



Q1-2014 LABORATORY SERVICES INDUSTRY UPDATE

MARKET OVERVIEW

Opportunistic and highly strategic consolidation continues to dominate transaction activity in the laboratory services sector with deals in the first quarter of 2014 centered around diversification and the development of specialty services within niche markets. Quest Diagnostics (NYSE: DGX) led the quarter with tactful acquisitions (completed and announced) of platform opportunities - one of which is closely related to, and the other a natural offset of their current core testing competencies. In addition to the \$570 million transaction of Solstas Lab Partners profiled at right, Quest has also recently disclosed they will be acquiring Summit Health, Inc., which will bolster Quest's presence and services within the corporate health landscape and onsite prevention and wellness services. This area should be a natural offshoot for the industry leader as the business looks to more fully integrate its services within early-stage and prevention oriented healthcare protocols. Continued consolidation and investment can be expected within this same strategy as large operators look to combat industry headwinds. The primary factor tempering enthusiasm on the outlook for the industry is the lower Medicare and Medicaid reimbursement guidelines, which have continued to weigh on the stock prices of not only Quest, but other publicly-traded leaders in the space including LabCorp, and Bio-Reference as well. Deal flow moving forward is expected to be immediately accretive, highly strategic, and diversification-oriented as these groups look to bolster revenue streams.

SELECT TRANSACTIONS

Month	Acquirer	Company Acquired	Details
March 2014	Quest Diagnostics (NYSE: DGX)	Solstas Lab Partners	Quest Diagnostics has completed the previously announced acquisition of Solstas Lab Partners for approximately \$570 million in cash and subsequently raised its 2014 Financial Guidance. Solstas is a full-service commercial laboratory based in Greensboro, North Carolina and operates in nine states throughout the Southeastern United States. The transaction represents a strategic, scale-based acquisition that will play the inherent abilities of the two companies off of each other to better serve patients and customers in the region and system-wide. In particular, Solstas is known for excellent client relations and Quest expects to build on the value of these intangible assets. The acquisition will not only better meet the testing demand in the region, but also enhance communication and efficiency between patients, physicians and hospitals.
February 2014	Altaris Capital	HealthTronics, Inc.	Altaris Capital Partners has acquired HealthTronics, Inc. from Endo Health Solutions for \$85 million in cash with the potential for an additional \$45 million in future performance-based earnouts. HealthTronics provides management services, medical supplies, and equipment to urology practices across the U.S. and was first acquired by Endo in 2010. Endo also previously sold HealthTronics' anatomical pathology laboratory and image guided radiation therapy segments for roughly \$25 million. Moving forward, EHS will focus on development of core business units, primarily pharmaceuticals, medical devices, and related services. For HealthTronics, the association with Altaris Capital Partners will provide the capital and strategic resources to position the Company for future growth outside of being an operating subsidiary.

ANNOUNCED TRANSACTIONS

March 2014	Quest Diagnostics (NYSE: DGX)	Summit Health, Inc.	Quest Diagnostics has announced it has entered into a definitive purchase agreement to acquire Summit Health, Inc., a leader in on-site wellness programs which include health screenings, immunizations, coaching, and educational seminars. Financial terms of the transaction have not been released. Naturally, Summit Health's services complement the health and wellness business of Quest Diagnostics and together, the two companies will be in a position to offer employers, health plans, and individuals greater access to a broad range of prevention and wellness services. Additionally, these services will use diagnostic insights to better enable early intervention and preventive care practices, ultimately reducing overall healthcare-related costs.
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Quest Diagnostics – Transaction Spotlight



In conjunction with the acquisition of Solstas Lab Partners, Quest Diagnostics also issued guidance pertaining to its 2014 financial outlook, most notably concerning the following:

- 2014 earnings per share (EPS) guidance raised to \$3.95 -\$4.15 (up roughly 1%+);
- 2-4% revenue growth from YE 2013 (up from 2%).

As detailed below, the transaction included a \$570 million purchase price and will bolster Quest's outlook by adding nearly 5% to annualized revenues, roughly 1% of which would be from professional lab services. Solstas remains consistent with Quest's mandate to responsibly deploy capital toward meaningful acquisition targets while further enhancing their testing menu and critical mass. The business also remains opportunistic toward more specialty esoteric testing areas.

Quest expects to build on Solstas' strong regional presence by leveraging a broad system-wide testing menu, scientific expertise, and health IT solutions to improve access and communication between patients, physicians and hospitals.