

Owens & Minor (OMI)

January 24, 2010

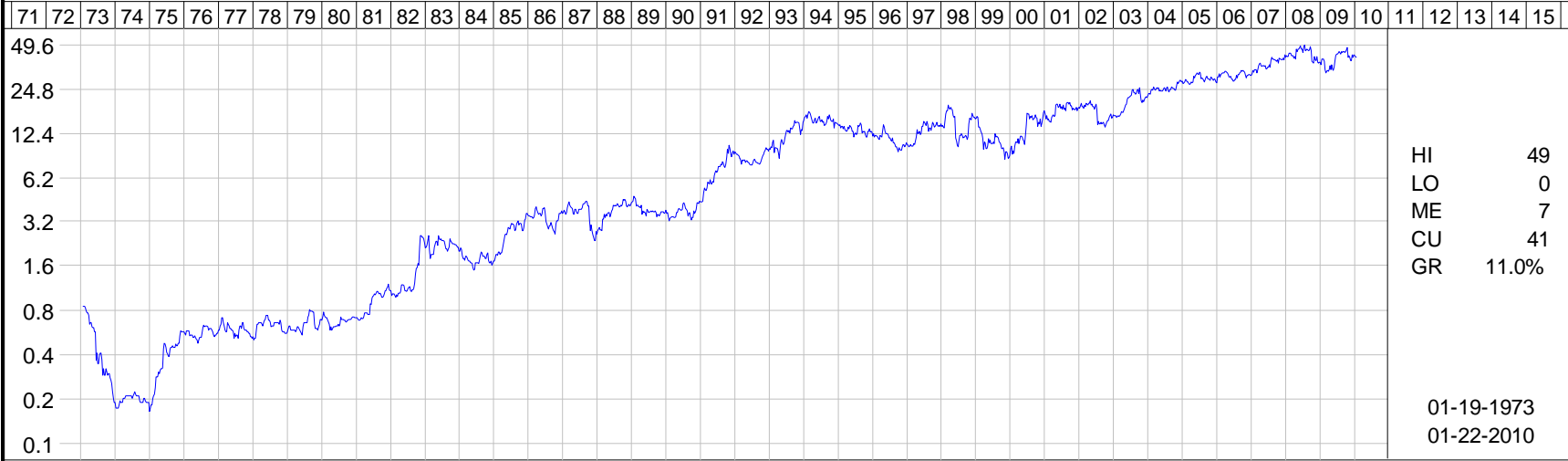
AB Analytical
Services

Summary

- Leading Med-Surg Distributor focused on Acute Care
- Steady Growth – Organic and Acquisition
- Dividend Growth Story – 2.26%
- Valuation relatively attractive at 13.7X PE

OWENS & MINOR INCORPORATED (OMI) Price 40.68

StockVal®



HI 49
 LO 0
 ME 7
 CU 41
 GR 11.0%

01-19-1973
 01-22-2010

PRICE



HI 6.82
 LO 0.25
 ME 1.94
 CU 5.21

01-19-1973
 01-22-2010

PRICE RELATIVE TO S&P 500 INDEX WITH OPERATING EPS (SPX)

Profile

Company Profile										
OWENS & MINOR INCORPORATED (OMI)								StockVal ®		
Price 40.680 01/22/10 FYE Dec										
Business Description:										
Owens & Minor, Inc. (O&M) is a distributor of medical and surgical supplies to the acute-care market and a healthcare supply-chain management company. In its acute-care supply distribution business, the Company distributes over 220,000 finished medical and surgical products produced by over 1,600 suppliers to approximately 4,500 healthcare provider customers from 55 distribution and service centers nationwide. Its primary distribution customers are acute-care hospitals. Other customers include the federal government, for which Owens & Minor serves as a prime vendor for medical and surgical supply distribution services for the United States Department of Defense. The Company serves alternate care providers including ambulatory surgery centers, physicians' practices, clinics, home healthcare organizations, nursing homes and rehabilitation facilities. Effective October 1, 2008, the Company completed the acquisition of certain assets and liabilities of The Burrows Company (Burrows).										
Price Change:										
	%	Diff	Fundamentals:			Valuation:		Other Current Stats:		
		SP5		\$	YTY	Current	5-yr			
				%Chg		Median				
1-Week	-4.24	0.70	EPS T4Q (op)	2.70	15.4	P/E T4Q	15.1	19.2	Market Value	1704
4-Weeks	-2.07	-0.07	EPS F12M	2.96	15.0	P/E F12M	13.7	17.3	Avg. Volume (thou)	474
8-Weeks	2.88	4.19	EPS Est. FY1	2.60	6.5	P/E FY1	15.7	NA	Beta (60 mo.)	0.37
13-Weeks	-14.52	-13.96	EPS Est. FY2	2.94	13.1	P/E FY2	13.8	NA	Pre-Tax Margin T4Q	2%
52-Weeks	1.45	-30.49	Revs T4Q	7955	13.5	P/Sales	0.21	0.25	Net Profit Margin T4Q	1%
QTD	-5.24	-3.15	Cash Flw T4Q	3.23	13.2	P/Cash Flw	12.60	15.22	Return on Equity T4Q	16%
YTD	-5.24	-3.15	Book Value	17.81	8.9	P/Book	2.28	2.48	LT Debt/Capital	34%
2009	14.02	-9.43	Dividend Est.	0.92	NA	Div. Yld	2.26%	2.00%	GRE Median	13.0%
Contact: Chuck Graves			GICS Econ Sec: HlthCare			Exchange: NYSE				
Address: 9120 Lockwood Boulevard, Mechanicsville, VA 23116 804-723-7556			GICS Ind Grp: HlthEqSr			Options Exchange: PO				
			GICS Ind: HCPrvSrv			S&P 500 %: 0.0168%				
			GICS Sub Ind: HlthDist			S&P 500 Stock: No				
Internet: http://www.owens-minor.com/			Russell Sec: HealthCr			Analyst:				
Country: USA			Russell Ind: MedInstr			Rating:				
Employees: 5300			SV Sector: 05 Health Care			Universe:				
Cusip: 690732102			SV Industry I: 082 Medical Products/Supplies			Equity Type:				
Expected Report Date: 02/01/10			SV Industry II:							

Company History

- Founded in 1888 by Otho Ownens and Gil Minor
- Based in Richmond, VA
- Original focus was pharmaceutical distribution
- Entered Med-Surg in the 1966
- IPO in 1971 (OMB), NYSE 1988 (OMI)
- Acquired National Healthcare in 1989
- Divests wholesale drug division to Bergen Brunswig in 1992
- Purchases Stuart Medical in 1993 – doubles size
- Acquires MCK acute care biz in 2006
- Purchases The Burrows Company in 2008

Business

- 55 Distribution Centers in U.S.
- 4500 Customers
- 38% of Sales through Novation GPO (2011 contract)
- 20% of sales through Premier GPO (2011 contract)
- 12% of sales through Broadlane GPO (Tenant Health) – 2012 contract
- Cost-plus contracting, with volume discounts and minimum commitments
- Supplier concentration: COV 14%, JNJ 11%
- Customer concentration: Top 10 = 20%
- Key Competitors: Cardinal Health (CAH), MedLine (private)

Key National Branded Suppliers

- **3M Health Care** (Wound Care, Face Masks, Sterilization, Skin Prep, Monitoring Electrodes)
- **Smith & Nephew** (Wound Care, Skin Care)
- **Teleflex** (Respiratory, Anesthesia Masks)
- **Covidien** (Antiembolic Stockings, Contrast Media, Thermometers, Enteral Feeding, Incontinent Briefs, Monitoring Electrodes, Oximetry)
- **Kimberly-Clark** (Apparel, Packs and Gowns, Face Masks, Gloves)
- **BD** (Needles, Blood Collection, IV Catheters, Scalpel Blades, Sharps Disposal)
- **Welch Allyn** (Otosscopes, Ophthalmoscopes, Thermometers, BP Units)
- **Ethicon** (Endoscopic Products, Sutures)
- **Cardinal** (Gloves, Suction Canisters, Skin Prep, Custom Procedure Trays)
- **B. Braun** (IV Catheters, Sets and Solutions)
- **Medical Action Industries** (OR Towels, Patient Plastic Utensils, IV Start Kit)
- **U.S. Surgical** (Endoscopic Products, Sutures)

MediChoice

(1800 Private Label Products)

- Admissions
- Anesthesia
- Apparel
- Central Supply
- Diagnostics
- Gloves
- Housekeeping
- Kits & Trays
- Maternity & Nursery
- Nursing
- O.R. Products
- Orthopedic Rehab
- Patient Care
- Respiratory
- Urology
- Wound Care

Management

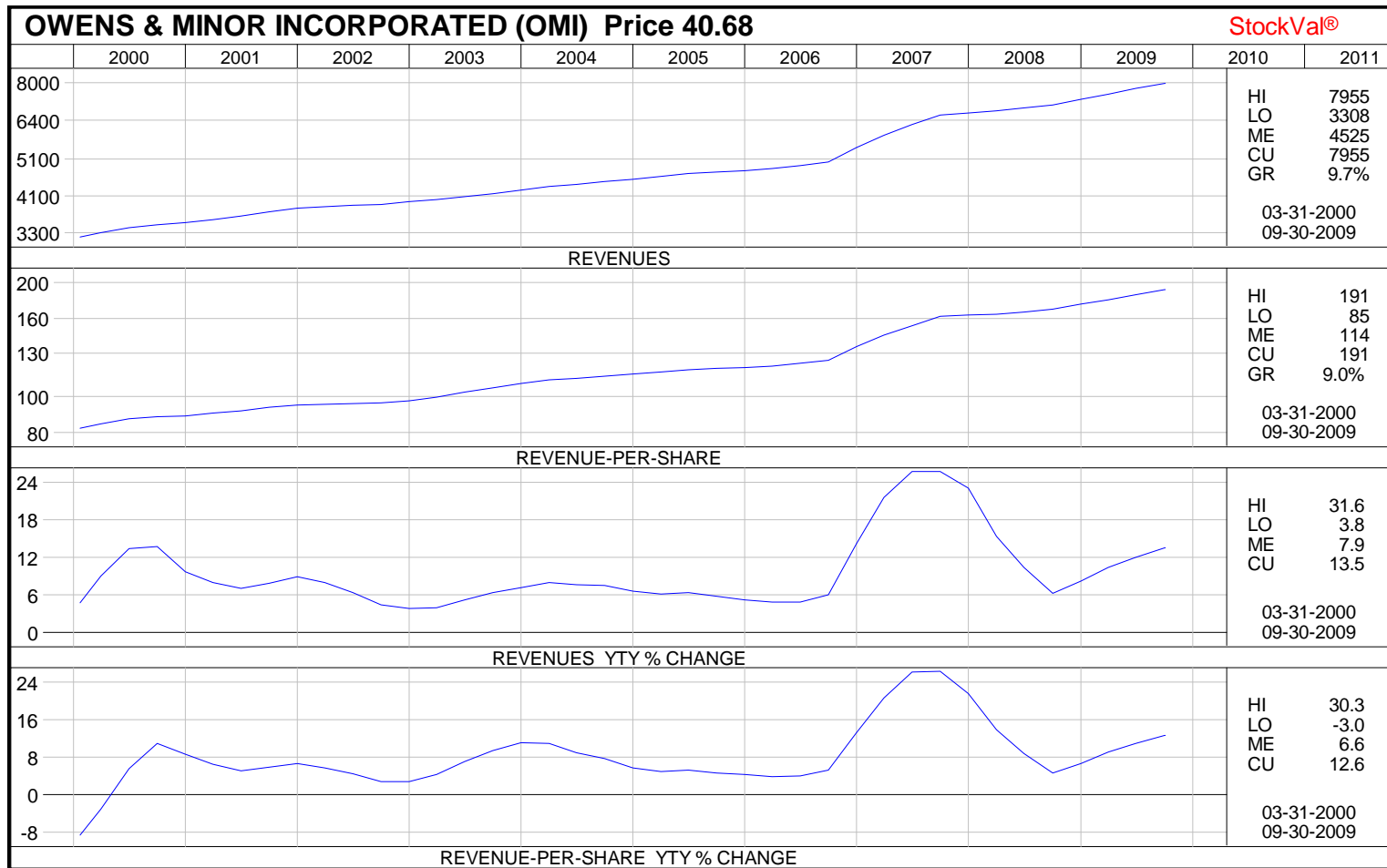
- CoB – Gil Minor III, 68, former CEO 1984-2005, joined company 1963
- CEO – Craig Smith, 57, since 2005. COO from 1995-2005 and w/company since 1989
- CFO – Jim Bierman, since 2007
- EVP, Distribution – E.V. Clarke, previously ran MCK unit that was acquired in 2006

- Very fair compensation program
- Cash bonuses targeted at 75% for CEO and 50% for other officers and based upon net income, sales and return on assets
- LT Stock Compensation is 50% time-based and 50% performance-based restricted stock (operating earnings)

Ownership Issues

- Insiders own 4%, CEO is 1.2%
- 5% Short position (7 days)
- Member Russell 2000 and S&P 400
- 4 institutions >5% (Wellington, Barclays, TROW and Allianz)

Long-Term Revenue Growth



Income Statement

- Sales YTD: \$6bln, +13%
- OM 2.4% vs. 2.5%

- 2-3% LT EBITDA Margin
- ROC tends to be 9%

Balance Sheet

- Cash \$43mm
- Inventory \$680mm, + 12% YOY
- AR \$510mm, +9% YOY
- Net PPE \$83mm
- LTD \$208mm
- Equity \$746mm (\$475mm tangible)

Cash Flow

2009YTD

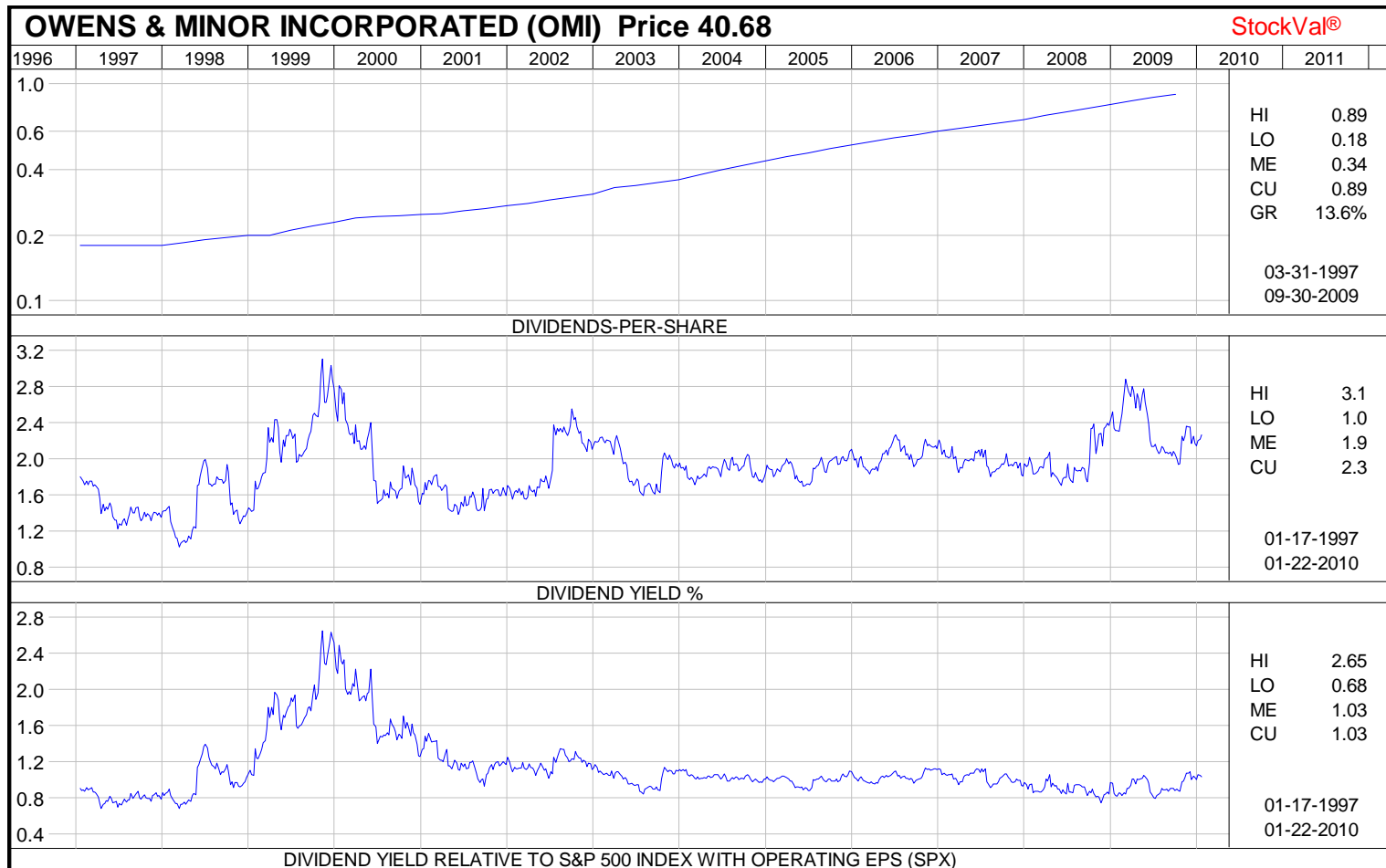
- NI = \$72mm vs \$73mm
- D&A = \$18.6mm vs \$16.3mm
- CapEx = \$14.1mm vs \$12.6mm
- FCF = \$76.5mm flat
- 2008 FCF = \$105mm

Technical

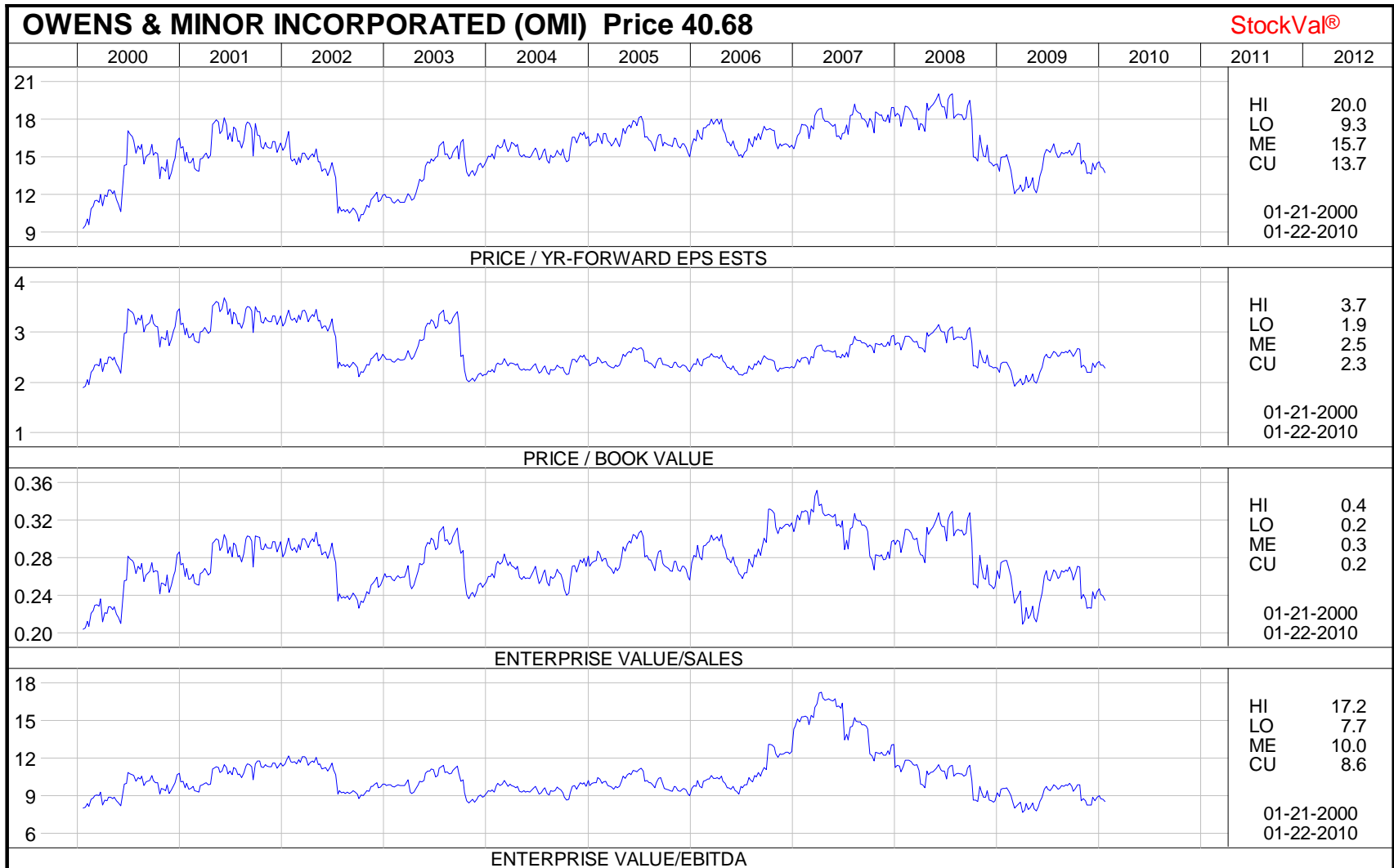


- Sideways action for 30 months, but in LT uptrend
- Support 39 then 37
- Resistance 45

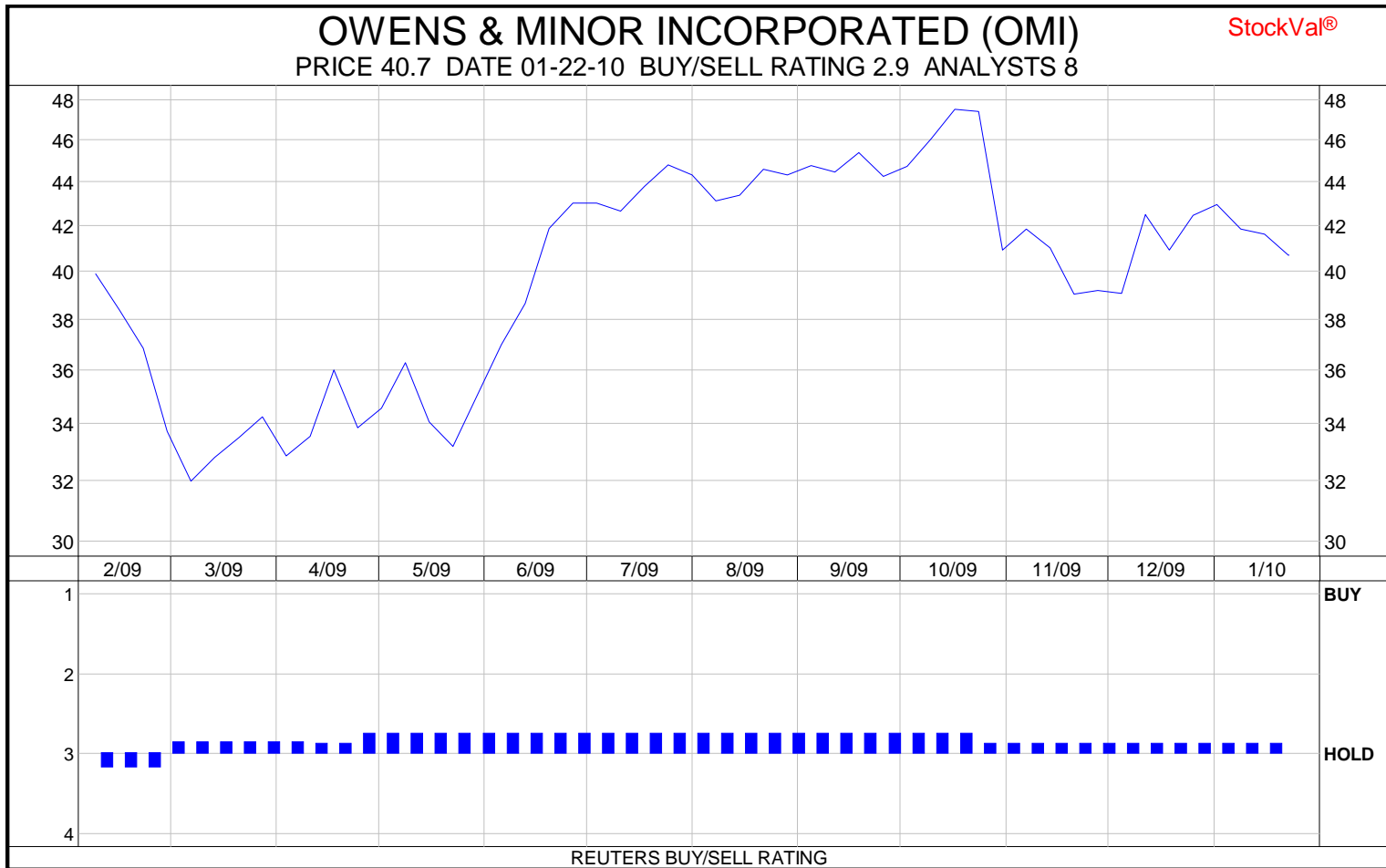
Dividend History



Valuation



8 Analysts - Neutral



Calendar

- 1/25 Jefferies Conference (10:15 EST)
- 2/8 2009 Q4 EPS (Call 2/9 at 8:30 EST)
- 2/10 UBS Conference

2010 Guidance

- Provided on 12/10/09
 - Sales growth of 4-6%
 - EPS of \$2.90-3.05 (Consensus was \$2.89)
- Announced also termination of Pension Plan
 - Will Fully Fund - \$8-13mm
 - Pre-Tax charge in 2011 of \$15-19mm

Target

- 2011 Consensus = 3.29
- PE of 15 → \$49

Conclusion

- Classic example of slow but steady growth with excellent capital allocation practices
- Industry with oligopolistic structure, high barriers to entry
- Reasonable upside/downside – target up 20% before dividend, downside support - 9%