



HEALTHCARE  
G R O U P



INDUSTRY  
UPDATE

Laboratory  
Services

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McCOLL | PARTNERS  
INVESTMENT BANKERS

CHARLOTTE

DALLAS

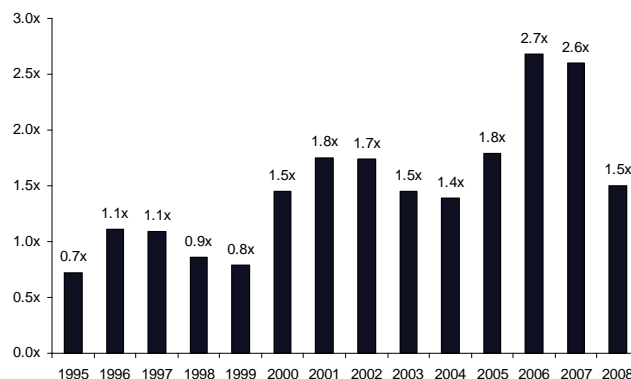
ATLANTA

Introduction

In the public markets in the last twelve month period ending February 17, 2009, the clinical lab sector outperformed the healthcare industry and the broader market by 9.7% and 29.6%, respectively. Although the sector is not immune from the U.S. recession, as evidenced by the decrease in physician visits, the sector is expected to benefit from long-term trends, including: (i) the increasing tests ordered per patient, (ii) an aging U.S. population, and (iii) the increasing utilization of diagnostic testing along the healthcare continuum. Furthermore, expanding access to screening tests for wellness and early detection of disease is a stated objective of the Obama administration’s healthcare reform. The sector is expected to generate modest volume growth and strong pricing growth due to: (i) the renegotiation of long-term managed care contracts in 2007 and 2008 and (ii) a 4.5% price increase in Medicare reimbursement in 2009. Labs are also in a better position than hospitals and other healthcare sectors to control exposure to uninsured patients and bad debt expense in the recession. In 2009, an increased focus on cost saving initiatives by larger national and regional commercial labs is expected to drive profit margins as labs continue to improve operational efficiencies and integrate recent large acquisitions.

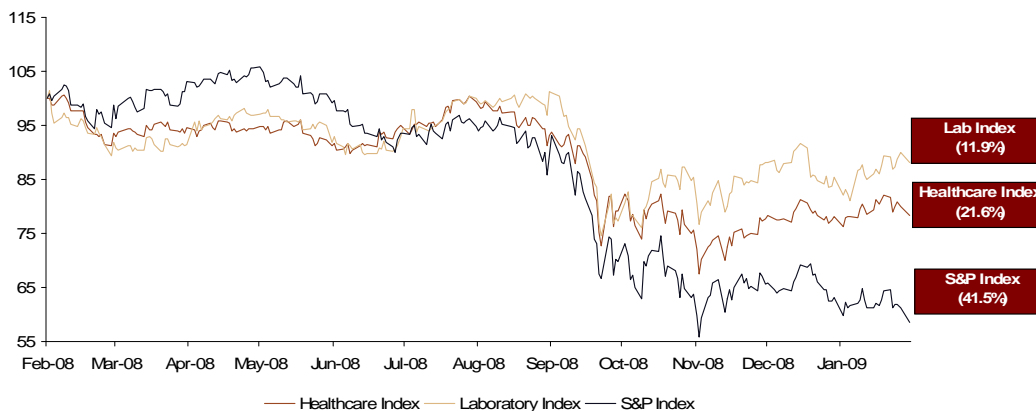
The U.S. clinical lab industry has experienced significant consolidation in the last three years, with Quest, LabCorp, and Sonic, accounting for over 35 acquisitions and \$3.7 billion in disclosed deal volume. The lab industry remains fragmented, as the largest providers, Quest and LabCorp, only serve 15% and 9% of the market, respectively, with thousands of hospitals and smaller independent labs accounting for 65% of the market. Although M&A activity and valuations decreased in 2008, large commercial labs will continue to compete for highly-attractive strategic acquisitions in 2009. In addition, the sector has attracted private equity investors that have established or are seeking platform acquisitions.

Figure 1: M&A Revenue Multiples



Source: Laboratory Economics and CapitalIQ.

Figure 2: Lab Stock Performance—Last 12 Months<sup>(1)</sup>

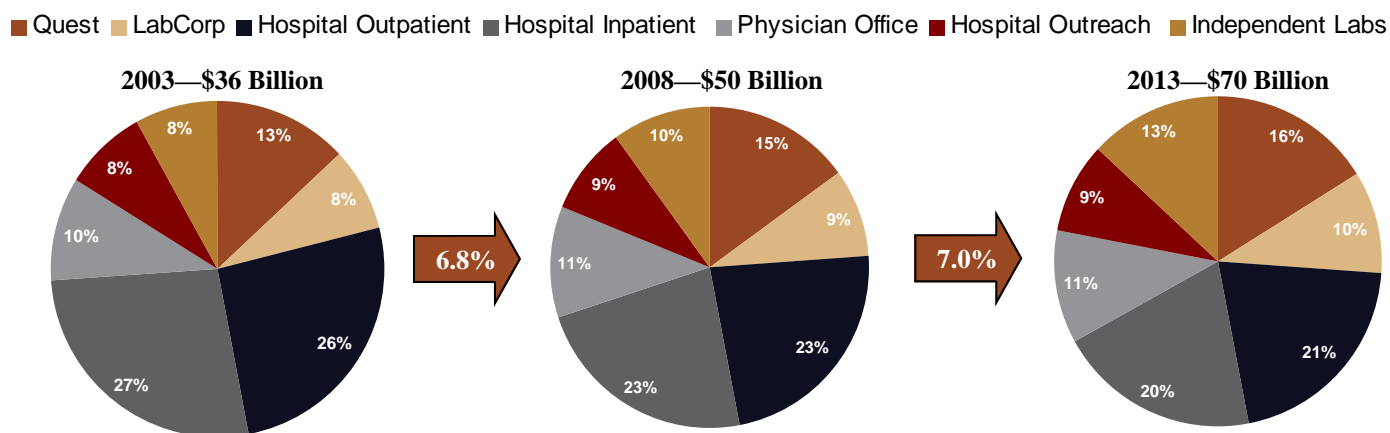


Footnote:  
 (1) Stock prices as of 2/17/09 throughout the presentation.

### Clinical Lab Industry

The U.S. clinical lab industry grew at a CAGR of 6.8% from 2003 through 2008, reaching an estimated \$50 billion and is expected to continue to grow at 7.0% annually to reach \$70 billion by 2013. Quest and LabCorp, which account for 15% and 9%, respectively, are expected to generate slower growth due to a lack of major acquisition opportunities. Smaller and specialized independent labs have the strongest projected annual growth rate of 12.5% and are expected to increase their market share from 10% in 2008 to 13% in 2013. Independent labs that offer one very specialized test or a series of tests around a specific disease are well-positioned to grow faster than larger commercial labs due to their nimbleness, highly-skilled sales forces, and more favorable reimbursement structures. In some instances, smaller hospitals that offer specialized tests, greater access to physicians, and quicker turnaround times may take share from larger commercial labs.

Figure 3: Projected Growth By Market Segment

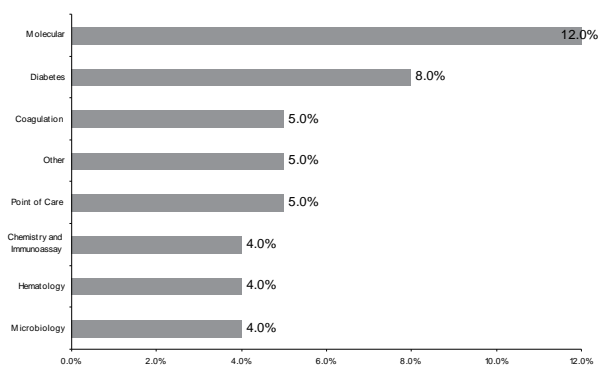
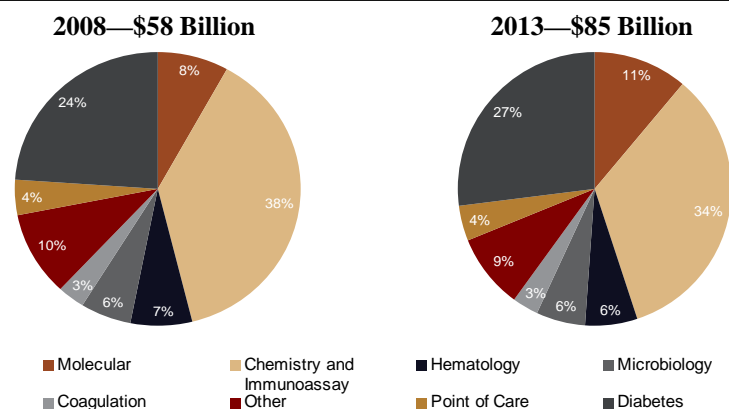


Source: Easton Associates.

Molecular diagnostics is expected to be the fastest-growing testing segment, and specifically genetics and oncology molecular diagnostics. The commercialization of new biomarkers and the increasing popularity of companion diagnostics or tests related to specific pharmaceuticals are expected to drive growth in molecular diagnostics. The major growth limitation to molecular diagnostics (currently offered at 600 U.S. sites), is the lack of automated technology and procedures compared to other testing areas.

Figure 4: In Vitro Testing Market By Segment

Figure 5: Projected Growth By Testing Segment



Source: Easton Associates.

### LabCorp

LabCorp generated revenue and EPS growth of 10.7% and 5.9%, respectively in 2008. Testing volume increased 9.8%, while revenue per accession increased 0.9%. The company's esoteric testing revenue increased 13.5% in the fourth quarter of 2008 to 35% of total revenue. The company has indicated a strong focus on wellness testing and recession-resistant physician specialties, such as cancer, endocrinology, and rheumatology with a goal of increasing the percentage of revenue from esoteric testing to 40% in the next three to five years. LabCorp expects revenue growth of 2% to 4% in 2009. The company plans to continue to pursue additional cost saving initiatives in 2009, including improving logistics and PSC efficiency by allocating \$85 million over the next three years to generate over \$100 million of annualized cost savings. A major challenge for LabCorp in 2009 will be to control bad debt expense, which reached 5.3% in the fourth quarter of 2008, compared to 4.3% reported by Quest.

LabCorp executed several acquisitions in 2008, including: (i) Tandem Labs, a bioanalytical and immunoanalytical contract research organization, (ii) PathNet Esoteric Laboratory, which focuses on cancer, sexually transmitted infections, and genetic testing for women, and (iii) Stanford Hospital's outreach program. LabCorp's management has indicated that the company will remain active in the M&A market with a strong interest in the U.S. hospital outreach segment. LabCorp is also a likely acquiror of two hospital outreach labs reported for sale: (i) Carillion Labs and (ii) St. John's Health Labs.

Figure 6: Stock Performance Chart

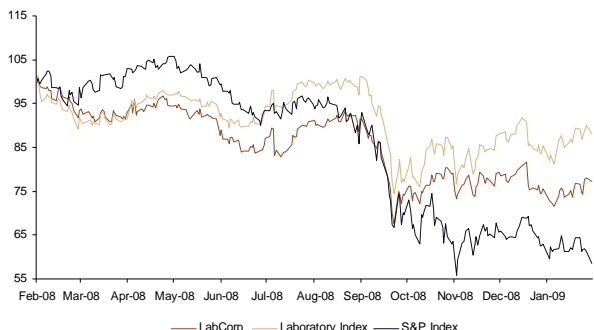


Figure 7: Historical LTM EBITDA Trading Multiple

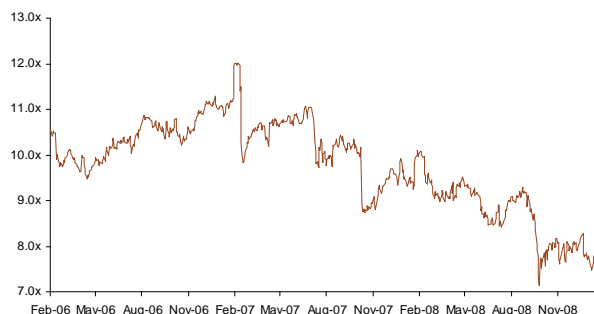


Figure 8: Revenue By Payor Mix

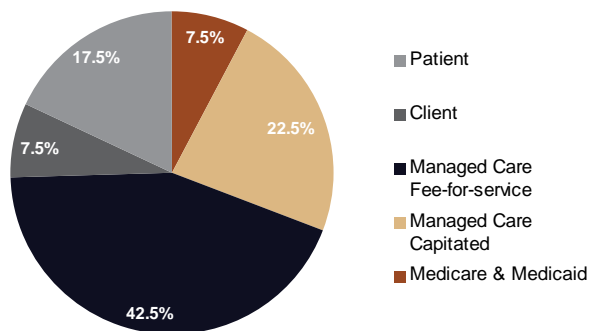
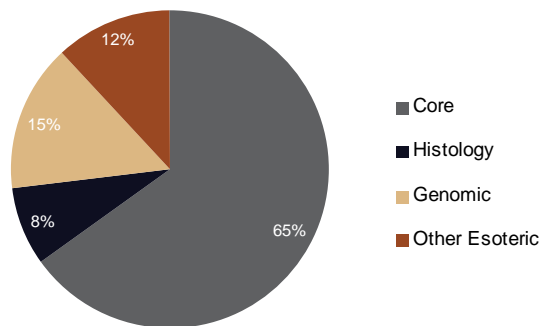


Figure 9: Revenue By Testing Segment



Source: LabCorp reports.

**Quest**

Quest generated revenue and EPS growth of 8.1% and 14.0%, respectively, in 2008. The company expects revenue growth of 3% in 2009. Similar to LabCorp, Quest continues to invest in non-routine testing segments, which increased by 20% in 2008. Quest has also realized annualized cost savings of \$300 million and expects to realize an additional \$200 million in 2009. The company believes its oncology segment will be a primary driver of growth in 2009 and introduced several innovative cancer tests in 2008. Quest also has a positive outlook for its point-of-care business, which is centered around HemoCue (acquired in 2007). Quest has a stronger international expansion effort than LabCorp and expects to increase international revenues to 10% in the next several years. The company plans to leverage its existing infrastructure in Puerto Rico, Mexico, and the United Kingdom, and invest heavily in India.

In 2008, Quest expanded its clinical trials business through the acquisition of Pathway Diagnostics, a provider of biomarker assay development, validation, and testing services. The company remained relatively inactive in the M&A market, due to the reported difficult integration of the 2007 AmeriPath acquisition. The integration was completed in the fourth quarter of 2008. Quest has indicated a conservative acquisition approach in 2009, but believes there is a near-term opportunity in the hospital outreach segment. In addition, as Quest plans to allocate a significant portion of its excess cash to debt retirement and share repurchases, acquisitions in 2009 are expected to be less than \$50 million.

Figure 10: Stock Performance Chart

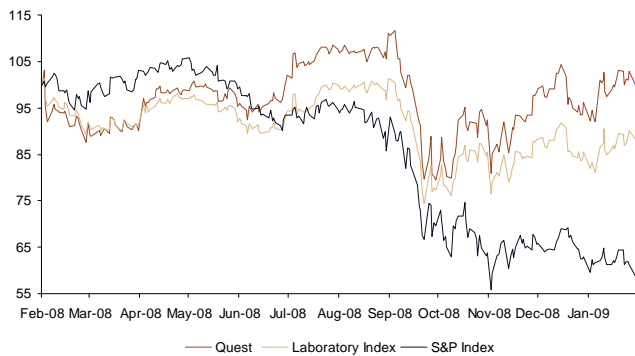


Figure 11: Historical LTM EBITDA Trading Multiples

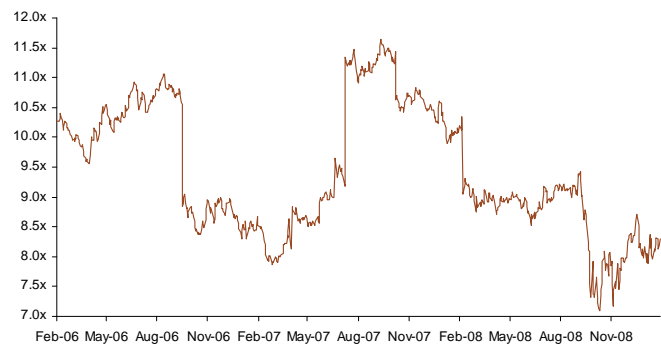


Figure 12: Revenue By Payor Mix<sup>(1)</sup>

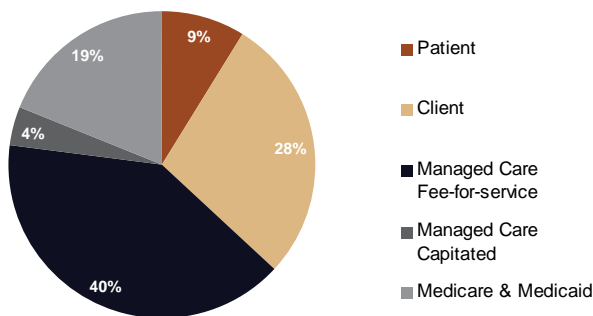
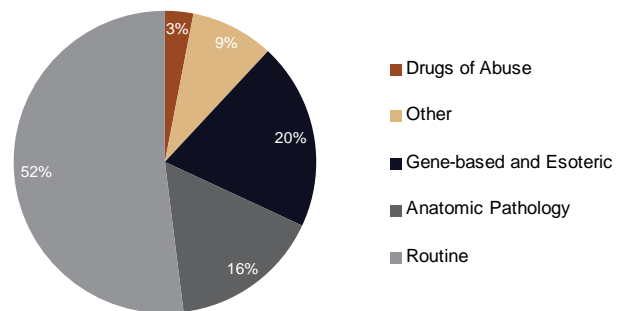


Figure 13: Revenue By Testing Segment



Footnote:  
 (1) Based on the average of ranges reported by Quest.

**Sonic and Bio-Reference**

Sonic and Bio-Reference have significantly outpaced Quest and LabCorp in the last four years, increasing revenue at CAGR of 50.8% and 22.4%, respectively, from organic growth and acquisitions, compared to 9.7% and 10.7% for Quest and LabCorp, respectively.

Bio-Reference generated 20% revenue growth in 2008, representing the 15th consecutive year of 20%+ revenue growth. The company's growth is attributable to its strong focus on esoteric testing, which accounts for 50% of its total revenue, increasing from 45% in 2007. Bio-Reference continues to expand its esoteric testing through: (i) GeneDX, a DNA sequencing lab, which it acquired in 2006 and (ii) GenPath, a specialized cancer laboratory. In 2008, the company introduced its: (i) NextGen sequencing tests for hypertrophic cardiomyopathy and (ii) Second Generation Women's Health Initiative, a sexually transmitted disease testing program for women. In 2009, Bio-Reference expects revenue and EPS growth of 15% and 20%, respectively, despite modest volume growth of 1% to 3%.

Sonic generated revenue and EPS growth of 26% and 12%, respectively, in 2008, and expects revenue growth of 15% in 2009. In 2008, the company executed seven acquisitions consisting of two in the U.S.: (i) Clinical Laboratories of Hawaii, a hospital-based laboratory with a significant anatomic pathology practice, and (ii) American Clinical Services, and add-on acquisition to Sunrise Medical Laboratories in New York. Sonic raised \$450 million in November 2008, with a significant portion of the capital expected to be committed to U.S. acquisitions in 2009.

Figure 14: Bio-Reference Stock Performance Chart

Figure 15: Bio-Reference LTM EBITDA Trading Multiples

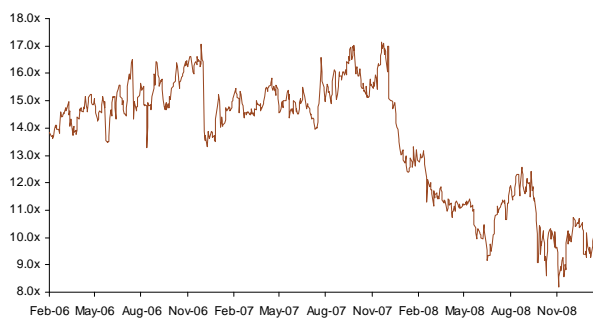
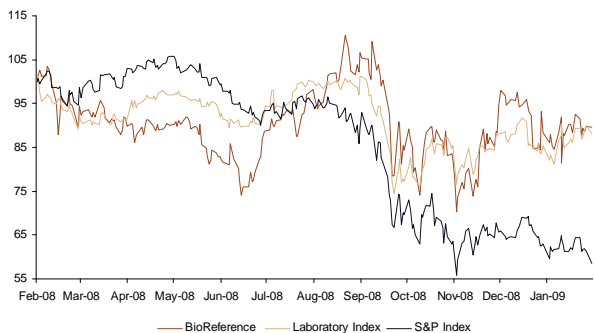
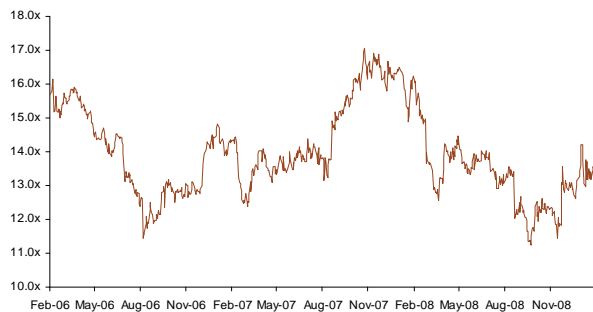
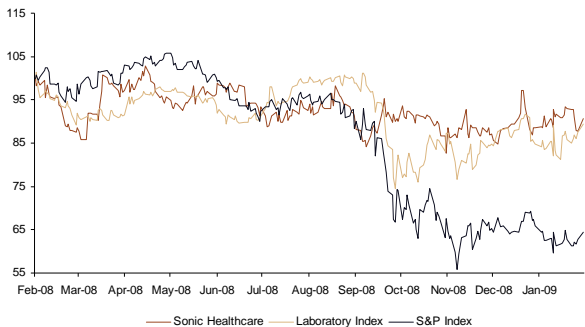


Figure 16: Sonic Stock Performance Chart

Figure 17: Sonic Historical LTM EBITDA Trading Multiples



## Other Major Labs

Although Quest, LabCorp, Sonic, and Bio-Reference control a significant portion of the U.S. clinical testing market, other national independent labs and smaller independent labs that focus on unique, and highly-specialized tests are growing at a much faster rate. These labs represent strong acquisition opportunities for larger commercial labs seeking to expand into high-growth specialized testing segments.

Figure 18: Other Major Labs (\$ in Millions)

	2007 Rev	2007 Rev Growth	HQ	Description
<b>Other National Independent Labs</b>				
MedTox Scientific	\$80	14.3%	MN	<ul style="list-style-type: none"> <li>Provides forensic and clinical laboratory testing services.</li> <li>Offers point-of-collection testing products.</li> </ul>
Orchid Cellmark	60	5.3%	NJ	<ul style="list-style-type: none"> <li>Provides DNA testing services for human identity and agricultural applications.</li> <li>Serves government agencies, commercial companies, and private individuals.</li> </ul>
MonoGram Biosciences	43	(10.4%)	CA	<ul style="list-style-type: none"> <li>Provides molecular diagnostics testing services for infectious diseases and cancer.</li> <li>Offers PhenoSense HIV and GeneSeq HIV tests.</li> </ul>
<b>Total/Average</b>	<b>\$183</b>	<b>3.0%</b>		
<b>Labs With Very Specialized Tests</b>				
Genzyme Genetics	\$326	15.6%	MA	<ul style="list-style-type: none"> <li>Offers oncology diagnostic testing and genetic counseling.</li> <li>Provides CFplus, a cystic fibrosis carrier screening test.</li> </ul>
Myriad Genetics	145	43.6%	UT	<ul style="list-style-type: none"> <li>Offers molecular diagnostic and therapeutic products for various cancers.</li> <li>Developing several Phase I and II cancer drugs, including Azixa.</li> </ul>
Bostwick Laboratories	103	77.6%	VA	<ul style="list-style-type: none"> <li>Provides diagnostic testing for cancers in urologic organs.</li> <li>Offers PCA3Plus, a urine-based genetic test for prostate cancer.</li> </ul>
Genomic Health	63	117.2%	CA	<ul style="list-style-type: none"> <li>Provides genomic-based clinical tests for cancer.</li> <li>Offers Oncotype DX, which is used to detect cancer and predict chemotherapy benefits.</li> </ul>
Genoptix	59	145.8%	CA	<ul style="list-style-type: none"> <li>Provides collaborative diagnostic testing services to hematologist and oncologists.</li> <li>Offers COMPASS service, in which hematopathologists determine appropriate diagnostic tests.</li> </ul>
Clariant	43	53.6%	CA	<ul style="list-style-type: none"> <li>Provides cellular assessment and cancer characterization.</li> <li>Assists CROs and biopharmaceutical companies in drug development.</li> </ul>
<b>Total/Average</b>	<b>\$739</b>	<b>75.6%</b>		
<b>Other Independent Labs</b>				
Spectrum Labs	\$143	16.0%	CA	<ul style="list-style-type: none"> <li>Provides disposable fibers used for biological and molecular separations.</li> <li>Offers various separation devices to pharmaceutical and biotechnology companies.</li> </ul>
Pathology Associates Medical Labs	104	13.0%	CA	<ul style="list-style-type: none"> <li>Offers clinical laboratory services to hospitals in the western U.S.</li> <li>Operates as a subsidiary of Bourget Health Services, Inc.</li> </ul>
Caris Diagnostics	95	46.0%	TX	<ul style="list-style-type: none"> <li>Provides diagnostic testing in gastrointestinal pathology, derma pathology, and ontological pathology.</li> <li>Offers molecular diagnostics.</li> </ul>
Berkley HeartLab	92	26.0%	CA	<ul style="list-style-type: none"> <li>Provides cardiovascular disease diagnostic testing services.</li> <li>Assists in risk characterization and therapeutic disease monitoring.</li> </ul>
Carillion Labs	81	29.0%	VA	<ul style="list-style-type: none"> <li>Offers clinical and esoteric testing services in VA and TN.</li> <li>Majority-owned by Carillion Clinic, a non-profit healthcare provider.</li> </ul>
Prometheus	77	13.0%	CA	<ul style="list-style-type: none"> <li>Provides diagnostic and pharmaceutical products.</li> <li>Offers Entocort EC, for the control of Crohn's and various gastrointestinal diagnostic tests.</li> </ul>
CBLPath	65	23.0%	FL	<ul style="list-style-type: none"> <li>Provides anatomic pathology and molecular diagnostic testing services.</li> <li>Offers breast, dermato, endocrine, gastrointestinal, and uro pathology diagnoses.</li> </ul>
Oregon Medical Labs	55	8.0%	OR	<ul style="list-style-type: none"> <li>Provides clinical and drug testing services in the Pacific Northwest.</li> <li>Serves hospitals, clinics, and physicians.</li> </ul>
Centrex Labs	39	6.0%	NY	<ul style="list-style-type: none"> <li>Provides clinical and drug testing services in the Northeast.</li> <li>Serves physicians, hospitals, nursing homes, and managed care organizations.</li> </ul>
Laboratory Alliance of Central NY	38	9.0%	NY	<ul style="list-style-type: none"> <li>Provides anatomic pathology services.</li> <li>Offers PhenoSense HIV and GeneSeq HIV tests.</li> </ul>
Unipath	25	6.0%	CO	<ul style="list-style-type: none"> <li>Provides anatomic pathology services, women's health diagnostics, and pathology services.</li> <li>Offers breast pathology, cytology, dermatopathology, gastroenterology, and urology testing services.</li> </ul>
Physicians Automated Lab	25	44.0%	CA	<ul style="list-style-type: none"> <li>Provides clinical laboratory services.</li> <li>Operates 14 locations in CA.</li> </ul>
Spectracell	21	37.0%	TX	<ul style="list-style-type: none"> <li>Provides clinical testing services for assessing the function of vitamins, antioxidants, and nutrients.</li> <li>Serves primary care and internal medicine physicians.</li> </ul>
Hagerstown Medical Lab	20	15.0%	MD	<ul style="list-style-type: none"> <li>Provides clinical laboratory testing services.</li> <li>Operates seven locations in MD.</li> </ul>
Heritage Labs	19	7.0%	KS	<ul style="list-style-type: none"> <li>Provides laboratory testing services to the insurance sector.</li> <li>Operates as a subsidiary to Hooper Holmes, a provider of medical-related insurance services.</li> </ul>
<b>Total/Average</b>	<b>\$881</b>	<b>20.8%</b>		

Source: Easton Associates.

## Lab Deal Valuations

The laboratory M&A market slowed in 2008 from record-high levels in 2007, as large commercial labs allocated resources to: (i) the integration of recent acquisitions, (ii) organic growth, including international expansion, and (iii) cost savings initiatives. M&A strategies have also evolved with commercial labs focusing on smaller, strategic acquisitions in high-growth esoteric testing segments. Although publicly-traded laboratories outperformed the healthcare sector and broader market in 2008, the ongoing U.S. recession and credit market turmoil has impacted lab M&A valuations, as the revenue acquisition multiples decreased to about 1.5x in 2008 from over 2.0x in 2007.

M&A activity is expected to continue in 2009, as LabCorp and Quest have expressed a strong interest in acquisitions and will face competition from Sonic, Bio-Reference, regional labs, and private equity investors. Furthermore, hospital-outreach labs are expected to account for a large portion of acquisitions, described in detail on page 11. Figure 19 presents disclosed lab M&A valuations in the last two years.

Figure 19: M&A Activity—Last Two Years

Target/Acquiror	Closing Date	LTM Revenue	LTM EBITDA	EBITDA Margin	Enterprise Value ("EV") <sup>(1)</sup>	Last Twelve Months	
						EV/ Revenue	EV/ EBITDA
<b>Clinical Laboratories of Hawaii, LLP</b> <sup>(2)</sup> Sonic Healthcare, Ltd.	Sep-08	\$110.0	\$17.7	16.1 %	\$121.0	1.1 x	6.2 x
<b>Stanford Hospital Outreach Laboratory</b> Laboratory Corporation of America	Aug-08	30.0	NA	NA	30.0	1.0	NA
<b>Parkway Clinical Laboratories, Inc.</b> Rosetta Genomics, Ltd.	Jul-08	3.0	NA	NA	3.2	1.1	NA
<b>Molecular Profiling Institute, Inc.</b> Caris Diagnostics, Inc.	Jan-08	7.0	NA	NA	40.0	5.7	NA
<b>Redwood Toxicology Laboratory, Inc.</b> Inverness Medical Innovations, Inc.	Dec-07	44.0	NA	NA	99.0	2.3	NA
<b>Unilabs SA</b> <sup>(3)</sup> Capio AB	Nov-07	272.3	44.6	16.4	596.0	2.2	13.4
<b>DSI Laboratories, Inc.</b> Laboratory Corporation of America	Sep-07	23.5	NA	NA	76.0	3.2	NA
<b>Berkley Heartlab, Inc.</b> Celera Group	Aug-07	85.0	NA	NA	195.0	2.3	NA
<b>Sunrise Medical Laboratories, Inc.</b> Sonic Healthcare, Ltd.	Aug-07	75.0	NA	NA	168.0	2.2	NA
<b>XDx, Inc.</b> Burrill Venture Capital	May-07	4.8	NA	NA	25.0	5.2	NA
<b>AmeriPath, Inc.</b> Quest Diagnostics, Inc.	May-07	782.1	117.9	15.1	1,855.5	2.4	15.7
<b>BioReliance Corporation</b> Avista Capital Holdings, LP	Apr-07	110.0	NA	NA	210.0	1.9	NA
<b>American Esoteric Laboratories, Inc.</b> <sup>(4)</sup> Sonic Healthcare, Ltd.	Jan-07	100.0	19.1	19.1	180.0	1.8	9.4
<b>Median</b>		<b>\$75.0</b>	<b>\$31.9</b>	<b>16.3 %</b>	<b>\$121.0</b>	<b>2.2 x</b>	<b>11.4 x</b>
<b>Mean</b>		<b>\$126.7</b>	<b>\$49.8</b>	<b>16.7 %</b>	<b>\$276.8</b>	<b>2.5 x</b>	<b>11.2 x</b>

Footnotes:

(1) Enterprise value "EV" represents transaction value including any net debt assumed.

(2) EBITDA estimated based on Sonic's reported multiple of 6.2x after projected post-transaction synergies.

(3) Capio AB acquired the remaining 54.7% stake in Unilabs, SA.

(4) EBITDA presented represents a prospective EBITDA.

Source: CapitalIQ.

## Lab Deal Activity

Figure 20: M&amp;A Activity—Last Two Years

Target	Acquiror	Closed	Target Description
Laboratory of Podiatric Pathology	CBLPath, Inc.	Dec-08	Provides pathology testing services.
Center for Molecular Medicine	Sequenom, Inc.	Nov-08	Provides molecular pathology laboratory services.
DNA Diagnostics Center, Inc.	MTS Health Investors, LLC	Oct-08	Provides paternity and other DNA tests.
Clinical Laboratories of Hawaii, LLP	Sonic Healthcare, Ltd.	Sep-08	Provides laboratory services in Hawaii.
PathNet, Inc.	Laboratory Corporation of America	Sep-08	Provides clinical laboratory services.
Stanford Hospital Outreach Laboratory	Laboratory Corporation of America	Aug-08	Provides clinical laboratory services.
Midwest Clinical Laboratories	United Dynacare, LLC	Aug-08	Provides reference laboratory services.
Parkway Clinical Laboratories, Inc.	Rosetta Genomics, Ltd.	Jul-08	Provides clinical laboratory services.
Uropath, LLC	HealthTronics, Inc.	Jul-08	Provides pathology laboratory services.
Laboratory Prof Krech Group	Sonic Healthcare, Ltd.	Jul-08	Provides reference laboratory services in Switzerland.
Labor 28 Group	Sonic Healthcare, Ltd.	Jun-08	Provides clinical laboratory services.
GLP Medical Group	Sonic Healthcare, Ltd.	Jun-08	Provides medical laboratory services in Germany.
Biologics Process Development, Inc.	Intas Biopharmaceuticals, Ltd.	Jun-08	Provides contract laboratory services for the biotechnology industry.
IDX Pathology	Laboratory Corporation of America	May-08	Provides pathology testing services.
Genatome, Inc.	Manhattan Physicians Laboratory	May-08	Provides diagnostic testing services.
Albany Cytopath Laboratories	Laboratory Corporation of America	Apr-08	Provides clinical laboratory services.
Acadiana Medical Laboratories	Laboratory Corporation of America	Mar-08	Provides clinical laboratory services.
Twin Cities Dermatopathology	Aurora Diagnostics, LLC	Mar-08	Provides clinical pathology testing services.
Symbion Health, Ltd.	Primary Health Care, Ltd.	Mar-08	Provides reference laboratory services in Australia.
Gamma-Dynacare	Laboratory Corporation of America	Jan-08	Provides clinical laboratory services.
Tandem Labs, Inc.	Laboratory Corporation of America	Jan-08	Provides clinical laboratory services.
Molecular Profiling Institute, Inc.	Caris Diagnostics, Inc.	Jan-08	Provides molecular diagnostics services.
Biomnis	Fondation Mérieux	Jan-08	Provides diversified laboratory services in France.
American Clinical Services, Inc.	Sonic Healthcare, Ltd.	Jan-08	Provides clinical laboratory services in the Northeast.
NWT, Inc.	Laboratory Corporation of America	Jan-08	Provides diversified laboratory services.
Innovative Pathology Services	Carilion Laboratory	Jan-08	Provides pathology laboratory services.
Laboratory Medical Consultants	Aurora Diagnostics, LLC	Dec-07	Provides clinical laboratory services.
CHC Laboratories	Aurora Diagnostics, LLC	Dec-07	Provides clinical laboratory services.
Clinical Health Labs	Laboratory Partners	Dec-07	Provides clinical laboratory services.
New Zealand Diagnostics Group, Ltd.	Healthscope, Ltd.	Dec-07	Provides pathology services in New Zealand.
Molecular Profiling Institute, Inc.	Caris Diagnostics, Inc.	Dec-07	Provides diagnostic testing laboratory services for the treatment of cancer.
Redwood Toxicology Laboratory, Inc.	Inverness Medical Innovations, Inc.	Dec-07	Provides drugs of abuse lab testing services.
Laboratories at Bonfills	LABS, Inc.	Nov-07	Provides esoteric laboratory testing services.
Knox Oklahoma Regional Laboratory, LLC	Pennington Allen Capital Partners, LLC	Nov-07	Operates drug testing laboratories.
Unilabs SA	Capio AB	Nov-07	Provides clinical laboratory services.
Oncotech, Inc.	Exiqon A/S	Nov-07	Provides molecular oncology testing services.
Consolidated Lab Services	Sonic Healthcare, Ltd.	Nov-07	Provides clinical laboratory services.
Mark & Kambour	Aurora Diagnostics, LLC	Nov-07	Provides clinical laboratory services.
Greensboro Pathology Associates	Aurora Diagnostics, LLC	Nov-07	Provides pathology laboratory services.
Medi-Lab	Laboratory Partners	Oct-07	Provides clinical laboratory services.
PA Labs, LLC	Laboratory Corporation of America	Oct-07	Provides hospital laboratory testing services.
Woodbury Clinical Laboratory, Inc.	Sonic Healthcare, Ltd.	Oct-07	Provides laboratory testing services.
DCL Medical Laboratories, Inc.	Thompson Street Capital Partners, LLC	Oct-07	Offers anatomic and molecular pathology services.
Reliagene Technologies, Inc.	Orchid Cellmark, Inc.	Oct-07	Offers DNA testing services.
Berkeley HeartLab, Inc.	Celera Corporation	Oct-07	Provides cardiovascular disease testing and management solutions.
DSI Laboratories, Inc.	Laboratory Corporation of America	Sep-07	Provides clinical laboratory services in the Southeast.
Bioscientia Institut Fuer Medizinische Diagnostik, GMBH	Sonic Healthcare, Ltd.	Sep-07	Provides analytical laboratory services in Germany.
Berkeley Heartlab, Inc.	Celera Corporation	Aug-07	Provides cardiovascular laboratory services.
Catalyst Oncology, Inc.	DiagnoCure, Inc.	Aug-07	Offers diagnostic testing for the treatment of cancer.
Sunrise Medical Laboratories, Inc.	Sonic Healthcare, Ltd.	Aug-07	Provides diagnostic laboratory services in the Northeast.
Terre Haute Medical Laboratory, Inc.	Laboratory Partners	Jun-07	Provides clinical laboratory services.
Kilbourne Medical Laboratories, Inc.	Laboratory Partners	Jun-07	Provides clinical laboratory services.
Home Healthcare Laboratory of America, Inc.	Laboratory Corporation of America	Jun-07	Provides clinical laboratory services.
First Link Medical, LLC	Transfer Technology International Corporation	Jun-07	Provides reference laboratory services in the Southeast.
Geneservice, Ltd.	Medical Solutions, plc.	Jun-07	Offers genotyping and sequencing services in the United Kingdom.
Cohen Dermatopathology, PC	Caris Diagnostics, Inc.	Jun-07	Offers dermatopathology services in the Northeast.
XDx, Inc.	Burrill Venture Capital	May-07	Provides molecular diagnostic services.
Ameripath, Inc.	Quest Diagnostics, Inc.	May-07	Provides esoteric testing.
Mullins Laboratory	Sonic Healthcare, Ltd.	May-07	Provides clinical laboratory services.
BioReliance Corporation	Avista Capital Holdings, LP	Apr-07	Offers laboratory services in the United States and Western Europe.
AAL Reference Labs	Genova Diagnostics, Inc.	Mar-07	Provides clinical laboratory services.
Presbyterian Reference Labs	Carilion Laboratory	Feb-07	Provides clinical laboratory services.
HemoCue AB	Quest Diagnostics, Inc.	Feb-07	Offers medical diagnostic products for point-of-care testing.
American Esoteric Laboratories, Inc.	Sonic Healthcare, Ltd.	Jan-07	Provides esoteric and clinical reference laboratory services.

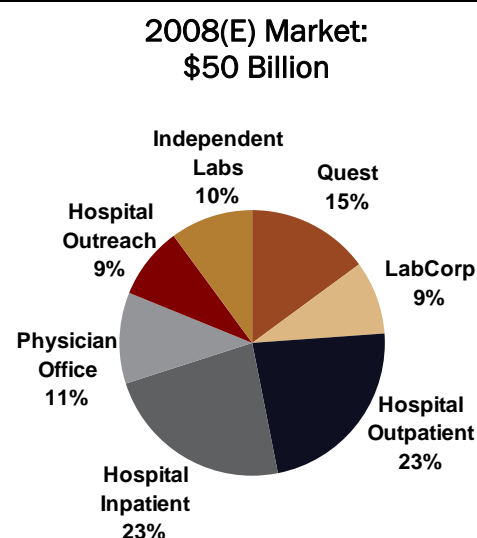
Source: CapitalIQ.

## Hospital Labs

Despite significant consolidation activity led by major commercial labs in the last five years, hospital-based labs control approximately 55% of the \$50 billion annual clinical laboratory market. The hospital outpatient and outreach segment accounted for 32% or \$16 billion of the total market in 2008 and an estimated 80% of U.S. hospitals operate an outreach program. Hospital outreach labs represent attractive acquisition candidates to commercial labs, as the lab can generate significant synergies with a commercial lab's existing infrastructure. Furthermore, outreach programs represent an attractive carve-out opportunity for hospitals to sell a non-strategic asset at a favorable valuation.

The ongoing U.S. recession has created a challenging market environment for many hospitals. The sale of an outreach lab can: (i) generate a cash infusion to reduce debt or fund growth initiatives, (ii) reduce overhead, and (iii) provide physical space and capital to allocate to other healthcare segments.

Figure 21: U.S. Laboratory Services Market



Source: Easton Associates.

## Recent Hospital Outreach Acquisitions

In 2007 and 2008, LabCorp acquired four major hospital outreach programs and has expressed a strong continued interest in the segment. Over the same period, transaction sizes averaged approximately \$65 million and valuations were typically about 1.0x annual revenue. The intense competitive environment amongst national and major regional commercial labs, such as Sonic and Quest is expected to drive consolidation activity in the hospital outreach segment in 2009. Moreover, commercial labs are well-capitalized and recession-resistant relative to the overall market and other healthcare sectors. In addition to the closed transactions presented in Figure 2, there are several reported pending hospital outreach lab program acquisitions, including St. John Health Labs in Detroit, Michigan and Carillion Labs in Roanoke, Virginia.

Figure 22: Recent Hospital Laboratory Outreach Acquisitions (\$ in Millions)

Target	Acquiror	Close Date	EV <sup>(1)</sup>	Revenue	EV/Revenue
Presbyterian Reference Laboratory	Carillion Labs	Feb-07	\$42	\$45	0.9x
DSI Laboratories	LabCorp	Sep-07	NA	NA	NA
PA Labs	LabCorp	Oct-07	NA	10	NA
Stanford Outreach Laboratory	LabCorp	Aug-08	30	30	1.0x
Midwest Clinical Labs	United Dynacare Lab <sup>(2)</sup>	Sep-08	76	24	3.2x
Clinical Labs of Hawaii	Sonic Healthcare	Sep-08	121	110	1.1x

**Footnotes:**

(1) Enterprise value "EV" represents transaction value including any net debt assumed.

(2) United Dynacare Lab operates as a subsidiary of LabCorp.

Source: CapitalIQ.

## Private Equity Investments

Private equity investors have been very active in the clinical laboratory market, as many of these firms have successfully exited their investments through a sale to large commercial labs at premium valuations in the last five years. Private equity firms with lab holdings, as presented in Figure 23 will seek to expand their laboratory platforms in 2009.

Figure 23: Private Equity Firms with Clinical Laboratory Investments

Private Equity Investor	Investment	Date	Description
 Apax PARTNERS	 SPECTRUM LABORATORY NETWORK	2006	Spectrum Laboratory Network provides routine and esoteric testing services in the Southeast.
 BOREALIS	 LifeLabs Formerly MDS Diagnostic Services	2007	LifeLabs provides clinical laboratory and drugs of abuse testing services in Canada.
 CARIS	 CARIS Dx	2005	Caris Diagnostics provides gastrointestinal, derma, and ontological pathology testing services.
 EUREKA GROWTH CAPITAL	 DRUGSCAN Medical and Forensic Toxicology Services	2008	Drug Scan, Inc. provides drug and alcohol testing services and medical diagnostics clinical services.
 GALEN PARTNERS	 CBL Path The next step in pathology	NA	CBL Pathology provides anatomic pathology and molecular diagnostic laboratory services.
	 SPECTRACELL LABORATORIES	2001	SpectraCell provides clinical testing services for assessing the function of vitamins and nutrients.
 MTS HEALTH INVESTORS	 DDC DNA Diagnostics Center	2008	DNA Diagnostics Center provides paternity and other DNA tests.
 NAUTIC PARTNERS • LLC	 G   Genova Diagnostics	2003	Genova Diagnostics provides endocrine, metabolic, nutritional, and immune system testing services.
 PARTHENON CAPITAL	 WESTCLIFF MEDICAL LABORATORIES, INC.	2006	Westcliff Medical Laboratories provides clinical laboratory services.
 Pennington Allen capital partners	 KNOX LABORATORY We Get Results	2007	Knox Oklahoma Regional Laboratory provides drug and alcohol testing services.
 PRIMUS	 LABORATORY PARTNERS	2008	Laboratory Partners provides clinical laboratory services in the Midwest.
 STERLING PARTNERS	 AmeriTox	NA	AmeriTox provides pain prescription monitoring solutions.
 SUMMIT PARTNERS	 AURORA DIAGNOSTICS	2006	Aurora Diagnostics provides anatomic pathology services.
 THOMPSON STREET CAPITAL PARTNERS	 DCL Medical Laboratories	2008	DCL Medical Laboratories provides anatomic, clinical, and molecular pathology services.
 WATER STREET CAPITAL	 Lakewood Pathology ASSOCIATES	2006	Lakewood Pathology Associates provides cytology, histology, and molecular pathology services.

Valuation Charts

Figure 24: Lab Stock Performance— 1 Month

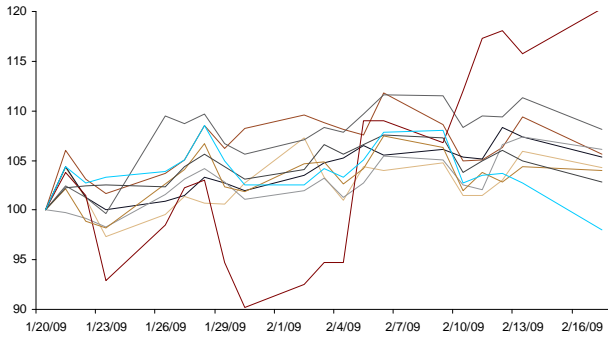
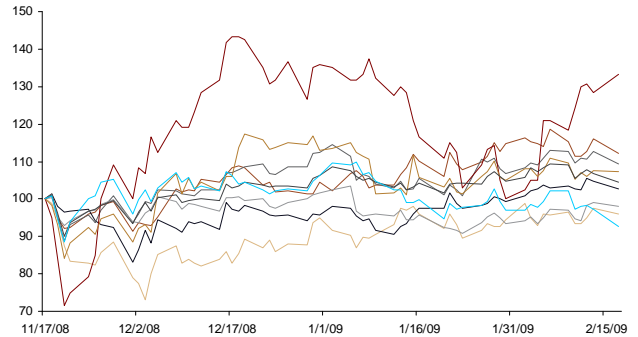


Figure 25: Lab Stock Performance—3 Months



Genomic Health Genoptix Genzyme Quest LabCorp Clariant Bio-Reference Healthcare Index S&P

Figure 26: Lab Stock Performance—6 Months

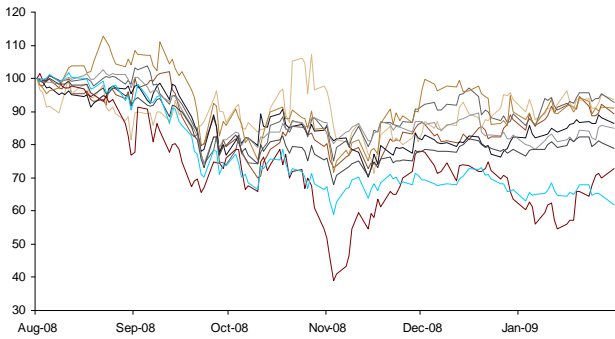


Figure 27: Lab Stock Performance—1 Year

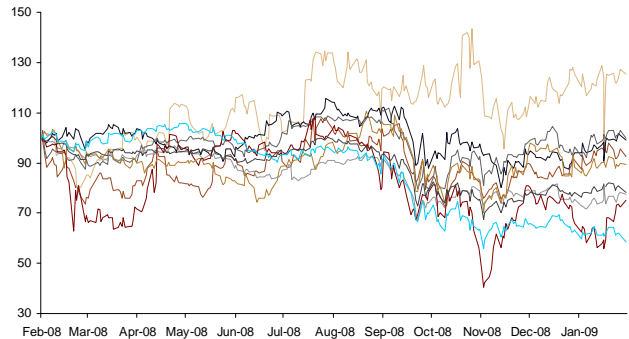


Figure 28: Healthcare Sector Performance—1 Year

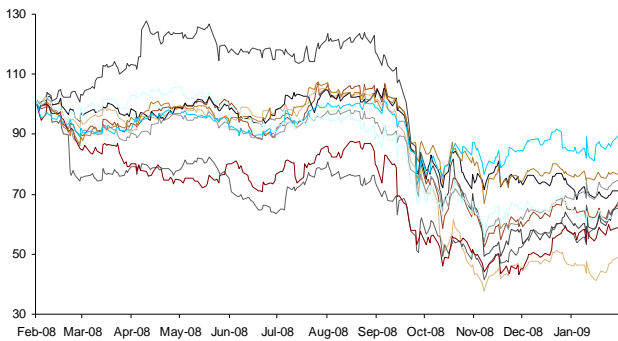
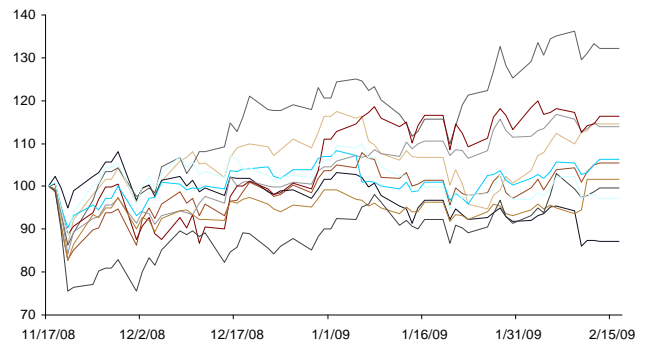


Figure 29: Healthcare Sector Performance—3 Months



Post Acute Pharma CRO Managed Care Outsourcing  
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