

The following are guidelines for interpreting and completing a HEALTHPOINTCAPITAL investment thumbnail. Assignment of quantitative scores is subjective and at the discretion of the analyst completing the report.

CONTINUUM OF CARE

The company’s current portfolio of products are placed within the HEALTHPOINTCAPITAL continuum of care and assigned a numerical ranking. The position is determined by the entire product portfolio. It is biased toward the company’s history of innovation and its more innovative product lines. Numerical rankings are assigned per the table below.

CONTINUUM OF CARE	DESCRIPTION	NUMERICAL SCORE
Modifications	Changes to current products that don’t expand the continuum, but improve handling characteristics or performance aspects of an implant or instrument.	0 - 2.5
Refinements	Technologies or innovations that expand a therapy already identified on the continuum of care. They stretch a therapy to older and/or younger patients. Refinements may also divide an existing therapy into more specialized elements. Refinements are stretchers on the existing continuum that serve to expand its length.	2.5 - 5
Extenders	Technologies that create therapies to treat previously untreatable orthopedic diseases or conditions. These therapies add a new segment to the existing continuum of care. Extenders theoretically can add new length to the continuum indefinitely.	5 - 7.5
Game Changers	Disruptive new technologies that obsolete or replace existing therapies. These are substitute therapies for those already existing on the continuum of care.	7.5 - 10

KEYS TO SUCCESS

There are five requisite elements of exceptional companies and investments which we refer to as the **Keys to Success**. Guidelines for evaluating a company’s keys to success are detailed below.

Alone vs. Synergy Scores. The *Alone* score represents an evaluation of the stand-alone company. The *Synergy* score represents an evaluation of the company within the HEALTHPOINTCAPITAL portfolio. These scores reflect the value HEALTHPOINTCAPITAL can add to the investment in the short-term. An example is the ability of HEALTHPOINTCAPITAL to provide capital or augment management with a controlling stake in a company.

Knowledge

Knowledge of the science, global marketplace, industry players and physician community are critical to creating awareness and objectivity. HEALTHPOINTCAPITAL, through its unique physician and distributor network, proprietary database and 20 years of industry experience indexes the industry and its participants against its proprietary knowledge.



Weak knowledge of science and market compared to the competition. Or low awareness of orthopedics in general.	Shows a significant lack of either product or market knowledge. May have moderate knowledge in one.	Moderate to strong knowledge of both product and market. Or extremely strong in one area.	Product and market knowledge that is differentiated and superior to the competition.
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Strategy

Strategy supported by data. It is exceptional to find companies with a crisp strategy informed by conceptual creativity that is also grounded in data. HEALTHPOINTCAPITAL searches for these exceptional orthopedic companies.



Weak strategy not informed with any market data or knowledge. Consistently underperforming competitors.	Inconsistent and/or mediocre strategic thinking. Uncreative strategy that leads to mediocre competitive performance.	Sound conceptual strategy: viable go-to-market model and portfolio management. Possess strategic vision for the company.	Superior, crisp strategy informed by conceptual creativity. Possess data-driven strategic vision superior to its peers
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Management

Management driven by a strategy will allow for organizational alignment with plans. Management of this quality is usually mature, experienced in the industry and steeped in corporate development skills. HEALTHPOINTCAPITAL seeks companies with strategy-oriented management that fit with this profile.



Weak management: low experience, no executional expertise. Industry outsiders.	Mediocre management – weak link between strategy and execution.	Management driven by strategy – possessing development skills. Regarded as quality managers by the industry.	Mature, experienced in the industry and steeped in corporate development skills. Applying vision through values.
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First Mover

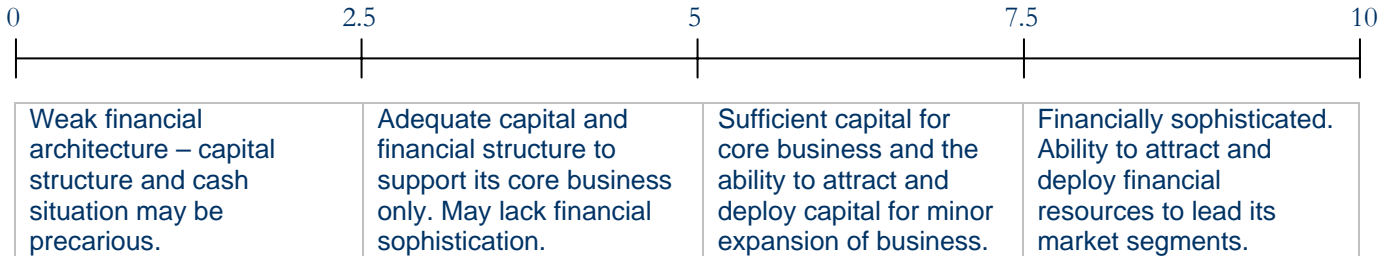
First mover advantage is a differentiator in orthopedics. There is inertia in the FDA process, operating room and physician community. First movers should be, and usually are, in the best position to succeed and survive. HEALTHPOINTCAPITAL believes such companies and/or products have a preferred competitive position in Orthopedics.



Slow mover – no history of innovation or adaptability.	Not first mover and rarely fast follower. Reacts to competitors products once market begins to develop.	Sometimes first-mover, often a fast follower. Has sufficient inertia to move quickly.	First mover –usually first mover in new products / markets. Has experience and resources to use its advantage.
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Capital

Capital is essential to attract the range of resources necessary to succeed. Financial architecture, capital formation and capital rationing are necessities. Financial services and the flow of capital are immature and sporadic in the orthopedic industry.



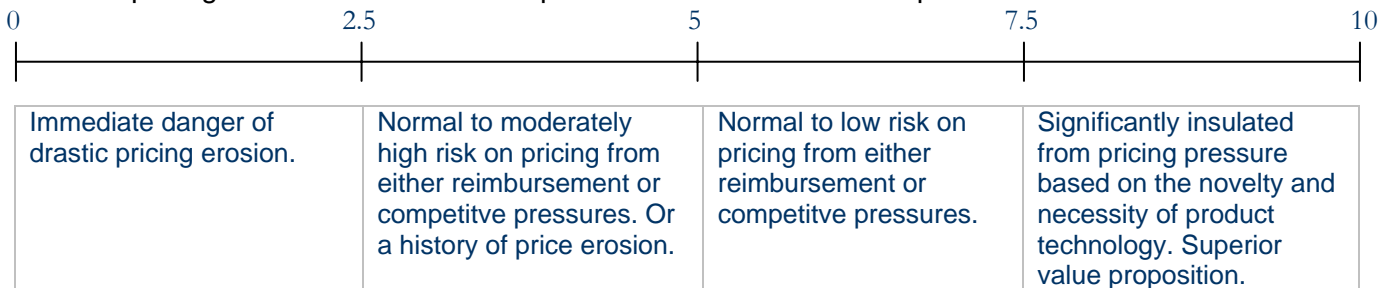
THREATS

Threats to the orthopedics industry are product pricing, product and malpractice liability and obsolescence. Guidelines for evaluating a company’s vulnerability to these threats are detailed below.

Alone vs. Synergy Scores. The *Alone* score represents an evaluation of the stand-alone company. The *Synergy* reflect the additional protection HEALTHPOINTCAPITAL can add to the investment in the short-term. These scores will rarely differ from the stand-alone values.

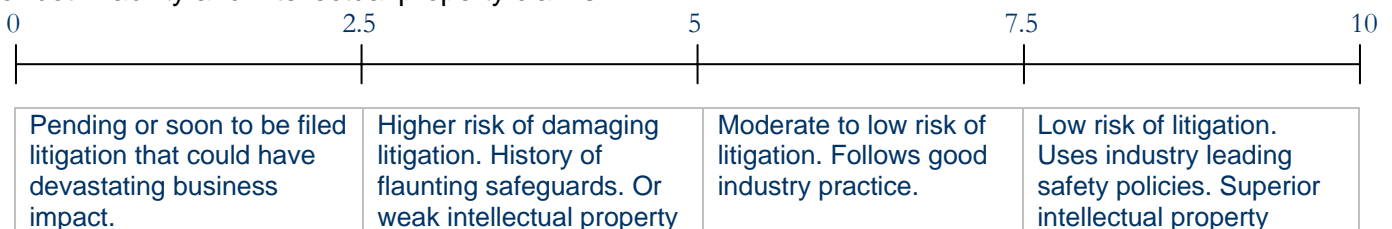
Pricing

Pricing of orthopedic implants is increasingly the subject of hospital-negotiated price push-backs. Furthermore, future Medicare budget constraints will contribute to a more conservative pricing environment. Threats to pricing can arise from both competitive and reimbursements pressures.



Litigation

Product liability and physician malpractice claims have had, and will continue to have, a devastating impact on physicians, companies and decisions regarding prospective product offerings. Litigation risk is assessed for both liability and intellectual property claims.





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Obsolescence

Obsolescence can cause disruption for technologies, companies and products. Obsolescence risk is assessed for competitive threats and the potential for “game changer” technologies.



<p>Old technologies – currently obsolete or being replaced as treatment modalities</p>	<p>Higher risk of obsolescence – products in a rapidly developing market segment. Company may have difficulty innovating or responding to competition.</p>	<p>Moderate to low risk. Products’ performance /use meet or exceed those of peers. Products not under immediate competitive or technological threat.</p>	<p>Company superior to its peers in terms of product indication and performance. Innovating to stay ahead. Position well protected.</p>
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OVERALL SCORE

The overall score assigned to the investment reflects a composite score of the company’s position on the Continuum of Care, its ability to meet the Keys to Success and its vulnerability to Threats. The overall score formula:

$$\frac{\text{Continuum Score} + 2 \times \text{Average Keys to Success Score} + \text{Average Threat Score}}{4}$$

The formula effectively double weights the company’s ability to meet the HEALTHPOINTCAPITAL **Keys to Success**. It is calculated using both the *Alone* and *Synergy* scores.

Using the Overall Score

The score is simply a first indicator of the investment potential of the company. It is by no means definitive and should be considered in the context of valuation and other investment considerations. It is simply a starting point for discussion. The following table suggests an interpretation of *Synergy* Score.

SYNERGY SCORE	SUGGESTED INTERPRETATION
0 – 2.5	Low score using the framework. Little or no synergy within the HEALTHPOINTCAPITAL portfolio. Pass on this investment.
2.5 – 5	Not positioned well within the conceptual framework and adds little to HEALTHPOINTCAPITAL portfolio. Most likely a pass.
5 – 7.5	May have investment potential. Continue to investigate.
7.5 - 10	Scores very highly within the framework – potential to be strong portfolio company. Valuation will most likely be primary investment consideration.