Industry Flash Report – Laboratory Services

February 2016

The U.S. clinical laboratory industry has an estimated annual revenue of $53.8 billion, and is projected to grow 6.2% annually to $72.7 billion by 2020. The compound annual growth rate was 0.9% between 2010 and 2015. Multiple factors are contributing to the industry's accelerating expansion through higher demand for lab procedures, including an aging U.S. population, pressure to reduce healthcare costs, and an increased focus on preventive medicine. A shift to more expensive personalized care, such as esoteric and genomic tests, has created mix-related revenue growth.

Implications to Clients

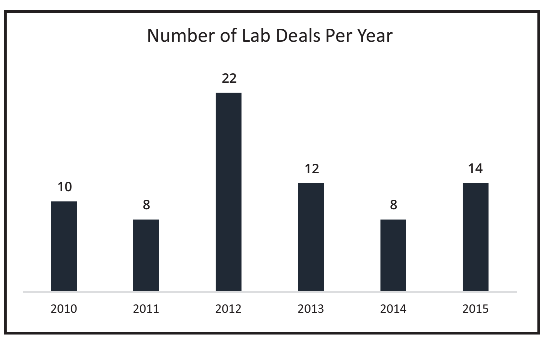
Many hospitals and health systems are evaluating their laboratory services businesses. These organizations may not have the resources or capital required to grow and maintain their lab services. They are looking for ways to monetize non-core assets or to partner with a larger lab with the scale that enables them to conduct tests at the lowest possible price. Laboratory transactions vary in structure from affiliations to joint ventures to full asset acquisitions. The structures chosen will depend on the specific goals and objectives of the parties involved.

Overview of Laboratory Services Industry

- The estimated $24.1B independent lab market is concentrated; Quest Diagnostics and LabCorp comprise a 50% revenue share
- There has been significant consolidation in the sector with 74 announced deals since 2010
- Lab testing accounts for only 2-3% of healthcare expenditures but influences 70-80% of physician decisions

Transaction Activity

- Macro trends in Lab M&A include: large industry participants acquiring routine clinical or specialty labs, specialty life science companies acquiring specialty molecular or genomic testing labs, and pharma companies or financial sponsors entering the industry by buying specialized genetic or molecular testing labs
- Continued M&A activity indicates that acquirers are looking to fill geographic expansion plans and specialty service lines



- Sonic announced 3 labs-related transactions and Lab Corp and Quest each announced 2 labs-related transactions in 2015
- Key 2015 transactions include:
  - Sonic's acquisition of Medisupport SA for $351.5M
  - Quest's acquisition of Memorial Care Health System's lab outreach business for $35M
- All publicly traded lab services companies indicate that they will continue to use their cash to opportunistically expand services and geographies through acquisitions and purchases of other types of businesses. LabCorp's recent purchase of Covance underscores this trend

Major Players and Market Multiples

Laboratory Corporation of America Holdings [NYSE: LH]

- Performs 183 million patient tests annually
- Operates 39 primary laboratories and more than 1,750 service centers

Quest Diagnostics, Inc. [NYSE: DGX]

- Operates more than 2,200 service centers
- Operates in U.S., India, Ireland, Mexico, and the U.K.

Sonic Healthcare Ltd. [ASX:SHL]

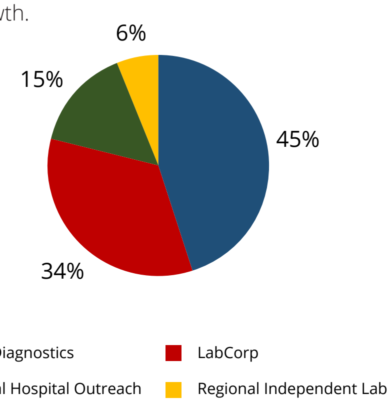
- Accounts for ~1.7% of U.S. market share
- Operates in Australia, New Zealand, the United Kingdom, Germany, Switzerland, and the U.S.

($ millions)	Latest 12 Months		1 Year Growth %		LTM Multiples	
Company Name	Revenue	EBITDA	Revenue	EBITDA	TEV / Rev	TEV / EBITDA
Laboratory Corp. of America Holdings [1]	$7,773.6	$1,567.3	31.0	37.7	2.2x	11.0x
Quest Diagnostics Inc.	7,493.0	1,461.0	0.8	3.7	1.7x	8.8x
Sonic Healthcare Limited	3,232.8	514.8	7.3	-5.7	2.3x	14.4x

[1] Steep increase in revenue growth for LabCorp can be attributed to its acquisition of Covance in 2015

Outreach Laboratory Market Share

Outreach laboratory services, which include tests performed outside of inpatient admissions or outpatient hospital procedures, are dominated by the two largest players. With a market share of nearly 80%, Quest and LabCorp continue to target hospital outreach and regional independent labs for future growth.



Source: Chi Solutions Annual Outreach Survey 2012

Sources: 2015 IBIS World Report, US Clinical Laboratory and Pathology Testing 2013-2015, Capital IQ, Irving Levin and Public Reports

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