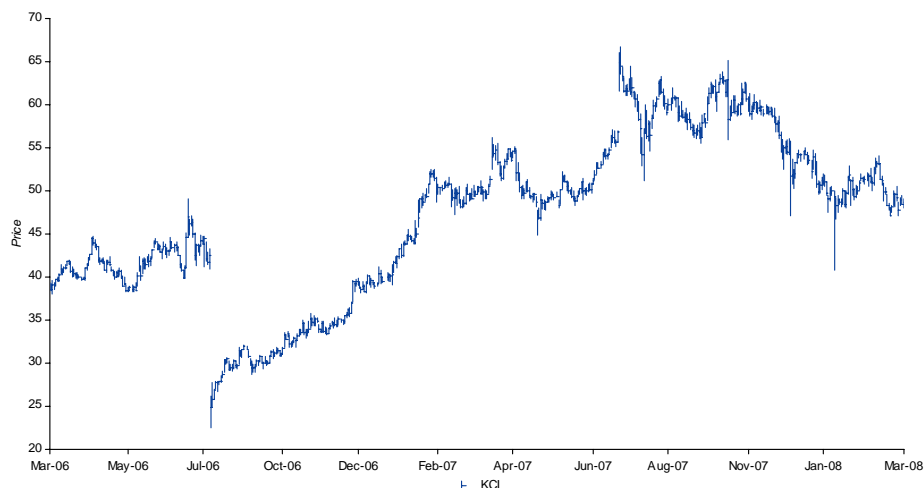
| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 48.75   |
| 52-week range        |  | \$67-41 |
| Shares outstanding   |  | 72.2    |
| Market cap (\$MM)    |  | 3,519   |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2008E P/E             | 12.6x |
| 2009E P/E             | 11.5x |
| 2008E PE-to-LT Growth | 1.3x  |
| 2009E PE-to-LT Growth | 1.1x  |

| DB Revenue Estimates (\$ in millions) |       |       |       |       |         |
|---------------------------------------|-------|-------|-------|-------|---------|
|                                       | 1Q    | 2Q    | 3Q    | 4Q    | CY      |
| <b>2007A</b>                          | 368.8 | 396.6 | 410.8 | 433.5 | 1,609.8 |
| <b>2008E</b>                          | 416.4 | 441.6 | 456.6 | 488.9 | 1,803.4 |
| <b>2009E</b>                          |       |       |       |       | 1,993.2 |

| DB EPS Estimates |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|
|                  | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
| <b>2007A</b>     | \$0.75 | \$0.81 | \$0.82 | \$0.92 | \$3.31 |
| <b>2008E</b>     | \$0.87 | \$0.93 | \$1.00 | \$1.07 | \$3.87 |
| <b>2009E</b>     |        |        |        |        | \$4.25 |

Stock Price Trends - 2 year chart



## Masimo Corp. (Nasdaq: MASI) BUY Rating, \$39 Target

Masimo is a medical technology company focused on the development and sale of non-invasive patient monitoring products. The company's proprietary Masimo SET platform addresses key limitations of conventional pulse oximetry and continues to rapidly gain market share. In addition, the company is currently launching the Rainbow SET platform, which allows for the non-invasive measurement of additional parameters.

### Street Opinions

|      |   |
|------|---|
| Buy  | 3 |
| Hold | 2 |
| Sell | 0 |

### Robust growth profile

- Between 2004 and 2006, Masimo doubled its pulse oximetry market share to 17%, and we expect continued share gains to drive strong revenue growth over the next several quarters.
- Importantly, 38% of new sockets being shipped are Masimo SET – and this is an important leading indicator of sensor sales.

### Strong, battle-tested intellectual property portfolio

- Owns 253 issued patents and 189 patents pending; long-term cross-licensing agreement with Masimo Labs
- Settled patent infringement suit with Nellcor (Covidien) in 2006: Masimo won cash settlement of \$330.5 million and double-digit royalty on Nellcor US pulse ox sales at least through 2011.

### Rainbow SET currently being launched; exciting pipeline

- The first technology platform with the ability to non-invasively measure carboxyhemoglobin and methemoglobin
- Late-stage pipeline includes noninvasive ARM (acoustic respiratory monitoring) and total hemoglobin, which target substantial end markets and offer significant clinical value.

### Shares rated Buy with \$39 price target

- Our \$39 PT is based on 45x our 2010 EPS estimate, discounted one year at 25% to account for clinical / regulatory / commercialization risks associated with the pipeline.

**Risks:** Slowdown in critical care patient volumes, delays in new product uptake and launches, and potential product recalls

| Share and Price Data | 3/24/08 |
|----------------------|---------|
| Closing price        | 27.5    |
| 52-week range        | \$42-19 |
| Shares outstanding   | 60.0    |
| Market cap (\$MM)    | 1,650   |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2008E P/E             | 53.4x |
| 2009E P/E             | 39.3x |
| 2008E PE-to-LT Growth | 3.6x  |
| 2009E PE-to-LT Growth | 2.6x  |

| DB Revenue Estimates (\$ in millions) | 1Q   | 2Q   | 3Q   | 4Q   | CY    |
|---------------------------------------|------|------|------|------|-------|
| 2007A                                 | 59.0 | 63.7 | 64.4 | 69.3 | 256.3 |
| 2008E                                 | 68.3 | 71.0 | 73.7 | 76.9 | 290.0 |
| 2009E                                 |      |      |      |      | 355.6 |

| DB EPS Estimates | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
|------------------|--------|--------|--------|--------|--------|
| 2007A            | \$0.16 | \$0.19 | \$0.18 | \$0.20 | \$0.73 |
| 2008E            | \$0.12 | \$0.13 | \$0.13 | \$0.14 | \$0.52 |
| 2009E            |        |        |        |        | \$0.70 |

### Stock Price Trends, August 2007-Present



## Medtronic (NYSE: MDT) BUY Rating, \$57 Target

Medtronic is a leading player in the device industry, with the number one market share position in most of its markets. The company's primary products include pacemakers, ICDs, CRT devices, heart valves, coronary stents, spinal devices, insulin pumps, neurostimulation devices and implantable drug pumps.

### Street Opinions

|      |    |
|------|----|
| Buy  | 18 |
| Hold | 10 |
| Sell | 0  |

### Dominates many large, diversified markets

- MDT holds the #1 position in almost all of its markets (CRM, Spine, Neuro, Diabetes)
- In a typical quarter, a shortfall in one segment is offset by upside in another = predictable revenue growth

### Entering a robust new product cycle

- MDT is launching/expects to launch several major new products across segments over the next few quarters: artificial discs and Endeavor drug-eluting stent
- Recently completed Kyphon acquisition should further strengthen growth of MDT market-leading spine franchise

### Company executing well across businesses

- ICD market continues to be volatile and we expect choppiness going forward
- Artificial lumbar and cervical discs have captured #1 in EU; US approval timelines intact
- Endeavor drug-eluting stent launched in EU markets; we expect Endeavor to ultimately capture 15% of US market, but safety profile might yield upside to estimates

### Shares rated Buy with \$57 target

- Our PT is based on 20x forward P/E, 12-months hence, which is in line with the large cap MedTech group average

**Risks:** Protracted slowdown in ICD market, competition in spinal disc market, Fidelis lead fracture fallout

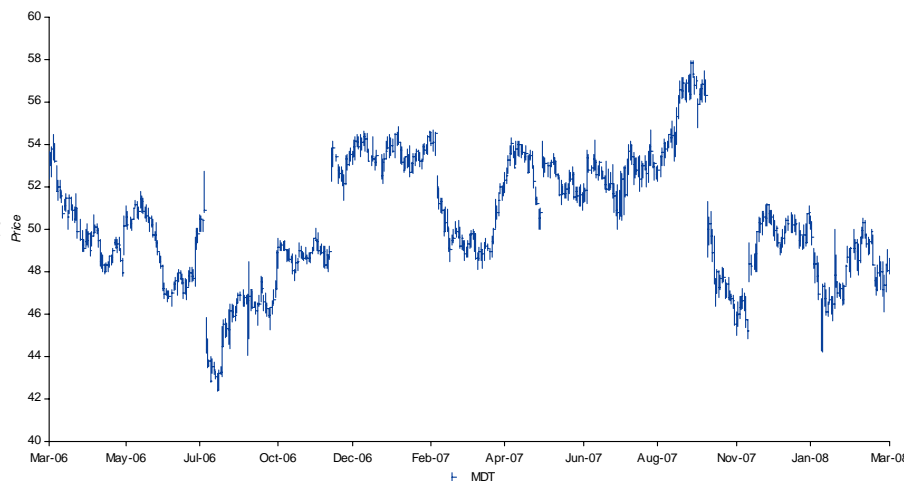
| Share and Price Data | 3/24/08 |
|----------------------|---------|
| Closing price        | 48.53   |
| 52-week range        | \$58-44 |
| Shares outstanding   | 1135    |
| Market cap (\$MM)    | 55,082  |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2007E CY PE           | 17.5x |
| 2008E CY PE           | 15.0x |
| 2008E PE-to-LT Growth | 1.2x  |
| 2009E PE-to-LT Growth | 1.0x  |

| DB Revenue Estimates (\$ in millions) | 1Q    | 2Q    | 3Q    | 4Q    | FY     | CY     |
|---------------------------------------|-------|-------|-------|-------|--------|--------|
| FY08A                                 | 3,127 | 3,124 | 3,405 | 3,726 | 13,382 | 14,785 |
| FY09E                                 | 3,625 | 3,654 | 3,781 | 4,061 | 15,121 | 16,360 |
| FY10E                                 |       |       |       |       | 16,398 |        |

| DB EPS Estimates | 1Q     | 2Q     | 3Q     | 4Q     | FY     | CY      |
|------------------|--------|--------|--------|--------|--------|---------|
| FY08A            | \$0.62 | \$0.58 | \$0.63 | \$0.72 | \$2.55 | \$ 2.77 |
| FY09E            | \$0.66 | \$0.66 | \$0.72 | \$0.83 | \$2.88 | \$ 3.25 |
| FY10E            |        |        |        |        | \$3.19 |         |

Stock Price Trends - 2 year chart



## St. Jude Medical (NYSE: STJ) BUY Rating, \$48 Target

St. Jude Medical designs, manufactures and markets medical devices primarily for use in the heart. The company is a leading player in the cardiac rhythm management market (pacemakers, implantable cardioverter defibrillators [ICDs], and electrophysiology catheters) and in cardiac surgery (heart valves, annuloplasty rings).

### Street Opinions

|      |    |
|------|----|
| Buy  | 19 |
| Hold | 7  |
| Sell | 1  |

### ICD market remains choppy

- ICD market growth remains volatile, and we expect the Fidelis recall to remain an overhang on the ICD market going forward
- STJ is most levered of the three players to ICD market and thus would be the biggest beneficiary of an improving ICD market

### ANSI acquisition and AF market: long-term growth drivers

- We expect the neurostim market to exhibit significant growth; currently a \$1B market but highly under-penetrated.
- New indications could substantially expand market opportunity
- AF represents another long-term growth driver and STJ is well positioned to benefit from this large, unmet medical need in cardiology

### Buy rated, \$48 PT

- Our price target is based on the shares trading at a 20x multiple on our 2009 EPS estimate, 12 months hence. This multiple is in line with where large cap medtech has recently traded, which we believe is supported by its growth profile.

**Risks:** Longer-than-expected slowdown in ICD market, product approval delays, and reimbursement

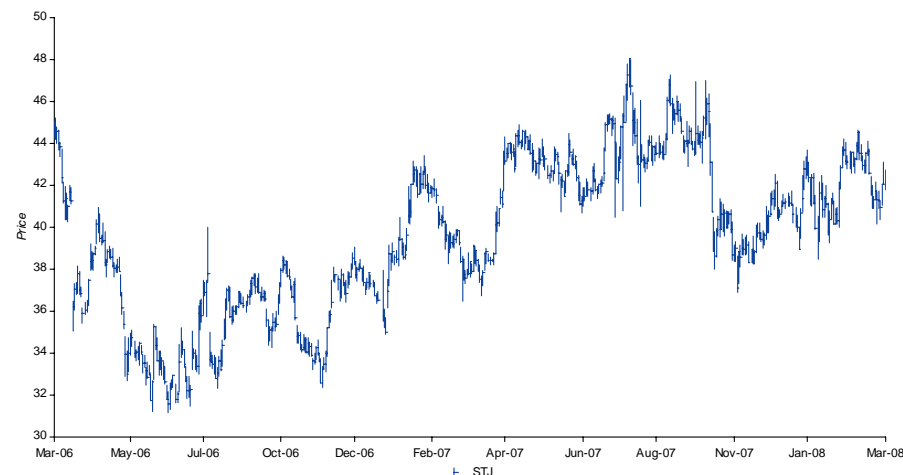
| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 42.64   |
| 52-week range        |  | \$48-37 |
| Shares outstanding   |  | 348     |
| Market cap (\$MM)    |  | 14,839  |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2008E P/E             | 20.1x |
| 2009E P/E             | 17.8x |
| 2008E PE-to-LT Growth | 1.9x  |
| 2009E PE-to-LT Growth | 1.7x  |

| DB Revenue Estimates (\$ in millions) |     |       |       |       |       |
|---------------------------------------|-----|-------|-------|-------|-------|
|                                       | 1Q  | 2Q    | 3Q    | 4Q    | CY    |
| 2007A                                 | 887 | 947   | 927   | 1,018 | 3,779 |
| 2008E                                 | 990 | 1,049 | 1,016 | 1,090 | 4,146 |
| 2009E                                 |     |       |       |       | 4,588 |

| DB EPS Estimates |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|
|                  | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
| 2007A            | \$0.41 | \$0.45 | \$0.46 | \$0.54 | \$1.85 |
| 2008E            | \$0.50 | \$0.54 | \$0.52 | \$0.57 | \$2.12 |
| 2009E            |        |        |        |        | \$2.40 |

Stock Price Trends - 2 year chart



## Stereotaxis, Inc. (NASDAQ: STXS) BUY Rating, \$8 Target

Stereotaxis manufactures the Niobe System, which uses magnetic fields to enable remote, computerized control of catheters, guidewires, and stent delivery systems in the cardiac cath lab. The technology brings precise remote digital instrument control and programmability, allowing for enhanced efficiency and efficacy of existing procedures; further, it holds the promise of enabling important new therapeutic procedures

### Street Opinions

|      |   |
|------|---|
| Buy  | 3 |
| Hold | 2 |
| Sell | 1 |

### Niobe System: paradigm-changing technology

- Offers clinicians enhanced efficiency, safety, and efficacy of existing procedures; enables incremental procedures
- EP market potential significant: cardiac ablation to treat atrial fibrillation opportunity particularly compelling

### Initial uptake trends encouraging, approvals critical

- 93 systems already placed; healthy \$59mm backlog
- Irrigated catheter approvals, as well as an increasing body of data on catheter ablation to treat Afib, should help drive placements
- Utilization trends in EU and clinician feedback encouraging
- Growth to be driven primarily by systems placements over next few years, with recurring disposables steadily rising
- Hansen Medical does not appear to have materially impacted interest in the Niobe (as reflected by growing backlog)

### Leveraging important corporate partnerships

- Siemens and Philips (60% of market) have integrated Niobe into their cath lab digital fluoroscopy systems
- Niobe integrated into JNJ's Carto 3D cardiac mapping system
- R&D alliance with MDT (CRT lead placement)

### Shares rated Buy with \$8 price target

- Price target based on 4x multiple on 2009 sales which is at the lower end of the comp group range (4x to 6x).

**Risks:** Competition potentially emerging, delay in approvals

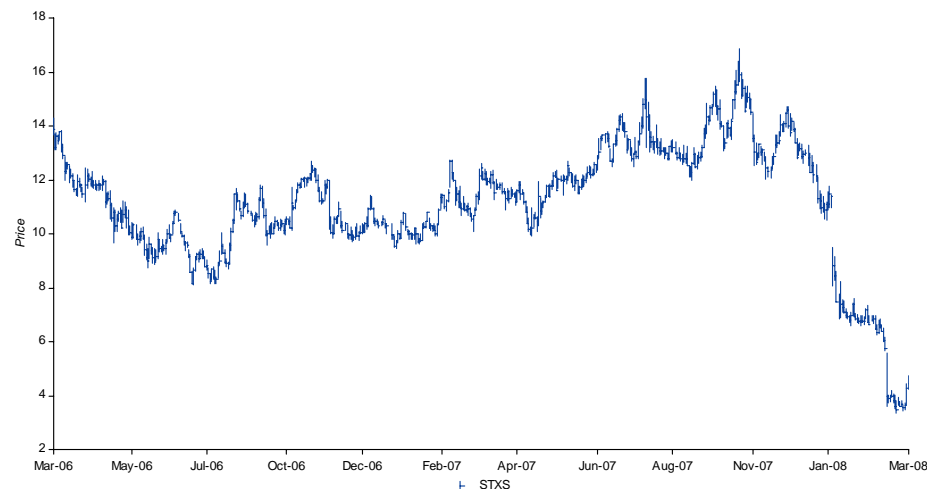
| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 4.48    |
| 52-week range        |  | \$17-3  |
| Shares outstanding   |  | 36.3    |
| Market cap (\$MM)    |  | 163     |

| Valuation Analysis |      |
|--------------------|------|
| 2008E Price/Sales  | 3.2x |
| 2009E Price/Sales  | 2.1x |

| DB Revenue Estimates (\$ in millions) |     |     |      |      |      |
|---------------------------------------|-----|-----|------|------|------|
|                                       | 1Q  | 2Q  | 3Q   | 4Q   | CY   |
| 2007A                                 | 9.2 | 7.8 | 12.0 | 10.2 | 39.2 |
| 2008E                                 | 7.6 | 9.4 | 15.1 | 18.7 | 50.8 |
| 2009E                                 |     |     |      |      | 76.8 |

| DB EPS Estimates |         |         |         |         |         |
|------------------|---------|---------|---------|---------|---------|
|                  | 1Q      | 2Q      | 3Q      | 4Q      | CY      |
| 2007A            | -\$0.31 | -\$0.36 | -\$0.29 | -\$0.34 | -\$1.29 |
| 2008E            | -\$0.35 | -\$0.29 | -\$0.21 | -\$0.16 | -\$1.02 |
| 2009E            |         |         |         |         | -\$0.51 |

Stock Price Trends - 2 year chart



## Stryker Corporation (NYSE: SYK) HOLD Rating, \$76 Target

Stryker is a leading player in the orthopedics industry. The company sells a broad line of orthopedic implants, including hips, knees, trauma, and spine-related products. Other products include a sizeable franchise in ancillary devices used in the operating room, such as power tools, endoscopes, etc.

### Street Opinions

|      |    |
|------|----|
| Buy  | 13 |
| Hold | 11 |
| Sell | 0  |

### Broadest orthopedic player

- Solid positions in all markets in which it competes
- 60% of revenues from orthopedics, 35% from Med/Surg
- Recon pricing has held in better than expected
- Surgeon due diligence supports our expectation for solid volume outlook over the next few quarters

### Excellent financial visibility

- Company committed to a 20% earnings growth target; 10-yr EPS CAGR: 23%
- Company has no debt, plans to continue making strategic acquisitions
- Solid leadership in all product areas

### Valuation limits upside to share price

- Shares of SYK currently trade at 25x our '07 EPS forecast
- We believe consistent financial results limit risk of multiple contraction but lack of positive catalysts and premium valuation limit upside
- Our price target of \$76 assumes the shares trade at 23x our 2009 EPS estimate 12-months hence.

**Risks:** Headline risks associated with OIG rulings, reimbursement risk, and loss of pricing power

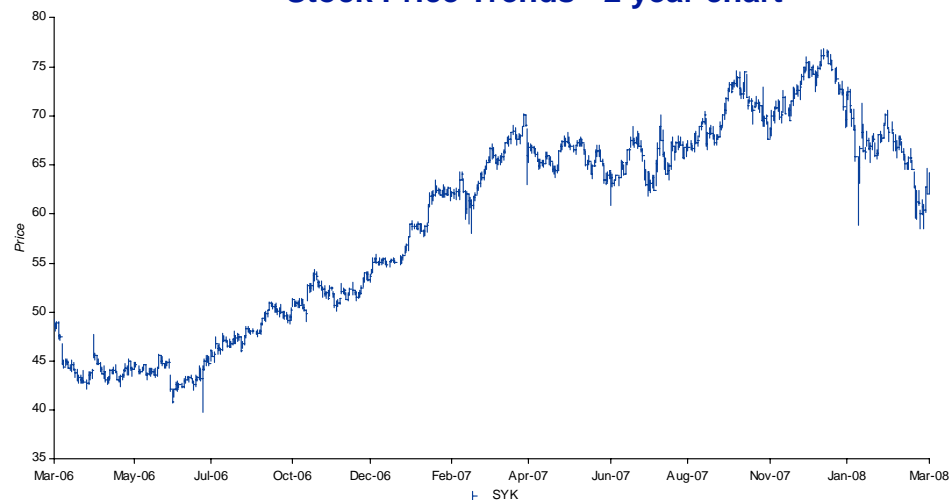
| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 64.21   |
| 52-week range        |  | \$77-58 |
| Shares outstanding   |  | 418.2   |
| Market cap (\$MM)    |  | 26,853  |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2008E P/E             | 22.3x |
| 2009E P/E             | 18.9x |
| 2008E PE-to-LT Growth | 1.1x  |
| 2009E PE-to-LT Growth | 0.9x  |

| DB Revenue Estimates (\$ in millions) |       |       |       |       |       |
|---------------------------------------|-------|-------|-------|-------|-------|
|                                       | 1Q    | 2Q    | 3Q    | 4Q    | CY    |
| 2007A                                 | 1,426 | 1,464 | 1,453 | 1,658 | 6,001 |
| 2008E                                 | 1,635 | 1,681 | 1,658 | 1,894 | 6,868 |
| 2009E                                 |       |       |       |       | 7,790 |

| DB EPS Estimates |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|
|                  | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
| 2007A            | \$0.58 | \$0.61 | \$0.55 | \$0.66 | \$2.40 |
| 2008E            | \$0.68 | \$0.72 | \$0.69 | \$0.79 | \$2.88 |
| 2009E            |        |        |        |        | \$3.40 |

Stock Price Trends - 2 year chart



## Zimmer Holdings, Inc. (NYSE: ZMH) BUY Rating, \$87 Target

Zimmer is a market leader in the orthopaedic sector. The company holds the number one share position in hips and knees. Zimmer also participates in the spine and dental markets.

### Street Opinions

|      |    |
|------|----|
| Buy  | 10 |
| Hold | 10 |
| Sell | 1  |

### Leader in reconstructive implant market

- ZMH controls ~30% of the hip and knee markets
- Industry's broadest recon portfolio several quarters of significant financial growth
- Gender-specific knee launch boosting knee sales; Gender hip launch expected around year-end

### Significant leverage still remaining from Centerpulse

- Best-in-class GM continues to expand as certain facilities close down, others expand, and overhead is spread over more volume

### Well positioned to weather industry challenges

- ZMH is working closely with hospital groups to increase compliance in exchange for pricing discounts
- Industry's best margins allows company to absorb any pricing pressures that may ensue

### ZMH shares are Buy rated with \$87 price target

- Our PT is based on shares of ZMH trading at 18x our 2009 EPS estimate. This multiple approximates where ZMH shares have traded on average over the last 2 years on a forward EPS basis, and we believe this multiple will be supported by favorable fundamental trends.

**Risks:** Reimbursement risk, slow uptake in new products, credibility of new management team, market share shift on new product cannibalization

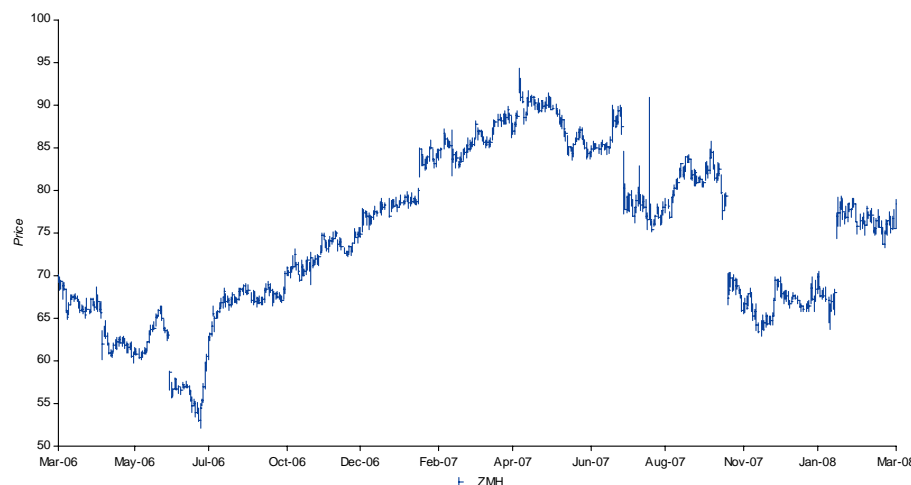
| Share and Price Data |  | 3/24/08 |
|----------------------|--|---------|
| Closing price        |  | 78.55   |
| 52-week range        |  | \$94-63 |
| Shares outstanding   |  | 234.8   |
| Market cap (\$MM)    |  | 18,444  |

| Valuation Analysis    |       |
|-----------------------|-------|
| 2008E P/E             | 18.6x |
| 2009E P/E             | 16.5x |
| 2008E PE-to-LT Growth | 1.0x  |
| 2009E PE-to-LT Growth | 0.9x  |

| DB Revenue Estimates (\$ in millions) |       |       |     |       |       |
|---------------------------------------|-------|-------|-----|-------|-------|
|                                       | 1Q    | 2Q    | 3Q  | 4Q    | CY    |
| 2007A                                 | 950   | 971   | 903 | 1,073 | 3,897 |
| 2008E                                 | 1,067 | 1,076 | 992 | 1,174 | 4,309 |
| 2009E                                 |       |       |     |       | 4,661 |

| DB EPS Estimates |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|
|                  | 1Q     | 2Q     | 3Q     | 4Q     | CY     |
| 2007A            | \$0.98 | \$0.98 | \$0.92 | \$1.18 | \$4.06 |
| 2008E            | \$1.03 | \$1.05 | \$0.95 | \$1.20 | \$4.23 |
| 2009E            |        |        |        |        | \$4.75 |

Stock Price Trends - 2 year chart



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| Ticker  | Recent price           | Disclosure      |
|---------|------------------------|-----------------|
| ALGN.OQ | 11.39 USD 24-Mar-2008  | 2               |
| ASPM.OQ | 6.05 USD 24-Mar-2008   | 2,6,15          |
| ATEC.OQ | 4.6 USD 24-Mar-2008    | 6               |
| BMTI.OQ | 12.67 USD 24-Mar-2008  | 1,6,7           |
| BSX.N   | 12.43 USD 24-Mar-2008  | 2,6,8,14,15     |
| COV.N   | 42.86 USD 24-Mar-2008  |                 |
| HDIX.OQ | 6.31 USD 24-Mar-2008   | 1,7             |
| IART.OQ | 43.36 USD 24-Mar-2008  | 6,8             |
| ISRG.OQ | 300.69 USD 24-Mar-2008 | 2               |
| JNJ.N   | 65.38 USD 24-Mar-2008  | 1,2,6,7,8,14,15 |
| KCI.N   | 48.75 USD 24-Mar-2008  | 2,6,8           |
| MASI.OQ | 27.5 USD 24-Mar-2008   | 1               |
| MDT.N   | 48.53 USD 24-Mar-2008  | 2,6,7,8,14,15   |
| REST.OQ | 1.19 USD 24-Mar-2008   | 1,6,7           |
| STJ.N   | 42.64 USD 24-Mar-2008  | 2,6             |
| STXS.OQ | 4.48 USD 24-Mar-2008   | 1,2,6,8         |
| SYK.N   | 64.21 USD 24-Mar-2008  | 2,15            |
| ZMH.N   | 78.55 USD 24-Mar-2008  | 2,6,14,15       |

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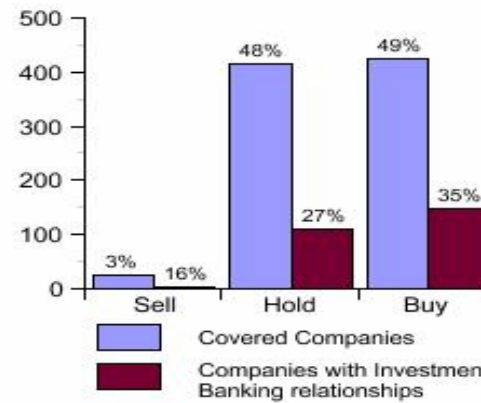
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