

The Evolution of PPMs and Their Impact on the Practice of Pathology

Presentation to the
American Pathology Foundation
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HVERFORD HEALTHCARE ADVISORS

Christopher Jahnle, ASA
Managing Director

AmeriPath

acquires 100% of the common stock of

Derrick & Associates Pathology

July 1, 1996

Pathology Practice Valuation Model

Valuation Calculation	<u>Status Quo</u>	<u>Adjusted</u>
Net Revenue	\$ 3,000,000	\$ 3,000,000
Physicians' Compensation	2,300,000 (a)	1,100,000 (a)
Non-Physician Operating Costs	<u>700,000</u>	<u>700,000</u>
Total Expenses	\$ <u>3,000,000</u>	\$ <u>1,800,000</u>
EBIT (Earnings Before Interest & Taxes)	\$ 0	\$ 1,200,000
Purchase Price:	EBIT	\$ 1,200,000
	Purchase Multiple	<u>x 6.0</u>
	Total Purchase Price	\$ 7,200,000

(a) Analysis of compensation

per pathologist	Partners (4)	\$ 500,000	\$ 200,000
	Associates (2)	\$ 150,000	\$ 150,000

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Publicly-Traded Physician Practice Management Companies

(\$ millions)

Company	IPO Date	Description	1996
			Market Capitalization
American Oncology Resources	Jun-95	Oncology	683
Coastal Healthcare Group	Jun-91	Multispecialty/Primary Care	408
Emcare	Dec-94	Emergency Room	217
EquiVision	Nov-93	Ophthalmology	81
FPA Medical Management	Oct-94	Multispecialty/Primary Care	73
InPhyNet Medical Management	Aug-94	Multispecialty/Primary Care	395
MedCath	Dec-94	Cardiology	207
MedPartners	Feb-95	Multispecialty/Primary Care	578
OccuSystems	May-95	Occupational Healthcare	369
Omega Health Systems	Aug-90	Ophthalmology	28
Orthodontic Centers of America	Dec-94	Orthodontics	489
Pacific Physician Services	Nov-91	Multispecialty/Primary Care	366
Pediatrix Medical Group	Sep-95	Neonatal ICU	366
PhyCor	Jan-92	Multispecialty/Primary Care	1,733
Physicians Reliance Network	Nov-94	Oncology	875
Physicians Resource Group	Jun-95	Ophthalmology	<u>181</u>
		Total	7,049

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Publicly-Traded Physician Practice Management Companies

(\$ millions)

Company	IPO Date	1996	2001	Status
		Market Capitalization	Market Capitalization	
American Oncology Resources	Jun-95	683	783	Merged (a)
Coastal Healthcare Group	Jun-91	408	-	Bankrupt
Emcare	Dec-94	217	-	Private
EquiVision	Nov-93	81	-	Bankrupt
FPA Medical Management	Oct-94	73	-	Bankrupt
InPhyNet Medical Management	Aug-94	395	-	Acquired
MedCath	Dec-94	207	-	Private
MedPartners	Feb-95	578	-	Dissolved
OccuSystems	May-95	369	-	Acquired
Omega Health Systems	Aug-90	28	-	
Orthodontic Centers of America	Dec-94	489	1,467	Active
Pacific Physician Services	Nov-91	366	-	
Pediatrix Medical Group	Sep-95	366	513	Active
PhyCor	Jan-92	1,733	8	Active
Physicians Reliance Network	Nov-94	875	783	Merged (a)
Physicians Resource Group	Jun-95	<u>181</u>	<u>-</u>	Dissolved
		Total	7,049	2,771

(a) Companies merged to form US Oncology on June 15, 1999

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Publicly-Traded Pathology Industry Participants

(\$ millions)

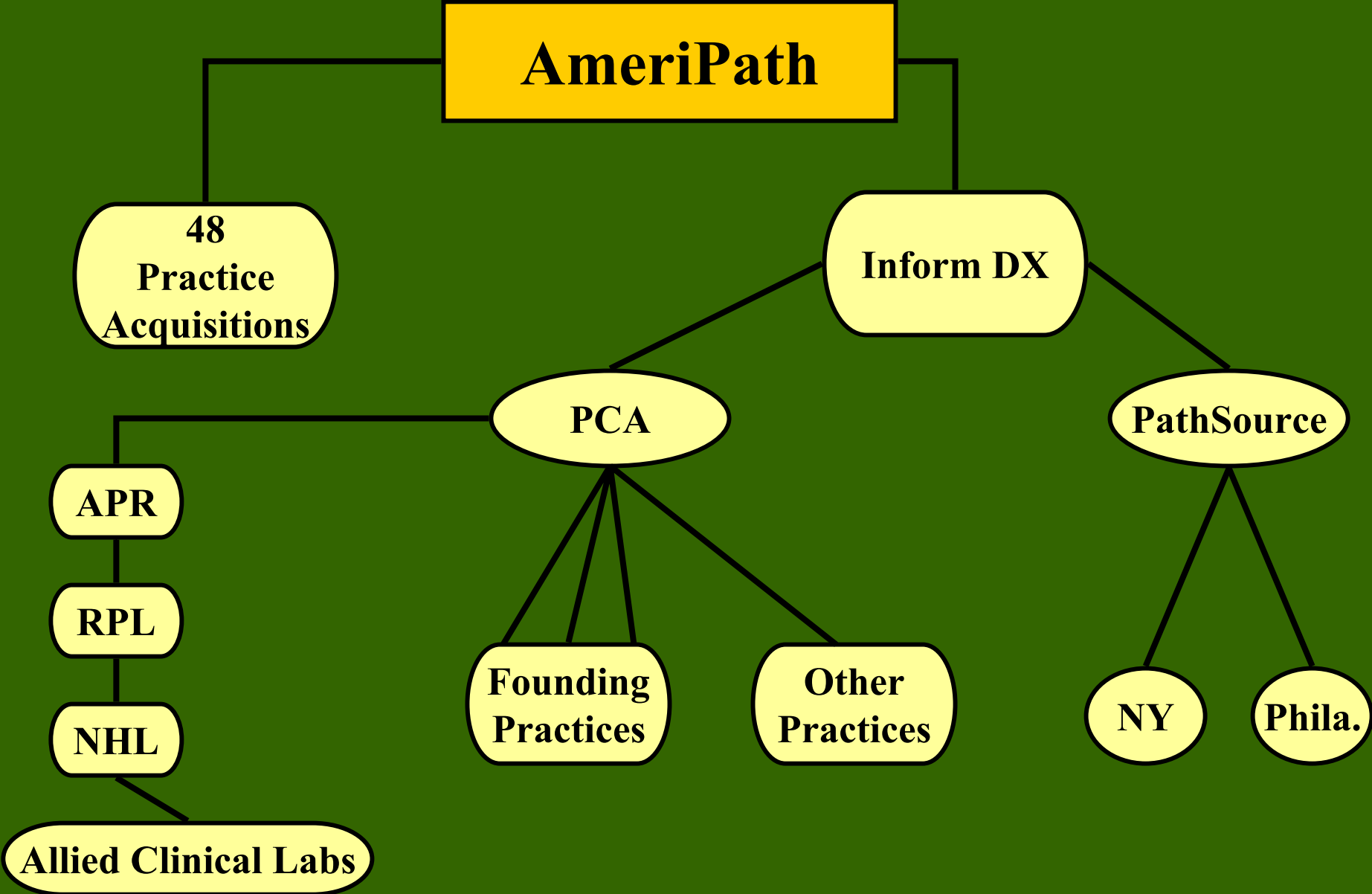
Company	Current Market Capitalization 2001	Revenue 2001 (a)	Market Capitalization/ Revenue Ratio
AmeriPath	\$852	\$354	2.4
Dianon	\$397	\$100	4.0
Impath	\$670	\$150	4.5
UroCor	\$173	\$ 56	3.1
Total	\$2,091	\$660	

(a) Revenue figures are for the trailing twelve months ending 3/31/01 for each company.

AmeriPath, Inc.

- Founded January 1, 1994 (as American Laboratory Associates, Inc.)
- \$350 million+ in annual revenue
- Acquired 49 practices active in 21 states
- 419 pathologists
- 237 hospital contracts, 42 outpatient labs

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Dianon Systems, Inc.

- Provider of cancer and genomic diagnostic services
- Headquartered in Stratford, Connecticut with additional locations in Florida, New York, Colorado, and Texas
- \$100 million in annual revenue
- Staff consists of approximately 40 pathologists
- Announced acquisition of UroCor in June of 2001

PathGroup

- A national integrated delivery system serving regional pathology practices headquartered in Nashville, TN
- Affiliated practices in Nashville, TN and Marin, CA
- 50 founding pathologists
- Pathologist owned and controlled
- Ben W. Davis, M.D. is PathGroup's Chairman, President and Chief Executive Officer

Pathology Partners, Inc.

- Founded in 1996 as Physician Solutions, Inc.
- Financial backing from Sprout Group, Salix Ventures, and Health South Corporation
- Locations in Dallas, Texas (Company headquarters), Birmingham, Alabama, and Houston, Texas
- Strategy involves providing high tech pathology services to outpatient clinics, hospitals, and physician offices
- Utilizes an electronic data collection and reporting program which provides a paperless process and ensures a secure chain of custody for specimens

Pathology Service Associates, LLC

- “A network organization joining pathology practices through a management support company.”
- Founded in May of 1995 by Louis D. Wright, Jr., M.D.
- Headquartered in Florence, South Carolina.
- Over 70 affiliated pathology groups
- Operates in at least 13 states
- Provides services to over 400 hospital-based pathologists
- Serves over 350 hospitals, representing over 45,000 beds
- Contracts with over 75 outpatient clinics

U.S. Labs

- An anatomic pathology laboratory providing histology, cytology, immunohistochemistry, flow cytometry, and molecular genetic services
- Founded in 1997; headquartered in Irvine, CA
- Received initial equity financing from Accel Partners, Patricoff & Co. Ventures, Inc., and Highland Capital
- Serving over 500 pathologist clients in all 50 states
- Currently moving from existing 10,000 sq.ft. lab to new 52,000 sq. ft. lab

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Publicly-Traded Clinical Laboratory Industry Participants

(\$ millions)

Company	Current Market	Revenue	Market
	Capitalization	2001 (a)	Capitalization/ Revenue Ratio
Dynacare	2001 \$249	\$369	0.7
LabCorp	\$5,939	\$1,982	3.0
Quest Diagnostics, Inc.	\$6,874	\$3,446	2.0
Specialty Laboratories, Inc.	\$786	\$161	4.9
Unilab Corporation	\$732	\$354	2.1
Total	\$14,580	\$6,312	

(a) Revenue figures are for the trailing twelve months ending 3/31/01 for each company.

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Haverford Healthcare Advisors

Haverford Healthcare Advisors specializes in providing valuation, merger and acquisition, and corporate finance advisory services to healthcare companies, with a specific focus on pathology practices and clinical laboratories. We represent and assist physicians and other healthcare company owners during the process of selling their practices, during the process of merging or partnering with other practices or companies, or during the process of growing through acquisition. We also provide practice valuation services.

We understand that the decision to sell is not made lightly. In many cases, an interest in a private company may reflect the life's work of the owners, and a substantial component of their personal net worth. The process of deciding to sell is complicated by doubt and questions, such as:

- What is the value of my practice?
- Who are the most logical buyers and how should they be contacted?
- How do I maintain confidentiality during the selling process?
- When is the right time to sell?

Haverford Healthcare Advisors can answer these questions and provide the confidential and professional representation that is essential to meet your objectives and to ensure that you receive full value for your company. Haverford's presence during the sale process provides sellers with several advantages. As a widely recognized industry expert, prospective buyers will immediately understand that a professional effort is underway. They will also understand that competitive purchase offers will be solicited. The result is that potential buyers will realize that their response must be serious and timely in order to be successful.

Christopher Jahnle, ASA

Kirk A. Rebane, ASA, CFA

41 Leopard Road, Suite 305, Paoli, PA 19301

Telephone: (610) 407-4024 Fax: (610) 407-4028

www.haverfordhealthcare.com

