



Executive War College

Review of Laboratory Sales Transactions
During 2009-2010,
with Insights on Lab M&A Trends
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Lab Industry Deal Activity Recovers in Second Half of 2009

After starting out as one of the worst economic and M&A environments in recent memory, 2009 finished strongly as lab industry deal activity surged dramatically in the second half of the year.

Factors contributing to the M&A recovery:

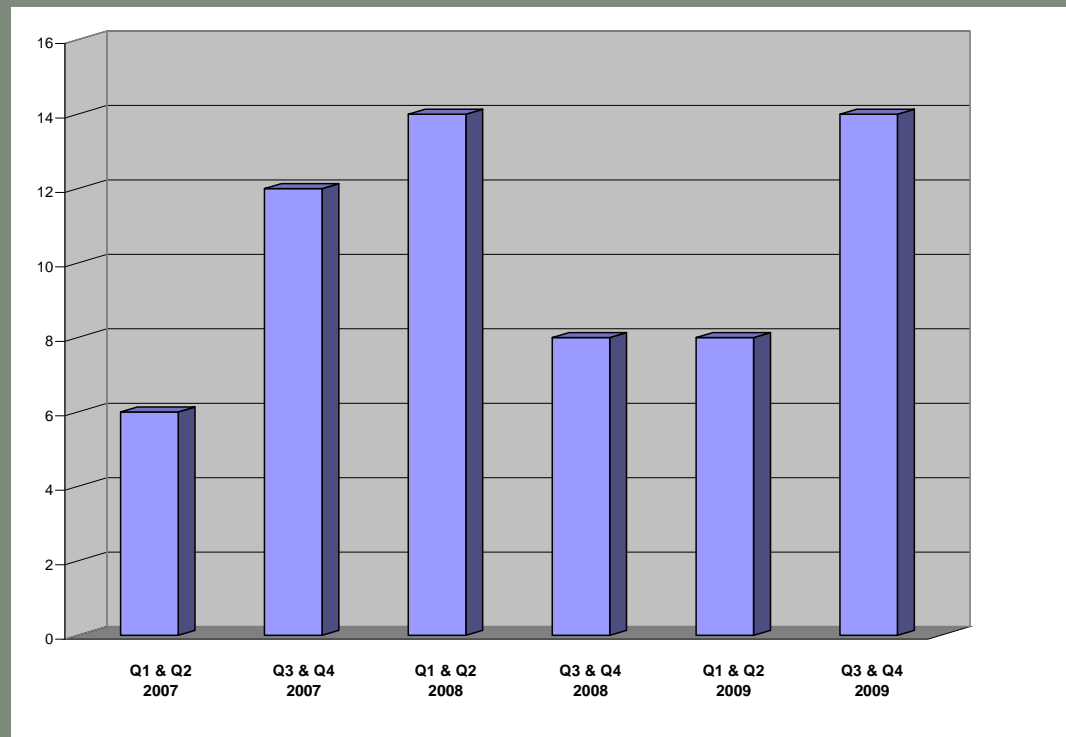
- Pent up demand and improving economic dynamics appear to be driving resurgence in M&A activity.
- The credit markets are continuing to thaw.
- The U.S. economy continues to rebound, however, the recovery is still restrained by high unemployment.
- Uncertainty relating to Health Care Reform is dissipating.

Lab Industry Deal Activity Recovers in Second Half of 2009 (cont.)

- Lab industry deal activity posts a dramatic recovery in the second half of 2009.

U.S. Lab Industry Deal Activity 2007-2009

of Closed Laboratory Transactions

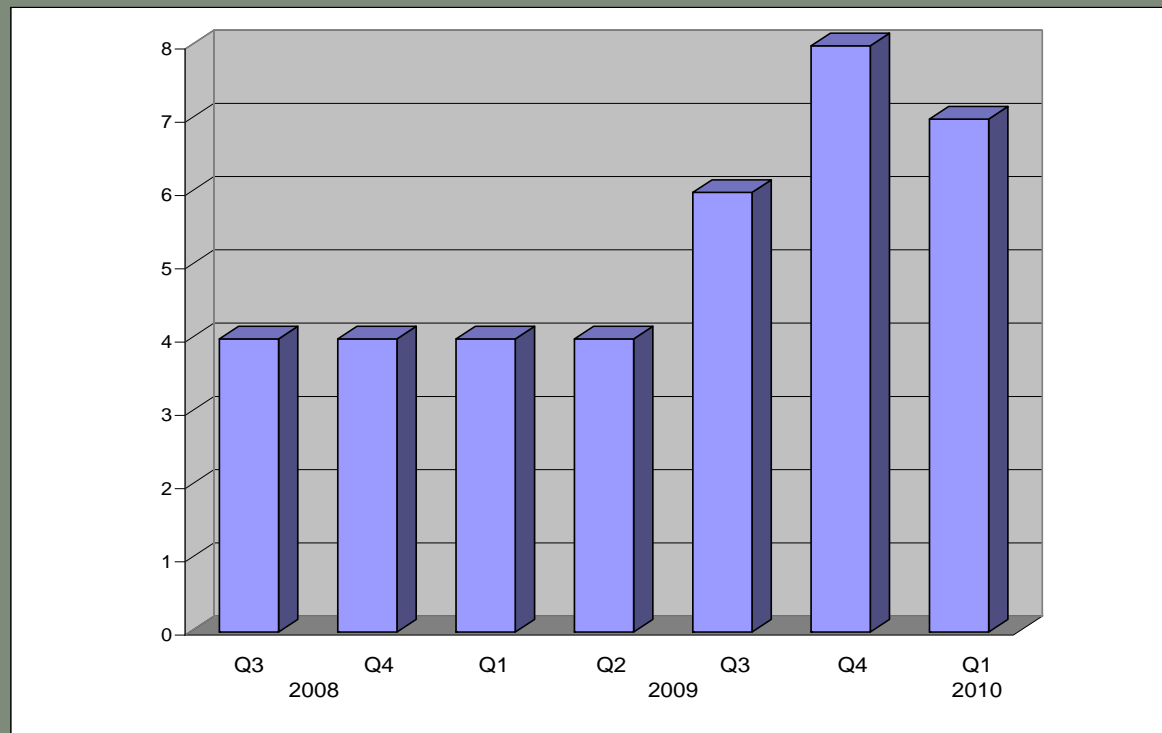


Lab Industry Deal Activity Recovers in Second Half of 2009 (cont.)

- This quarterly summary further illustrates the recovery of deal activity in the second half of 2009.

U.S. Lab Industry Deal Activity Q3 2008 – Q1 2010

of Closed Laboratory Transactions

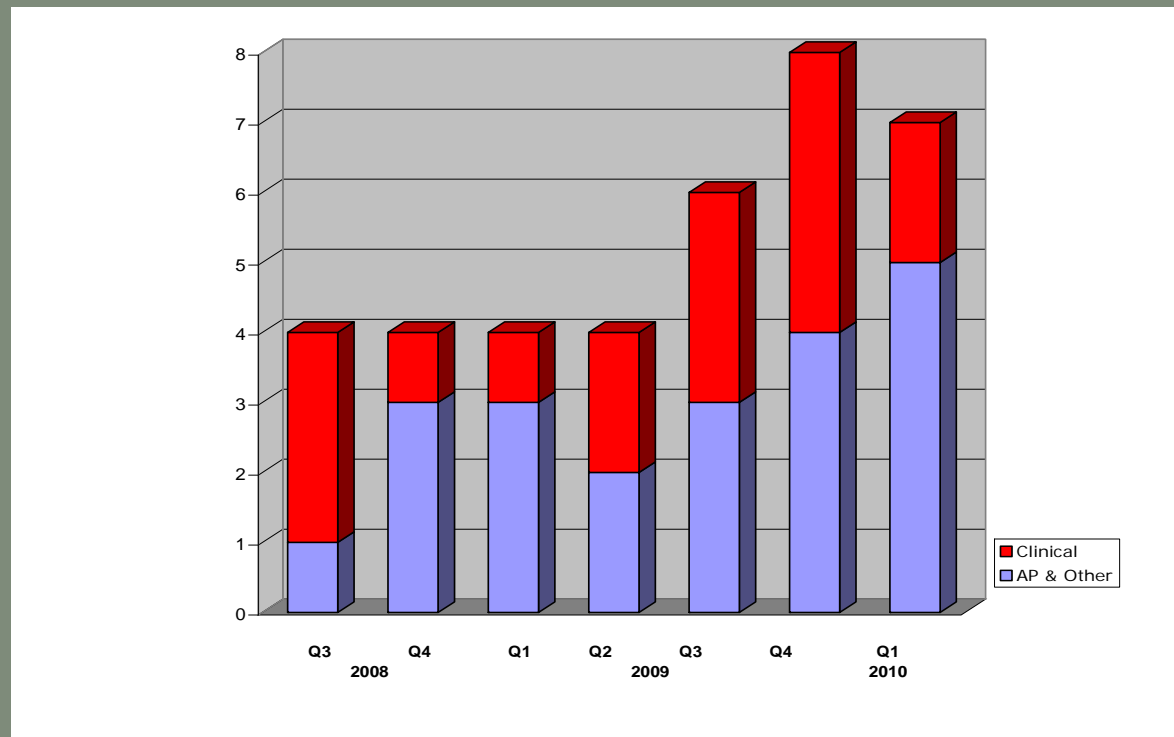


Lab Industry Deal Activity Recovers in Second Half of 2009 (cont.)

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U.S. Lab Industry Deal Activity Q3 2008 – Q1 2010

of Closed Laboratory Transactions



Lab Industry Deal Activity Recovers in Second Half of 2009 (cont.)

Lab industry fundamentals remain very strong.

- Lab testing is a valuable service that represents only 2-3% of health care expenditures but influences 70-80% of physician decisions.
- Early detection can reduce downstream health care costs.
- Aging of the U.S. population. The number of individuals 65 years old and older will increase to 55 million, or by 36%, over the next decade; a growth rate that is nearly four times faster than that of the overall population.
- Despite years of consolidation, the lab industry remains highly fragmented.
- Technological advances in genomics and pharmacogenomics / companion diagnostics is a major growth driver.

Plenty of Potential Lab Buyers – Plenty of Potential Lab Sellers

- There is no shortage of Private Equity Groups interested in the lab industry. PEGs are attracted by the industry's strong fundamentals and the non-cyclical nature of the lab industry.
- There are more established acquisition-oriented lab industry players than have existed for many years.
- There exists a large supply of clinical lab and pathology practice sellers that are currently considering a sale of their lab business.
- Sellers may be motivated to sell prior to the end of 2010; capital gains tax rates revert from 15% back to 20% on January 1, 2011

Plenty of Potential Lab Buyers – Plenty of Potential Lab Sellers (cont.)

- Therefore, we anticipate that lab industry deal activity will remain at its current high levels for the foreseeable future.
- Furthermore, we expect laboratory deal valuations to rise in proportion to public lab stock prices; valuations will approach late-2007 and early-2008 levels by early 2011.

Recap of U.S. Lab Transactions for 2009 and Year-to-Date 2010

Deal #	Date	Acquirer	Target
2009-01	Jan-09	Gamma-Dynacare	Central Medical Laboratories
2009-02	Jan-09	American Pathology Partners	UniPath, LLC
2009-03	Jan-09	Ssurepath	Annapath Inc.
2009-04	Mar-09	American Pathology Partners	Eastern Carolina Pathology
2009-05	April-09	Water Street Healthcare Partners	ConVerge Diagnostic Services
2009-06	May-09	Quest Diagnostics	OralDNA Labs
2009-07	May-09	Management Team	Parkway Clinical Labs
2009-08	Jun-09	Sonic Healthcare	Axiom Laboratories
2009-09	Jul-09	Laboratory Corporation of America	Monogram Biosciences
2009-10	Jul-10	Adeona Pharmaceuticals	HartLab LLC
2009-11	Jul-09	Viracor	IBT Laboratories
2009-12	Sep-09	Quest Diagnostics	Caritas Medical Labs
2009-13	Sep-09	Sonic Healthcare	Piedmont Medical Labs
2009-14	Sep-09	ABS Capital	Pathology, Inc.
2009-15	Nov-09	Aurora Diagnostics, LLC	South Texas Dermatopathology Lab

Recap of U.S. Lab Transactions for 2009 and Year-to-Date 2010 (cont.)

<u>Deal #</u>	<u>Date</u>	<u>Acquirer</u>	<u>Target</u>
2009-16	Nov-09	Bostwick Labs	Commonwealth Biotechnologies, Inc.
2009-17	Dec-09	Aurora Diagnostics, LLC	Pinkus Dermatopathology Lab
2009-18	Dec-09	Aurora Diagnostics, LLC	Bernhardt Laboratories
2009-19	Dec-09	Welsh Carson Anderson & Stowe	Triad Laboratory Alliance, LLC d/b/a Spectrum Laboratory Network
2009-20	Dec-09	Laboratory Corporation of America	Centrex
2009-21	Dec-09	Sonic Healthcare	East Side Clinical Laboratory
2009-22	Dec-09	Catholic Health Initiatives	Pathology Associates Medical Laboratories
2010-01	Jan-10	Primus Capital	PathGroup, Inc.
2010-02	Jan-10	Triad Laboratory Alliance, LLC d/b/a Spectrum Laboratory Network	Carilion Labs
2010-03	Jan-10	Predictive BioScience	OncoDiagnostic Laboratory
2010-04	Feb-10	Inverness Medical Innovations	Kroll Laboratory Specialists
2010-05	Mar-10	Bio-Reference Laboratories	Lenetix Medical Screening Laboratory
2010-06	Mar-10	Aurora Diagnostics, LLC	Pathology Solutions LLC
2010-07	Mar-10	Mainsail Partners	Path Logic
2010-08	Apr-10	EndoChoice	Pathworks Anatomic Pathology Laboratory

Recap of U.S. Lab Transactions for 2009 and Year-to-Date 2010 (cont.)

About the Data ...

- We have obtained the information from sources believed to be reliable.
- Includes some estimates made by Haverford Healthcare Advisors and other organizations such as *The Dark Report*, *Laboratory Economics* and *Laboratory Industry Report*.
- In most cases, dates are intended to represent the months that transactions were actually closed, as opposed to announcement dates.
- Each transaction represents a unique set of facts and circumstances; data is most relevant when viewed in the aggregate.

Lab and Pathology Transactions: 2009-2010

January, 2009

2009-01

Acquirer:

Gamma-Dynacare
Ontario, Canada

Target:

Central Medical Laboratories
Manitoba, Canada

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Gamma Dynacare had net revenue of \$249 mil for the 12 months ending December 31, 2008. The combined company will have 19,000 full-time employees and will operate from six laboratories, four in Ontario, one in Quebec, and Central Medical Laboratories' 8,000 square foot facility in Manitoba.

Lab and Pathology Transactions: 2009-2010

January, 2009

2009-02

Acquirer:

American Pathology Partners
Brentwood, TN

Target:

UniPath, LLC
Denver, CO

Purchase Price: n/a

Target Revenue: \$25 mil (est.)

Price / Revenue Multiple: n/a

Comments: American Pathology Partners will keep the Unipath name and has signed a long-term agreement to purchase professional services from Unipath's pathologists.

Lab and Pathology Transactions: 2009-2010

January, 2009

2009-03

Acquirer:

Ssurepath
Ashburn, VA

Target:

Annapath, Inc.
Annapolis, MD

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Pathology-outsourcing startup Ssurepath acquired Annapath, a small histology lab as part of a strategy to eventually outsource histology services to India. SSurepath is affiliated with Dr. Lal Path Labs, a large lab in India.

Lab and Pathology Transactions: 2009-2010

March, 2009

2009-04

Acquirer:

American Pathology Partners
Brentwood, TN

Target:

Eastern Carolina Pathology
Wilson, NC

Purchase Price: n/a

Target Revenue: \$25 mil (est.)

Price / Revenue Multiple: n/a

Comments: ECP is a full-service anatomic pathology laboratory that serves eastern North Carolina and was founded in 1988. ECP employs four pathologists.

Lab and Pathology Transactions: 2009-2010

April, 2009

2009-05

Acquirer:

Water Street Healthcare Partners
Chicago, IL

Target:

ConVerge Diagnostic Services
Peabody, MA

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Converge provides histology, cytology and anatomic pathology services in the New England market to physicians and hospitals. Water Street is a private equity firm which also owns AP lab PLUS Diagnostics (formerly Lakewood Pathology).

Lab and Pathology Transactions: 2009-2010

May, 2009

2009-06

Acquirer:

Quest Diagnostics Incorporated
Madison, NJ

Target:

OralDNA Labs
Brentwood, TN

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Formed in August 2008 by lab industry executive Brian Carr, OralDNA performs saliva-based DNA tests for periodontal disease for dentists. OralDNA received financial backing from Oak Investments (Clariant, Inc. and American Esoteric Laboratories).

Lab and Pathology Transactions: 2009-2010

May, 2009

2009-07

Acquirer:

Management Team

Target:

Parkway Clinical Labs
Bensalem, PA

Purchase Price: \$2.5 mil

Target Revenue: \$2.0 mil (est)

Price / Revenue Multiple: 1.25 x

Comments: Rosetta Genomics, the Israeli-based molecular diagnostics company, sold Parkway which it had previously acquired in July, 2008. Parkway focuses primarily on drugs-of-abuse testing for mental health facilities, clinics, and correctional facilities.

Lab and Pathology Transactions: 2009-2010

June, 2009

2009-08

Acquirer:

Sonic Healthcare
Austin, TX

Target:

Axiom Laboratories
Tampa, FL

Purchase Price: \$7 mil

Target Revenue: \$5 mil (est.)

Price / Revenue Multiple: 1.40 x

Comments: Established in 2006, Axiom operates labs and PSCs in Tampa (main facility), Orlando, Miami and Haiti. The company continues to own and operate diagnostic imaging facilities in Florida. This deal expands Sonic's existing presence in FL gained through the acquisition of Cognoscenti Health Institute in September, 2006.

Lab and Pathology Transactions: 2009-2010

July, 2009

2009-09

Acquirer:

LabCorp (NYSE: LH)
Burlington, NC

Target:

Monogram Biosciences
San Francisco, CA

Purchase Price: \$155 mil

Target Revenue: \$62 mil

Price / Revenue Multiple: 2.50 x

Comments: Monogram manufactures pharmacogenomic tests, also known as companion diagnostics. The company is best known for its Trofile assay which assists physicians in determining an HIV patient's resistance to certain drug therapies. Monogram has experienced significant financial losses since its inception.

Lab and Pathology Transactions: 2009-2010

July, 2009

2009-10

Acquirer:

Adeona Pharmaceuticals
Ann Arbor, MI

Target:

HartLab LLC
Bolingbrook, IL

Purchase Price: \$300,000

Target Revenue: \$150,000

Price / Revenue Multiple: 2.00 x

Comments: Adeona plans to use HartLab as a platform to launch its proprietary copper toxicity and zinc deficiency blood tests relating to Alzheimer's disease.

Lab and Pathology Transactions: 2009-2010

July, 2009

2009-11

Acquirer:

Viracor
Lee's Summit, MO

Target:

IBT Laboratories
Lenexa, KS

Purchase Price: n/a

Target Revenue: \$35 - \$40 mil

Price / Revenue Multiple: n/a

Comments: These two companies located 22 miles apart in the Kansas City area merged. IBT (2008 revenue of \$12 mil) specializes in immunology and allergy testing and was founded in 1983 by Dr. Jack Halsey. ViraCor (2008 revenue of \$25 mil) focuses on molecular testing for infectious disease and was founded in 2000 by Phillip Short.

Lab and Pathology Transactions: 2009-2010

September, 2009

2009-12

Acquirer:

Quest Diagnostics Incorporated
Madison, NJ

Target:

Caritas Medical Laboratories, LLC
Boston, MA

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: CML was owned by Caritas Christi Health Care and provides outreach lab testing to staff physicians at Caritas' six hospitals. The deal excluded inpatient testing at the Caritas hospitals; Quest will remain the primary send-out lab for the Caritas hospital labs.

Lab and Pathology Transactions: 2009-2010

September, 2009

2009-13

Acquirer:

Sonic Healthcare USA
Austin, TX

Target:

Piedmont Medical Labs
Winchester, VA

Purchase Price: \$15.5 mil (est.) **Target Revenue:** \$11 mil (est.)

Price / Revenue Multiple: 1.41 x

Comments: Piedmont was owned by hospital system Valley Health and provided outreach testing services to eight hospitals, 300 physicians and several nursing homes in northern VA. Hospital inpatient lab testing was not included in the transaction.

Lab and Pathology Transactions: 2009-2010

September, 2009

2009-14

Acquirer:

ABS Capital Partners
Baltimore, MD

Target:

Pathology, Inc.
Torrance, CA

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: A provider of AP and molecular diagnostic testing services based in Los Angeles, Pathology, Inc. received a private equity investment which was used to partially retire founding shareholders. ABS is an experienced lab investor; past investments include: American Esoteric Labs, US Labs and InformDX.

Lab and Pathology Transactions: 2009-2010

November, 2009

2009-15

Acquirer:

Aurora Diagnostics, LLC
Palm Beach Gardens, FL

Target:

South Texas Dermatopathology Lab
San Antonio, TX

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: After an 18-month hiatus from making acquisitions, Aurora establishes a beach head in Texas with the acquisition of this dermatopathology lab located in San Antonio, Aurora's 14th acquisition.

Lab and Pathology Transactions: 2009-2010

November, 2009

2009-16

Acquirer:

Bostwick Labs
Richmond, VA

Target:

Commonwealth Biotechnologies, Inc.
Richmond, VA and Fairfax, VA

Purchase Price: \$1.1 mil+

Target Revenue: \$8 mil (est.)

Price / Revenue Multiple: 0.14+ x

Comments: This financially distressed lab includes two divisions: CBI Services, a provider of clinical trials support services and Fairfax Identity Labs, a provider of paternity testing and forensic testing for crime labs.

Lab and Pathology Transactions: 2009-2010

December, 2009

2009-17

Acquirer:

Aurora Diagnostics, LLC
Palm Beach Gardens, FL

Target:

Pinkus Dermatopathology Lab
Monroe, MI

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Founded in 1940 by Hermann Pinkus, M.D., Pinkus Dermatopathology Laboratory is one of the best known dermpath labs in the U.S. and represents Aurora's fourth acquisition in Michigan.

Lab and Pathology Transactions: 2009-2010

December, 2009

2009-18

Acquirer:

Aurora Diagnostics, LLC
Palm Beach Gardens, FL

Target:

Bernhardt Laboratories
Jacksonville, FL

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Founded by Harvey Bernhardt, M.D. in 1986, Bernhardt Laboratories provides anatomic pathology and molecular diagnostic testing services with a focus on the dermatopathology and women's health market segments.

Lab and Pathology Transactions: 2009-2010

December, 2009

2009-19

Acquirer:

Welsh Carson Anderson & Stowe
New York City, NY

Target:

Triad Laboratory Alliance, LLC
d/b/a Spectrum Laboratory Network
Greensboro, NC

Purchase Price: \$230 mil

Target Revenue: \$182 mil (est.)

Price / Revenue Multiple: 1.26 x (est.)

Comments: PE firm Apax Partners (80%) and Moses Cone Health System (20%) sold Spectrum which has over 1,700 employees and 92 PSCs. Welsh Carson previously owned AmeriPath which it acquired for \$800 mil in 2003 and sold to Quest for \$2 bil in 2007.

Lab and Pathology Transactions: 2009-2010

December, 2009

2009-20

Acquirer:

LabCorp (NYSE: LH)
Burlington, NC

Target:

Centrex Clinical Laboratories
New Hartford, NY

Purchase Price: n/a

Target Revenue: \$43 mil

Price / Revenue Multiple: n/a

Comments: Health system Faxton-St. Luke's Healthcare sold Centrex which generated \$43 mil in net revenue in 2008 and employed staff of 365. LabCorp will provide inpatient testing services for Faxton-St. Luke's post-transaction and will maintain Centrex's name and facilities.

Lab and Pathology Transactions: 2009-2010

December, 2009

2009-21

Acquirer:

Sonic Healthcare
Austin, TX

Target:

East Side Clinical Laboratory
Providence, RI

Purchase Price: n/a

Target Revenue: \$30 mil (est.)

Price / Revenue Multiple: n/a

Comments: Among the largest non-hospital owned private clinical labs in the U.S., East Side maintains a dominant market share in RI and is located approximately 3 hours north of Sonic's Sunrise lab in Long Island, NY.

Lab and Pathology Transactions: 2009-2010

December, 2009

2009-22

Acquirer:

Catholic Health Initiatives
Denver, CO

Target:

Pathology Associates Medical
Laboratories, Spokane, WA

Purchase Price: \$37.1 mil
(for a 25% stake)

Target Revenue: \$130 mil

Price / Revenue Multiple: 1.14 x $[(37.1 \times 4) / 130]$

Comments: CHI operates 78 hospitals in 20 states. Providence Health Care retained ownership of 75% of PAML. PAML and CHI will work together to develop outreach businesses at CHI hospitals. The parties will share ownership of these new business units.

Lab and Pathology Transactions: 2009-2010

January 2010

2010-01

Acquirer:

Primus Capital
Cleveland, OH

Target:

PathGroup, Inc.
Brentwood, TN

Purchase Price: \$100 mil

Target Revenue: \$100 mil

Price / Revenue Multiple: n/a

Comments: Primus Capital sponsored the \$100 mil debt/equity recapitalization of PathGroup. PathGroup's pathologist-owners retained approximately 75% ownership of the equity of the company. Founded in 1983, PE firm Primus Capital invests in the healthcare, education, and technology enabled business service industries.

Lab and Pathology Transactions: 2009-2010

January 2010

2010-02

Acquirer:

Spectrum Laboratory Network
Greensboro, NC

Target:

Carilion Labs
Roanoke, VA

Purchase Price: n/a

Target Revenue: \$109.9 mil

Price / Revenue Multiple: n/a

Comments: Spectrum's first major transaction following its acquisition by Welsh Carson in Dec. 2009. Carilion Clinic received a 33% stake in the merged company as its consideration. Combined entity has net revenue of approximately \$300 mil, over 100 PSCs and over 2,600 employees. Carilion's Charlotte lab will be closed.

Lab and Pathology Transactions: 2009-2010

January 2010

2010-03

Acquirer:

Predictive BioScience
Lexington, MA

Target:

OncoDiagnostic Laboratory
Cleveland, OH

Purchase Price: n/a

Target Revenue: \$10 mil

Price / Revenue Multiple: n/a

Comments: OncoDiagnostic was founded in 1985 by pathologists and employs approximately 40. Predictive was launched in 2006 and is venture capital backed. This deal provides Predictive with a urology-focused lab and sales force to commercialize its proprietary specialty assays that relate to prostate and bladder cancer detection.

Lab and Pathology Transactions: 2009-2010

February 2010

2010-04

Acquirer:

Inverness Medical Innovations
Waltham, MA (AMEX: IMA)

Target:

Kroll Laboratory Specialists
Gretna, LA

Purchase Price: \$110 mil

Target Revenue: \$40.2

Price / Revenue Multiple: 2.74 x

Comments: Inverness is a \$1.9 bil provider of diagnostic products for women's health and chronic disease self-management. Kroll is a drugs of abuse testing company which should dovetail well with Inverness' Redwood Toxicology business acquired in January, 2008.

Lab and Pathology Transactions: 2009-2010

March 2010

2010-05

Acquirer:

Bio-Reference Laboratories
Elmwood Park, NJ (NASDAQ: BRLI)

Target:

Lenetix Medical Screening Lab
Mineola, NY

Purchase Price: \$5.5 mil

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Lenetix specializes in prenatal genetic testing such as cystic fibrosis, Fragile X, etc. and was founded in 2001 by Dr. Leonard Kellner. Lenetix's test menu should complement the testing capability acquired by BRLI in its 2006 acquisition of GeneDx.

Lab and Pathology Transactions: 2000-2010

March 2010

2010-06

Acquirer:

Aurora Diagnostics, LLC
Palm Beach Gardens, FL

Target:

Pathology Solutions LLC
Eatontown, NJ

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Pathology Solutions represents the 17th laboratory acquisition completed by Aurora since its inception in 2006 and its first acquisition in New Jersey.

Lab and Pathology Transactions: 2009-2010

March 2010

2010-07

Acquirer:

Mainsail Partners
San Francisco, CA

Target:

PathLogic
Carmichael, CA

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Mainsail Partners is a private equity firm with \$150 mil under management. With 22 affiliated pathologists, PathLogic is a rapidly growing anatomic pathology laboratory which provides diagnostics services primarily in California.

Lab and Pathology Transactions: 2009-2010

April 2010

2010-08

Acquirer:

EndoChoice
Alpharetta, GA

Target:

Pathworks Anatomic Pathology
Laboratory, Atlanta, GA

Purchase Price: n/a

Target Revenue: n/a

Price / Revenue Multiple: n/a

Comments: Pathworks manages in-office pathology labs and provides TC/PC services to GI practices. EndoChoice provides GI endoscopy instruments and supplies to over 700 GI practices. EndoChoice also acquired PathOptions (Hollywood, FL) a TC/PC consulting firm in 2008

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 clinical laboratories and pathology practices. We represent and assist physicians and other healthcare company owners during the process of selling their laboratories, during the process of merging or partnering with other laboratories or companies, or during the process of growing through acquisition. We also provide lab valuation services, typically in connection with lab transition issues such as admitting new partners and retiring existing partners, and with the formation of joint ventures.

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