

Implications of Lab Industry Consolidation

Presentation to
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Factors Influencing Lab Acquisition Pricing

- An intelligent buyer will make an acquisition only if it adds to the value of the acquiring company. Such acquisitions are said to be “*accretive*”.
- Lab buyers can afford to pay *more* for an acquisition as the relative value of their own company *increases*.
- A direct relationship between laboratory acquisition valuations and publicly traded laboratory valuations has been clearly exhibited over the past 15 years that Haverford has been following the lab industry.

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Case Study, Part I: LabCorp Acquires Dynacare

Key Transaction Facts:

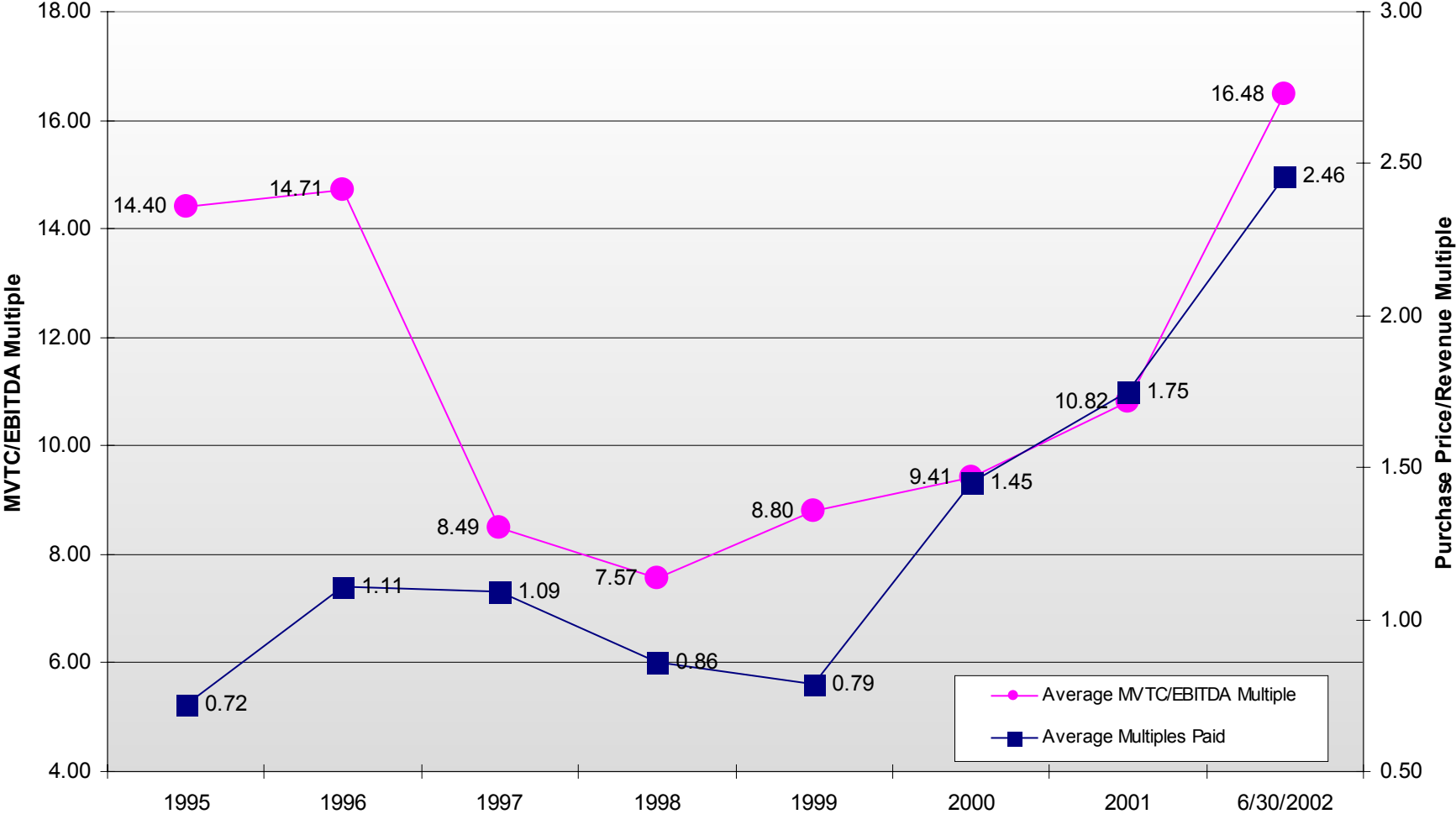
Closing Date	July 25, 2002
Purchase Price	\$685 million (approx.) consisting of \$240 million in LabCorp common stock and cash
Dynacare's Revenue	\$238 million for 2001
EBITDA Multiple Paid by LabCorp	11.4x Dynacare's projected 2002 EBITDA
EBITDA Multiple LabCorp at 5/02	15.0x LabCorp's projected 2002 EBITDA

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Financial Performance Trends - National Commerical Laboratory Companies

Average MVTC/EBITDA Multiples vs. Purchase Price/Revenue Multiples

MVTC = Market Value of Total Capital EBITDA = Earnings Before Interest, Taxes, and Depreciation



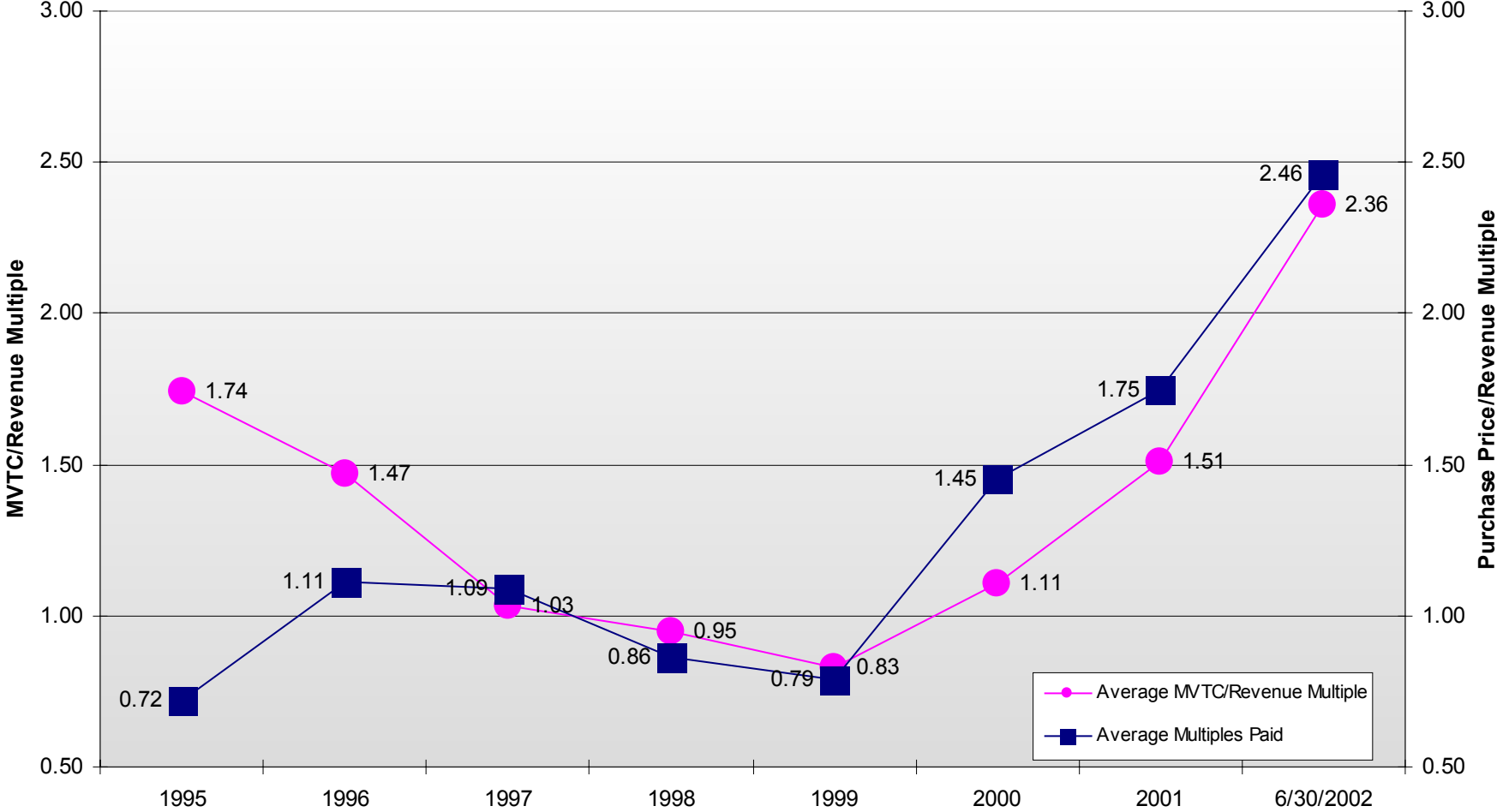
Source: Washington G-2 Reports and Haverford Healthcare Advisors

Average Purchase Price/Revenue Multiple for 2002 includes 3 acquisitions, Quest-AML, LabCorp-Dynacare, and Quest-Unilab (pending as of 8/27/02)

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Financial Performance Trends - National Commerical Laboratory Companies Average MVTC/Revenue Multiples vs. Purchase Price/Revenue Multiples

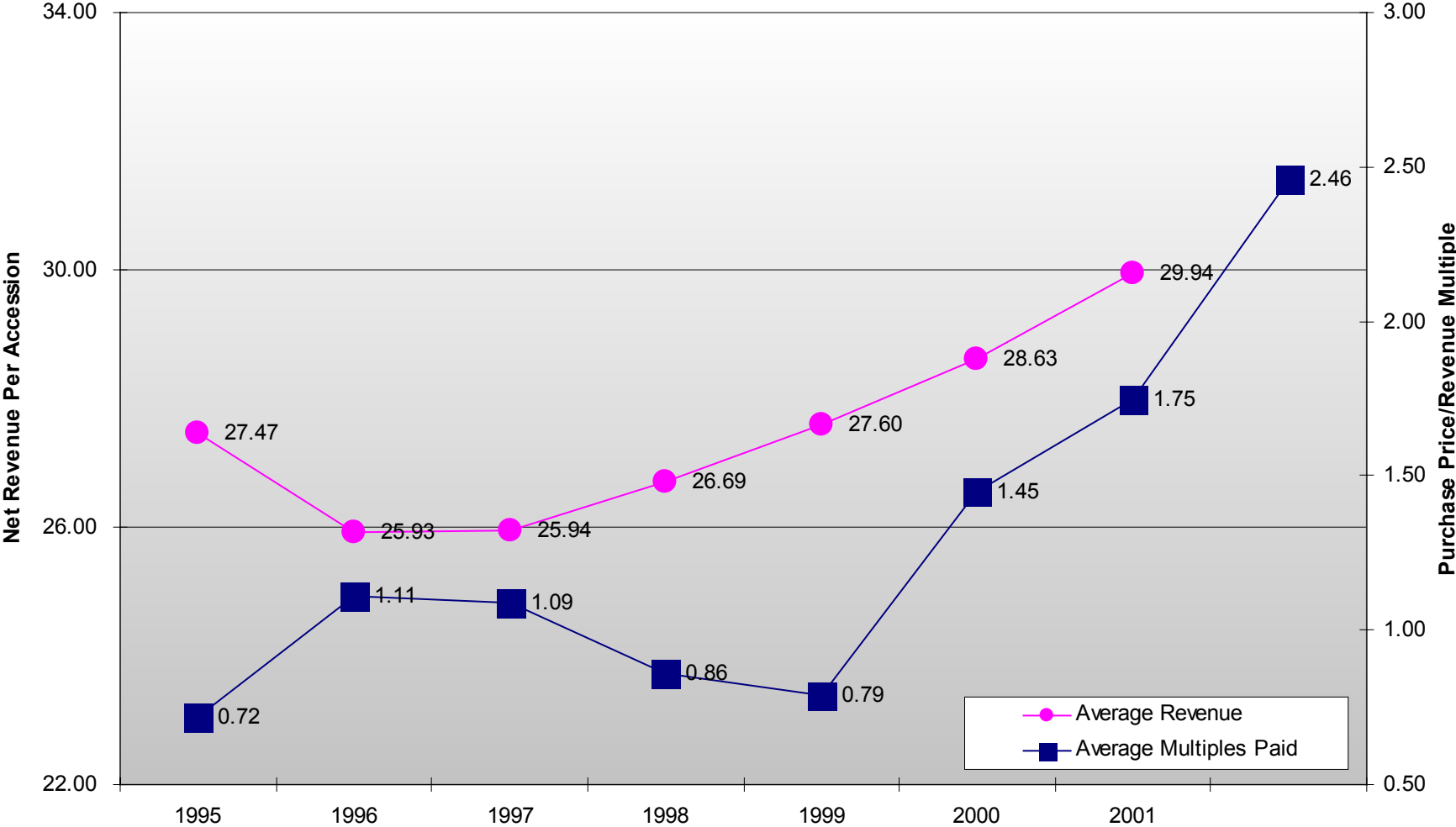
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Average Purchase Price/Revenue Multiple for 2002 includes 3 acquisitions, Quest-AML, LabCorp-Dynacare, and Quest-Unilab (pending as of 8/27/02)

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Financial Performance Trends - National Commercial Laboratory Companies Net Revenue Per Accession



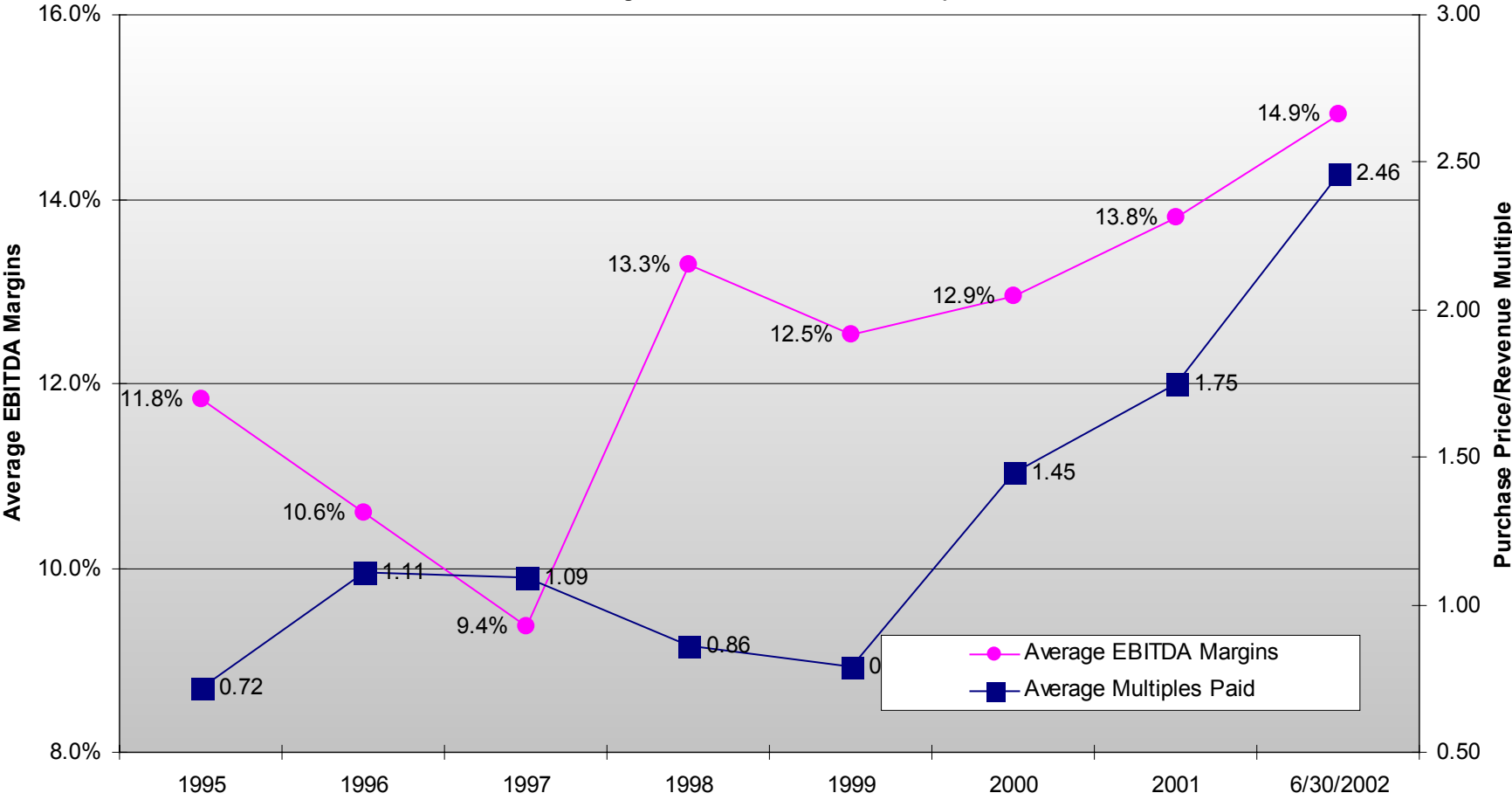
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Financial Performance Trends - National Commercial Laboratory Companies

Average EBITDA Margins

EBITDA = Earnings Before Interest, Taxes, and Depreciation



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How Do Buyers Justify Their Valuations?

- How can the same laboratory be worth more today than it was a year ago?
- It depends upon how badly the buyer wants to do the deal.
- Before completing a major transaction, a public company requires the approval of its Board of Directors. Frequently, the Board will seek the advice of an investment banking firm to confirm the reasonability of the terms of the transaction.
- In order to justify the purchase price paid in certain transactions, buyers and their investment bankers will take into account the *synergies*, or cash flow enhancing benefits, that will *potentially* result to the buyer post-transaction.

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Case Study, Pat II: LabCorp Acquires Dynacare - Paying for Synergy

- LabCorp expects to rationalize Dynacare's operations and to realize synergies in the following areas:
 - Laboratory Capacity
 - Supply Savings
 - Esoteric Sendouts
 - Infrastructure Improvements
- LabCorp expects to realize incremental EBITDA as follows:

2002 - \$6 million	2003 - \$36 million	2004 - \$45 million
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- If one considers LabCorp's projected synergies of \$45 million by 2004, their effective valuation multiple for Dynacare drops to **6.4x EBITDA**.

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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 represent and assist physicians and other healthcare company 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, typically in connection with practice transition issues such as admitting new partners, retiring existing partners, and related matters.

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