Conquering The AP Market

Competitive Strategies Employed by the National Laboratories

Presentation to the

American Pathology Foundation

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Haverford Healthcare Advisors

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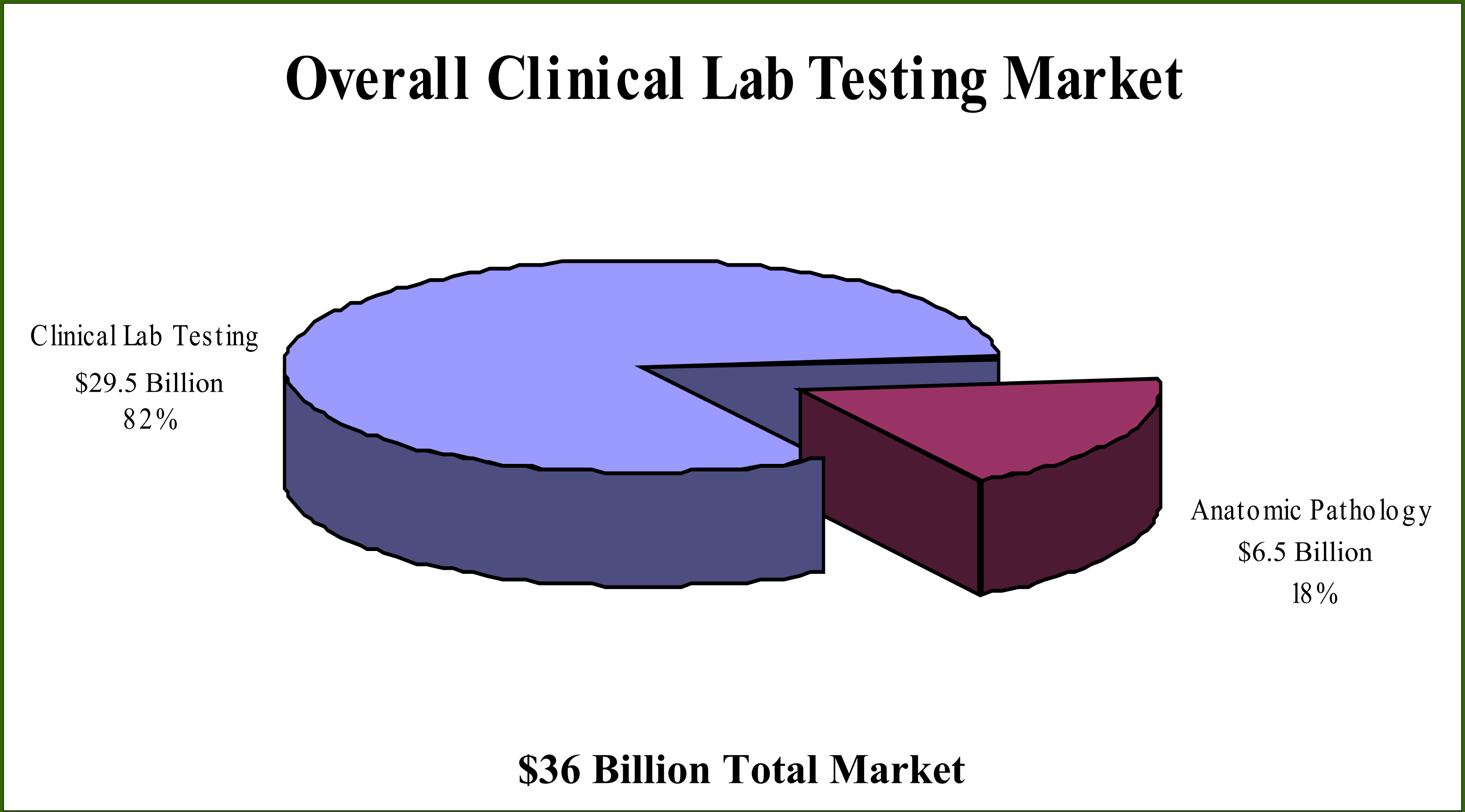
Introduction

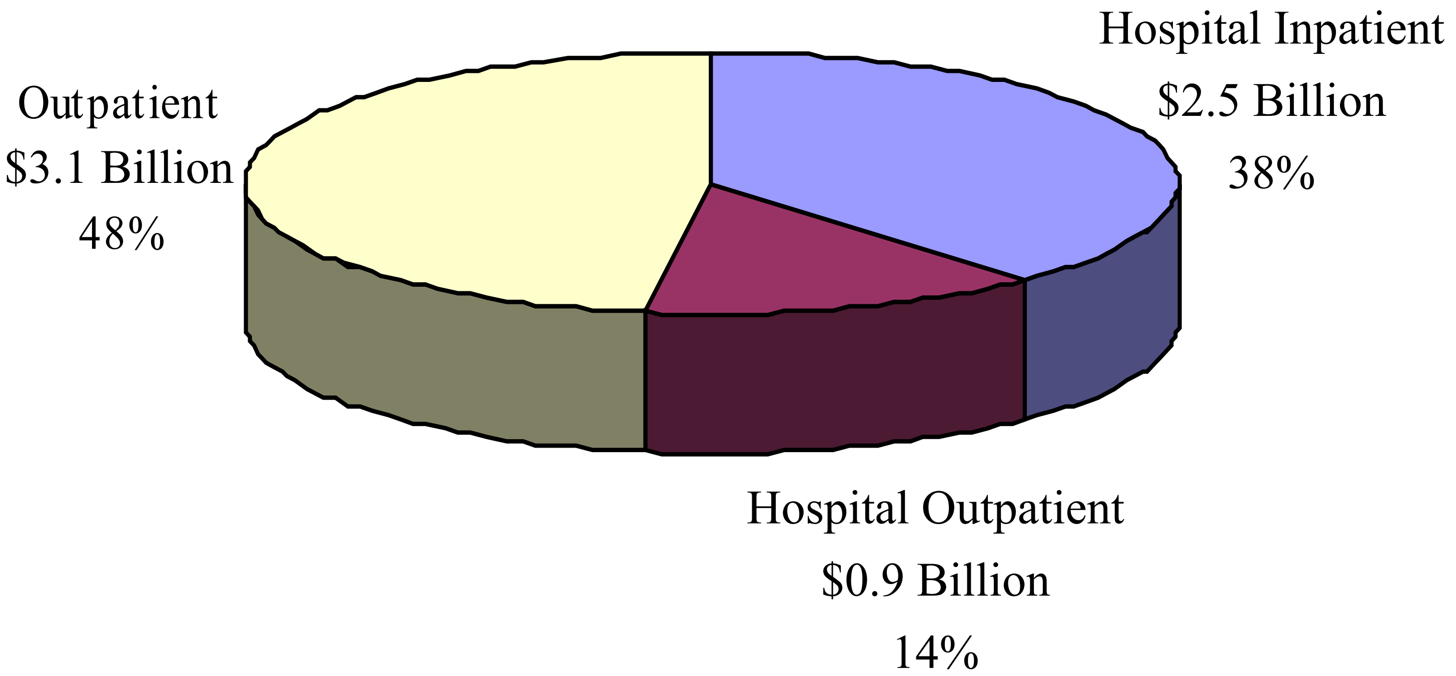
- Size and Growth Characteristics of the AP Market
- AP Industry Dynamics
- Market Participants
- Recent Industry Developments
- Competitive Strategies

Size of the AP Market



Size of the AP Market (cont.)

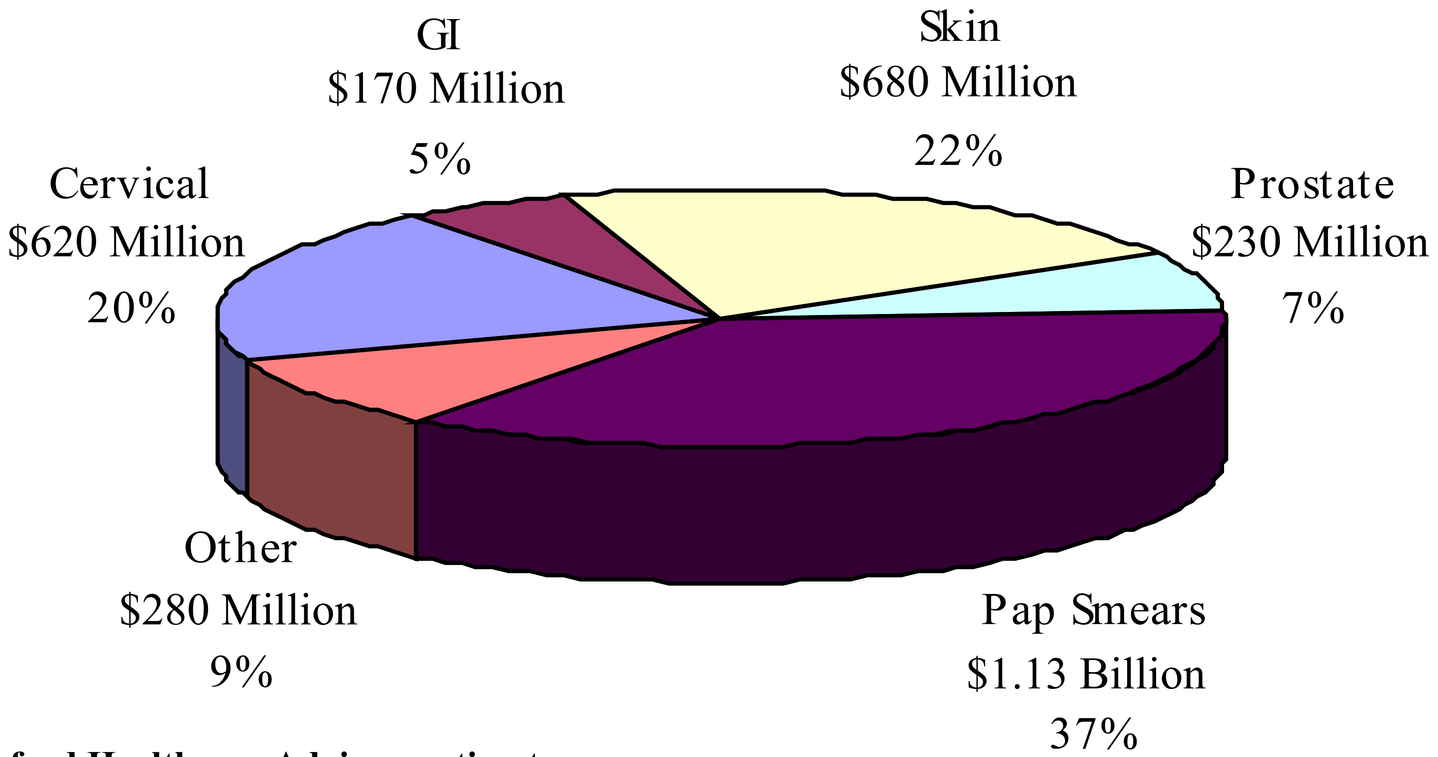
Anatomic Pathology Market



* **Haverford Healthcare Advisors estimates**

Size of the AP Market (cont.)

Outpatient Anatomic Pathology Market - $3.1 Billion



*** Haverford Healthcare Advisors estimates**

Industry Growth Characteristics

Outpatient AP market is the place to be!

- Overall independent lab testing market growing at 5% to 6% annually (2% price growth and 3% to 4% volume growth)
- Overall AP market growing at 6% to 7% annually
- Outpatient AP market growing at 8% to 10% annually

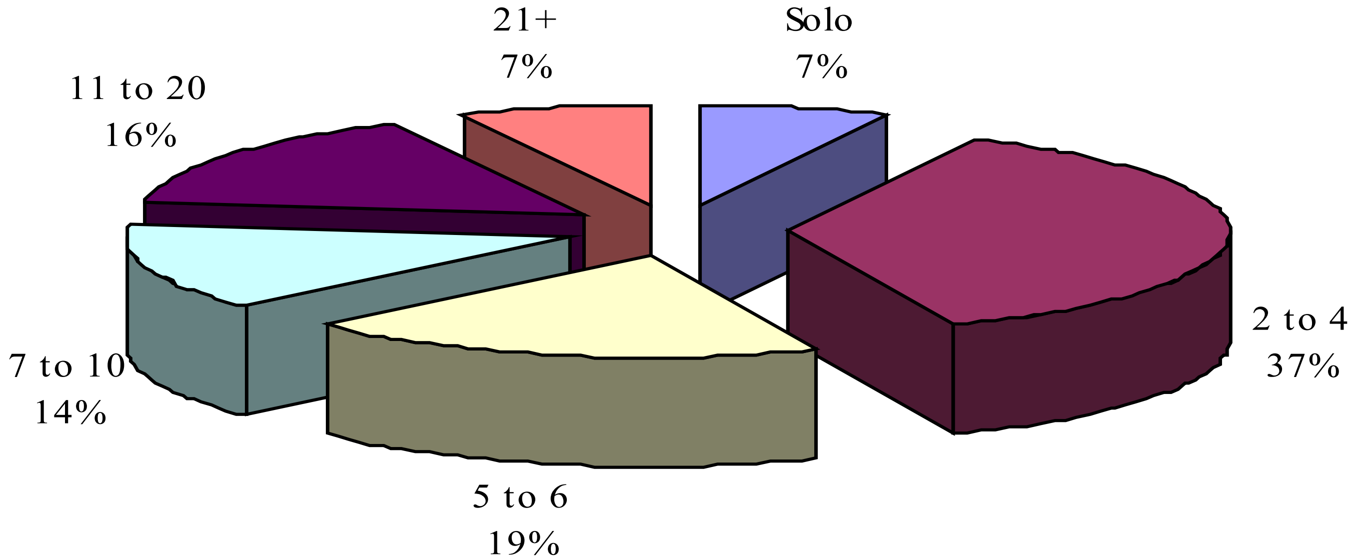
Factors Driving Industry Growth

- Aging Population
- Increased Incidence of Cancer
- Advances in Medicine and Technology
- Shift to Outpatient Surgical Settings
- Reimbursement Improvements – Technical Component
- Managed Care Threat Diminished

Industry Characteristics

Anatomic Pathology is a fragmented industry consisting of over 3,200 practices.

Size of Pathology Practices by Number of Pathologists in Group



Source: 2000 Practice Characteristics Survey Report - CAP

Small practices can not match the resources of the larger players

Market Participants

Total Anatomic Pathology Market Share Based on 2001 Revenue

Total Anatomic Pathology Market	Rev ($M)	Share
AmeriPath*	387.9	6.0%
Quest Diagnostics	355.0	5.5%
LabCorp	250.0	3.8%
Impath, Inc.	189.6	2.9%
Dianon (assumes full year UCOR impact)	177.0	2.7%
Others (about 3,200 practices)	5,140.5	79.1%
Total	*6,500.0*	*100%*

AmeriPath revenue excludes management services revenue.

Source: Company filings and Haverford Healthcare Advisors' estimates

Market Participants (cont.)

Outpatient Anatomic Pathology Market Share Based on 2001 Revenue (cont.)

Outpatient Market	**Rev ($M)**	**Share**
Quest Diagnostics	355.0	11.5%
LabCorp	250.0	8.1%
AmeriPath*	192.6	6.2%
Dianon (assumes full year UCOR impact)	177.0	5.7%
Others (about 3,200 practices)	2,125.4	68.6%
Total	*3,100.0*	*100%*

AmeriPath revenue excludes management services revenue.

Source: Company filings and Haverford Healthcare Advisors' estimates

Industry Developments

Top Two AP Players Acquired:

Dianon: *Acquired by LabCorp effective January 17, 2003*
Purchase price of $598.4 million

AmeriPath: *To be acquired by Welsh Carson by April 30, 2003*
Purchase price of $792.3 million

Competitive Strategies

- Market Specialization
- Branding Pathology
- Affiliation with Prominent Experts
- Sales and Marketing Organizations
- Informative Diagnostic Reporting
- Centralized Operating Model
- Full Service Menu Including Clinical and Genetic Tests
- Payor Relationships

Competitive Strategies (cont.)

- **Market Specialization - Providing Sub-Specialist Review**
  - Preferred by physician specialists, if given a choice
  - Results in higher levels of productivity
  - Results in lower rate of uncertain diagnoses

Anatomic Pathology Sub-Specialties

Sub-Specialty	Typically Referred by	Common Test
Cytopathology	OB/Gyn	Pap Smear
Dermatopathology	Dermatologist	Skin Biopsy
Hematopathology	Hematologist/Oncologist	Bone Marrow
Surgical Pathology	Primary Care Physician	Tissue Biopsy
Urologic Pathology	Urologist	Prostate Biopsy
Gastrointestinal Pathology	Gastroenterologist	Endoscopic Biopsy

Source: Banc of America Securities LLC and industry data.

Competitive Strategies (cont.)

- **Market Specialization - Providing Sub-Specialist Review**
  - Dianon has mastered this particular competitive strategy.
  - Each of Dianon's 55 pathologists is a board certified, fellowship-trained, sub-specialist.
  - High level of productivity - e.g. 100+ derm path cases per day
  - Departmental review for suspicious cases
  - Sales staff and marketing materials oriented toward particular types of referring physician specialists
  - LIS and reporting is specially tailored to support sub-specialty review

Competitive Strategies (cont.)

- **"Branding" Pathology**

IMPATH®
The Cancer Information Company

DERMPATH DIAGNOSTICS

US LABS

CAD
Center for Advanced Diagnostics

DIANON Systems

Competitive Strategies (cont.)

- **"Branding" Pathology (cont.)**
  - Branding helps to remove the personal link to a particular pathologist
  - Makes it easier emotionally to send the specimen out of town
  - Brand image is enhanced through advertising and promotional material
  - Brand image appears on reports - providing daily reinforcement
  - Branding will lead to patient awareness (and influence) over referral decision

Competitive Strategies (cont.)

- **Affiliation with Prominent Experts**
  - Creates the perception of a world-class reputation for excellence
  - Leverages the teacher-student relationship to establish a referral base
  - AmeriPath has used this strategy:
    - Established the "Ackerman Academy of Dermatopathology" in July, 1999
    - Neal S. Penneys, M.D., a leading dermatopathologist, joined AmeriPath in 2001
    - Robert E. Petras, M.D. joined AmeriPath in January, 2002, and now heads AmeriPath's "Institute of Gastrointestinal Pathology and Digestive Diseases"

Competitive Strategies (cont.)

- **Sales and Marketing Organizations**
  - Status quo for practice-based pathology today:
    - Rely upon the professional reputations and individual efforts of pathologists
  - AmeriPath's Strategy:
    - Employs approximately 100 field sales people focused on the outpatient AP market
    - Sales force divided between the *Dermpath Diagnostics Division* and the *General Anatomic Division*
    - Sales force calls on physicians, hospital and ASC administrators, the national clinical labs, and managed care companies
    - Expand on base of over 200 hospital contracts to penetrate surrounding outpatient markets

Competitive Strategies (cont.)

- **Informative, *Attractive* Diagnostic Reporting**
  - Attractive, color reports that include a photomicrograph, disease mapping, and prognostic data
  - Disease related information for *both* the doctor and patient
  - Dianon's ***CarePath***™ has taken reporting to the next level by including reports for its physician client, the patient, and the patient's managed care plan

Competitive Strategies (cont.)

- **Centralized Operating Model**
  - AP labs have substantial fixed costs that can be leveraged
  - Economies of scale ***are*** available in AP
  - Centralized model more applicable to Outpatient AP
  - Local physician resistance to sending specimens out-of-town has been overcome
  - Higher volumes support leading-edge technologies

Competitive Strategies (cont.)

- **Centralized Operating Model (cont.)**
  - Dianon's Stratford, CT Laboratory
    - Approximately 35 pathologists
    - 64,300 square foot lab facility
    - Full service menu offered: AP, genetic testing, clinical testing
  - AmeriPath's Center for Advanced Diagnostics ("CAD") in Orlando, FL
    - Captive specialty pathology laboratory offering:
      - Cytogenetics, Flow Cytometry, Immunohistochemistry, Image Analysis, and Molecular Studies

Competitive Strategies (cont.)

- **Payor Relationships**
  - AmeriPath and Dianon have been successful in establishing state-wide and regional contracts to provide pathology services with Aetna U.S. Healthcare, UnitedHealthcare, and hundreds of other insurance providers.
  - With increasing frequency, these insurers are granting these national pathology companies preferred provider status.
  - Such contracts are an effective way to extend the reach of these companies into more physician offices, resulting in pull-through volume.

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 assist physicians and other healthcare company owners in resolving practice transition issues. We also represent 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.

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