

Investing in Small Cap Medical Device Stocks Discussed in Wall Street Transcript Medical Devices Report

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67 WALL STREET, New York - April 8, 2009 - The Wall Street Transcript has just published its Medical devices issue, a report offering a timely review of the sector to serious investors and industry executives. This 117-page feature contains expert industry commentary through in depth interviews with CEOs from 22 firms and 4 analysts. The full issue is available by calling (212) 952-7433 or via [The Wall Street Transcript Online](#).

Topics covered: Impact of new Administration - Medical technologies - Patent protection - Pricing transparency - Cost-benefit analysis - R&D expenditures - Reduced hospital spending - M&A activity - The growth in health care - Medically necessary opportunities - Cost control - New product introductions - The reimbursement rates

Contents: Investing in Small Cap Medical Device Companies: Matt Dolan, ROTH Capital Partners, LLC; Cardiovascular Devices & Diagnostics: Spencer Nam, Summer Street Research Partners; Minimally Invasive Medical Devices: Dr. Sean Lavin, Lazard Capital Markets LLC; Radiation Oncology & Medical Supply: Junaid Husain, Soleil Securities Group, Inc.; CEO Interviews with 22 sector firms examining the outlook for their firm and sector: Burzynski Research Institute, Inc. (BZYR), American Medical Systems Holdings, Inc. (AMMD), Biomoda, Inc. (BMOD), CNS Response, Inc. (CNSO), Vasomedical, Inc. (VASO), World Heart Corporation (WHRT), Abaxis, Inc. (ABAX), AMDL, Inc. (ADL), Aspyra, Inc. (APY), Biolase Technology, Inc. (BLTI), Bio-Matrix Scientific Group Inc. (BMSN), CryoLife Inc. (CRY), CytoCore, Inc. (CYOE), Emergent Group, Inc. (LZR), Impact Medical Solutions, Inc. (IMSU), IVAX Diagnostics, Inc. (IVD), LeMaitre Vascular, Inc. (LMAT), Minnow Medical, Inc., Misonix, Inc. (MSON), Neoprobe Corporation (NEOP), Primecare Systems, Inc. (PCYS), Scivanta Medical Corporation (SCVM). Companies discussed include: Johnson & Johnson (JNJ); Medtronic (MDT); Volcano Corporation (VOLC); Boston Scientific (BSX); VNUS Medical (VNUS); Natus Medical (BABY); St. Jude (STJ); Edwards Lifesciences (EW); Merck (MRK); Masimo (MASI); Hologic (HOLX); Varian Medical Systems (VAR); Accuray (ARAY); TomoTherapy (TOMO); Hospira (HSP); Baxter (BAX); ICU Medical (ICUI); Sequenom (SQNM)).

In the following brief excerpt from the 117-page report, Matt Dolan, ROTH Capital Partners, LLC discusses the outlook for the sector and for investors.

TWST: Who is at the top of your list at this point?

Mr. Dolan: As one might expect, finding an opportunity covering all those parameters at a discounted valuation is difficult. However, we believe one interesting company is Volcano Corporation (VOLC), which sells into the cath lab where a number of minimally invasive cardiovascular procedures are performed. Diagnostic catheterizations and stent procedures remain a significant area of medical care today, and Volcano provides imaging modalities that provide feedback to the physician as to the type of lesion being assessed and improve a physician's ability to place a stent appropriately. Clinical outcomes have supported the use of the company's IVUS (Intravascular Ultrasound) imaging and functional measurement (FM) devices, suggesting that these technologies can improve patient outcomes significantly. We think this is particularly important, considering some of the recent concerns surrounding stent safety, with issues like late stent thrombosis and in-stent restenosis often being debated at medical conferences. One could also make an argument that this technology reduces the cost of care by improving patient outcomes and allowing physicians to use stents more selectively, which speaks to some of the issues regarding cost effectiveness that we discussed earlier.

In the scope of cardiovascular health, we believe Volcano fits into the market trend of investing both in medically necessary procedures among an aging US population and an industry progression toward more minimally invasive techniques as opposed to, in this case, open-heart bypass surgery. Volcano also generates about 75% of its revenue on a recurring basis through its disposable catheters, and has been able to avoid some pressures related to hospital spending constraints by placing some of its capital equipment into the hospital, typically on a minimum catheter utilization agreement. We expect a 20% growth rate is sustainable for the next few years for the company, and ultimately believe that Volcano could potentially become an acquisition target over time.

TWST: Who is their big competitor?

Mr. Dolan: As we look at competitive differentiation, Volcano currently faces only one global competitor, Boston Scientific (BSX), although more exist in Japan. Importantly, Volcano has been leading the market in terms of technological innovation, and the company's recent growth suggests that it is taking share from its competitors on a consistent basis. Boston is a larger medical device player with a range of cardiovascular businesses today, which may allow Volcano to focus on pushing its own IVUS technology more aggressively. Additionally, our feedback from physicians indicates that Volcano's imaging modalities are quite advanced, particularly in their ability to characterize the composition of cardiovascular lesions. Volcano's pipeline is robust as well, with three major launches expected between now and the end of 2010. We believe that should benefit the company's competitive position longer term, as customers select a platform that has the potential for expansion down the road.

TWST: Is there a second name?

Mr. Dolan: One company we have recommended for a while is VNUS Medical (VNUS), which primarily markets its ClosureFast system for the ablation of varicose veins. For the most part, the company sells into the physician office setting, which we believe mitigates some of the risk of reduced hospital spending levels that we have discussed. In addition, VNUS has a highly recurring business where the majority of its revenue is derived from disposable catheters, which has allowed the company to become increasingly profitable. Competitively, VNUS appears to own the intellectual property in the varicose vein ablation space, having obtained a favorable ruling in its 2008 patent litigation that now provides the company with a royalty stream from its major competitors going forward. The procedure is very well reimbursed, which has allowed this market to grow in excess of 20% over the past few years and should drive growth in the range of 15% to 20% in 2009. We expect VNUS will continue to take market share, and therefore should be able to grow above the market rate this year.

TWST: Is there anything else to touch on?

Mr. Dolan: Natus Medical (BABY) is a stock that has been punished because of the reductions seen in hospital spending. We would not suggest that hospital

purchasing patterns are going to improve dramatically in the next couple of quarters, but this is a company that has a strong track record of expanding its revenue base and profits through organic growth as well as synergistic acquisitions.

Natus sells primarily into the neonatal care and neurology segments of the hospital, which represent two fairly important niches in the scope of medical necessity in the hospital. Although the company's acquisition strategy has become more conservative due to recent market uncertainty, we would expect accretive acquisitions to come back into the fold as early as the second half of 2009. The management team has a strong history of acquiring businesses at attractive valuations, allowing for earnings accretion typically in the first quarter out of the transaction being completed. In the coming quarters, we think a cautious approach to companies exposed to hospital spending is warranted, but we view Natus as a company that could provide long-term value for investors.

TWST: All the names we've talked about sound like growth stories, even in this kind of tough environment.

Mr. Dolan: The first two companies we discussed, Volcano and VNUS, are indeed growing, while Natus is probably seeing a single-digit revenue decline in 2009 on an underlying basis.

As a more general comment, we believe that a number of innovators will definitely be able to generate significant growth over the next few years, as certain medical technologies help to improve patient outcomes, often in a cost effective manner. With the right opportunities, we expect a number of companies to be able to generate impressive growth and, importantly, derive strong gross margins, which are the two major variables that tend to drive valuations in this industry and at times acquisitions by the larger players. While it faces certain headwinds today, we believe health care is likely an industry that will offer significant growth opportunities for many years to come. Clearly, we have a number of new variables to monitor, but medical technology could offer a front of protection relative to a weaker global economy.

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