

VALUE FOCUS

Laboratory Services Industry



Mid-Year 2014

Executive Summary

The Laboratory Services industry has experienced favorable performance over the last five years as the industry's revenue increased at an average annual rate of 4.7% between 2009 and 2014, reaching an estimated \$17.7 billion in 2014. As defined by IBIS World, the laboratory services industry comprises the following segments: Product Performance & Safety Testing (41.0%), Product Certification (26.0%), Environmental Testing (14.3%), Agriculture & Food Testing (7.7%), Biological and Chemical Testing (7.5%), Other (3.5%). In addition to these segments, we also focus on the medical testing laboratories.

The industry's performance is sensitive to changes in the general economic environment both inside the U.S. and internationally. General economic conditions may impact demand for products and services which, in turn, trigger demand for laboratory services. Most recently, the industry has been the beneficiary of increasing environmental, industrial, and medical regulation promoting demand for lab services. In addition to expanding regulatory regimes, influential growth factors include the aging population, industry consolidation, pharmacogenomics/companion diagnostics, cost pressures, and regulation.

Inside

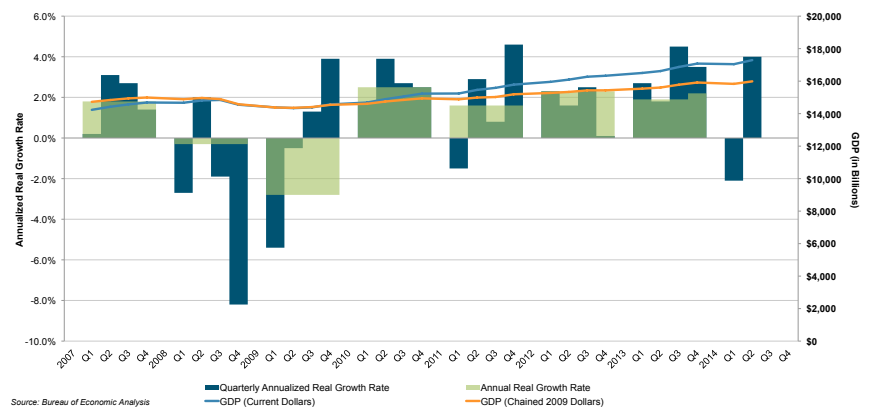
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Macroeconomic Overview

Gross Domestic Product

According to advance estimates released by the Department of Commerce's Bureau of Economic Analysis, Real Gross Domestic Product ("GDP"), increased at an annualized rate of 4.0% during the second quarter of 2014. The increase was attributable to personal consumption expenditures, private inventory investment, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment. Imports increased and partially offset the positive contributors. Economists attribute the GDP growth in part to improving customer spending, which was in turn driven by labor market improvement. Following last quarter's slower growth in durable good purchases, this quarter's purchases of durable goods rose at the fastest rate since the recession's end. Economists generally anticipate growth to continue, although GDP growth is expected to decelerate.

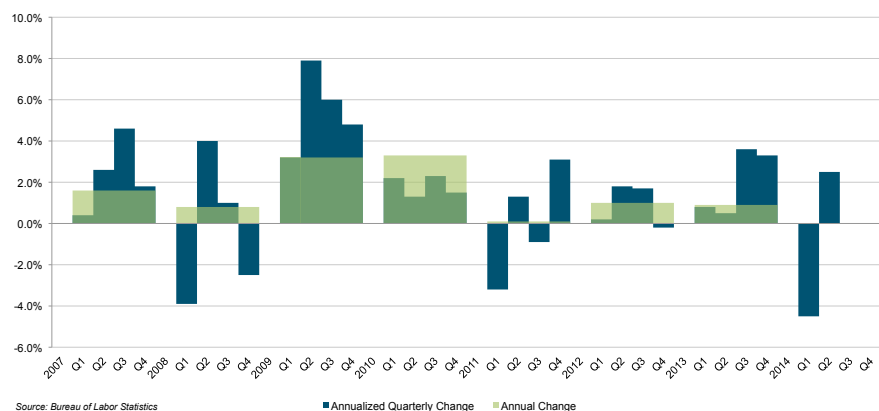
Gross Domestic Product



Business and Manufacturing Productivity

According to the Bureau of Labor Statistics, seasonally adjusted nonfarm business productivity, as measured by the hourly output of all persons, increased at an annual rate of 2.5% in the second quarter of 2014. The productivity increase exceeded economists' expectations, and follows a revised 4.5% decrease in productivity during the first quarter of 2014, which represented the largest decrease since 1981. Productivity increased 2.0% for the business sector (inclusive of farming activity) in the second quarter of 2014. This was the result of a 4.9% increase in output and a 2.8% increase in hours worked. Manufacturing productivity, generally more volatile in its quarterly measures, increased 3.6% during the quarter.

Change in Nonfarm Business Productivity

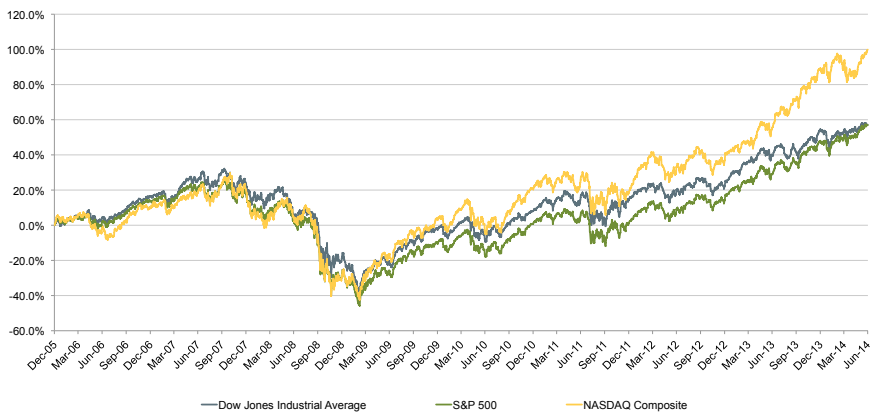


Macroeconomic Overview (cont.)

The Financial Markets

Broad market equity indices exhibited generally upward performance in the second quarter of 2014. The S&P 500 and the NASDAQ both posted six consecutive quarters of gains, a trend not seen since 2000. The Dow Jones has recorded five quarters with gains out of the last six. Yields on two-, three-, and five-year U.S. Treasury securities rose during the second quarter.

Equity Index Price Return

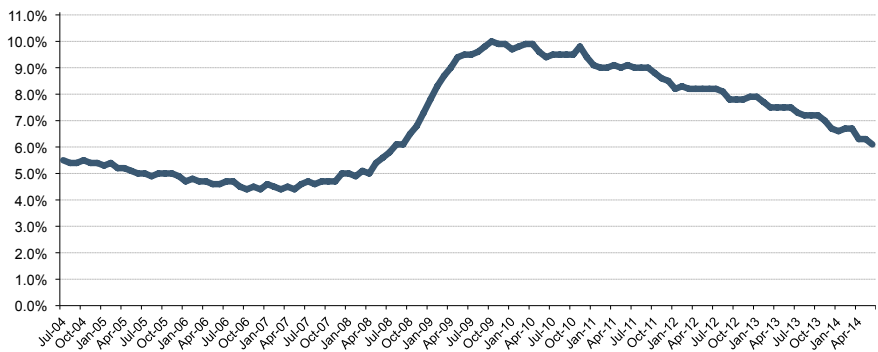


Source: Bloomberg L.P.

Unemployment

According to the Labor Department's Bureau of Labor Statistics ("BLS"), the unemployment rate was 6.1% in June 2014, down slightly from 6.3% in both April and May. Unemployment rates increased steadily throughout 2008 and into 2009, peaking at a level of 10% in October 2009. While the June unemployment rate is lower than rates observed over the past several years, the labor force participation rate is also generally lower. The last time in which labor force participation was lower than its current level was 1978. As job availability increases, the labor force will likely increase due to individuals re entering the workforce, which could lead to an increase in the reported unemployment rate in the short term. Economists surveyed by *The Wall Street Journal* anticipate a continued decline to 5.9% by year-end 2014.

Civilian Unemployment Rate



Source: Bureau of Labor Statistics

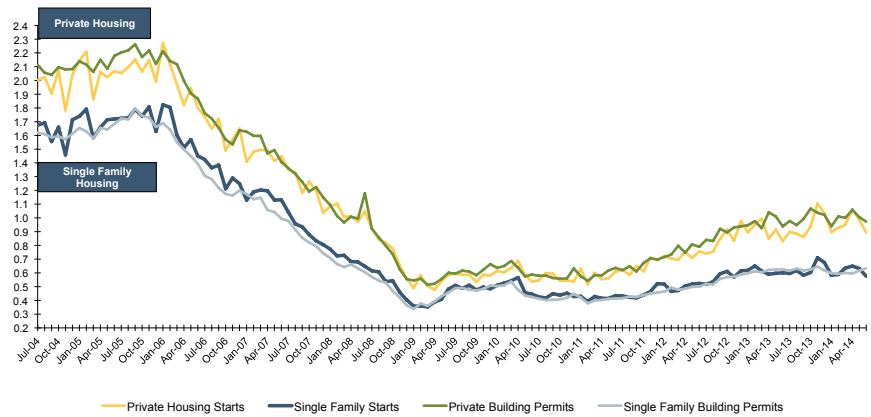
Macroeconomic Overview (cont.)

Housing Market

Home building activity has traditionally been a primary driver of overall economic activity because new home construction stimulates a broad range of industrial, commercial, and consumer spending and investment. According to the U.S. Census Bureau, new privately-owned housing starts were at a seasonally adjusted annualized rate of 893,000 units in June 2014, 9.3% below the revised May rate of 985,000 units, but 7.5% above the June 2013 level. The June 2014 level of housing starts represents a nine-month low and the decline between May and June was largely driven by a record drop of starts in southern states. The seasonally adjusted annual rate of private housing units authorized by building permits (considered the best indicator of future housing starts) was 963,000 units in June 2014, 4.2% below the revised May estimate of 1,005,000, but 2.7% above the June 2013 level.

Seasonally Adjusted Annualized Rates of New Housing Starts and Building Permits

(millions of units)



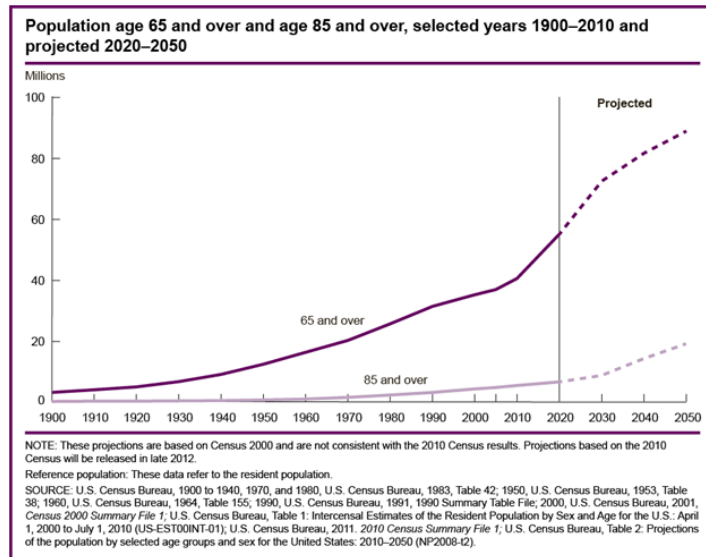
Source: U.S. Census Bureau
 Note: Permits at a given date are generally a leading indicator of future starts. Beginning with January 2004, building permit data reflects the change to the 20,000 place series.

Industry Specific Macroeconomic Overview

Aging Population

Demand for medical laboratory services is positively linked to an aging population. The older population, those persons aged 65 or older, included 40 million persons, or approximately 13% of the U.S. population in 2010. This is primarily due to the "Baby Boomers" (those born between 1946 and 1964) beginning to turn 65 in 2011. According to Aging Stats, the older population is expected to grow to 72 million in 2030, to approximately 20% of the U.S. population almost double the older population in 2000 of 35 million.

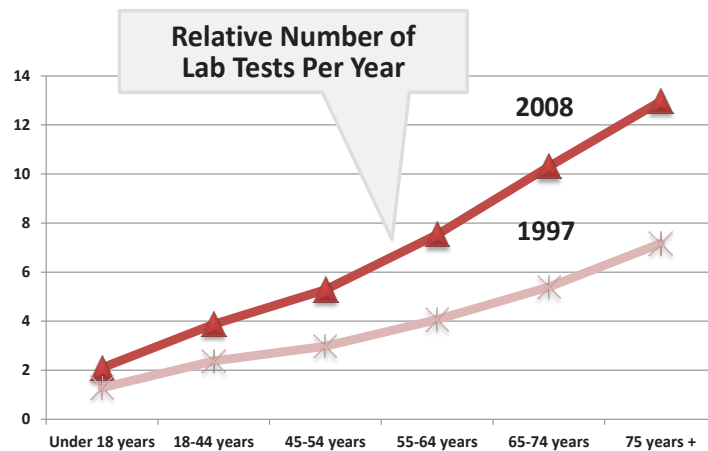
Aging Population



Number of Lab Tests

For medical laboratories, the aforementioned growth in revenue is also augmented by the increase in lab tests per year over an individual's life, as analyzed in the chart below. A higher level of testing for all age cohorts, in conjunction with an increasing proportion of the population in the higher-frequency age cohorts has boosted demand for medical laboratory services.

Relative Number of Lab Tests per Year



Source: CDC National Ambulatory Medical Care Survey and Company Estimates

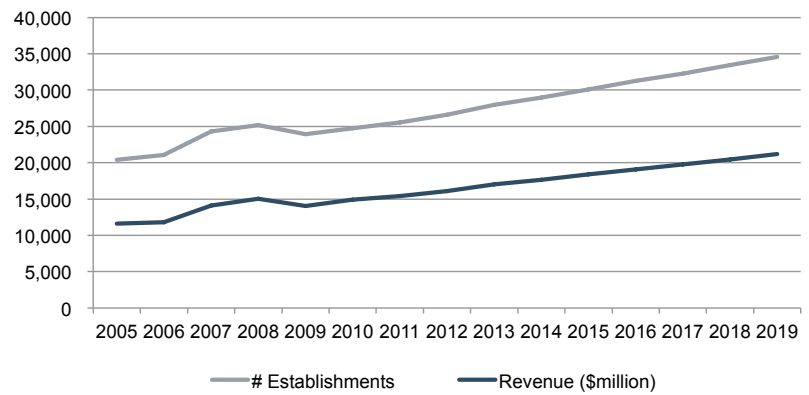
Industry Specific Macroeconomic Overview (cont.)

Revenue & Industry Structure

According to IBIS World, the Lab Services industry has seen revenue increase at an average annual rate of 4.7% between 2009 and 2014. The industry is expected to grow at an average annual rate of 3.7% during the next 5 year period as product manufacturers strive to maintain compliance with government regulation and federal law. Within the agriculture and food testing segment, for example, increased regulation on consumer and food products have contributed to an expected 3.7% rise in revenue in 2014. The expected growth will also be attributable to increased investment in research and development.

The industry is fragmented, with the average revenue per establishment less than \$1 million. The number of established companies is expected to have grown at an average annual rate of 2.6% between 2009 and 2014 and is expected to experience continued stable growth into the projected 2015-2019 period.

Revenue and Number of Establishments



Source: IBIS World

M&A Transactions

Announced Date	Target / Issuer	Trans. Types	Trans. Status	Total Trans. Value (\$USD mm)	Total Rev. [LTM] (\$USDmm) [Target / Issuer]	Buyers / Investors	Geographic Locations [Target/Issuer]	Geographic Region [Buyer/Investor]	Business Description [Target/Issuer]
04/16/2014	Heritage Labs, Inc. and Hooper Holmes Services	Merger/ Acquisition	Closed	3.54	-	Clinical Reference Laboratory, Inc.	United States and Canada (Primary)	United States and Canada	Heritage Labs, Inc. operates a testing laboratory and service facility for the insurance industry. Hooper Holmes Services provides data collection, tele-interviewing and underwriting assessment services to insurance company underwriters, insurance carriers, and reinsurance companies. Heritage Labs, Inc. is based in Olathe, Kansas.
04/07/2014	Phytalytics LLC	Merger/ Acquisition	Closed	1.27	-	Abattis Bio-ceuticals Corp. (OTCPK:ATTB.F)	United States and Canada (Primary)	United States and Canada	Phytalytics LLC, doing business as Phytalab.com, provides Cannabis and Cannabinoids quality assurance testing services in Washington. The company provides testing for flowers, extracts, edibles, liquids, and topicals. It also offers analysis certification, potency profiling, moisture analysis, microbiological screening, foreign material inspection, and residual solvent testing services. The company was founded in 2011 and is based in Kirkland, Washington.
02/28/2014	Emerging Fuels Technology, Inc.	Private Placement	Effective	1.0	-	-	United States and Canada (Primary)	-	Emerging Fuels Technology, Inc. provides catalyst development research services in the areas of Fischer-Tropsch and related synthesis gas and hydroprocessing chemistry. It offers catalyst development and testing, analytical, hydroprocessing/hydrotreating and sample handling, engineering, and consulting services. Emerging Fuels Technology, Inc. was founded in 2008 and is based in Tulsa, Oklahoma.
12/20/2013	Maxxam Analytics International Corporation	Merger/ Acquisition	Closed	609.0	299.0	Bureau Veritas SA (ENXTPA:BVI)	United States and Canada (Primary)	Europe	Maxxam Analytics International Corporation provides analytical services and solutions. The company serves its customers through a network of laboratories in Canada. Maxxam Analytics International Corporation was founded in 1996 and is based in Mississauga, Canada.
10/01/2013	Defiance Testing & Engineering Services, Inc.	Merger/ Acquisition	Closed	31.12	-	Exova Group plc (LSE:EXO)	United States and Canada (Primary)	Europe	Defiance Testing & Engineering Services, Inc. provides product development and testing services to the transportation industry. Defiance Testing & Engineering Services, Inc. was founded in 1976 and is based in Troy, Michigan.
08/23/2013	Emerging Fuels Technology, Inc.	Private Placement	Closed	1.0	-	-	United States and Canada (Primary)	-	Emerging Fuels Technology, Inc. provides catalyst development research services in the areas of Fischer-Tropsch and related synthesis gas and hydroprocessing chemistry. It offers catalyst development and testing, analytical, hydroprocessing/hydrotreating and sample handling, engineering, and consulting services. Emerging Fuels Technology, Inc. was founded in 2008 and is based in Tulsa, Oklahoma.
06/25/2013	Fourth Testing Laboratory in California	Merger/ Acquisition	Cancelled	1.6	-	Enerlabs, Inc. (OTCPK:ENLB)	United States and Canada (Primary)	United States and Canada	Fourth Testing Laboratory in California comprises fourth testing laboratory that provides air testing services. The laboratory is located in California.

M&A Transactions

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06/13/2013	Critical Path Services, LLC	Merger/ Acquisition	Closed	-	6.4	Dr. Knoell Consult GmbH	United States and Canada (Primary)	Europe	Critical Path Services, LLC, a contract research organization, provides laboratory analysis, toxicology, chemicals classification and labeling consulting, technical writing, and dossier services to the crop protection, pharmaceutical, and chemical industries. It serves customers ranging from multi-national Fortune 500 companies to virtuals and start-ups. The company was founded in 2001 and is based in Garnet Valley, Pennsylvania with an additional office in Research Triangle Park, North Carolina.
04/30/2013	AmSpec Services, LLC	Private Placement	Effective	64.62	54.4	-	United States and Canada (Primary)	-	AmSpec Services, LLC provides inspection, testing, verification, and specialized technical services to oil, gas, petrochemical/chemical, additive, and tank calibration industries in the United States and internationally. It offers field and laboratory services; and technical services, including biofuel, blending, ultra-low sulfur diesel testing, liquefied petroleum/natural gas and liquefied gas, jet fuel testing, gasoline testing, petrochemical and chemical inspection, diesel fuel testing, crude oil, and bunker fuel services. The company was founded in 1986 and is headquartered in Linden, New Jersey with offices/facilities in the United States and internationally.
04/30/2013	AmSpec Services, LLC	Merger/ Acquisition	Closed	-	54.4	Incline Equity Partners	United States and Canada (Primary)	United States and Canada	AmSpec Services, LLC provides inspection, testing, verification, and specialized technical services to oil, gas, petrochemical/chemical, additive, and tank calibration industries in the United States and internationally. The company was founded in 1986 and is headquartered in Linden, New Jersey with locations in the United States and internationally.
04/30/2013	AmSpec Services, LLC	Private Placement	Closed	-	54.4	GoldPoint Partners LLC	United States and Canada (Primary)	United States and Canada	AmSpec Services, LLC provides inspection, testing, verification, and specialized technical services to oil, gas, petrochemical/chemical, additive, and tank calibration industries in the United States and internationally. The company was founded in 1986 and is headquartered in Linden, New Jersey with locations in the United States and internationally.
04/08/2013	MSi Testing & Engineering Inc.	Merger/ Acquisition	Closed	-	-	SGS SA (SWX:SGSN)	United States and Canada (Primary)	Europe	MSi Testing & Engineering Inc. provides metallurgical testing and failure analysis services in the United States. It serves customers in steel manufacturing, heavy equipment, transportation, energy/power, aerospace, agriculture, consulting, forging, medical, and foundry industries. The company was founded in 1985 and is based in Melrose Park, Illinois.

M&A Transactions

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03/28/2013	Sherry Laboratories, Inc.	Merger/ Acquisition	Closed	-	35.6	Element Materials Technology Holding Netherlands B.V.	United States and Canada (Primary)	Europe	Sherry Laboratories, Inc. provides metallurgical, nonmetallic, environmental, air and emissions, petrochemical testing and specialty gases, polymer, food/microbiological, and hydrocarbon testing services in the United States and internationally. It operates a network of laboratories in Indiana, Louisiana, Ohio, and Oklahoma. The company was founded in 1947 and is based in Daleville, Indiana.
02/22/2013	Environmental Testing, Inc.	Merger/ Acquisition	Announced	3.4	-	Enerlabs, Inc. (OTCPK:ENLB)	United States and Canada (Primary)	United States and Canada	Environmental Testing, Inc., an environmental laboratory, provides organic and inorganic analysis of water, soil, and waste characterization. It serves environmental consulting/engineering, governmental, and industrial clients in Oklahoma, Texas, Louisiana, Kansas, and North Dakota. The company was founded in 2000 and is based in Oklahoma.
02/11/2013	Energy and Environmental Testing Laboratory in California	Merger/ Acquisition	Cancelled	2.25	-	Enerlabs, Inc. (OTCPK:ENLB)	United States and Canada (Primary)	United States and Canada	Energy and Environmental Testing Laboratory in California comprises an analytical laboratory that serves petrochemical, petroleum products, refinery, manufacturing, wine manufacturing, agricultural, and environmental industries. The laboratory is located in California.

Guideline Company Pricing

Selected Financial Data

(in \$Millions, as of June 30, 2014)

Company Name	Ticker	Exchange	Sales	LTM EBITDA	LTM EBITDA Margin	Enterprise Value (EV)	EV / Sales	EV / LTM EBITDA
Medical Testing Labs								
Bio-Reference Laboratories Inc	BRLI	NASDAQ GS	760.3	92.7	12.2%	903.5	1.2	9.7
<i>Clinical laboratory serving the medical profession</i>								
Laboratory Corp of America Holdings	LH	New York	5,846.3	1,150.8	19.7%	11,701.3	2.0	10.2
<i>Clinical laboratory company serving the medical profession</i>								
Quest Diagnostics Inc	DGX	New York	7,192.0	1,252.0	17.4%	12,317.2	1.7	9.8
<i>Provides diagnostic testing information services</i>								
Life Sciences Tools & Services								
Waters Corp	WAT	New York	1,935.1	589.6	30.5%	10,160.2	5.3	17.2
<i>Provides liquid chromatography products & services for pharm, chemicals, & environmental</i>								
Agilent Technologies Inc	A	New York	6,780.0	1,328.0	19.6%	16,339.1	2.4	12.3
<i>Provides bio-analytical and electronic measurement solutions and services</i>								
PerkinElmer Inc	PKI	New York	2,203.5	391.2	17.8%	6,165.3	2.8	15.8
<i>Provides products, services, and solutions to diagnostics, research, environmental, industrial and lab services</i>								
Thermo Fisher Scientific Inc	TMO	New York	14,884.1	3,370.8	22.6%	62,643.8	4.2	18.6
<i>Provides analytical instruments, equipment, reagents and consumables, software, and services</i>								
Environmental & Facilities Services								
Republic Services Inc	RSG	New York	8,605.9	2,410.6	28.0%	20,453.7	2.4	8.5
<i>Provides non-hazardous solid waste collection, transfer, and recycling and disposal services</i>								
Stericycle Inc	SRCL	NASDAQ GS	2,313.3	644.5	27.9%	11,751.7	5.1	18.2
<i>Provides regulated and compliance solutions to the healthcare and commercial businesses</i>								
Waste Management Inc	WM	New York	14,078.0	2,495.0	17.7%	30,470.7	2.2	12.2
<i>Provides waste management environmental services</i>								
Other Labs & Related Services								
Danaher Corp	DHR	New York	19,562.1	4,297.3	22.0%	57,338.3	2.9	13.3
<i>Provides environmental, life sciences, & industrial technologies services to medical, industrial and commercial</i>								
Ecology and Environment Inc	EEL	NASDAQ GM	125.1	nm	nm	45.5	0.4	nm
<i>Environmental consulting firm</i>								
IDEXX Laboratories Inc	IDXX	NASDAQ GS	1,442.7	335.4	23.2%	7,264.5	5.0	21.7
<i>Provides diagnostic, detection, and information systems for veterinary, food, and water testing</i>								
Clean Harbors Inc	CLH	New York	3,492.1	501.9	14.4%	5,288.8	1.5	10.5
<i>Provides a variety of environmental remediation and industrial waste management services</i>								
Average (of above)			6,372.9	1,347.0	19.4%	18,060.2	2.8	10.8
Median (of above)			4,669.2	897.7	19.6%	11,726.5	2.4	12.3

Valuation Trends

Historical Valuation Trends for Guideline Comparable Companies

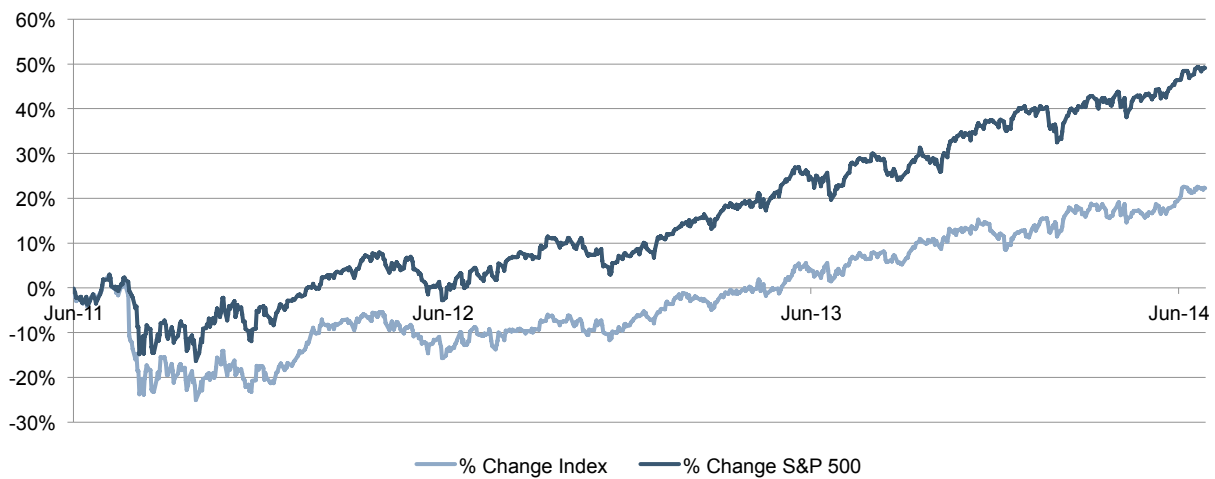
(Enterprise Value/LTM EBITDA Multiple)

Company Name	6/30/14	3/31/14	12/31/13	9/30/13	6/30/13	3/31/13
Medical Testing Labs						
Bio-Reference Laboratories Inc	9.7	8.8	7.4	8.3	8.2	7.8
Laboratory Corp of America Holdings	10.2	9.7	8.9	9.3	9.5	8.7
Quest Diagnostics Inc	9.8	9.6	8.5	9.5	9.1	8.5
Life Sciences Tools & Services						
Waters Corp	17.2	18.2	16.4	17.9	16.9	15.9
Agilent Technologies Inc	12.3	12.0	12.3	11.2	9.5	9.0
PerkinElmer Inc	15.8	16.5	15.8	22.1	21.5	21.1
Thermo Fisher Scientific Inc	18.6	20.3	19.4	15.7	14.9	13.7
Environmental & Facilities Services						
Republic Services Inc	8.5	8.7	8.7	8.9	9.3	8.3
Stericycle Inc	18.2	17.6	18.2	18.6	18.5	18.5
Waste Management Inc	12.2	11.9	12.7	8.7	8.7	8.7
Other Labs & Related Services						
Danaher Corp	13.3	13.2	13.7	12.5	11.8	11.8
Ecology and Environment Inc	nm	nm	27.0	35.5	6.9	8.0
IDEXX Laboratories Inc	21.7	20.3	18.4	17.2	15.9	16.7
Clean Harbors Inc	10.5	9.7	10.4	11.2	11.2	13.6
Average (of above)	10.8	11.2	14.1	14.8	12.3	12.2
Median (of above)	12.3	12.0	13.2	11.9	10.4	10.4

Valuation Trends (cont.)

We created an index based on the above fifteen companies and compared the performance to the S&P 500 over the last three years. We assessed the trend on a daily change basis. As previously mentioned, the laboratory services industry is influenced by general macro-economic conditions. This is portrayed in the below chart as the relationship between our index daily change and the S&P 500 change is strongly correlated.

Historical Market Trends



Source: Bloomberg

Mercer Capital

Laboratory Services Industry

Mercer Capital has expertise providing business valuation and financial advisory services to companies in the laboratory services industry.

Mercer Capital provides business valuation and financial advisory services to laboratory service companies throughout the nation. We provide valuation services for tax purposes, buy-sell agreements, partner buyouts, and other corporate planning purposes. Mercer Capital also works with owners who are considering the sale of their dealership or the acquisition of other laboratories.

Services Provided

- Valuation of laboratory services industry companies
- Transaction advisory for acquisitions and divestitures
- Valuations for purchase accounting and impairment testing
- Fairness and solvency opinions
- Litigation support for economic damages and valuation and shareholder disputes

Contact a Mercer Capital professional to discuss your needs in confidence.

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