Health Care

Then vs. Now and Best Health Care Ideas

Since the April 2011 market peak, health care has outperformed the broader S&P 500, reminiscent of the early stages of the Great Recession. While encouraging, we believe too many near-term uncertainties exist to try and make a health care sector -- or even sub-sector -- call here. Instead, our HC teams see pockets of relative potential, with conviction highest for stock-specific reasons, and throughout this note we highlight current top ideas across the RW Baird health care platform.

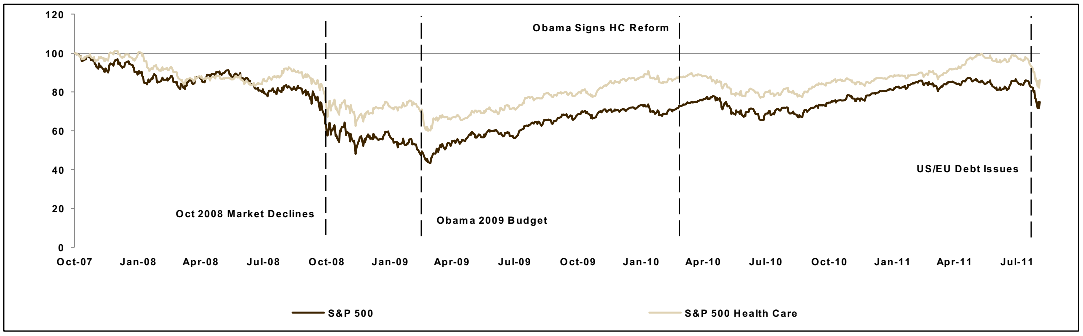
- Health care in the last down cycle. In the early stages of the Great Recession, health care outperformed the broader market (HC -40%/S&P500 -57% from October 2007-March 2009) thanks to the "defensive" premium investors historically afforded the group. During that time, biotech (-21%), pharma (-39%), and medtech (-42%) outperformed, while HC providers/services (-53%) and HC technology (-63%) underperformed.
- The recovery. Despite better down-cycle performance, health care stocks underperformed from the March 2009 market trough to the recent April 2011 peak, as early- and mid-cycle sectors (consumer discretionary, etc.) returned to favor and health care dealt with reform-related uncertainty, declining utilization, and other factors. Health care exceptions that outperformed on the way up, however, included HC Technology (+233% trough to peak), HC Providers/Services stocks (+128%) and Life Sciences (+124%).
- Relative performance – current cycle. So far in this cycle (since the April 2011 S&P 500 peak), performance has been reminiscent of the Great Recession down cycle, with health care falling less than the overall market, at -11% vs. S&P 500's -14%.
- Past predictive of future? So is health care, as a whole, set up to outperform in the near-term and then lag again during a recovery? Netting out many differences and similarities that currently exist across the various health care sectors (see following pages), and after taking into account several factors creating near-term uncertainty (namely uncertainty over what may change by the Super Committee's November 23 deadline), we believe trying to make such an across-the-board call is impossible.
- Sub-sector and stock-specific conviction higher. Instead, our health care teams see pockets of relative potential, with conviction highest for stock-specific -- not health care sector or even sub-sector -- reasons. Broadly, we have relatively higher conviction in hospitals, biotech, HC technology, and the more consumer-oriented areas of medtech (dental, contact lenses), while our top stock-specific ideas include ABMD, CAH, CELG, COO, EW, EXAS, HGSI, HLS, HMA, ITMN, MDAS, MDRX, PPDI, SHPGY, TMO, UHS, VRUS, and XRAY.

Please refer to Appendix - Important Disclosures and Analyst Certification

Team Baird Health Care Research

Details

Healthcare vs. S&P 500 - Historical Returns



Index	Index Performance				
	Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
S&P 500	-56.8%	52.7%	68.6%	101.6%	-14.0%
S&P 500 Health Care	-39.9%	31.1%	45.5%	60.9%	-11.1%
S&P 500 Health Care Equipment & Supplies	-42.3%	40.2%	54.1%	63.3%	-16.0%
S&P 500 Biotechnology	-20.7%	17.3%	22.2%	27.1%	-9.0%
S&P 500 Pharmaceuticals	-38.5%	25.7%	38.9%	48.3%	-8.5%
S&P 500 Health Care Providers & Services	-52.6%	53.9%	79.2%	128.6%	-12.0%
S&P 500 Health Care Technology	-63.2%	27.4%	96.3%	233.3%	-3.3%
S&P 500 Life Sciences Tools & Services	-41.1%	49.8%	74.9%	123.9%	-22.2%

Source: FactSet, Robert W. Baird & Co. Estimates

Health care and the last cycle

From a high level, looking at S&P 500 sector and subsector performances during the early stages of the Great Recession, health care outperformed the broader market, falling 40% vs. a 57% S&P 500 decline between the October 2007 market peak and the March 2009 market trough. We believe this was due in large part to the "defensive" premium investors have historically afforded health care overall, and as we show above, biotech (-21%), pharma (-39%), and medtech (-42%) outperformed during this time, while health care providers/services (-53%) and health care technology (-63%) underperformed.

In the recovery period, from the March 2009 market lows to the April 2011 latest market peak, health care then underperformed as a whole, with the biotech, pharma and medical equipment/supplies S&P subsectors representing the most notable underperformers. Conversely, Health Care Technology, Health Care Providers and Services, and Life Sciences Tools and Services outperformed during this period of time, due partly to valuation factors (bigger sell-off in hospitals and HC technology during the downturn left valuations in these groups more depressed) and partly to sector-specific positives that materialized just prior to (bipartisan support for NIH stimulus spending increase helped Life Sciences/tools names) and during the recovery (inclusion of the HITECH stimulus act in the 2009 American Recovery and Reinvestment Act).

Health care in the current cycle

In recent months (since the April 2011 S&P 500 peak), healthcare seems to be acting similarly to the early part of the Great Recession down cycle, with Pharma (-8%) and Biotech (-9%) again outperforming the market's -14% and health care overall falling only 11% vs. the S&P 500's 14% decline.

So what's different this time vs. last, and are those differences enough to drive a different return profile for the various health care sectors in this cycle vs. last? As highlighted below, a number of differences in the current cycle vs. three years ago indeed seem to exist across the various health care sectors covered at Baird:

2011 Correction vs. 2008/2009 Downturn				
Outlook - Key Sector Driver	**Better**	**No Change**	**Worse**	**Comments**
HC Facilities & Services (Mayo)				
Utilization / Patient Volumes		⟺		Patient volume outlook less positive but providers have demonstrated consistent ability to manage costs in a low utilization environment. With valuations generally depressed, we view potential for volume acceleration as a "call option" for the group.
Reimbursement Outlook		⟺		Reimbursement outlook less positive and pricing pressures have grown, particularly from governmental sources. Pending Joint Select Committee creates additional uncertainties but we see a clear pathway towards clarity over the next 3-6 months and valuations imply an overly negative scenario, in our view.
Leverage	X			Balance sheet leverage is significantly improved vs. 2008-2009. At the beginning of the Great Recession hospitals were levered 5.5x+ debt-to-EBITDA and several had near-term maturities. Today, hospital debt-to-EBITDA is closer to 4.5x and the credit markets have been very accommodating to hospitals and healthcare facilities.
M&A	X			M&A outlook is significantly better and opportunities are abundant (excluding home health). Not-for-profit hospitals continue to struggle amid a challenging volume environment and lack of access to capital. Acquisition multiples remain very attractive and higher quality assets are coming to market.
HC Distribution & Services (Coldwell)				
Generics	X			The Big 3 drug distributors have used scale and scope advantages and M&A to steadily increase their share of the generics pie; the crest of the generics wave is ahead (4Q11-3Q12).
Distributor-Manufacturer Relationships		X		Branded drug inflation continues to advance at near-record levels, while generics deflation has been muted in recent periods and fee-for-service agreements are tracking well.
HIT Funding	X			HITECH Act stimulus dollars are driving massive growth in clinical IT adoption, yet Meaningful Use remains a distant goal for most of the provider base; Further, other regulatory demands on customers, such as ICD-10, ANSI-5010, coding improvement and Medicare RAC audits, and shifting care and reimbursement models, such as Accountable Care and P4P models, are growing catalysts.
Pharma Consolidation	X			CROs: A wave of significant M&A transactions among CRO clients caused R&D spending disruptions and increased cancellations into the downturn. Continued consolidation still presents a degree of risk, though we believe potential for additional mega-mergers is materially reduced.
Small Biotech Funding Environment		X		In 2008, the global financial crisis severely limited capital access to small and emerging CRO clients, forcing many to reduce R&D activity and focus on capital preservation. While we have recently seen a significant uptick in small client funding coupled with increased activity, the risk remains for a trend reversal if macroeconomic conditions deteriorate.
Medtech (Johnson) / Cardiovascular (Neibor)				
Reimbursement/ Pricing		⟺		Reimbursement outlook less positive and pricing pressures have grown; but several years of heightened pricing pressures lessens risk of this being an incremental risk/"surprise"
Regulatory (FDA, etc.)			X	Cost of innovation going up, pace of innovation down given growing FDA pressures/uncertainties
Utilization	X	⟵	X	Utilization currently worse than 2008, when end user volumes were robust before ~9 million domestic jobs were subsequently lost; At present, however, with 3+ years of procedure deferrals and over one million jobs created over the last 10 months, we believe utilization trends can begin to improve over next 6-12+ months
M&A	X			Historically low valuations, cheap money, moderating growth outlook all expected to contribute to heightened near-/ intermediate-term M&A

Source: Robert W. Baird & Co. Estimates

2011 Correction vs. 2008/2009 Downturn - Continued				
Outlook - Key Sector Driver	**Better**	**No Change**	**Worse**	**Comments**
Life Sciences & Diagnostics (Lai)				
Academic / Government			X	Life Science Tools got a boost from bipartisan support for NIH stimulus increase in 2008, but in 2011, companies are seeing a slowdown in academic spending as possible austerity measures could cut government funded research
Pharma / Biotech		X		A wave of large pharma consolidation added to economic uncertainty in 2008. In 2011, companies have seen some rebound but the overall demand environment remains weaker than in the early-2000s
Industrial	X			In 2008, tools companies saw a dramatic reduction in demand from industrial companies, but this end market snapped back the strongest during the subsequent rebound. In 2011, companies in our space continue to see solid end market demand from many of these accounts
M&A	X			In 2008, as the markets went down, M&A activity in our space came to a halt. Additionally, M&A activity among customers for life science tools companies (namely, pharma) were a negative. In 2011, deal activity in our space has rebounded, particularly in diagnostics and much of the uncertainty created from pharma M&A has subsided.
Diagnostics	⟺			Diagnostic companies in the 2008/2009 downturn suffered from concerns surrounding health care reform, medical device taxes, etc., but volumes remained healthy. This end market has underperformed other areas as test volumes remain under pressure with high unemployment and expiring COBRA benefits
Biotechnology (Raymond, Russo)				
Regulatory (FDA, etc.)	⟺			FDA has already approved 20+ new drugs in 2011 YTD, which is a run-rate approaching 2x that of the past half decade.
Reimbursement/ Pricing		⟺		Reimbursement and pricing pressures remain in place; austerity in Europe had a big impact in 2010 and US/European governments remain problematic; several years of heightened pressures here may lessen risk of this being an incremental "surprise".
Balance Sheet/Cash Position	⟺			"Darwinism" no longer in focus; high quality companies bolstered balance sheets over the past several years; covered companies with cash runway of a year or less very much the exception.
Underlying demand/financial performance	⟺			Majority of covered companies met or beat on top-/bottom-lines during Q2-11.

Source: Robert W. Baird & Co. Estimates

When netting out the differences and similarities listed above and after taking into account several factors creating near-term uncertainty (namely uncertainty over what may change by the Super Committee's November 23 deadline), trying to make an across-the-board sector (health care) or even health care sub sector call seems nearly impossible. Instead, our HC teams see pockets of relative potential, although even within these "pockets," conviction seems highest for stock-specific, not sector-specific, reasons. Specifically, top health care stock specific ideas across our covered sectors include the following: ABMD, CAH, CELG, COO, EW, EXAS, HGSI, HLS, HMA, ITMN, MDAS, MDRX, PPDI, SHPGY, TMO, UHS, VRUS, and XRAY.

Over the following pages, we provide additional details regarding these best ideas and further discuss key similarities and differences that we believe exist across each of our covered sectors. From a high level, however, we believe the near- to intermediate-term outlook by covered health care sector is as follows:

For Healthcare Facilities and Services (Mayo), we think the dramatic sell-off in hospitals has put many stocks well below what we consider to be the worst-case impact for Medicare cuts. HMA and UHS stand out to us as two providers with tangible catalysts, a better near- and intermediate-term story and valuation has well overshot any risk that we see in 2013. Secondly, we see HLS and DVA as two potential safe-haven names. Both IRF's and dialysis are unlikely to be targeted areas with the Super Committee and even in the event of a 2% trigger, both appear uniquely positioned to overcome rate challenges. Lastly, we would continue to avoid all Home Health stocks on the long side.

For Healthcare Distribution & Services (Coldwell). For CROs, we believe Wall Street is still reeling from the massive group sell-off in late 2008, and may be unwilling to accept the potential that larger, public CROs can grow through outsourcing penetration and share capture in a period where pharma R&D budgets are stagnant. This group has substantial potential in 2012, but may fare worse than other sectors in the near-term if the recent market sell-off continues. In contrast, pharmaceutical and medical-surgical distributors are relatively defensive investments in a healthcare environment that at times has been proved anything but defensive – despite conventional wisdom. HIT stocks, broadly defined, have trounced the market in all environments and unlike our other sectors (CROs, Distribution), where macro trends determine group performance more than individual performance, stock-picking is key in HIT.

For Medtech (Johnson), we believe reimbursement/regulatory overhangs are likely to persist over coming quarters, making it tough to pound the table on ortho/spine names and providing a key point of (positive) differentiation for dental stocks and contact lens manufacturer COO. That said, we also believe utilization is much more likely to improve over the next 6-12 months and not decline the way it did in 2009 and 2010, while other ancillary factors (M&A potential, easing H2 comps, etc.) also exist that could help even some of the large-cap ortho/spine names outperform over the next 12 months.

For Life Sciences and Diagnostics (Lai), we believe the threat of government cuts will weigh on the Life Sciences group as rhetoric continues regarding reduced federal spending. In diagnostics, we think concerns about weak patient volumes remain tied to the relatively poor unemployment numbers, although we are close to an anniversary of the first sight of these headwinds for most of the group. Given some of these issues, we think names with high levels of end market and product diversification are best positioned within life sciences and we think the diagnostic group is likely to see solid financial and stock performance from smaller-cap and attractive product cycle names.

For Cardiovascular Devices (Neibor), we believe similar reimbursement, regulatory and utilization issues as discussed above for Medtech will likely continue to impact the overall Cardiovascular space over time. From a high level, however, we believe the larger companies grounded in mature domestic technologies will suffer until expansion of infrastructure to more vibrant situations in Asia and South America is complete, while the smaller companies, whose innovations will drive new surgical patient creation, will prosper.

For Biotech (Russo/Raymond). While the bipartisan Special Joint Committee negotiations between now and November will most definitely create an overhang on healthcare – especially sectors and companies dependent on entitlement spending such as Medicare and Medicaid, we don't think the range of outcomes is nearly as variable as it was during the healthcare reform debate when more radical ideas were on the table. Regardless, names with more limited exposure to government spending may outperform during this time. Investors may have different strategies for playing the recovery, and we especially like here: HGSI (Raymond) and ITMN (Russo) as "carnage" names with the most near-term recovery upside, CELG (Raymond) and SHPGY (Russo) as the strongest, most stable places to ride out the storm, and VRUS (Russo) as an overall top pick we have highest conviction can work in any markets.

Sector-Specific Commentary

Healthcare Facilities & Services

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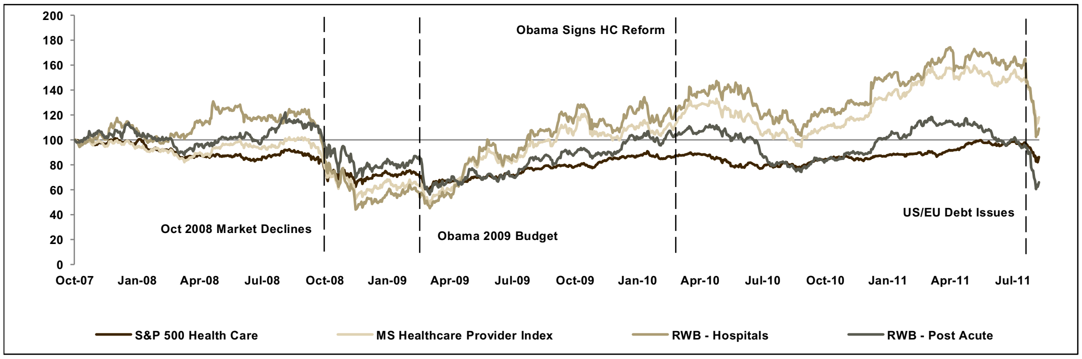

Index / Company	Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
S&P 500	-56.8%	52.7%	68.6%	101.6%	-14.0%
S&P 500 Health Care	-39.9%	31.1%	45.5%	60.9%	-11.1%
MS Healthcare Provider Index	-50.7%	105.4%	138.6%	220.1%	-25.1%
Composites - RWB Covered Companies Only					
Hospitals	-54.9%	141.9%	175.5%	271.2%	-34.8%
Post Acute	-43.8%	47.4%	86.1%	100.2%	-41.4%
Dialysis	-31.8%	22.4%	41.3%	99.1%	-17.8%

Source: FactSet, Capital IQ, Robert W. Baird & Co. Estimates

That was then... Our overall coverage list (Healthcare Facilities) exited the summer of 2008 in a period of extremely low investor expectations (much more focused on fundamentals than emerging regulatory threats). Hospitals continued to report lethargic volumes, bad debt risks were fresh on investors' minds, unit costs were growing faster than revenues (thus margins were slowly deteriorating), no one was capable of closing accretive acquisitions and in general, the overall sector had a dearth of high-quality leadership (HCA, TRI, USPI, HCR all went private or acquired in the preceding year). At this same time, our overall coverage (specifically hospitals) had more leverage (5.5x then vs. 4.5x now), emerging maturity dates and the group was facing a "new world" without covenant light debt and an unknown, yet certainly murky outlook on forthcoming consumer behavior (volumes, payer mix, etc).

Before entering the meltdown in the fall of 2008, our overall group carried P/E and EV/EBITDA multiples 85% and 70% higher than are being currently awarded, respectively. The leverage was the Achilles heel of the group in the coming months. Hospitals, for example bottomed in late 2008 at 5.5x-6.0x forward EBITDA (levels we are already at or below and the fundamental backdrop could not be more dissimilar). One other notable highlight of this period was the flight to quality and defensive growth for home health. Home health providers seamlessly transitioned through the 2008 Medicare case mix refinement (implementation of a graduated therapy payment system), which set up a 6-quarter trend of unsustainable, yet mind-blowing and explosive organic growth (SS revs accelerated north of 40% for certain providers). This defensive growth was supported by a favorable backdrop of inelastic demand and large-scale, and highly accretive acquisitions. Growth investors and generalists flocked to the group, driving multiples in early 2009 (amidst the market meltdown) to levels the sub-sector had never seen before (10x-12x EBITDA and 20x+ forward P/E's). It wasn't until health care reform was announced in March of 2009 that crushed the bull thesis (PPACA ultimately drove $50bn in future spending out of the sector), layered in unknowable uncertainties and drove generalist money quickly out the door.

In short, less levered names dramatically outperformed through the market sell-off (but dramatically lagged on the upswing) and hospitals rallied 200% from trough to peak as providers saw positive volume growth in the first 3 quarters of 2009 (against all odds), all providers demonstrated a never before seen ability to manage expenses (merit pay freeze, disinflation on costs), payer mix really did not meet up with bear-case fears, healthcare reform altered the perceived economics in the business model (in a very positive way), covenant risks waned and acquisitions began to accelerate. Since "navigating" the crisis, hospital valuations have moved into a "new norm," oscillating in a trading range of 6x-7x EBITDA (more narrowly defined as 6.5x-7.0x) and 10x-15x forward EPS since mid-2009.

This is now… Operating fundamentals remain mixed for our overall group, which is always the case. Some sub-sectors are better (dialysis and hospitals), some worse (SNFs and home health) and some generally the same (ASCs and IRFs). It is very difficult to generalize thematic underlying trends across our sub-sectors, as reimbursement factors are the key driver to stock performance. That said, it is clear that the unknowable uncertainties between now and November 23 for the Super Committee has created substantial forced rotation and selling across all HC provider sectors. Underperformance is easily located in two buckets: (1) heavy Medicare reliance and (2) levered names. This has been a shoot first, ask questions market for two weeks.

We observe several important differences between then and now. First, hospitals were substantially more levered with looming maturities. That is far from the case now. Second, unemployment was far from being near 9%-10% in 2008 (its unlikely mix deterioration could ever be the same threat either realistically or psychologically). Third, we are in a new day and age for provider/physician relationships. That is a key contributing factor to a substantial deceleration in provider unit costs/patient day (controllable costs are up +3% y/y versus up +5% in pre-2008). Providers can and will freeze merit pay, can adjust cost structures/staffing levels and are finding incremental opportunities on supply management. Just about all healthcare providers (notably hospitals) are operating amidst the best buyers market we have seen in 6+ years. NFP's are less of a formidable competitor on transactions, owing to the tight funding/endowment picture. Small unaffiliated providers are selling without scale, size and frankly visibility (not to mention IT/reimbursement pressures). Credit remains very cheap by any historical measure and while HC equity investors see dramatic uncertainty, the bond market seemingly retains its insatiable appetite for paper from HC providers (see HCA's $5bn refi after missing 2Q earnings).

On the negative side, pricing pressure is worse than last cycle; however, we think 2012 is likely the nadir. Ironically, while investors worry about 2013 Medicare pricing for hospitals, 2011 will likely represent the worst update with accelerating core pricing trends into 2013 (which could be flat with a 2% trigger; recall 2011 is down over 1%). States such as Texas (cutting MDCD 10%) simply cannot mechanically apply steeper cuts into 2013 (Texas is biennial budget). Utilization remains a challenge, but it has been the same challenge forever (5+ year IP admit growth for the sector is 0%), thus we see nothing new there. Most importantly, the federal budget situation is worse than we've seen in years; however, there is only so far policymakers can go with across-the-board provider cuts to Medicare without also having to reach for revenue. $1.2 trillion is too big of a bogey. The 2% trigger could be the worst or the best thing for providers. We don't really know until we see the Super Committee set an agenda.

Bottom line, we see several opportunities on the long side for investors. Our call would be that some providers are just not that exposed, and if they are, providers can respond and plan for changes to offset. Thus the valuation disconnect in our view is simply unsustainable over the balance of the year. Second, we'd be buying select hospital stocks whose current valuations appear to have so dramatically overshot any rational rate cut that we could possibly see. HLS stands out to us as a high-conviction buy at current levels. IRF spending represents about 1% of the total Medicare spend. The Super

Committee cannot make a dent in the budget by going after this sector. Spending has been flat, phasing in the 75% Rule does not even score enough (tens of millions of dollars) and the stock has dramatically overshot any impact from a 2% trigger cut. HLS could offset half of the rate cut in 2013 by freezing merit pay, de novo's will likely add another 5% to EBITDA growth by then and HLS could restructure some benefits or simply plan for cuts to mitigate any realistic impact. DVA has sold off dramatically, remains extremely defensive and it's increasingly obvious that the company has so many levers to pull on costs. The combination of bundling and the recent EPO label change should enable the company to accelerate margin expansion in the coming 2-3 years. For hospitals, HMA and UHS stand out to us as two high-quality providers whose current valuations seemingly price in too negative a scenario around rate cuts. Our belief is simply a growing pathway towards visibility around the debt ceiling should enable these stocks to firm up and outperform from now until December 31. We fully subscribe to the theory that no news (what happens with the Debt Ceiling) is worse than bad news. We would also continue to avoid all home health stocks during this period.

Healthcare Distribution & Services

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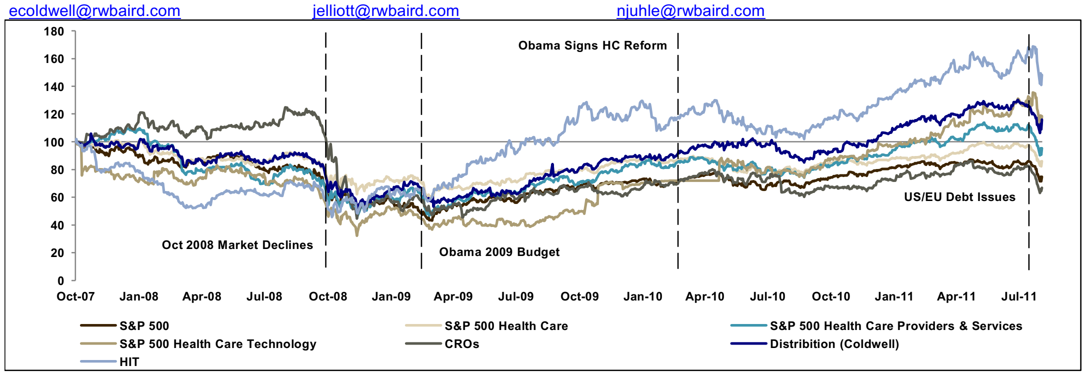

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S&P 500 / HC Providers & Services	-52.6%	53.9%	79.2%	128.6%	-12.0%
S&P 500 / Health Care Technology	-63.2%	27.4%	96.3%	233.3%	-3.3%
Composites - RWB Covered Companies Only					
CROs	-53.0%	36.4%	52.5%	82.8%	-22.3%
HIT	-39.6%	71.7%	96.1%	168.2%	-8.6%
Health Care Distribution (Coldwell)	-43.2%	37.1%	61.8%	119.0%	-6.7%

Source: FactSet, Robert W. Baird & Co. Estimates

Contract Research Organizations (CROs)

That was then…CROs entered the Great Recession period punch-drunk at the tail of a prolonged and pronounced up-cycle. Most CROs were rolling out substantial lab capacity and/or investing heavily in global expansion. Dangerously-small and emerging clients were at peak concentration levels and CROs were turning away business and raising prices. CRO equities were flirting with historical valuation peaks, and the group was materially over-owned. Then, the global economic downturn and biopharma industry events wreaked havoc, including political tide shift in the U.S., uncertainties around potential healthcare reform, a slew of client mega-mergers, collapse of biotech funding, client restructurings and pipeline paring, a massive f/x reversal, buzz around study placement shift to Asia, and inertia from increasing regulatory pressures.

This is now…CROs responded to the prior downturn, shuttering or disposing unprofitable and non-core facilities and services, consolidating and resetting resources closer to current demand, and tightening management and internal controls. The three larger CROs have reduced share count through repurchases, while several of the weaker players have privatized. F/x is a current tailwind. While uncertainties remain, the initial shell-shock from political change and healthcare reform has abated, and clients are getting back to business. Exposure to smaller, riskier clients is greatly reduced, while funding of the survivors has improved. Global expansion initiatives are maturing. Pharma mergers have slowed and recent merger consolidation disruptions are waning. Bookings have improved since 4Q09 and substantial backlog growth is a leading indicator of impending revenue reacceleration. Strategic outsourcing is driving demand to the larger (i.e., mostly publicly-held) CROs, and several recent deals are just now moving past the investment and learning phase. All signs point to improving financial performance against yet-easy comparisons, though valuation sits at levels historically deemed as "must own" levels.

Bottom Line…Across our sectors, CROs as a group have been the most difficult and least rewarding space since late 2008. We think Wall Street is still reeling from the massive group sell-off in late 2008, and unwilling to accept the potential that larger, public CROs can grow through outsourcing penetration and share capture in a period where pharma R&D budgets are stagnant. This group has substantial potential in 2012, but it may fare worse than other sectors in the near-term if the recent market sell-off continues. In reality, CROs performed slightly better than the S&P during the October 2007-March 2009 downturn, but investors tend to remember the dramatic August 2008-November 2008 valuation collapse. The group has since underperformed the market during the March 2009-April 2011 market rally as well as the more recent correction. Our top idea within the CRO space is Pharmaceutical Product Development (PPDI).

<u>Distribution: Pharmaceutical and Medical-Surgical</u>

That was then…Distributor models are generally sound models. These firms have benefited from a decade of process efficiency initiatives, and the natural benefits of massive scale and scope, and aggressive and excellent working capital management. At various levels each has divested non-core or underperforming diversified units, with the intent to be broad within the supply chain, though focused almost exclusively on it. Volume pressures aside, mix improvement (generics, private label) and execution excellence have allowed near universal profit expansion, while strong and improving cash flows allowed aggressive debt reduction and/or share repurchase activity. While the group faced a severe but brief sell-off later in 2008, this was virtually all macro-related and largely tied to fears swirling around the political power shift in Washington and the potential for healthcare reform. Another brief sell-off occurred with the Obama 2009 Budget proposal, but proved a tempest in a tea cup for the space.

This is now…Very little has changed. Volumes remain muted, with pockets of pressure slightly heightened in distinct medical-surgical fields, yet the Street has become accustomed to a low-growth top line environment, especially for the larger drug distributors. Commodity costs are high, but factored in, and client consolidation fears are typically account-specific and often overblown. Yet, branded drug inflation continues to advance at near-record levels, fee-for-service agreements are tracking well, the crest of the generics wave is ahead (4Q11-3Q12), and several business transformation and ERP initiatives will begin to drive efficiencies later in CY12. We've recently seen debt ratings upgrades, as cash flow performance is exceptional, and share repurchase activity remains aggressive among all but Owens & Minor. All but PSSI pay dividends, and those that do continue to authorize increases therein. Where M&A has modestly increased, acquired businesses are generally meeting or slightly exceeding targets. Further, forward guidance generally looks conservative and consistent with prior policies – with the Big 3 showing a strong trend of beat/raise in recent years. We are buyers in the group, focused on pharmaceutical distribution.

Bottom line…Pharmaceutical and medical-surgical distributors are relatively defensive investments, in a healthcare environment that at times has been proved anything but defensive – despite conventional wisdom. With the exception of numerous company-specific challenges that drove Cardinal Health performance to levels only slightly better than the S&P 500 average, this industry materially outperformed the market during the Great Recession meltdown, with an equal-weighted index decline of just 34%. The group fared very well during the year that ensued the October 2007 S&P top, and the eventual sell-off was no doubt fierce, but exceptionally brief. During the March 2009-April 2011 market rally, four of five distributors materially outperformed the market led by the Big 3 pharmaceutical distributors, and the space has also outperformed during the most recent correction, again led by the Big 3. Our top idea within the healthcare distribution space is Cardinal Health (CAH).

Healthcare IT & Services

That was then…The HIT world entered the Great Recession with momentum. Clinical IT adoption was exceptionally low across all customer channels, but improving, and clinical IT companies were maturing and gaining tremendous knowledge from past mistakes. Revenue was increasingly recurring in nature and quarterly volatility ebbing. Revenue cycle firms, such as Athenahealth and MedAssets, came public with much fanfare, though like most HIT IPOs, were figuratively oversold to investors and then literally became oversold when reality did not meet original expectations. Still, thematic catalysts abounded and while the space sold off with the rest of healthcare in 2008, the Washington political scene in this sector was a catalyst, including the passage of the early 2009 HITECH Act. While the group got ahead of itself by early 2010 and cooled down well into the summer that year, the upturn outperformance still trounced the market and other verticals in healthcare.

This is now…HITECH Act stimulus dollars are driving massive growth in clinical IT adoption, yet Meaningful Use remains a distant goal for most of the provider base. This digitization of healthcare will likely drive demand well beyond 2015, in our opinion, and we expect revenue cycle technology to come back into focus in 2012 and beyond – once the dust begins to settle on the clinical dance partner selection process. Further, other regulatory demands on customers, such as ICD-10, ANSI-5010, coding improvement and Medicare RAC audits, and shifting care and reimbursement models, such as Accountable Care and P4P models, are catalysts. We believe that BPO services, remote hosting, and other recurring revenue streams will continue to limit volatility and build visibility in this maturing, yet high-growth field. We are intrigued by all players, yet believe the Street's extremely bifurcated approach to stock picking creates rare investing opportunities in two stocks that are currently in the penalty box.

Bottom line…HIT is the most difficult sector to study historically, as there are numerous small, niche vendors, several of the more visible names came public since the S&P topped in October 2007, and the group really is bifurcated along two groups – one that focuses on revenue cycle IT and services, and another that is clinically focused. Even within the clinical and RCM sub-segments, performance has been dramatically varied on a company-by-company basis. This said, with the exception of Merge's unique history that led to material underperformance in the Great Recession, HIT stocks broadly defined have trounced the market in all environments. Unlike our other sectors (CROs, Distribution), where macro tends to determine group performance more than individual performance, stock-picking is key in HIT. Our top ideas within the HIT space are MedAssets (MDAS) and Allscripts (MDRX).

Medical Technology

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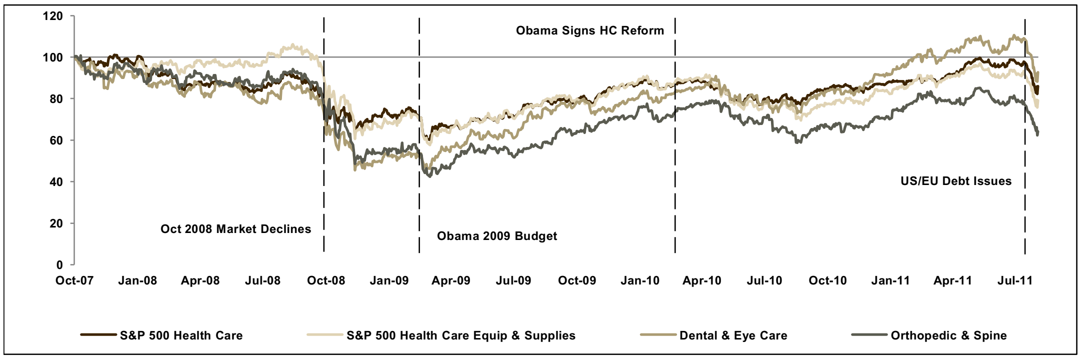

Index	Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
S&P 500	-56.8%	52.7%	68.6%	101.6%	-14.0%
S&P 500 Health Care	-39.9%	31.1%	45.5%	60.9%	-11.1%
Health Care Equipment & Supplies	-42.3%	40.2%	54.1%	63.3%	-16.0%
Composites - RWB Covered Companies Only					
Dental & Eye Care	-53.7%	63.5%	79.8%	133.5%	-14.2%
Dental	-53.2%	66.0%	78.0%	118.7%	-15.8%
Orthopedic & Spine	-57.6%	48.3%	77.1%	88.2%	-19.4%
Hospital Equipment	-54.4%	47.8%	79.8%	103.1%	-20.3%

Source: FactSet, Robert W. Baird & Co. Estimates

That was then…From October 2007-March 2009 (peak to trough of the Great Recession), Healthcare Equipment and Supplies stocks modestly outperformed the broader S&P 500, falling 42% vs. the S&P's -57%, due in part, we believe, to the "defensive" premium historically afforded the space during uncertain times. A significant rebound for the sector never materialized, however, and the group as a whole underperformed the S&P 500 during the 6- and 12-month periods following the March 2009 lows and during the trough to peak time period of March 2009 through April 2011, as cyclicals came back into favor and as medical device stocks dealt with health care reform uncertainty and -- in the later stage of underperformance (mid 2010-April 2011) -- declining utilization rates (especially in the U.S.).

Digging beyond the broader Healthcare Equipment sector, however, and looking specifically at the Medtech stocks we cover, ortho/spine stocks initially rebounded in line to slightly better than the market during the March 2009 to early 2010 recovery period, but when the double-whammy of healthcare reform and utilization hit by mid-2010, the group subsequently underperformed (and has continued to underperform recently). Dental and eye care stocks, however, fell in line with the market during the initial downturn given cyclical/consumer discretionary spending concerns, but then outperformed over most time periods coming out of the March 2009 trough as the lack of exposure to reimbursement and regulatory issues set them apart from other medical device stocks and as utilization in these areas firmed up sooner than other medtech areas (including ortho and spine on our list) due to the lower cost, less time-intensive nature of these procedures.

This is now…Since the April 2011 market top, Healthcare Equipment and Supplies stocks have slightly underperformed the S&P, falling ~16% vs. the broader market's 14% decline. We believe this underperformance can be explained by factors similar to those seen in the last cycle, including heightened government risks (potential entitlement reform, 510(k) uncertainty, etc.) and utilization uncertainty (with many investors seemingly making the call that an H2-11 recovery in utilization rates is unlikely). While we don't disagree with either of these concerns, we believe perspective is needed in this cycle, especially with regards to patient volumes.

Specifically, when utilization in the U.S. began to fade in mid-2010, it was due to many negative factors that were coming together at one time, including: (1) nearly 9 million lost jobs in 2008 and 2009 that severely reduced the pool of insured *employed* patients (non-farm payrolls –8.7 million in 2008 and 2009), (2) the roll-off of Congressionally-extended COBRA benefits that reduced the pool of insured *unemployed* patients (peak of COBRA roll-offs seemed to be a late 2010 type event), and (3) an increased willingness by patients -- employed or unemployed, insured or uninsured -- to defer spending on semi-discretionary healthcare procedures that weren't life threatening and/or where pain could be tolerated for a more extended period of time (including hips, knees, dental care, etc.).

Today, the utilization picture remains uncertain given the overhang of all the issues noted above. But when considering a backdrop of a modestly improving jobs environment in the U.S. (~1.5 million net new jobs created in the U.S. over the past 10 months) and given the fact that we're now at least 36 months into the cycle of patients deferring discretionary medical procedures, we believe utilization for all of our covered names is likely to begin showing at least some sign of improvement over coming quarters. Add in what should be improved domestic reimbursement clarity by late November (post the November 23 super committee deadline), and we believe our sector is actually well positioned for an H2-11 or early 2012 recovery.

Bottom-line… Modest potential utilization improvements later this year aren't a pound-the-table kind of reason to blindly recommend medtech stocks at present, especially as entitlement reform uncertainty looks likely to persist through at least Thanksgiving. That said, we believe a number of interesting 6-12+ month opportunities have been created across medtech given what seems to have been indiscriminate selling in recent weeks, especially given what we believe is a better utilization set-up today for these stocks vs. several years ago due to the 10 straight months of domestic job creation alluded to above and what is likely a backlog of demand that has built across many medtech areas, especially ortho, spine and dental in our coverage universe.

From a stock-specific standpoint, COO remains our top pick given still healthy contact lens channel checks, near- and longer-term margin catalysts, and nearly a complete lack of exposure to government issues (including almost no exposure to the 2013 medical device tax as contact lenses – along with hearing aids – have been excluded from the tax). We also believe XRAY is very compelling here given expected H2-12 earnings acceleration resulting from the recent Astra Tech acquisition and a late 2011/early 2012 resumption of orthodontic product sales, and the company's limited exposure to typical government-related healthcare headaches. For longer-term investors, names such as HSIC, SYK and VAR also look interesting, but with capital equipment trends likely most exposed to disappointment/slowing demand in the near-term, we'd wait at least until later this year before turning more aggressive on these names.

Life Science Tools & Diagnostics

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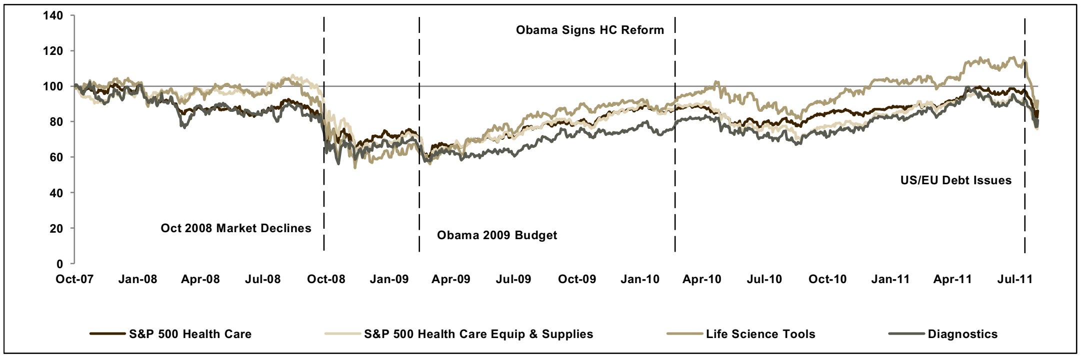

Index	Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
S&P 500	-56.8%	52.7%	68.6%	101.6%	-14.0%
S&P 500 Health Care	-39.9%	31.1%	45.5%	60.9%	-11.1%
Life Sciences Tools & Services	-41.1%	49.8%	74.9%	123.9%	-22.2%
Composites - RWB Covered Companies Only					
Life Science Tools	-43.9%	51.6%	67.5%	101.2%	-18.7%
Diagnostics	-42.2%	24.5%	39.4%	72.0%	-18.7%

Source: FactSet, Robert W. Baird & Co. Estimates

That was then… Life Science Tools and Diagnostics strongly outperformed the S&P500 and the S&P Health Care index in the 1-, 3-, and 5-year periods prior to the 2008 downturn. They both dropped with the indices during the downturn.

- Life Science Tools. Life Science tools saw a stronger rebound at the 6-month and 12-month post-trough periods than the S&P500 and the various health care indices.
  - During the drop, expectations for pending FX headwinds from the strengthening U.S. dollar and on a possible pharma/biotech spending slowdowns due to announced M&A activity (Pfizer/Wyeth, Roche/Genentech) weighed on the group.
  - Offsetting these worries was the influx of new funding from NIH stimulus, which had strong bipartisan support. Companies with higher amount of academic exposure (LIFE, AFFX) saw very strong stock rebounds.
- Diagnostics. During the downturn, Diagnostics fared better than the S&P500 and the health care indices. However, at the 12-month period after the trough, Diagnostics had a lower rebound than both indices.
  - In the years leading to the drop, Diagnostics enjoyed steady volumes, new product cycles and a strong M&A backdrop. These factors probably buffered the severity of the downturn.
  - As the markets exited the trough, negative overall sentiment from health care reform weighed on the Diagnostics sector. Uncertainties on reimbursement, diagnostic test regulatory reform and a proposed medical device tax were the likely contributors to the lower post-trough recovery.
  - M&A activity ground to a halt as strategic buyers quickly ratcheted down their deal flow.
  - Companies with a new product cycle (CPHD) saw stronger stock price rebounds

This is now… Life Science tools have again outperformed the S&P500 and most of health care in the time leading up to the mid-2011 downdraft. Diagnostics had also grown, but at a lower rate than most indices.

- Life Science Tools. This sector has been hit harder than the S&P500 and health care indices during this current downdraft.
  - One reason could be profit taking after a strong 1H-11 performance.
  - Industrial end markets remain strong, and pharma/biotech demand remains solid. FX remains a tailwind for probably 3-4 more quarters.
  - Academic end markets have softened in Q2-11. We feel academic researchers may be conserving funds as the federal budget/debt ceiling uncertainties rose. Budget concerns could likely persist for a while, given the recent gridlock and division between political parties. Companies with higher academic exposure (ILMN, LIFE, QGEN) have seen higher stock declines during this current downturn.
- Diagnostics. This sector has been a hit a bit harder than the specific indices, especially if one excludes recently acquired companies (BLUD).
  - Diagnostic volumes softened in 2010 with high unemployment rates and expiring COBRA coverage. It seems that the market is putting a low likelihood of unemployment improving in the near term. However, companies are expecting that COBRA expirations are starting to anniversary.
  - Companies that outperformed were companies with product/technology cycle (CPHD) or acquisition targets (BLUD)

Bottom line… We continue to have a long-term positive view on both Life Science Tools and Diagnostics. However, the short-term uncertainties on academic funding/federal budgets and lack of employment catalysts cause us to look at companies with a diverse customer base, with new market opportunities, and near-term catalysts.

- We recommend TMO as a best idea in Life Science Tools. TMO has (1) a diverse customer base, (2) strong cash flow, and (3) upside EPS catalyst pending inclusion of accretive Dionex and Phadia acquisition.
- We recommend EXAS as a best idea in Diagnostics. EXAS is (1) creating a new market for routine screening of colorectal cancer, (2) starting clinical trials for Cologuard, and (3) has near-term catalysts of potential data releases on the performance of its refined biomarker assay and new FIT test.

Cardiovascular Devices

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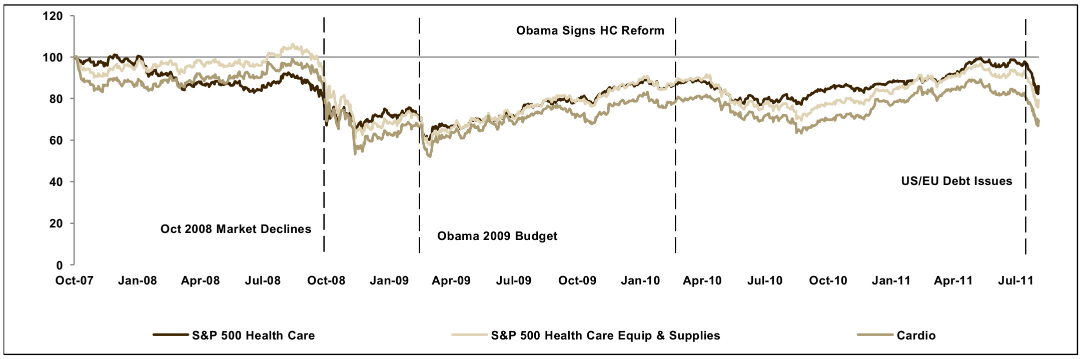

Index	Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
S&P 500	-56.8%	52.7%	68.6%	101.6%	-14.0%
S&P 500 Health Care	-39.9%	31.1%	45.5%	60.9%	-11.1%
Health Care Equipment & Supplies	-42.3%	40.2%	54.1%	63.3%	-16.0%
Composites - RWB Covered Companies Only					
Cardiovascular Devices	-48.0%	47.7%	53.0%	69.2%	-21.0%

Source: FactSet, Robert W. Baird & Co. Estimates

That was then…From October 2007-march 2009 (peak to trough of the Great Recession), Healthcare Equipment and Supplies stocks modestly outperformed the broader S&P 500 index, falling 42% vs. the S&P's drop of 57%, due in part, we believe, to the "defensive" premium historically afforded the space during uncertain times. A significant rebound for the sector never materialized, however, and the group as a whole underperformed the S&P 500 during the 6-and 12- month periods following the March 2009 lows and during the trough to peak time period of March 2009 through April 2011 due, as cyclical came back into favor and as these stocks dealt with healthcare reform and uncertainty and- in the later stage of underperformance (mid 2010-April 2011) – declining utilization rates (especially in the US).

Looking deeper into the specific Cardiovascular Device segment that we cover, CV stocks have underperformed the S&P 500 in each of the time periods listed and have outperformed the S&P 500 Health Care and the more specific Health Care Equipment & Supplies index in most of the periods. Cardiovascular devices are viewed as more aggressive investments within the general healthcare industry and so underperformed the S&P health care index during the initial downturn from 10/07 through 03/09 while outperforming the S&P 500 index. Performance nearly matched the S&P 500 during the great stock market recovery from 03/09 to 09/09 and clearly outperformed the S&P 500 Health Care Index and the Health Care Equipment & Supplies indices, as would be expected by its more aggressive nature. Outperformance began to end as the recovery entered the second six months and as the issue of Health Care reform took prominence. Cardiovascular companies are reliant on insurance coverage and especially Medicare coverage; any threat to the current system could represent a substantial change and, thus, multiples contracted. Though Health care reform ended somewhat benignly for Medicare, the cardiovascular space continued to underperform the S&P 500 through the peak in April 2011 as the economic recovery drove cyclical stocks to superior relative performance. Additionally, demographic factors which have typically driven revenue growth in the cardiovascular space where overwhelmed by price declines the hospital customers were finally able to impose on their suppliers, severely contracting domestic revenue growth. This was especially seen in the larger companies with substantial market shares in mature technologies while small-middle sized companies with innovative products continued to prosper through creating new surgical patients for hospitals to treat or through reducing procedural costs.

This is now…Since the April 2011 market top, Cardiovascular Devices have underperformed The S&P 500, S&P 500 Health Care Index and the Health Care Equipment & Supplies indices, falling 21% versus 14%, 11% and 16%, respectively. This underperformance can be tied directly to the performance of the major companies where weakening domestic prices have accelerated in mature technology spaces such as Cardiac Rhythm Management and Stents. Advances in pharmaceutical treatments for aging populations, specially the use of statin drugs, has also reduced overall demand for cardiovascular devices through improving overall cardiac health, offsetting normal unit growth due to demographics. The only companies that have continued to prosper through this period are those that supply truly innovative products that convert medically or pharmaceutically managed patients into surgical patients. These products are well accepted by hospitals and face little, if any, price competition due to their innovative nature. The most recent change in the industry's outlook is the potential cut to Medicare that may be mandated if the select committee of 12 members of Congress cannot agree to budget resolutions by the end of the year. The reliance of cardiovascular companies on Medicare reimbursement means any real or threatened reduction in Medicare reimbursement to their hospital customers serves to reduce multiples.

Bottom line…Indiscriminate selling in the past two weeks has lowered valuations in the group to the point where several stocks are unusually attractive. ABMD is our top pick in the small-middle capitalization space following a 35% selloff after the report of the June quarter which met our expectations but which fell short of an overly optimistic survey indication. The Impella pump technology sold by the company is in the process of replacing 40-year old balloon pump technology in high-risk PCI procedures and in AMI cases where the patient goes into cardiogenic shock as Impella offers greater efficacy and lower cost over time. Publication of peer-reviewed results in the next 6-12 months will increase acceptance among interventional cardiologists and may lead to guideline inclusion. EW is our top pick among larger-capitalization companies as the stock has suffered a similar selloff, though not due to quarterly results. Comments from the recent FDA Advisory panel meeting on the company's SAPIEN transcatheter heart valve to treat non-surgical patients have concerned investors looking for expansion of the patient population into the much-larger surgically-qualified space. The tendency of the first generation SAPIEN to cause strokes at higher rate than normal surgical replacement may slow adoption in this population but EW should enjoy years of accelerated growth due to the non-surgical population and then launch next generation SAPIEN valves and delivery systems, currently sold in Europe, that will more safely treat the larger, surgically-qualified patient population. In general, the larger companies grounded in mature domestic technologies will suffer until expansion of infrastructure to more vibrant situations in Asia and South America is complete. The smaller companies whose innovations will drive new surgical patient creation will prosper.

Biotechnology

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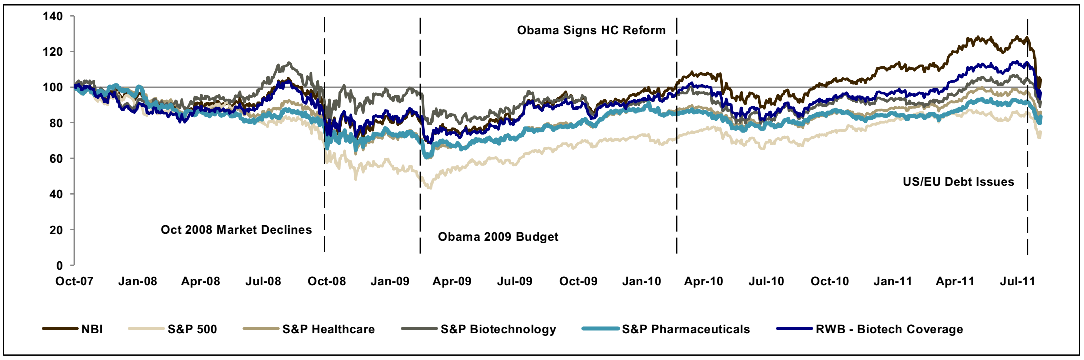

Index / Company	Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
Nasdaq Biotechnology Index	-31.4%	36.3%	51.6%	83.6%	-17.2%
S&P 500	-56.8%	52.7%	68.6%	101.6%	-14.0%
S&P 500 Health Care	-39.9%	31.1%	45.5%	60.9%	-11.1%
S&P 500 Biotechnology	-20.7%	17.3%	22.2%	27.1%	-9.0%
S&P 500 Pharmaceuticals	-38.5%	25.7%	38.9%	48.3%	-8.5%
Composites - RWB Covered Companies Only					
Biotech Coverage	-31.5%	31.3%	44.2%	60.0%	-11.5%

Source: FactSet, Robert W. Baird & Co. Estimates

That was then… As one might expect, biotech (as a defensive sector) tends to outperform in an economic downturn. Indeed, during the last downturn, associated with the Great Recession, biotech was off 31% versus the S&P500 which was off 57%. Likewise, the recovery was less dramatic as biotech was up 84% trough to peak versus S&P500 which was up 102%. Some might argue biotech was held back a bit during the last go 'round as healthcare reform debate in Washington dominated policy dialogue during a good portion of the recovery. Of note, one metric we follow closely – flow of funds in to dedicated biotech/healthcare mutual funds – would appear to support the defensive thesis around biotech. Again, while healthcare reform dialogue may have exacerbated this effect, note that during downturns typically, dollars flow into healthcare. Likewise, upturns generally see a net outflow.

This is now… While the bipartisan Special Joint Committee negotiations between now and November will most definitely create an overhang on healthcare – especially sectors and companies dependent on entitlement spending such as Medicare and Medicaid, we don't think the range of outcomes is nearly as variable as it was during the healthcare reform debate when more radical ideas such as a public option, etc. were on the table. Regardless, we think names with more limited exposure to government spending may outperform during this time. We therefore highlight the following table.

Geographic and US Payer Mix for RWB Biotech Coverage

		Geographic Mix	US Payer Mix
Our List	ACOR	100% US	Medicare <10%, Medicaid <5%
	AFFY	NA	NA
	ALKS	Legacy ALKS: ~55-60% ex-US; EDT ~55-60% ex-US	
	ALXN	40% US, 60% ex-US	~33% Medicare/Medicaid exposure
	AMAG	100% US	
	AMGN	65% US, 35% ex-US	40% Medicare, 5% Medicaid
	AMLN	99% US, 1% ex-US	Very small exposure to Medicare Part D
	ARRY	NA	NA
	BIIB	55% US, 45% ex-US	Neurology: Medicare <10%, Medicaid <5%. Rituxan: Medicare is large part of sales
	BMRN	40% US, 60% ex-US	~33% Medicaid
	CBST	96% US, 4% ex-US	<10% directly exposed to government discounts, rebates, etc.
	CELG	55% US, 45% ex-US	Revlimid/Thalomid: 35% Medicare. Abraxane/Vidaza: Part B drugs, so minimal impact
	CEPH	NA. Getting bought by Teva	NA. Getting bought by Teva
	CERS	100% ex-US	NA
	DNDN	100% US	70% Medicare
	ECYT	NA	NA
	FRX	97% US, 3% Europe	30-35% Government-based
	GILD	56% US, 37% Europe, 7% ROW	23% ADAP, 15% PHS, 15% Medicaid, 10% Medicare Part D (9% Dual Eligibles), 37% Private
	HGSI	100% US	Commercial 57%, Medicaid 16%, Medicare 18%
	INCY	We estimate will be ~80-85% US/~15-20% ex-US	Future payer mix estimated by company as ~40% Medicare, ~5% Medicaid, ~12% self-pay, and the remaining ~40-45% commercial
	ITMN	Ignoring the little bit of ActImmune, will be 100% o-US for first several years of Esbriet launch	NA
	MNKD	NA	NA
	ONXX	30% US, 70% ex-US	Private 50%, Medicare/Medicaid/other gov programs 50%
	OPTR	We estimate will be ~95% US/~5% ex-US	~ 67% of target market is >65 yrs old
	REGN	NA	NA
	SHPGY	~70% US/Canada, ~30% EUR/ROW	Vast majority is Private; Medicaid ~10+%; Medicare <5%
	THRX	NA. Current revenues minimal	NA. Current revenues minimal
	VRTX	We estimate will be ~80-85% US/~15-20% o-US	Company projects 60% Commercial plans, 35% Government plans, 5% Cash payers
	VRUS	NA	NA

Source: Company Reports, Robert W. Baird & Co.

Bottom-line. Investors may have different strategies for playing the recovery, and while there are more stocks we like in each category, we recommend the following as the best vehicles right here:

- HGSI (Raymond) and ITMN (Russo) as "carnage" names that got hit too hard on the fear selling and therefore have the most near-term recovery upside.
- CELG (Raymond) and SHPGY (Russo) as the strongest, most stable places to ride out the storm.
- VRUS (Russo) as an overall top pick we have highest conviction can work in any markets.

Appendix I: Price Target Justification and Risks

Healthcare Facilities and Services / Mayo

Best Ideas

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
HLS	O	$32	$19.30	Government reimbursement and regulation, levered balance sheet, M&A related uncertainties, accelerated de novo strategy	Our $32 price target is derived by applying an 8.5x EV/EBITDA multiple to our 2012 estimate, in line with HLS's historical trading range of 7x-10x. Our valuation framework contemplates the NPV of HLS's $1.9 billion NOL ($400 million) and credit for $225 million in a potential settlement with E&Y.
HMA	O	$13	$7.50	Government reimbursement and regulation, levered balance sheet, M&A related uncertainties, Mercy acquisition/integration, out-sized exposure to Florida and Mississippi	Our $13 price target is derived by applying a 7.0x EV/EBITDA multiple on our 2012 EBITDA estimate, toward the low end of the hospital sector's historical 7x-8x forward multiple. Our EV calculation contemplates our estimate of $250M in net present value from HIT/EMR incentive payments.
UHS	O	$65	$38.11	Government reimbursement and regulation, levered balance sheet, M&A related uncertainties, PSI integration, out-sized exposure to Las Vegas	Our $65 price target is derived by applying an 8x EV/EBITDA multiple on our pro forma combined 2012 estimate (PSYS + UHS), near historical sector valuation ranges of 7x-8x. We believe UHS carries more multiple expansion potential than other hospital providers given the opportunities inherent within the PSYS deal.

Other Companies Mentioned

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
DVA	N	$90	$72.77	Government reimbursement and regulations; not deploying capital, international drag, MCO mix and bundle.	Our $90 price target is based on an 8.5x EV/EBITDA multiple applied to our 2012 estimate, at the midpoint of the company's historical trading range of 8x-9x.
HCA	O	$36	$21.22	Government reimbursement and regulation, levered balance sheet, M&A related uncertainties	Our $36 price target is derived by applying a 7.5x EV/EBITDA multiple on our 2012 estimate, in line with the sector's historical 7x-8x range and a slight premium to multiples we award hospital peers within our coverage universe.

Source: Company Reports, RWB estimates

Healthcare Distribution and Services / Coldwell

Best Ideas

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
PPDI	O	$38	$26.60	Sector risks include disruption from large client M&A activity, and unprecedented pharma industry challenges. PPDI-specific risks include back-weighted guidance pattern, uncertain backlog conversion dynamics associated with newer strategic contracts, and ongoing CEO search process.	Comprehensive methodology suggests Outperform/Average Risk rating and $38 price target. We use a 20.0x multiple for P/E analysis, 10.8% WACC and 3.0% terminal growth for DCF, and 10.0x multiple for EV/EBITDA analysis.
CAH	O	$53	$40.87	Sector risks include indirect exposure to challenging healthcare reimbursement dynamics and headline-induced volatility, complicated by the market's poor understanding of healthcare supply chain economics. CAH-specific risks include customer concentration and acquisition integration.	Comprehensive methodology suggests Outperform/Average Risk rating and $53 price target. We use a 15x multiple for P/E analysis, 8.5% WACC and 2.5% terminal growth for DCF, and 8x multiple for EV/EBITDA analysis.
MDAS	O	$18	$9.90	Sector risks include unprecedented challenges distracting the client base, an onerous healthcare regulatory environment, and exceptional volatility amongst revenue cycle management equities. MDAS-specific risks include acquisition integration, financial leverage, and quarterly model variability.	Comprehensive methodology suggests Outperform/Higher Risk rating and $18 price target. We use a 15.0x multiple for P/E analysis, 7.6% WACC and 0.0% terminal growth for DCF, and 9.0x multiple for EV/EBITDA analysis.
MDRX	O	$27	$15.27	Sector risks include significant industry-wide regulation, increased competition and potential pricing pressure. MDRX-specific risks include Eclipsys integration risk and recent management turnover.	Comprehensive methodology suggests Outperform/Average Risk rating and $27 price target. We use a 25.0x multiple for P/E analysis, 10.9% WACC and 3.0% terminal growth for DCF, and 13.0x multiple for EV/EBITDA analysis.

Source: Company Reports, RWB estimates

MedTech / Johnson					
Best Ideas					
Ticker	**Rating**	**Price Target**	**Current Price**	**Risks**	**Price Target Justification**
COO	O	$89	$70.49	Highly competitive market, sustainability of 8-10% effective tax rate, and integration risk associated with ongoing deals in women's health and recent Aime deal in Japan.	Our $89 price target represents 18x our forward-year NTM EPS projection, or 16x after accounting for ~$11-$13 in net present value tied to the FY'15 and FY'16 expiration of CIBA's Nicolson patents. While this is well above 5-year average levels of ~14x, COO's low to mid-teens annual earnings growth potential warrants such a premium, in our view.
XRAY	O	$45	$33.84	General dental market risk, potential gross margin pressures tied to Fx, potential ortho share losses from Japanese ortho supply issue, sensitivity to dealer purchasing patterns, outsized exposure to the international markets, and acquisition/integration risk.	Our $45 price target represents 18x our 2013 cash EPS projection (EPS ex amortization expense related to AstraTech deal only), discounted back at 12.5%. We believe this multiple is somewhat conservative, as it is in-line with the company's 5-year average, even though EPS growth could reach ~15% by H2-12 vs. 5-year average of ~8%.
Other Companies Mentioned					
Ticker	**Rating**	**Price Target**	**Current Price**	**Risks**	**Price Target Justification**
HSIC	O	$81	$63.10	General dental market risk, acquisition/integration risk, and potential uncertainty surrounding flu vaccine distribution in H2-11.	Our $81 price target represents 18x our forward-year NTM EPS projection vs. 10-year average multiple of 17.3x. We believe premium is justified given the solid EPS growth potential (12-15%) over the next 3-5 years.
SYK	O	$69	$48.54	Slower-than-expected recovery in employment (fewer with insurance coverage) and/or consumer spending trends (patients less willing to pay procedure co-pays), increasing price/mix pressures, regulatory uncertainty, near-term hospital capex spending uncertainty.	Our $69 price target represents 16x our forward-year NTM EPS projection, above the ~13x median NTM EPS multiple for the both the ortho/spine group and the Medtech Top 50 comp group (by market cap), which we believe is justified given SYK's expected ability to deliver double-digit EPS growth in 2011 and beyond.
VAR	N	$72	$55.44	Delayed recovery in domestic hospital capex budgets, potential for European government budget cuts impacting healthcare spending, outsized exposure to a select group of x-ray customers, improved efficiency for new technologies cannibalizing new system sales.	$72 price target represents 16.5x our forward-year NTM EPS projection vs. 5-year average multiple closer to ~19x. Current discount warranted, in our view, by uncertain near- and intermediate-term domestic and European hospital capex spending uncertainty, which is accentuated by tough upcoming comps the company will encounter.

Source: Company Reports, RWB estimates

Life Science Tools & Diagnostics / Lai					
Best Ideas					
Ticker	**Rating**	**Price Target**	**Current Price**	**Risks**	**Price Target Justification**
TMO	O	$79	$53.64	Integration, intellectual property, litigation, capex exposure, fluctuations in foreign currency	Our $79 price target is based on a target P/E multiple of 16.0x on our 2012 pro forma EPS estimate of $4.65 plus the midpoint of TMO's expected accretion range for Phadia of $0.28. We note our estimates for 2012 do not yet include the impact of this transaction. Historically, we have afforded a 15-25x P/E multiple range for life science tools companies, like TMO, and we believe our target P/E multiple is in line with this range.
EXAS	O	$13	$6.44	FDA and other governmental regulation, dependence on strategic partnerships, reimbursement, delays in product development and commercial launches, cash usage, intellectual property, competition and leadership	Our $13 price target is based on a target Price/Sales multiple of 5.5x on our 2019 revenue estimate of $878.3 million, which reflects a three-year testing interval, discounted back to 2012 by 35%. EXAS faces a number of hurdles before achieving commercialization of its colorectal cancer screening assay. We feel our 35% discount rate appropriately reflects the uncertainty regarding EXAS' market opportunity. We think this Price/Sales multiple is appropriate and is on the lower end of a 5-9x range typically afforded to molecular diagnostics companies

Source: Company Reports, RWB estimates

Life Science Tools & Diagnostics / Lai - Continued

Other Companies Mentioned

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
CPHD	O	$37	$33.99	FDA and other governmental regulation, reliance on partners and major customers, new product launches, IP, technological obsolescence, cash usage and competition.	Our $37 price target is based on a target P/Sales multiple of 7.5x on our 2012 estimated revenues of $330 million. Our 7.5x P/Sales multiple is in line with a historical 4-9x P/Sales trading range we have historically afforded high-growth, molecular/specialty diagnostic companies.
BLUD	N	$27	$26.79	Acquiring firm TPG Capital failing to complete acquisition, changes in competitive landscape, reduced hospital spending, technological obsolescence, ongoing FTC and FDA investigations and other potentially related litigation, and adherence to FDA and EU regulations.	Our $27 price target is based primarily upon the proposed acquisition price by TPG, which implies a target P/E multiple of 20.6x on our CY2012 EPS estimate of $1.31. This multiple is slightly above a 15-20x range we historically afford traditional diagnostics companies and four points below the low end of a 25-40x historical range we use for specialty/molecular diagnostics companies. Our estimates exclude any impact from the ongoing FDA investigation.

Source: Company Reports, RWB estimates

Cardiovascular Devices / Neibor

Best Ideas

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
ABMD	O	$20	$11.66	Healthcare reform, new CMS leader, price versus IABP, market development, lack of profits, and technology risk.	Our $20 price target represents 5x our calendar 2013E sales of $180.9 million. Over the past year, ABMD has traded between $19 and $8, indicating a 4.6x-2.1x multiple on the same basis. The premium multiple assumes increased penetration due to the generally favorable results of Protect II and the potential for guideline inclusion by the end of 2012.
EW	O	$105	$69.15	Competition, stroke risk, healthcare reform, aggressive valuation, and technology risk.	Our $105 price target is 40x our 2012 EPS estimate of $2.75 discounted back at 10%. EW has traded between $92 and $53 over the last 12 months, indicating a multiple of 33x-10x on the same basis. We believe a premium multiple is jusitified because we think the stock market will increasingly value high-growth, unique medical device companies.

Source: Company Reports, RWB estimates

Biotech / Raymond and Russo

Best Ideas

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
HGSI	O	$27	$15.68	Key risks for HGSI are the potential that Benlysta may not live up to expectations, as well as clinical and regulatory risk for pipeline programs.	Our $27 price target on HGSI shares is derived by applying a 27.5 multiple to our 2014 EPS estimate of $1.35, discounted back by 15%/year. Biotech's top profitable companies have traditionally traded between 20X and 30X current-year consensus EPS, although large-cap biotechs currently trade well below this range. Given what we see as a strong growth potential for Benlysta, we believe using a higher multiple is warranted.
CELG	O	$70	$54.43	Key risks include fierce competition in oncology, generic headline risk, and execution risk related to the Abraxis acquisition.	In that big-cap commercial biotechnology companies currently trade on average near 13X 2012 consensus EPS, and assuming that CELG is at the front end of what we anticipate to be a comparatively steep EPS growth curve, we believe a higher multiple is justified. Therefore, we apply a, 17 multiple to our 2012 EPS estimate of $4.32, discounted back by 15%/year to derive our 12-month price target of $70.

Source: Company Reports, RWB estimates

Biotech / Raymond and Russo - Continued

Best Ideas

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
ITMN	O	$56	$22.94	Binary Event: high even by biotechnology standards. Competition: does not project to be a major issue in the IPF marketplace, at least over the near- and intermediate-term horizons. Commercialization: a somewhat lower risk proposition, as the company previously had a sales and marketing team for ActImmune. Shareholder Dilution: high risk, as ITMN remains in cash-burn mode.	Our $56 price target is a weighted average of three components. We apply a P/E of 15.0x (group average currently toward low end of 10-20x range over the past two years) to our 2015E EPS, a P/S of 6.0x (group average currently toward low end of 4-7x range over the past two years) to our 2015E revenues, and our Sum of the Parts DCF analysis uses a discount rate based on the CAPM model.
SHPGY	O	$114	$95.67	FX: makes EPS estimates somewhat of a moving target. Binary event risk: with multiple marketed products, Shire's binary event risk is mitigated somewhat. Competition: Shire competes against many established companies both in terms of currently approved and pipeline products. Business Development: SHPGY is known to be very interested in additional products via in-licensing or acquisition.	Our $114 price target is a weighted average of three components. We apply a P/E of 17.5x (group average toward low end of 4-7x range over the past two years) to our 2012E revenues, and our Sum of the Parts DCF analysis uses a discount rate based on the CAPM model.
VRUS	O	$145	$125.03	Binary Event: tracks with catalyst flow and is most linked to R7128 and PSI-7977. Competition: Many companies large and small are working in the HCV space. Shareholder Dilution: partner Roche is funding development of R7128. VRUS projects to require additional capital to take its wholly-owned compounds PSI-7977 and -938 forward.	Our $145 price target is a weighted average of three components. We apply a P/E of 15.0x (group average curently toward low end f 10-20x range over the past two years) to our 2017E EPS, a P/S of 6.5x (group average currently toward low-end of 4-6x range over the past two years) to our 2017E revenues, and our Sum of the Parts DCF analysis uses a discount rate based on the CAPM model. The premium P/E and P/S multiples reflect the significant upside value of the company's early/mid-stage pipeline in HCV.

Other Companies Mentioned

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
AMLN	N	$14	$10.11	Binary event risk: much is riding on the future development, regulatory and commercial success of Bydureon once-weekly exenatide (a.k.a., LAR). Competition: NVO's Victoza (liraglutide), a once-daily GLP-1, is now approved in Europe and the US. Balance sheet/shareholder dilution risk: AMLN is not, and never has been, profitable. Though it generates considerable gross profits from the sale of Byetta and Symlin, the company is in cash-burn mode due to its significant R&D and SG&A investments.	Our $14 price target is a weighted average of three components. We apply a P/E of 25.0x (group average currently toward low end of 10x-20x range over the past two years) to our 2016E EPS and discount back, a P/S of 3.5x (group average currently toward low end of 4-7x range over the past two years) to our 2016E revenues, and our Sum of the Parts DCF analysis uses a discount rate based on the CAPM model. The premium P/E multiple is to account for the obesity pipeline, and the discounted P/S multiple accounts for majority of revenues shared with LLY.
GILD	O	$49	$37.43	Competition: Gilead competes against many established companies, including Big Pharma, in its antiviral, cardiovascular and respiratory franchises -- both in terms of currently approved and pipeline products. Binary event risk: Gilead has less binary event risk exposure than the average biotechnology company, due to its deep, established portfolio of commercialization-stage products. Reliance on third parties: Gilead relies on third parties for manufacturing of currently approved and pipeline products, which reduces its direct control over these activities.	Our $49 target price is a weighted average of three components. We apply a P/E of 12.5x (group average currently toward low end of 10-20x range over the past two years) to our 2012E EPS, a P/S of 4.5x (group average currently toward low end of 4-7x range over the past two years) to our 2012E revenues, and our Sum of the Parts DCF analysis uses a discount rate based on the CAPM model.

Source: Company Reports, RWB estimates

Biotech / Raymond and Russo - Continued

Other Companies Mentioned

Ticker	Rating	Price Target	Current Price	Risks	Price Target Justification
INCY	O	$24	$14.83	Binary event risk: While we view INCY's broad and deep pipeline and its steady stream of catalysts as a positive, INCY is exposed to a correspondingly higher number of binary events. Commercialization risk: INCY intends to build its own US commercialization infrastructure in myeloproliferative diseases and in at least some inflammation and oncology areas. Competition: Currently out in front in developing the first targeted therapy for MPD, INCY does not project to face significant competition, at least initially, in this area. Shareholder dilution risk: Recent financing and partnership activity greatly reduced this risk and should have INCY set with sufficient capital all the way through the start of positive cash flows.	Our $24 price target is a weighted-average of three components. We apply a P/E of 15.0x (group average currently toward low end of 10-20x range over the past two years) to our 2015E EPS, a P/S of 6.5x (group average currently toward low end of 4-6x range over the past two years) to our 2015E revenues, and our Sum of the Parts DCF analysis uses a discount rate based on the CAPM model. The premium P/E and P/S multiples are to account for very significant upside potential across various sizable disease areas such as diabetes/dyslipidemia, rheumatoid arthritis, psoriasis and cancer.
OPTR	O	$18	$8.06	Binary event risk: now shifts to the regulatory front, where Dificid is now approved in the US and filed in Europe (opinion likely ~Q4-11). Commercializaton risk: OPTR intends to commercialize Dificid itself in the US, with initial help from co-promotion partner CBST, which we view positively as it accelerates and broadens the launch, allows retention of most of the economics, and can be accomplished with ~100 individuals on the OPTR side. The flip side, however, is the need to invest in and develop this new capability in-house. Competition: while new agents for CDI are in development by competitors, Genzyme's high-profile tolevamer failure allowed OPTR to move into the lead.	Our $18 price target is a weighted-average of three components. We apply a P/E of 15.0x (group average currently toward low end of 10-20x range over the past two years) to our 2015E EPS, a P/S of 5.0x (group average currently toward the low end of 4-6x range over the past two years) to our 2015E revenues, and our Sum of the Parts DCF analysis uses a discount rate based on the CAPM model.
VRTX	O	$62	$44.49	Binary event risk: Much is riding on the regulatory and commercial success of Incivek (telaprevir). This compound is now approved in the US and filed in Europe with a CHMP opinion expected Summer-11. Competition: all eyes are on MRK's Victrelis, another protease inhibitor approved in HCV, which is the closest competition to Incivek in terms of stage of development and mechanism of action. Commercializaton risk: Vertex is building its own commercialization infrastructure to sell Incivek in the US, if it is approved. Balance sheet/shareholder dilution risk: Vertex is not, and never has been, profitable. The company is in cash-burn mode, due primarily to its significant R&D investments.	Our price target of $62 is a weighted average of three components. We apply a P/E of 15.0x (group average currently toward low end of 10-20x range over past two years) to our 2014E EPS, a P/S of 6.0x (group average currently toward low end of 4-7x range over past two years) to our 2014E revenues, and our Sum of the Parts DCF analysis uses a discount rate based on the CAPM model.

Source: Company Reports, RWB estimates

Appendix II: Historical Performance Metrics

Index	Index Performance Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
S&P 500	-56.8%	52.7%	68.6%	101.6%	-14.0%
S&P 500 Health Care	-39.9%	31.1%	45.5%	60.9%	-11.1%
S&P 500 Health Care Equipment & Supplies	-42.3%	40.2%	54.1%	63.3%	-16.0%
S&P 500 Biotechnology	-20.7%	17.3%	22.2%	27.1%	-9.0%
S&P 500 Pharmaceuticals	-38.5%	25.7%	38.9%	48.3%	-8.5%
S&P 500 Health Care Providers & Services	-52.6%	53.9%	79.2%	128.6%	-12.0%
S&P 500 Health Care Technology	-63.2%	27.4%	96.3%	233.3%	-3.3%
S&P 500 Life Sciences Tools & Services	-41.1%	49.8%	74.9%	123.9%	-22.2%

Source: FactSet, Robert W. Baird & Co. Estimates

Jeff Johnson - Medical Technology Performance Metrics

Ticker	Company	Index Performance Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
ADPI	American Dental Partners Inc.	-75.5%	110.9%	100.0%	100.2%	-19.8%
COO	Cooper Cos.	-58.4%	38.6%	97.9%	279.2%	-5.4%
EXAC	Exactech Inc.	-20.2%	27.8%	61.0%	45.4%	-11.5%
HSIC	Henry Schein Inc.	-45.5%	59.5%	62.6%	112.2%	-14.1%
NUVA	NuVasive Inc.	-28.6%	59.8%	62.3%	18.3%	-25.8%
PDCO	Patterson Cos. Inc.	-58.7%	67.1%	83.9%	112.0%	-17.7%
SIRO	Sirona Dental Systems Inc.	-69.3%	141.1%	220.8%	395.0%	-23.8%
SYK	Stryker Corp.	-57.5%	44.9%	76.3%	89.2%	-19.4%
VAR	Varian Medical Systems Inc.	-37.0%	58.8%	93.0%	155.7%	-22.8%
WMGI	Wright Medical Group Inc.	-57.3%	41.2%	44.0%	39.3%	-14.3%
XRAY	Dentsply International Inc.	-49.1%	54.8%	58.1%	71.6%	-11.8%
YDNT	Young Innovations Inc.	-53.0%	67.9%	113.1%	136.3%	-7.8%
ZMH	Zimmer Holdings Inc.	-61.0%	54.2%	84.0%	103.1%	-19.2%

Source: FactSet, Robert W. Baird & Co. Estimates

Tom Russo - Biotechnology Performance Metrics

Ticker	Company	Index Performance Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
ALKS	Alkermes Inc.	-54.6%	13.2%	54.7%	72.7%	-0.2%
AMLN	Amylin Pharmaceuticals Inc.	-82.3%	46.8%	130.9%	56.5%	-24.3%
CEPH	Cephalon Inc.	-18.7%	-6.2%	14.6%	24.7%	3.3%
CBST	Cubist Pharmaceuticals Inc.	-35.7%	49.3%	54.0%	136.6%	-5.1%
FRX	Forest Laboratories Inc.	-51.2%	55.3%	60.0%	76.5%	2.8%
GILD	Gilead Sciences Inc.	3.8%	8.0%	8.5%	-11.1%	-5.1%
INCY	Incyte Corp.	-74.7%	241.0%	514.1%	801.5%	-25.7%
ITMN	InterMune Inc.	-27.0%	14.2%	55.3%	227.5%	-51.8%
MNKD	MannKind Corp.	-80.8%	290.4%	354.6%	90.4%	-45.6%
OPTR	Optimer Pharmaceuticals Inc.	38.4%	19.4%	21.1%	12.8%	-39.2%
SHPGY	Shire PLC ADS	-56.5%	57.3%	101.9%	184.3%	-0.2%
THRX	Theravance Inc.	-55.7%	38.5%	5.3%	129.5%	-33.3%
VRTX	Vertex Pharmaceuticals Inc.	-24.3%	36.9%	56.1%	104.2%	-21.2%
VRUS	Pharmasset Inc.	-41.7%	149.7%	176.1%	1148.1%	15.2%

Source: FactSet, Robert W. Baird & Co. Estimates

Larry Neibor - Cardiovascular Devices Performance Metrics

Ticker	Company	Index Performance Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
ABMD	Abiomed Inc.	-61.5%	58.6%	112.5%	239.5%	-38.1%
BCR	C.R. Bard Inc.	-18.9%	13.3%	16.6%	49.7%	-14.8%
BSX	Boston Scientific Corp.	-58.1%	86.6%	26.1%	22.0%	-15.2%
CSII	Cardiovascular Systems Inc.	-88.2%	17.0%	-32.6%	57.3%	21.5%
CYBX	Cyberonics Inc.	-5.6%	4.6%	29.8%	145.4%	-27.5%
ELGX	Endologix Inc.	-61.1%	244.8%	168.4%	455.9%	12.2%
EW	Edwards Lifesciences Corp.	7.0%	18.9%	76.6%	216.5%	-23.5%
HTWR	HeartWare International Inc	N/A	11.8%	51.8%	192.6%	-16.8%
MDT	Medtronic Inc.	-57.0%	60.2%	83.5%	71.2%	-25.3%
OMPI	Obagi Medical Products Inc.	-81.2%	145.0%	195.5%	220.8%	-23.9%
STJ	St. Jude Medical Inc.	-25.0%	17.2%	15.5%	60.6%	-20.7%
THOR	Thoratec Corp.	-4.0%	33.0%	56.9%	50.5%	1.7%
VOLC	Volcano Corp.	-29.8%	20.4%	87.6%	109.4%	5.8%

Source: FactSet, Robert W. Baird & Co. Estimates

Quintin Lai - Life Sciences & Diagnostics Performance Metrics

Ticker	Company	Index Performance: Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
AFFX	Affymetrix Inc.	-93.6%	384.8%	339.3%	203.4%	-11.5%
GNOM	Complete Genomics Inc.	N/A	N/A	N/A	N/A	-51.3%
ILMN	Illumina Inc.	11.6%	19.6%	20.5%	119.3%	-26.1%
LIFE	Life Technologies Corp.	-36.2%	72.9%	93.8%	105.0%	-30.0%
PKI	PerkinElmer Inc.	-62.3%	69.1%	113.8%	157.0%	-21.4%
SIAL	Sigma-Aldrich Corp.	-36.9%	59.0%	66.3%	123.1%	-12.3%
TECH	Techne Corp.	-31.9%	37.6%	42.5%	70.3%	-8.1%
TMO	Thermo Fisher Scientific Inc.	-44.7%	39.5%	52.9%	82.6%	-12.3%
WAT	Waters Corp.	-52.6%	68.0%	101.7%	208.7%	-22.7%
BGMD	BG Medicine Inc.	N/A	N/A	N/A	N/A	-1.8%
BLUD	Immucor Inc.	-45.9%	-12.3%	1.0%	4.6%	22.3%
CPHD	Cepheid	-77.6%	147.7%	237.6%	486.4%	2.9%
EXAS	EXACT Sciences Corp.	-83.0%	256.4%	460.3%	926.9%	-20.2%
GPRO	Gen-Probe Inc.	-43.6%	0.4%	18.4%	110.0%	-29.0%
QGEN	Qiagen N.V.	-23.8%	32.8%	43.2%	36.9%	-30.8%
VIVO	Meridian Bioscience Inc.	-48.7%	49.2%	34.6%	44.3%	-24.8%

Source: FactSet, Robert W. Baird & Co. Estimates

Whit Mayo - Healthcare Services Performance Metrics

Ticker	Company	Index Performance: Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
ADUS	Addus HomeCare Corp.	N/A	N/A	N/A	N/A	-24.0%
AIQ	Alliance HealthCare Services Inc.	-26.9%	-22.7%	-27.6%	-36.1%	-64.3%
AMSG	Amsurg Corp.	-42.5%	56.4%	58.5%	94.5%	-20.4%
AFAM	Almost Family Inc.	-21.7%	85.0%	137.0%	129.6%	-45.9%
AMED	Amedisys Inc.	-35.4%	41.7%	126.9%	28.6%	-49.5%
CYH	Community Health Systems Inc.	-56.9%	129.4%	172.5%	134.2%	-34.6%
DVA	DaVita Inc.	-31.8%	22.4%	41.3%	99.1%	-17.8%
GTIV	Gentiva Health Services Inc.	-33.7%	68.4%	115.6%	112.4%	-76.6%
HCA	HCA Holdings Inc.	N/A	N/A	N/A	N/A	-40.6%
HLS	HealthSouth Corp.	-58.6%	111.3%	143.0%	253.5%	-24.3%
HMA	Health Management Associates Inc. Cl A	-74.1%	305.7%	339.7%	548.3%	-33.6%
LHCG	LHC Group	-19.7%	66.7%	89.4%	74.2%	-39.6%
LPNT	LifePoint Hospitals Inc.	-39.9%	37.3%	82.5%	132.1%	-23.6%
MDTH	MedCath Corp.	-79.5%	52.0%	53.7%	129.0%	-2.1%
SEM	Select Medical Holdings Corporation	N/A	N/A	N/A	N/A	-30.5%
STON	StoneMor Partners L.P.	-58.1%	49.1%	96.7%	166.4%	-1.5%
THC	Tenet Healthcare Corp.	-73.9%	465.6%	497.8%	670.0%	-28.9%
UHS	Universal Health Services Inc. Cl B	-39.3%	92.2%	111.4%	255.9%	-30.4%
VHS	Vanguard Health Systems Inc.	N/A	N/A	N/A	N/A	N/A

Source: FactSet, Robert W. Baird & Co. Estimates

Chris Raymond - Biotechnology Performance Metrics

Ticker	Company	Index Performance: Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
ACOR	Acorda Therapeutics Inc.	7.5%	-5.9%	46.9%	21.9%	-4.4%
AFFY	Affymax Inc.	-56.1%	86.1%	65.9%	-47.0%	-33.2%
ALXN	Alexion Pharmaceuticals Inc.	-10.8%	43.4%	69.0%	206.1%	4.4%
AMAG	AMAG Pharmaceuticals Inc.	-63.8%	72.4%	37.4%	-25.0%	-21.3%
AMGN	Amgen Inc.	-18.9%	27.9%	24.8%	22.9%	-12.7%
ARRY	Array BioPharma Inc.	-77.8%	13.1%	-2.4%	23.1%	-26.2%
BIIB	Biogen Idec Inc.	-34.8%	16.4%	32.0%	122.8%	-9.5%
BMRN	BioMarin Pharmaceutical Inc.	-61.9%	62.1%	118.1%	165.2%	-0.9%
CELG	Celgene Corp.	-45.7%	29.7%	54.6%	47.3%	-8.9%
CERS	Cerus Corp.	-92.0%	183.5%	243.3%	284.9%	-27.4%
DNDN	Dendreon Corp.	-66.9%	808.3%	1279.2%	1545.1%	-76.4%
ECYT	Endocyte Inc.	N/A	N/A	N/A	N/A	-3.8%
HGSI	Human Genome Sciences Inc.	-94.5%	3465.5%	5683.6%	5258.2%	-47.9%
ONXX	Onyx Pharmaceuticals Inc.	-39.8%	27.7%	14.5%	41.9%	-19.2%
REGN	Regeneron Pharmaceuticals Inc.	-29.2%	77.5%	106.9%	311.6%	-1.8%

Source: FactSet, Robert W. Baird & Co. Estimates

Eric Coldwell - Healthcare Distribution & Services Performance Metrics

Ticker	Company	Index Performance				
		Down Turn (10/9/07 - 3/9/09)	6 Mo. After Trough (3/9/09 - 9/9/09)	12 Mo. After Trough (3/9/09 - 3/9/10)	Trough to Peak (3/9/09 - 4/29/11)	Down Turn (4/29/11 - 8/11/11)
ABC	AmerisourceBergen Corp.	-33.2%	42.0%	85.4%	169.2%	-7.9%
CAH	Cardinal Health Inc.	-54.7%	25.8%	65.0%	104.8%	-7.3%
MCK	McKesson Corp.	-35.0%	47.2%	55.4%	113.5%	-4.6%
PSSI	PSS World Medical Inc.	-30.6%	57.1%	64.4%	112.3%	-18.8%
OMI	Owens & Minor Inc.	-22.9%	46.4%	47.2%	67.9%	-14.8%
CRL	Charles River Laboratories International Inc.	-57.0%	47.4%	56.3%	73.8%	-26.6%
CVD	Covance Inc.	-58.4%	67.5%	78.6%	89.8%	-22.5%
ICLR	Icon PLC ADS	-36.1%	25.9%	35.8%	39.9%	-21.3%
PPDI	Pharmaceutical Product Development Inc.	-46.9%	0.6%	6.0%	58.0%	-16.3%
PRXL	PAREXEL International Corp.	-67.8%	72.9%	194.5%	273.6%	-31.1%
AH	Accretive Health Inc.	N/A	N/A	N/A	N/A	-3.7%
ATHN	athenahealth Inc.	-29.9%	48.4%	43.5%	73.5%	12.8%
CERN	Cerner Corp.	-39.9%	71.1%	118.7%	213.2%	-3.3%
MDAS	MedAssets Inc.	N/A	66.6%	59.7%	21.5%	-38.2%
MDRX	Allscripts Healthcare Solutions Inc.	-68.4%	94.2%	130.0%	155.5%	-29.1%
MRGE	Merge Healthcare Inc.	-70.3%	172.3%	66.2%	279.2%	28.6%
QSII	Quality Systems Inc.	-2.6%	51.9%	50.3%	138.4%	-11.6%

Source: FactSet, Robert W. Baird & Co. Estimates

Appendix - Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are the August 12, 2011 closing price.

Abiomed Inc. (ABMD - $11.66 - Outperform)
Accretive Health, Inc. (AH - $27.20 - Outperform)
Acorda Therapeutics (ACOR - $26.77 - Neutral)
Addus HomeCare Corp. (ADUS - $4.70 - Outperform)
Affymax, Inc. (AFFY - $4.51 - Outperform)
Affymetrix, Inc. (AFFX - $4.89 - Outperform)
Alexion Pharmaceuticals, Inc. (ALXN - $52.59 - Neutral)
Alkermes, Inc. (ALKS - $14.67 - Neutral)
Alliance HealthCare Services (AIQ - $1.66 - Neutral)
Allscripts Healthcare Solutions, Inc. (MDRX - $15.27 - Outperform)
Almost Family, Inc. (AFAM - $18.14 - Neutral)
AMAG Pharmaceuticals, Inc. (AMAG - $14.97 - Outperform)
Amedisys, Inc. (AMED - $16.64 - Neutral)
American Dental Partners, Inc. (ADPI - $10.58 - Outperform)
AmerisourceBergen Corporation (ABC - $38.30 - Outperform)
Amgen Inc. (AMGN - $50.00 - Outperform)
AmSurg Corporation (AMSG - $21.52 - Neutral)
Amylin Pharmaceuticals, Inc. (AMLN - $10.11 - Neutral)
Array BioPharma Inc. (ARRY - $2.23 - Neutral)
athenahealth, Inc. (ATHN - $53.00 - Neutral)
BG Medicine, Inc. (BGMD - $6.72 - Outperform)
Biogen Idec Inc. (BIIB - $90.98 - Neutral)
BioMarin Pharmaceutical Inc. (BMRN - $27.10 - Outperform)
Boston Scientific Corp. (BSX - $6.41 - Neutral)
C.R. Bard, Inc. (BCR - $91.72 - Neutral)
Cardinal Health, Inc. (CAH - $40.87 - Outperform)
Cardiovascular Systems, Inc. (CSII - $14.03 - Neutral)
Celgene Corporation (CELG - $54.43 - Outperform)
Cephalon, Inc. (CEPH - $79.88 - Neutral)
Cepheid (CPHD - $33.99 - Outperform)
Cerner Corporation (CERN - $58.18 - Outperform)
Cerus Corporation (CERS - $2.04 - Neutral)
Charles River Laboratories (CRL - $30.84 - Outperform)
Community Health Systems, Inc. (CYH - $20.01 - Outperform)
Covance Inc. (CVD - $49.34 - Outperform)
Cubist Pharmaceuticals, Inc. (CBST - $32.92 - Outperform)
Cyberonics, Inc. (CYBX - $26.33 - Outperform)
DaVita, Inc. (DVA - $72.77 - Neutral)
Dendreon Corporation (DNDN - $10.37 - Neutral)
DENTSPLY International Inc. (XRAY - $33.84 - Outperform)
Edwards Lifesciences Corp. (EW - $69.15 - Outperform)
Endologix, Inc. (ELGX - $8.99 - Outperform)
Exactech, Inc. (EXAC - $15.42 - Neutral)
Exact Sciences Corporation (EXAS - $6.44 - Outperform)
Forest Laboratories, Inc. (FRX - $34.25 - Neutral)
Gen-Probe Incorporated (GPRO - $58.99 - Outperform)
Gentiva Health Services, Inc. (GTIV - $6.57 - Neutral)
Gilead Sciences, Inc. (GILD - $37.43 - Outperform)
HCA Holdings, Inc. (HCA - $21.22 - Outperform)
Health Management Associates, Inc. (HMA - $7.50 - Outperform)
HealthSouth Corporation (HLS - $19.30 - Outperform)

HeartWare International, Inc. (HTWR - $62.65 - Neutral)
Henry Schein, Inc. (HSIC - $63.10 - Outperform)
Human Genome Sciences, Inc. (HGSI - $15.68 - Outperform)
ICON plc (ICLR - $19.19 - Neutral)
Illumina, Inc. (ILMN - $51.95 - Neutral)
Immucor, Inc. (BLUD - $26.79 - Neutral)
Incyte Corporation (INCY - $14.83 - Outperform)
InterMune, Inc. (ITMN - $22.94 - Outperform)
LHC Group, Inc. (LHCG - $17.99 - Neutral)
LifePoint Hospitals, Inc. (LPNT - $32.08 - Outperform)
Life Technologies Corporation (LIFE - $38.42 - Outperform)
MannKind Corporation (MNKD - $2.79 - Underperform)
McKesson Corporation (MCK - $79.02 - Outperform)
MedAssets, Inc. (MDAS - $9.90 - Outperform)
MedCath Corporation (MDTH - $13.14 - Neutral)
Medtronic, Inc. (MDT - $31.54 - Neutral)
Merge Healthcare Inc. (MRGE - $6.31 - Outperform)
Meridian Bioscience, Inc. (VIVO - $18.94 - Outperform)
NuVasive Inc. (NUVA - $24.05 - Outperform)
Obagi Medical Products, Inc. (OMPI - $9.67 - Neutral)
Onyx Pharmaceuticals, Inc. (ONXX - $31.34 - Neutral)
Optimer Pharmaceuticals, Inc. (OPTR - $8.06 - Outperform)
Owens & Minor, Inc. (OMI - $28.88 - Neutral)
PAREXEL International Corporation (PRXL - $19.27 - Outperform)
Patterson Companies, Inc. (PDCO - $29.04 - Neutral)
PerkinElmer, Inc. (PKI - $22.53 - Outperform)
Pharmaceutical Product Development (PPDI - $26.60 - Outperform)
Pharmasset, Inc. (VRUS - $125.03 - Outperform)
PSS World Medical, Inc. (PSSI - $23.35 - Outperform)
QIAGEN N.V. (QGEN - $15.12 - Outperform)
Quality Systems, Inc. (QSII - $79.77 - Neutral)
Regeneron Pharmaceuticals (REGN - $54.18 - Neutral)
Shire plc (SHPGY - $95.67 - Outperform)
Sigma-Aldrich Corporation (SIAL - $63.17 - Outperform)
Sirona Dental Systems, Inc. (SIRO - $44.81 - Neutral)
St. Jude Medical, Inc. (STJ - $42.72 - Outperform)
StoneMor Partners LP (STON - $28.23 - Outperform)
Stryker Corporation (SYK - $48.54 - Outperform)
TECHNE Corp. (TECH - $72.50 - Outperform)
Tenet Healthcare Corporation (THC - $4.95 - Neutral)
The Cooper Companies (COO - $70.49 - Outperform)
Theravance, Inc. (THRX - $18.51 - Neutral)
Thermo Fisher Scientific (TMO - $53.64 - Outperform)
Thoratec Corp. (THOR - $31.73 - Neutral)
Varian Medical Systems, Inc. (VAR - $55.44 - Neutral)
Vertex Pharmaceuticals, Incorporated (VRTX - $44.49 - Outperform)
Volcano Corporation (VOLC - $28.87 - Outperform)
Waters Corporation (WAT - $78.89 - Outperform)
Wright Medical Group, Inc. (WMGI - $14.32 - Neutral)
Young Innovations Inc. (YDNT - $27.97 - Outperform)
Zimmer Holdings, Inc. (ZMH - $53.23 - Outperform)
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