



Case Study: Scandius

Covidien Scores With Scandius Buy, Deal Value \$35 Million Dollars



Transaction Details

When Scandius Biomedical Inc., a developer of devices for sports-related surgeries, finalized its sale to Covidien Ltd., a leading global provider of healthcare products, the company had remarkably achieved a profitable exit strategy while the U.S. was in the midst of an economic recession. The deal was valued at \$35 million dollars and was highlighted by the acquisition of Scandius' proprietary products for arthroscopic reconstruction of the Anterior Cruciate Ligament (ACL): the Stratis® ST Femoral Fixation System and the TriTis® Tibial Fixation System, and an innovative prototype of an automated suture fixation system for meniscal repair.

The transaction effectively launched Covidien's Medical Device segment into the sports medicine market, for which the Scandius products served as the platform.

MedCap Advisors' strategic role in the Scandius transaction included:

- advising Scandius on valuation from the inception of product concepts
- developing strategy and transaction parameters
- positioning company for sale
- identifying buyers
- overseeing the transaction process
- negotiating the transaction to closing
- advising the Board of Directors

Transaction Impact

MedCap Advisors understood that the transaction it set out to facilitate would have to overcome not only an unstable economy, but the challenge of placing monetary value on a product that was still in the concept phase. While Scandius had one successful ACL reparative device in the marketplace, its other flagship product was in prototype stage. The transaction was crafted to address both concerns and ultimately yield the highest profit possible for the client, the crux of which would be to identify a corporation with the greatest need for such medical device technology.

Working closely with Scandius Chairman Mark Johanson, MedCap acted as a strategic consultant to investigate the optimum path for a profitable sale. Said Mr. Johanson: "MedCap brought the mergers and acquisitions expertise to compliment the tech-savvy side of our organization and understood that the sale of Scandius would mean finding the perfect niche buyer in a volatile market. With the option of going public no longer viable, MedCap's nuanced understanding of the business was crucial to facilitating our sale with the highest value for our products. Most importantly, MedCap found an acquirer that was not in the sports medicine industry and was in desperate need of a platform."

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Scandius History and Challenge

Scandius Chairman Mark Johanson founded the company in 2000, hailing from a background in orthopedic and sports medicine technology. Anchored by an advisory board of respected orthopedic surgeons, the company tasked itself with identifying, testing and marketing improved devices to aid arthroscopic surgery.

Shortly after the company's founding, the market was shaken by the IPO "bubble burst" of 2000. As a result, Scandius faced major hurdles in securing significant funding – the company did, however, accrue \$4 million from angel investors to move development forward.

With this backing in place, Scandius produced its first device, an effective ACL repairing technology. The Stratis® ST Femoral Fixation System was soon approved and introduced into the market, enjoying respectable success. A second product, TriTis® Tibial Fixation System for meniscal suturing, was brought to initial concept stages. The systems consisted of instrumentation and both non-absorbable and bioabsorbable polymer implants.

Initially, the business strategy was to take the company public. But by 2007, the much anticipated IPO upswing had failed to materialize. Scandius thus weighed prospects of heavier investment rounds, taking into account that raising funds had become increasingly difficult. This set of circumstances prompted Scandius' ultimate decision to seek a buyer.

Mapping the Strategy

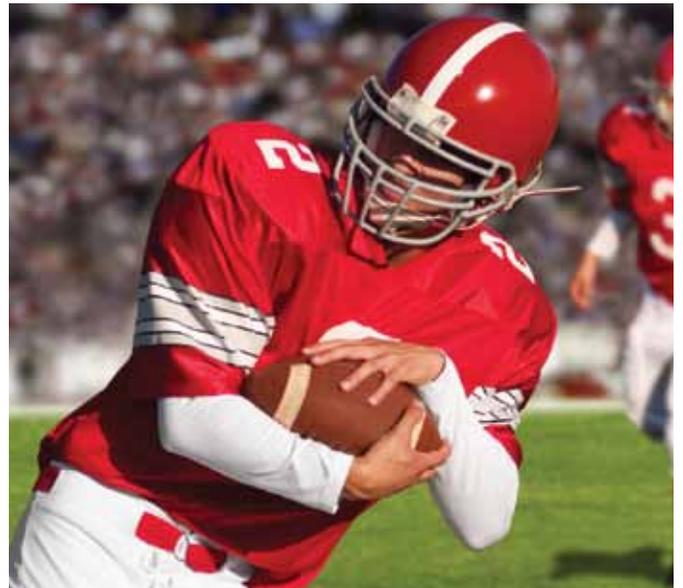
MedCap Advisors was brought in to assist with the sale. With a strong understanding of mergers and acquisitions pertaining to orthopedics and sports medicine, MedCap Advisors was ideally suited to position Scandius in a way that would attract maximum value. Of greatest importance would be leveraging the proprietary value of the meniscal repair device, which would account for half of the sale along with the existing ACL technology.

Due to their knowledge of the orthopedic landscape, advisors at MedCap recognized that the prototype for inserting sutures through the meniscus during surgery was just as valuable as the existing ACL device. It devised a sale strategy that would leverage the conceptual product at equal value with the existing product.

MedCap sought to identify buyers who would most benefit from the acquisition of Scandius technology, analyzing prospective companies with two characteristics:

1. Those with no presence in the sports medicine and orthopedic marketplace
2. Those with a gap in their service portfolio due to a lack of orthopedic technology

After evaluating a handful of prospective buyers, MedCap's process and analysis pointed to Covidien as the optimal candidate. Covidien's Medical Devices segment offered a range of products for minimally invasive surgeries, but did not have a presence in the sports medicine or orthopedic arenas.



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MedCap identified this gap in Covidien's services and recognized the corporation's desire to enter the market. It also concluded that Scandius' meniscal repair prototype aligned well with Covidien's existing automated suture surgical technologies and would easily figure into the corporation.

MedCap initiated discussions with Covidien and effectively positioned Scandius' profitable ACL device as Covidien's entry platform into sports medicine, and proprietary ownership of the meniscal device as crucial to its future in the market. The result of the transaction would secure Covidien's presence in orthopedic surgery – and the idea resonated strongly with Covidien.

Result

Spending nearly 10 months extensively researching the market to identify the corporation most in need of Scandius' orthopedic medical devices, providing mergers & acquisition guidance and negotiating transaction details, MedCap exceeded its client's expectations in yielding a \$35 million sale to Covidien in November 2007. Scandius considered the transaction a rousing success, especially given the volatile market conditions of 2007 and 2008, which made it extremely difficult to exit a company with a profit.

With the successful deal as part of their history, MedCap Advisors and Scandius CEO Mark Johanson would extend their relationship to future ventures in the medical technology field.

About Medical Capital Advisors

Medical Capital Advisors, LLC provides sophisticated mergers & acquisition guidance and strategic consulting services exclusively to the medical technology and healthcare sectors. Working primarily with both large private and public clients, the firm is committed to improving health and medical technology by focusing its expertise on the intersection at which physicians and patients meet. Since 2006, its leadership team has closed nearly 40 transactions in the medical technology space through services including mergers & acquisitions, licensing agreements, strategic partnerships, and private equity/venture capital financing. MedCap Advisors was awarded "Life Sciences Deal of the Year" at the 2012 ACG New York Champion's Awards.



**FOCUS ON ONE THING,
AND DO IT BETTER THAN
ANYONE ELSE.**

MedCap Advisors
97 Winthrop Street, Harvard Square
Cambridge, MA 02138



OFFICE: 617-945-0299

info@medcapadvisors.com

www.medcapadvisors.com

twitter.com/medcapadvisors