



Overview of 2013 - 2014 Laboratory Industry Transactions

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Topics to be Addressed Today

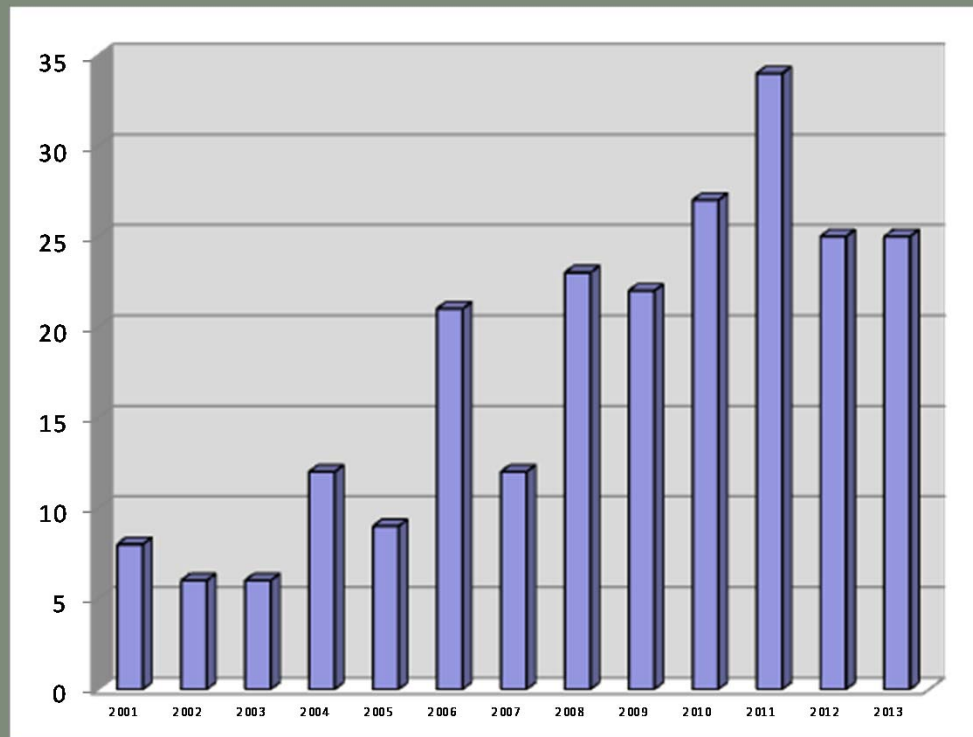
- Aggregate statistics for laboratory industry transaction activity
- Laboratory valuation trends
- Factors driving lab industry transactions
- Haverford's forecast regarding future lab transaction trends
- Recap of completed lab transactions 2013 – 2014
- Overview of the largest lab deals of 2013 – 2014
- Most active acquirers of 2013 – 2014
- Most significant lab industry M&A trend of 2013 - 2014

Deal Activity Stabilizes in 2013

- Lab industry deal activity has leveled out in 2012 and 2013 after reaching record levels in 2011.

U.S. Lab Industry Deal Activity 2001 - 2013

of Closed
Laboratory
Transactions

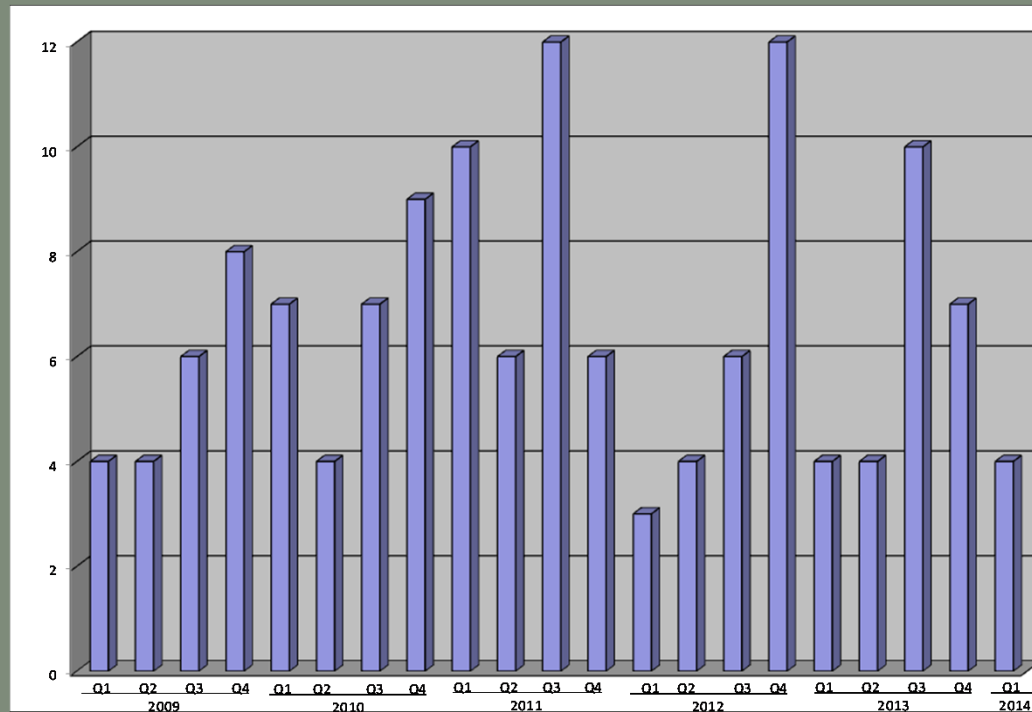


Deal Activity Stabilizes in 2013

- Most lab industry transactions continue to be completed in either the third or fourth calendar quarter.

U.S. Lab Industry Deal Activity Q1 2009 – Q1 2014

of Closed
Laboratory
Transactions

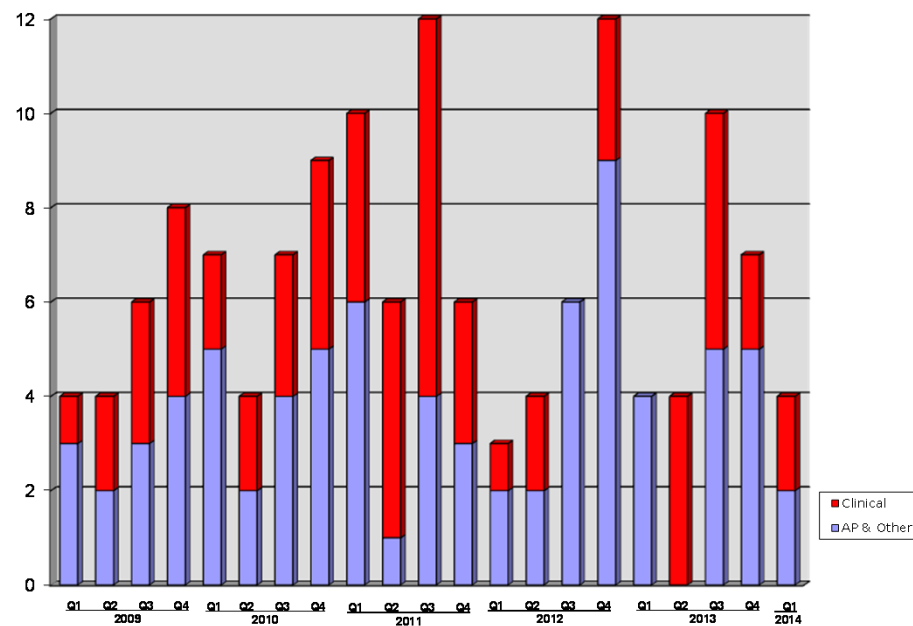


Deal Activity Stabilizes in 2013

- Anatomic Pathology and Specialty Lab deals outnumbered Clinical Lab deals 14 to 11 over the four quarters of 2013. The four deals completed in Q1-2014 were split equally between the two categories.

U.S. Lab Industry Deal Activity Q1 2009 – Q1 2014

of Closed
Laboratory
Transactions



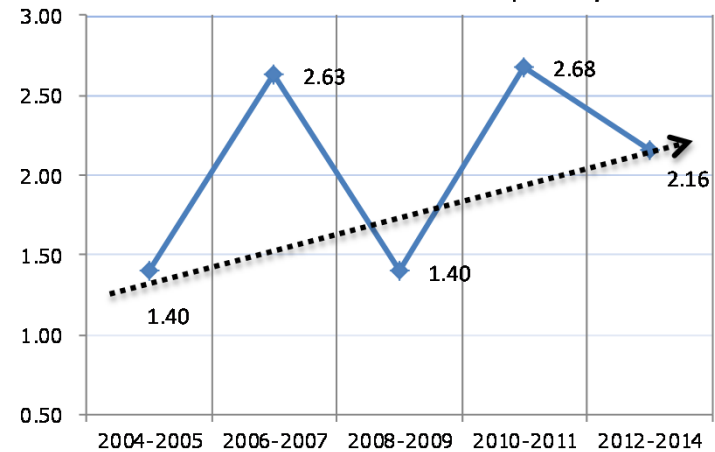
Deal Activity Stabilizes in 2013

- Price to Revenue multiples have trended upward over the past decade.

Price to Revenue Multiples by Acquisition Year
2004 through 2014

Acquisition Target Date Range	Number of Transactions	Average Price to Revenue	Median Price to Revenue
2004 - 2005	9	1.57	1.40
2006 - 2007	11	2.74	2.63
2008 - 2009	11	1.44	1.40
2010 - 2011	11	3.61	2.68
2012 - 2014	3	1.98	2.16
All Transactions	45	2.35	2.09

Median Price to Revenue Multiples by Year



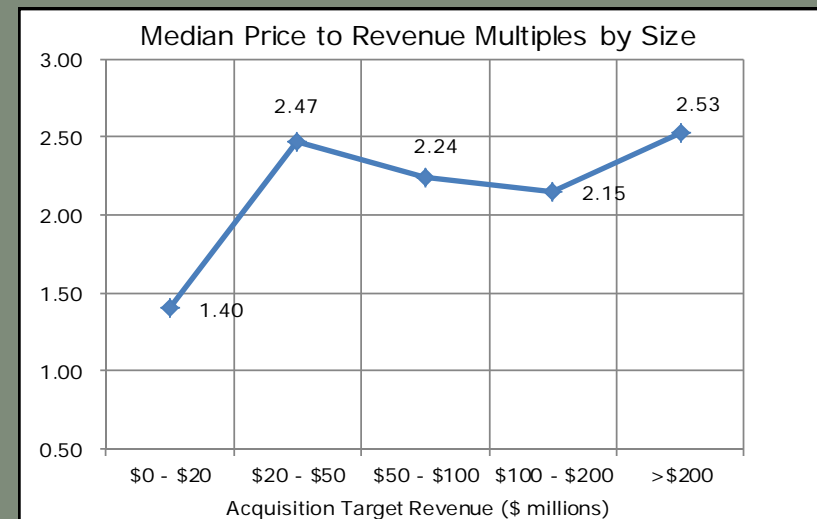
(Data is based on transactions where information has been publicly disclosed.)

Deal Activity Stabilizes in 2013

- Acquirers consistently pay higher Price to Revenue multiples for larger labs.

**Price to Revenue Multiples by Revenue Size of Target
2004 through 2014**

Acquisition Target Revenue Range	Number of Transactions	Average Price to Revenue	Median Price to Revenue
> \$0.0 to \$20.0 mil	14	2.18	1.40
> \$20.0 to \$50.0 mil	6	2.21	2.47
> \$50.0 to \$100.0 mil	9	2.39	2.24
> \$100.0 to \$200.0 mil	11	2.57	2.15
> \$200.0 mil	5	2.45	2.53
All Transactions	45	2.35	2.09



(Data is based on transactions where information has been publicly disclosed.)

Deal Activity Stabilizes in 2013

Preliminary observations regarding aggregate lab industry transaction activity:

- The volume of lab transactions remains at historically high levels but has stabilized at the five-year-average level.
- The valuations paid for lab companies remain at historically high levels.

Deal Activity Stabilizes in 2013

Countervailing lab industry forces will impact future transaction activity:

- The lab industry is facing unprecedented challenges regarding reimbursement for testing services and anemic volume growth. However, lab companies are increasingly looking to acquisitions as a means to bolster volume growth.
- The number of active “serial” lab acquirers has declined; however, competition for transactions among the remaining acquirers is very high which, in turn, is keeping valuations high.
- Hospitals are acquiring physician practices and absorbing the associated test volume at the expense of commercial clinical labs. However, lab companies are acquiring hospital outreach labs or joint venturing with hospitals with increasing frequency.
- The number of independent lab acquisition targets has declined. However, despite years of consolidation, niche segments of the industry (e.g., pathology, hospital labs) remain highly fragmented.

Deal Activity Stabilizes in 2013

Other factors that will continue to support high levels of M&A activity and high valuations for lab companies in the future include:

- Public companies and private equity investors continue to remain interested in investing in the lab industry.
- 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.
- Favorable demographics and increased potential volume from uninsured.
- Large commercial lab acquirers provide a clear exit strategy for smaller industry participants.

Deal Activity Stabilizes in 2013

- We anticipate that lab industry deal activity and valuations in 2014 will remain consistent with levels observed in 2013 and 2012.

Recap of Lab Transactions for 2013-2014

Almost every transaction in the following review exemplifies one of the following industry macro trends:

- Large industry participant acquiring routine clinical or specialty labs.
- Specialty life science company acquiring a specialty molecular or genomic testing laboratory.
- Pharmaceutical or technology company or private equity investor entering the industry via the acquisition of a specialized genetic or molecular testing lab.
- Consolidation of urine drug screen labs serving the pain medicine, addiction medicine, and behavioral health provider market.

Recap of Lab Transactions for 2013-2014

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 in which the transactions were actually closed, as opposed to announcement dates.
- Each transaction represents a unique set of facts and circumstances; the data is most relevant when viewed in the aggregate.

Recap of Lab Transactions for 2013 (Page 1 of 2)

CLINICAL LABORATORY TRANSACTIONS - 2013							
	Date	Acquirer	Target	Purchase Price	Target Revenue	Target EBITDA	Price to Revenue
1	Jan-13	Illumina	Verinata Health	NA	NA	NA	
2	Jan-13	Access Genetics	Oral DNA (sold by Quest Diagnostics)	NA	NA	NA	
3	Jan-13	Management (Selah Genomics)	Lab 21 Ltd.'s So. Carolina clinical lab operations	NA	NA	NA	
4	Jan-13	Ascend Clinical, LLC	PathCentral	NA	NA	NA	
5	Apr-13	Laboratory Corporation of America	Dignity Health's Outreach Clinical Lab Operations (AZ)	NA	NA	NA	
6	May-13	Quest Diagnostics	Dignity Health's Outreach Clinical Lab Operations (CA, NV)	NA	NA	NA	
7	May-13	Quest Diagnostics	Concentra's Advanced Toxicology Network	NA	NA	NA	
8	Jun-13	Laboratory Corporation of America	Laboratory Partners' MedLab Physician Office Business	\$10,700,000	NA	NA	
9	Jul-13	BelHealth Investment Partners	General Genetics Corporation	NA	NA	NA	
10	Aug-13	Sterling Reference Laboratories	Norchem Drug Testing Laboratory	NA	NA	NA	
11	Aug-13	Metamark Genetics, Inc.	HealthTronics Laboratory Solutions, Inc.	NA	NA	NA	
12	Aug-13	Bio-Reference Laboratories	Hunter Laboratories	NA	\$20,000,000	NA	
13	Aug-13	Gardiner -Smith Laboratories	ARUP-Animal Reference Pathology	NA	NA	NA	

Source: Financial information from press releases, SEC filings and other publicly available sources
EBITDA: Earnings before interest, taxes, depreciation and amortization

Recap of Lab Transactions for 2013 (Page 2 of 2)

CLINICAL LABORATORY TRANSACTIONS - 2013						
Date	Acquirer	Target	Purchase Price	Target Revenue	Target EBITDA	Price to Revenue
14 Aug-13	Laboratory Corporation of America	Genesis Clinical Laboratory Outreach Business	NA	NA	NA	
15 Aug-13	Laboratory Corporation of America	Bendiner Schlesinger	NA	NA	NA	
16 Aug-13	Response Genetics	Pathwork Diagnostics	\$1,200,000	NA	NA	
17 Sep-13	Laboratory Corporation of America	John Muir Health Clinical Laboratory Outreach Services	NA	NA	NA	
18 Sep-13	Clinical Genomics Technologies Pty Ltd.	Enterix, Inc. (sold by Quest Diagnostics)	NA	NA	NA	
19 Oct-13	Quest Diagnostics	ConVerge Diagnostic Services LLC	NA	NA	NA	
20 Oct-13	Miraca Life Sciences	PLUS Diagnostics	NA	NA	NA	
21 Nov-13	Levine Leichtman Capital Partners	Genova Diagnostics	NA	NA	NA	
22 Nov-13	Laboratory Corporation of America	SEPA Labs	NA	NA	NA	
23 Nov-13	Viracor IBT Laboratories	Lab Operations of National Institute of Transplantation	NA	NA	NA	
24 Dec-13	Spectra Laboratories	Shiel Medical Laboratory	NA	NA	NA	
25 Dec-13	Manhattan Labs	Genatom, Inc.	NA	NA	NA	

Source: Financial information from press releases, SEC filings and other publicly available sources
EBITDA: Earnings before interest, taxes, depreciation and amortization

Recap of Lab Transactions for Q1-2014

CLINICAL LABORATORY TRANSACTIONS - YTD 2014

Date	Acquirer	Target	Purchase Price	Target Revenue	Target EBITDA	Price to Revenue
1 Mar-14	Quest Diagnostics	Solstas Lab Partners Group	\$570,000,000	\$355,000,000	NA	1.61
2 Mar-14	Laboratory Corporation of America	Covance's Genomics Molecular Lab	NA	NA	NA	
3 Mar-14	Quest Diagnostics	Summit Health	NA	NA	NA	
4 Mar-14	Laboratory Corporation of America	Terre Haute Medical Lab	\$10,500,000	NA	NA	

Source: Financial information from press releases, SEC filings and other publicly available sources

EBITDA: Earnings before interest, taxes, depreciation and amortization

Largest Transaction of 2013-2014

Acquisition Date: March 2014

Acquirer:

Quest Diagnostics, Inc.
Madison, NJ

Target:

Solstas Lab Partners
Greensboro, NC

Purchase Price: \$570.0 mil

Target Revenue: \$355.0 mil

Target EBITDA: -

Price / Revenue Multiple: 1.61X

Price / EBITDA Multiple: -

- **Comments:** Solstas Lab Partners Group and its subsidiaries (Solstas) is a full-service commercial laboratory company based in Greensboro, North Carolina. Solstas operates in nine states, including the Carolinas, Virginia, Tennessee, Georgia and Alabama. Solstas was owned by private equity firm Welsh Carson Anderson and Stowe along with minority owners Ascension Health Ventures, Carillion Clinic, Novant Health System and Wellmont Health System.

Solstas Lab Partners – Company History

Solstas has a complex history involving many owners and numerous transactions.

- November, 2005 -Spectrum Laboratory Network is acquired by Apax Partners from its founders Moses Cone Health System (which retains a 20% stake in Spectrum), High Point Regional Health, and Novant Health System.
- December, 2009 -Spectrum Laboratory Network is acquired from Apax Partners (New York, NY) which owned 80% and from Moses Cone Health System (Greensboro, NC) which owned 20% for approximately \$230 million by Welsh, Carson, Anderson and Stowe (NYC, NY). Spectrum's estimated annual net revenue for 2009 is \$190 mil.

Solstas Lab Partners – Company History

- March, 2010 - Carillion Labs (a for-profit affiliate of the Carilion Clinics, Roanoke, VA) merges with Spectrum Laboratory Network. Following the merger, Carilion Clinics owns 33% of the merged entity. Novant, a minority owner in Carilion Labs prior to the merger, also owns a minority stake in Spectrum. Lab industry veteran David Weevil was named CEO of Spectrum. Merged entity estimated to have combined annual net revenue of approximately \$300 to \$350 million (Carilion Labs estimated annual net revenue is \$110 mil).
- October, 2010 - Solstas acquires Doctors Laboratory, Inc. of Valdosta, GA. (Est. Net Rev. of \$40 mil).
- February, 2011 - Solstas adopts new name and logo.

Solstas Lab Partners – Company History

- June, 2011 - Solstas receives an equity investment from Ascension Health Ventures joining Carillion Clinic, Novant Health System and Wellmont Health System as minority investors. Welsh, Carson, Anderson, and Stowe retains majority ownership of Solstas.
- June, 2011 - Solstas acquires Select Diagnostics, Inc. a regional lab company with offices in Greensboro and Raleigh, NC and Lexington, VA. (Estimated annual net revenue of \$10 mil).
- August, 2011 - Solstas acquires Nextwave Diagnostic Laboratories and Wilmington Pathology Laboratory, both based in Wilmington, NC. Both of these labs were owned by the pathologists of Wilmington Pathology Associates. (Estimated annual net revenue of \$10 mil).

Solstas Lab Partners – Company History

- August, 2011 - Solstas acquires Southern Diagnostic Laboratories of Birmingham, AL. (Estimated annual net revenue of \$20 mil).
- November, 2011 - Solstas acquires Oracle Diagnostic Laboratories, a clinical lab located in Davie, FL. (Estimated annual net revenue of \$10 mil).
- December, 2011 - Solstas acquires Hayes Clinical Laboratory of Boynton Beach, FL. (Estimated annual net revenue of \$10 mil).
- January, 2014 - Quest agrees to acquire Solstas for approximately \$570 mil. (Estimated annual net revenue of \$355 mil for 2014).

Most Active Acquirers of 2013-2014

- Laboratory Corporation of America [NYSE: LH] completed six transactions in 2013 and two transactions in Q1-2014.
- LabCorp was also the most active acquirer of lab businesses in 2010 during which it completed six transactions. LH completed three deals in 2011 and four transactions in 2012, including Medtox for \$241 mil.
- Labcorp also completed the largest lab acquisition of 2010 with its acquisition of Genzyme Genetics for \$925 mil in September, 2010.

LABORATORY CORPORATION OF AMERICA COMPLETED TRANSACTIONS 2013 - 1st Qtr 2014							
	Date	Acquirer	Target	Purchase Price	Target Revenue	Target EBITDA	Price to Revenue
1	Apr-13	Laboratory Corporation of America	Dignity Health's Outreach Clinical Lab Operations	NA	NA	NA	
2	Jun-13	Laboratory Corporation of America	Laboratory Partners' MedLab Physician Office Business	\$10,700,000	NA	NA	
3	Aug-13	Laboratory Corporation of America	Genesis Clinical Laboratory Outreach Business	NA	NA	NA	
4	Aug-13	Laboratory Corporation of America	Bendiner Schlesinger	NA	NA	NA	
5	Sep-13	Laboratory Corporation of America	John Muir Health Clinical Laboratory Outreach Services	NA	NA	NA	
6	Nov-13	Laboratory Corporation of America	SEPA Labs	NA	NA	NA	
7	Mar-14	Laboratory Corporation of America	Covance's Genomics Molecular Lab	NA	NA	NA	
8	Mar-14	Laboratory Corporation of America	Terre Haute Medical Lab	\$10,500,000	NA	NA	

Most Active Acquirers of 2013-2014

- Quest Diagnostics [NYSE: DGX] completed three transactions in 2013 and two transactions in Q1-2014.
- Just last week, Quest announced the acquisition of certain hospital outreach lab operations of Steward Health Care System in greater Boston, MA.
- Quest completed two acquisitions in 2012 and two acquisitions in 2011. Quest did not complete any acquisitions in 2009 or 2010.

QUEST DIAGNOSTICS COMPLETED TRANSACTIONS 2013 - 1st Qtr 2014

	Date	Acquirer	Target	Purchase Price	Target Revenue	Target EBITDA	Price to Revenue
1	May-13	Quest Diagnostics	Dignity Health's Outreach Clinical Lab Operations	NA	NA	NA	
2	May-13	Quest Diagnostics	Concentra's Advanced Toxicology Network	NA	NA	NA	
3	Oct-13	Quest Diagnostics	ConVerge Diagnostic Services LLC	NA	NA	NA	
4	Mar-14	Quest Diagnostics	Solstas Lab Partners Group	\$570,000,000	\$355,000,000	NA	1.61
5	Mar-14	Quest Diagnostics	Summit Health	NA	NA	NA	

■ Notably Missing from the Most Active Acquirers of 2013-2014

- **Solstas Lab Partners** had been the most active acquirer of 2011 completing six deals.
- **Sterling Reference Laboratories** had completed three deals in 2012 and only one in 2013.
- **Bio-Reference Laboratories** had completed three small transactions in 2012 and only one larger transaction in 2013.
- **Sonic Healthcare USA's** last acquisition was in February 2011.
- **Aurora Diagnostics'** last acquisition was in August 2011.

Most Significant M&A Trend of 2013-2014

Hospital Laboratory Acquisitions

Typical Reasons hospitals wish to exit the outreach business:

- To monetize a non-core asset and utilize the capital for other key investment: physician practice acquisitions, GI suite, etc.
- Inability to be competitive due to use of hospital fee schedule in the outreach market
- Space constraints / hospital wants space for other, more core use or ancillary revenue opportunity

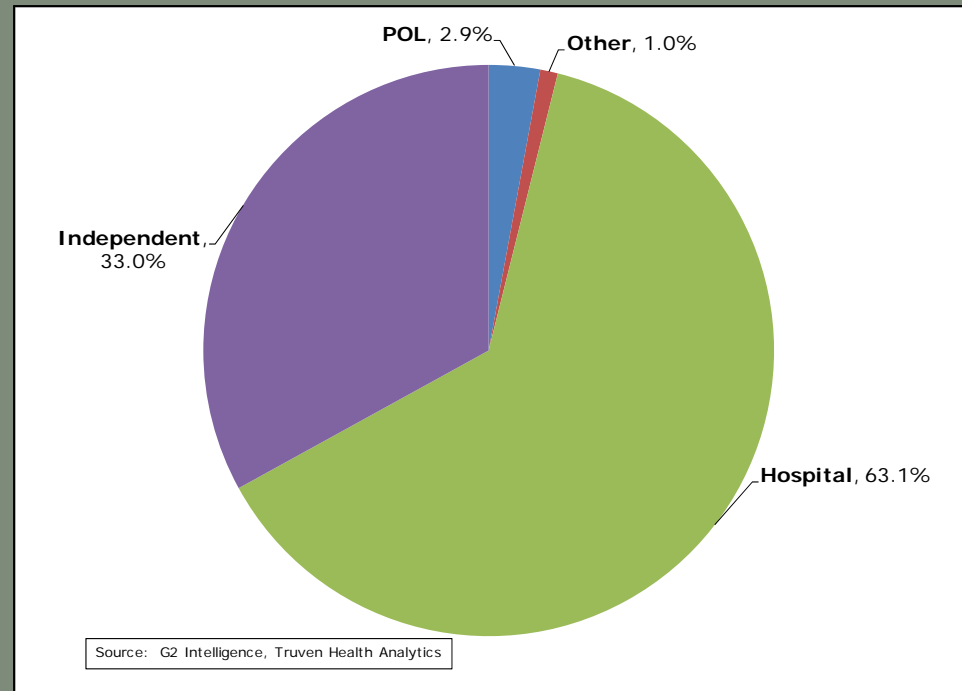
HOSPITAL LABORATORY TRANSACTIONS - 2013 -YTD 2014							
	Date	Acquirer	Target	Purchase Price	Target Revenue	Target EBITDA	Price to Revenue
1	Apr-13	Laboratory Corporation of America	Dignity Health's Outreach Clinical Lab Operations (AZ)	NA	NA	NA	
2	May-13	Quest Diagnostics	Dignity Health's Outreach Clinical Lab Operations (CA, NV)	NA	NA	NA	
3	Aug-13	Laboratory Corporation of America	Genesis Clinical Laboratory Outreach Business	NA	NA	NA	
4	Sep-13	Laboratory Corporation of America	John Muir Health Clinical Laboratory Outreach Services	NA	NA	NA	
5	Mar-14	Laboratory Corporation of America	Terre Haute Medical Lab	\$10,500,000	NA	NA	
6	Mar-14	Quest Diagnostics	Solstas Lab Partners Group	\$570,000,000	\$355,000,000	NA	1.61

Most Significant M&A Trend of 2013-2014

Hospital labs are commanding an increasing share of total lab industry revenue at the expense of independent labs.

- Hospitals accounted for roughly 50% of the market 5 years ago.
- Quest and LabCorp combined account for 47.9% of the independent segment.
- While still fragmented, the independent lab segment continues to consolidate.

Lab Revenue by Facility Type - 2012



Most Significant M&A Trend of 2013-2014

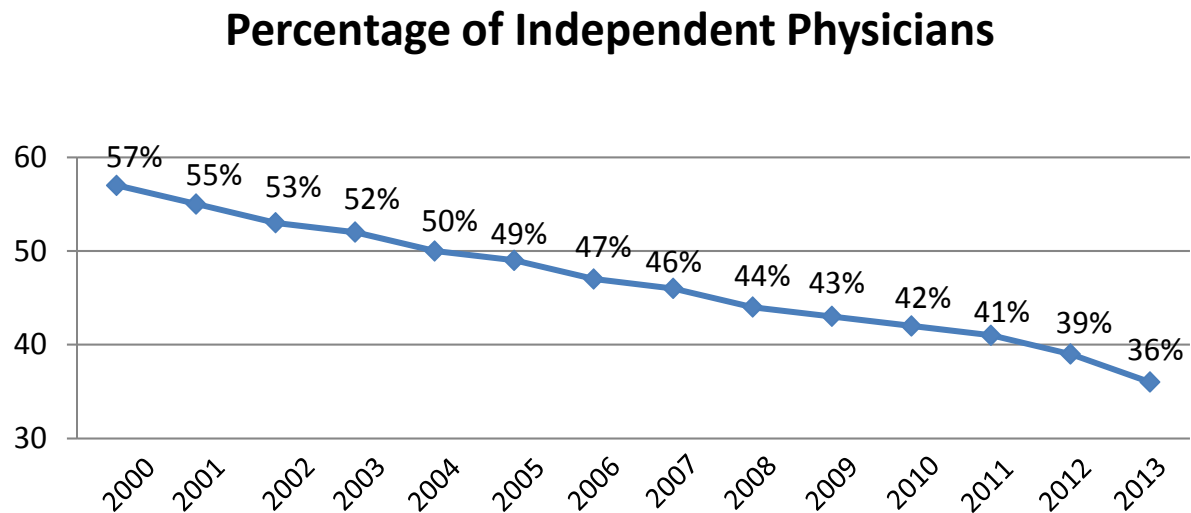
Hospitals control over 63% of the \$74 billion lab market and are providing stiff competition to the national commercial laboratories.

- After reimbursement cuts, the single biggest headwind facing the large commercial labs today is the erosion of their physician client base due to physician practice acquisitions by hospitals.
- Hospitals are benefiting from the higher reimbursement on acquired physicians' lab testing due to the hospital laboratory fee schedule.
- Most industry observers expect that this reimbursement differential that hospitals now enjoy will erode over the medium term.
- In the meantime, however, volume growth at the big commercial labs continues to suffer. Quest just announced that its Q1-2014 volume grew only 0.7% versus Q1-2013. LabCorp had not yet issued its Q1-2014 results at the time of the completion of this presentation.

Most Significant M&A Trend of 2013-2014

Physician-as-Employee Model

- In 2011, 60% of independent lab services were provided to physician offices according to a George Washington University study.



Source: "Clinical Transformation: New Business Models for a New Era in Healthcare," Accenture, 10/31/12

Past Significant M&A Trends

Two significant lab industry M&A trends that Haverford identified at last year's Executive War College meeting for 2012-2013 were notably less significant in 2013-2014.

- Toxicology Laboratory Acquisitions
 - Consolidation of urine drug screen labs serving the pain medicine, addiction medicine, and behavioral health provider market.
- Pathology Laboratory Acquisitions
 - Haverford estimates that nearly \$1.0 billion of private equity capital has been invested in the anatomic pathology segment over the past five to six years.

Haverford Healthcare Advisors

- Provides business valuation and transaction advisory services to healthcare service companies
- Specific focus on clinical laboratories and pathology practices
- Facilitates the process of selling, merging or partnering, or growing through acquisition
- Provides lab valuation services, typically in connection with a contemplated transaction or with the formation of joint ventures

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