

**stryker**

# Stryker

Sage Products, LLC.

February 1, 2016

## Forward looking statement

This press release contains information that includes or is based on forward-looking statements within the meaning of the federal securities law that are subject to various risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in such statements. Such factors include, but are not limited to: weakening of economic conditions that could adversely affect the level of demand for our products; pricing pressures generally, including cost-containment measures that could adversely affect the price of or demand for our products; changes in foreign exchange markets; legislative and regulatory actions; unanticipated issues arising in connection with clinical studies and otherwise that affect U.S. Food and Drug Administration approval of new products; changes in reimbursement level from third-party payors; a significant increase in product liability claims; the ultimate total cost with respect to the Rejuvenate and ABG II matter; the impact of investigative and legal proceedings and compliance risks; resolution of tax audits; the impact of the federal legislation to reform the United States healthcare system; changes in financial markets; changes in the competitive environment; our ability to integrate acquisitions, including the acquisition of Sage Products, LLC.; and our ability to realize anticipated cost savings as a result of workforce reductions and other restructuring activities. Additional information concerning these and other factors is contained in our filings with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.

# Strategic rationale

- Provides access to a segment leading and fast growing portfolio of innovative products with a proven history of success
- Brings a balanced and broad product offering with clinically and financially validated outcomes data
- The combination accelerates Medical's growth profile by accessing an adjacent market and results in a more balanced mix of disposable and capital offerings
- Provides Medical with additional clinical sales capabilities
- Deepens Medical's relationship with existing customers

# Sage business summary

- Privately-held Sage develops, manufactures and distributes disposable products targeted at reducing “Never Events,” primarily in the ICU and MedSurg hospital unit setting
- 45-year history of innovation with products that include solutions for oral care, skin preparation and protection, patient cleaning and hygiene, turning and positioning devices and heel care boots
- Headquarters, production, manufacturing and R&D located in Cary, Illinois
- Full year 2015 sales of \$430M, +13% growth (95% US, 5% OUS)
- Company was founded in 1971

# Sage product categories

**4 focused innovative product segments, each ~\$100+ million in revenues, directly and cost-effectively reducing hospital acquired conditions and improving healthcare worker safety**

## Oral Care



**#1**

- Prevention of hospital-acquired pneumonia (“HAP”)
- Per patient HAP cost: >\$40,000
- 121 SKUs

## Comfort Brand



**#1**

- Prevention of skin breakdown, CAUTI, Incontinence-Associated Dermatitis (“IAD”)
- Per patient HAC cost: \$500 - \$70,000
- 47 SKUs

## CHG Pre-Op Prep



**#1**

- Prevention of Surgical Site Infections (SSIs)
- Per patient SSI Cost: \$25,000 - \$100,000+
- 20 SKUs

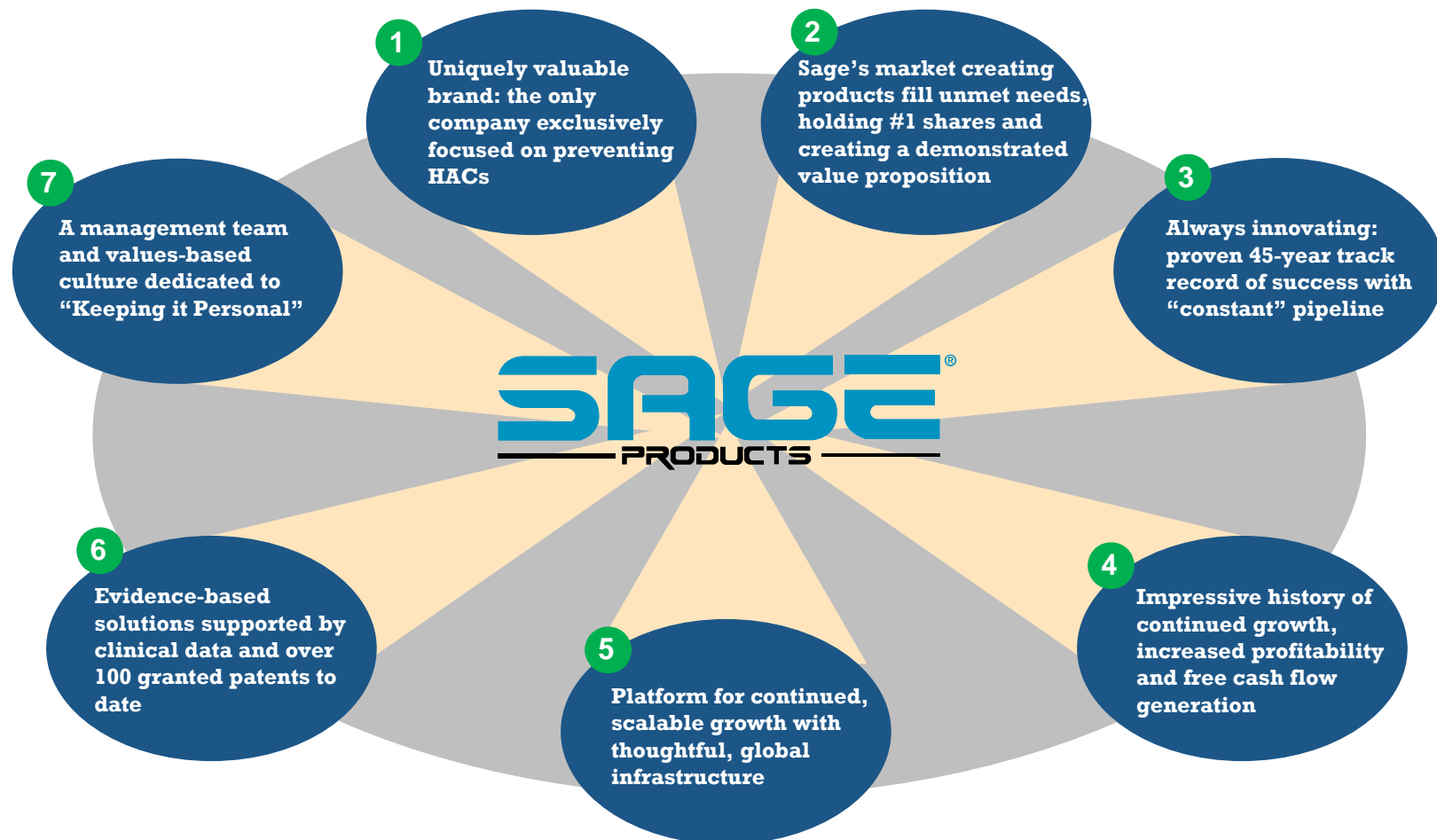
## Prevalon



**#1**

- Prevention of heel ulcers, sacral ulcers, healthcare worker injury
- Per patient HAC cost: \$2,000 - \$70,000
- 37 SKUs

# What makes Sage a unique healthcare platform



# #1 Position in all markets served

## **Leading Market Positions with Superior Product Quality**

- Premium products serving markets of approximately \$1.8B in North America
  - Products recognized as superior in terms of ability to deliver positive patient outcomes, effectiveness and ease of use
- Consistent market leading share and attractive margins through product differentiation, superior outcomes and strong customer relationships
- Vital IP reflected in patents, know-how and relationships with key customers
- Consistency of management / employee base embeds knowledge base and customer relationships
- Customized product line based directly on customer needs / feedback
- New product development structure enables the company to rapidly respond to customer needs and a changing marketplace

# Cost of HACs addressed by Sage is significant

**Approximately \$30B in annual US healthcare expenditures to treat hospital-acquired conditions; solutions portfolio aligned well with CMS mandates**

## Ventilator-Associated Events and Hospital Acquired Pneumonia

- Ventilator-associated events (“VAEs”) most common infection in the ICU with each case potentially costing a facility >\$40,000, significantly increases mortality rate and length of stay
- New CDC Point Prevalence data points to 22% of all HACs as pneumonia

## Catheter-Associated Urinary Tract Infections

- Catheter-associated urinary tract infections (“CAUTIs”) develop in up to 25% of patients requiring a urinary catheter for >7 days and can add \$500 - \$4,500 per case in direct costs to hospitals

## Surgical Site Infections

- SSIs the 2<sup>nd</sup> most common type of hospital infection, occurring in 5% of all surgeries
- Hospitals spend more on SSIs (at \$25,000 and 2<sup>nd</sup> most common occurrence) than any other HAI

## Pressure Ulcers

- Sacral and heel pressure ulcers are one of healthcare's most expensive issue (multi-billion \$\$) and most preventable issue
- Average hospital incurs between \$400,000 and \$700,000 in annual direct treatment costs for pressure ulcers (bed sores)

## Patient Falls

- In hospitals, 2%-15% of all inpatients experience at least one fall; one-third of those falls result in serious injury
- These serious injury falls will result in ~\$55 billion in cost to hospitals by 2020

# 45-year history of innovation

**Demonstrated ability to consistently identify unmet needs, create new markets and expand call points outside of ICU, including the OR, physical therapy and safe patient handling**

## History of Innovative Firsts

Product	Launch Year
M-Care	2015
Prevalon Liftaem	2015
Seated Positioning System	2013
Turn & Positioning System	2011
CHG Pre-Op Prep	2006
Heel Ulcer Prevention	2005
Point-of-Use Oral Care	2003
One-Step Incontinence Care	1999
Disposable Bathing System	1996
Chemo Safety Protection	1990
P2 Gowns & Cabinets	1988
Point-of-Use Sharps Disposal	1987
Tissue Grinder & Collection	1986
No-Cut Sharps Disposal	1981
Mid-Stream Urine Collection	1971

# Evidence-based solutions

Each product line supported by clinical research highlighting improvement in outcomes associated with use of the company's products

## THE EFFECT OF A COMPREHENSIVE ORAL CARE PROTOCOL ON PATIENTS AT RISK FOR VENTILATOR-ASSOCIATED PNEUMONIA

Bonnie Schleider, RN, MS, CCRN, Kathleen Stott, RN, Robert C Lloyd, PhD

### ABSTRACT

Mechanically ventilated patients are at the highest risk for the second most common nosocomial infection, pneumonia. This retrospective study evaluates the impact of a comprehensive oral care protocol on the ventilator-associated pneumonia (VAP) rate in adult ICU patients. The oral care procedure addresses three recognized VAP risk factors: (1) oropharyngeal colonization, (2) oral secretions that can migrate to the subglottal area and (3) dental plaque. Included are reviews to the policy and procedures, as well as the rationale for procedural components and product selection. Finally, statistical process control methods (SPC) are used to document a decrease in the VAP rate.

### BACKGROUND

Pneumonia is the second most common nosocomial infection in the United States and patients who receive mechanical ventilation are at the highest risk for acquiring the infection. Studies show that patients who develop ventilator-associated pneumonia (VAP) can have as high as a 7-fold increase in the number of days in intensive care.

may contribute to decreasing a patient's risk of VAP. However, studies that establish any practice by defining the type and frequency are lacking.

### OBJECTIVE

The purpose of this retrospective study was to evaluate the impact of a comprehensive oral care protocol on the VAP rate in adult ICU patients. The study included all adult mechanically ventilated patients at Advocate Good Shepherd Hospital's 10-bed Surgical Intensive Care Unit (ICU).

### INTERVENTION

In the fall of 1999, an article published in the American Journal of Critical Care highlighted the importance of an oral care protocol to improve the health of patients in the ICU. Based on that article, ICU nursing staff at the study facility concluded that current policy and practice did not designate a consistent oral care procedure for unconscious or ventilated patients. Therefore, a continuous quality improvement (CQI) project was initiated.

"The new oral hygiene procedure tested in this study included components that address three risk factors: bacterial colonization of the oropharyngeal area, aspiration of subglottal secretions and colonization of dental plaque with respiratory pathogens...preliminary data suggest that the mere reduction of risk through better oral hygiene can lead to fewer VAPs."

- Journal of Advocate Healthcare

## Incontinence-Associated Dermatitis: Consensus Statement Evidence-Based Guidelines for Prevention and Treatment, Current Challenges

Doughty, Dorothy; Junkin, Joan; Kurz, Peter; Selekof, Joan; Gray, Mikel; F Bliss, Donna Z.; Beeckman, Dimitri; Logan, Susan

### ERRATUM

### Erratum

In the article mentioned above, the current address for correspondence should be as follows:

Joan Junkin, MSN, APRN-CNS, CWOON, Wound Consultant/Owner, The Healing T 8120 Regent Dr., Lincoln NE 68507

Journal of Wound Ostomy & Continence Nursing. 39(5):544, September/October 2012.

### Abstract

In 2010, an international consensus conference was held to review current evidence regarding the pathology, prevention, and management of incontinence-associated dermatitis (IAD). The results of this literature review were published in a previous issue of this Journal. This article summarizes key consensus statements agreed upon by the panelists, evidence-based guidelines for prevention and management of IAD, and a discussion of the major challenges currently faced by clinicians caring for these patients. The panelists concur that IAD is clinically and pathologically distinct from pressure ulcers and intertriginous dermatitis, and that a consistently applied, structured, or defined skin care program is effective for prevention and management of IAD. They also agreed that differential assessment of IAD versus pressure ulceration versus intertriginous dermatitis remains a major challenge. Panel members also concur that evidence is lacking concerning which products and protocols provide the best outcomes for IAD prevention and treatment in individual patients. Issues related to differential assessment, product labeling and utilization, staff education, and cost of care are the primary focus of this article.

"The 2% CHG-impregnated cloth appears to be a practical and effective product for inpatient and outpatient settings. For patients who have a difficult time bathing as directed for surgical procedures, the CHG wipe may be an effective alternative."

- Patricia O'Malley, PhD, RN, CNS

"The patient reported satisfaction with the Turn and Position System, due to his substantial decrease in pain with repositioning (8-9 out of 10 before Turn and Position System compared with 0 out of 10 with Turn and Position System)."

- Caryn Baldwin, RN; Kindred Wound Care Coordinator

## ARTICLE IN PRESS

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Basins are frequently contaminated with multidrug-resistant organisms

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The hospital environment is increasingly recognized as a reservoir for hospital-acquired pathogens. During a 44-month study period, a total of 1,903 basins from 88 hospitals in the United States and Canada were sampled. Overall, 62.2% of the basins (at least 1 basin at each hospital) were contaminated with commonly encountered hospital-acquired pathogens.

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## New Turning and Positioning System Facilitates Patient Repositioning to Aid in Pressure Ulcer Healing

Caryn Baldwin, RN, Wound Care Coordinator

### Pressure Ulcer Statistics

Pressure ulcers (PUs) increase the risk of patient mortality,<sup>1,2</sup> extend patient hospital stays,<sup>3</sup> and result in excess costs of care and litigation.<sup>4</sup> In 2009, overall PU prevalence in the United States ranged between 11.8% in long-term care to 29.2% in long-term acute care (LTAC). Facility-acquired PU incidence for long-term care was approximately 5.9%.<sup>5</sup> A cost analysis on Medicare patients between 2005 and 2007 revealed excess expenditures related to PUs of \$2.4 billion.<sup>6</sup> The financial implications of facility-acquired PUs are substantial, as there is no longer any reimbursement from the Centers for Medicare and Medicaid for care related to facility-acquired PUs.

A large number of patients treated in LTAC units are elderly, multicomorbid, immobile with multiple comorbidities, placing them at increased risk for PU development. Furthermore, patients who are terminally ill have a higher risk of PU development, and PU prevention and treatment efforts directed toward terminally ill cancer patients are important to enhance patient quality of life and comfort of care.<sup>7</sup>

### Prevalon® Turn and Position System

A new device, the Prevalon® Turn and Position System, has been developed to assist nurses with patient repositioning, sacral off-loading, and skin microclimate control within a facility's established turning and PU prevention protocol. The system includes:

- Glide Sheet with grip surface and rollers to reduce the effort needed to turn and position a patient on the glide sheet to prevent sliding in bed.
- Coordinate Body Pads to control heat and "pull of moisture" on the skin, and wedges to facilitate turning and position at the recommended 30° angle.

### Pressure Ulcer Prevention

Effective PU prevention and treatment requires multiple efforts in the clinical environment to address external factors that contribute to PU development and require PU healing, such as pressure, moisture, shear forces, and friction.<sup>8</sup> The panel's European Pressure Ulcer Advisory Panel (EPUAP) and National Pressure Ulcer Advisory Panel (NPUAP) evidence-based guidelines published in 2009 provide extensive guidance on PU prevention and treatment, which discuss the importance of appropriate patient repositioning and controlling the skin microclimate (local tissue temperature and moisture). The EPUAP/NPUAP recommendations include (but are not limited to) the following:<sup>9</sup>

- Repositioning of the patient should relieve or redistribute pressure.
- The patient should be positioned off a PU whenever possible.
- The patient's skin should not be subjected to pressure and shear forces.
- Repositioning should be undertaken using the 30° heel offloading or prone position.
- Transfer aids should be used to reduce friction and shear. Patients should be lifted – not dragged – during repositioning.
- For existing PUs, the support surface should improve pressure redistribution, shear reduction, and microclimate (local tissue temperature and moisture) control.

# Sage transaction

- All cash transaction for \$2.775B, funded with both current cash and newly issued debt
- The transaction includes an anticipated future tax benefit which is expected to exceed \$500 million and to positively impact cash flows over approximately 15 years.
- Sage has higher organic sales growth rates and gross margin rates modestly below Stryker's corporate average
- Full year 2015 sales of \$430M, +13% growth (95% US, 5% OUS)
- Transaction is expected to be ~\$0.05 accretive to 2016 adjusted EPS
- Transaction is subject to the Hart-Scott-Rodino Antitrust Improvements Act and other customary closing conditions
- Closing expected in the second quarter of 2016