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Related Companies: **Share Price:**
TSON 4.93

TranS1 Inc. Overweight

(TSON - \$4.93)

Medical Technology & Hospital Supplies

Scoliosis Frames New Territory for TranS1

KEY POINTS:

- TSON's push into scoliosis could help offset some of the company's reimbursement-related challenges in the degenerative spine market.
- We maintain our Overweight rating on TSON.

Conclusion: TranS1's solid clinical outcomes continue to drive interest and adoption of its AxiaLIF procedure, despite the reimbursement challenges that emerged in 2Q08. In addition, this week's SRS meeting highlighted the company's successful entrance into the clinically demanding market for adult idiopathic scoliosis (AIS) and complex spine, which we believe could help to offset the slowdown in its degenerative spine business. Visibility into near-term results remains difficult, however we view the stock as very attractive and expect TSON to significantly outperform our universe over the next twelve months. We maintain our Overweight rating on TSON.

What's New? We attended the Annual Meeting of the Scoliosis Research Society (SRS), which emphasizes education and research in the surgical treatment of scoliosis and deformity, which together with spinal tumors and trauma represents a \$1 billion market dominated by Medtronic, DePuy and to a lesser degree Stryker, Synthes and K2 Medical, a smaller innovative player. We also attended a surgeon symposium hosted by TranS1, which highlighted the use of its unique technology as a means of providing anterior column stability for long complex fusion cases in the treatment of patients suffering from adult idiopathic scoliosis (AIS).

Implications: The push into scoliosis is a positive for TSON, however it remains early and we expect results could remain under pressure in the near-term as the company continues to make its case for reimbursement and ramps adoption among deformity surgeons. We view recent adoption and rising interest among thought-leaders in complex spine as encouraging incremental evidence of the company's unique and effective technology. With over 8,000 cases performed and a cumulative adverse event rate of under 0.5%, we are confident that TSON has moved from the realm of clinical curiosity to become recognized as a unique and effective clinical approach to fusion.

PRICE TARGET AND JUSTIFICATION:

Our 12-month PT of \$9 is based on 2.75x EV on our 2010E sales of \$46 mil.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

(1) Further misses or disappointments could damage management's credibility and cause investors to question the viability of AxiaLIF, (2) Additional turnover in the company's sales force (3) An unexpected increase in adverse events or clinical problems related to the company's devices and surgical approach.

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			Count	Percent
BUY [OW]	272	43.90	45	16.54
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Analyst Certification — Matt Miksic, Sr Research Analyst

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