

VALUE FOCUS

Laboratory Services Industry



Year-End 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%), and Other (3.5%). In addition to these segments, this publication also focuses on 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

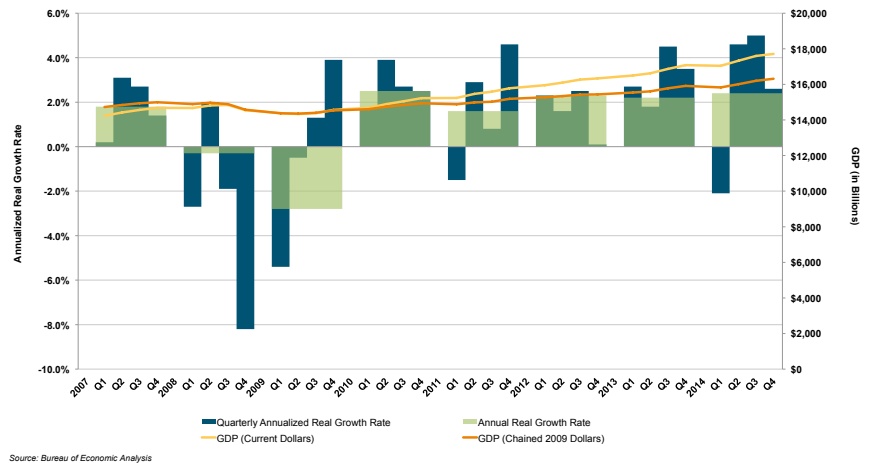
Macroeconomic Overview	1
Industry Specific	
Macroeconomic Overview	4
M&A Transactions	6
Guideline Company Pricing	8
Valuation Trends	9
About Mercer Capital	11

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 2.6% during the fourth 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. Federal government spending declined. Imports increased and partially offset the positive contributors. Economists attribute the GDP growth in part to improving consumer spending, which was in turn driven by labor market improvement. Economists generally anticipate growth to continue, though not at rates seen in 2014.

Gross Domestic Product

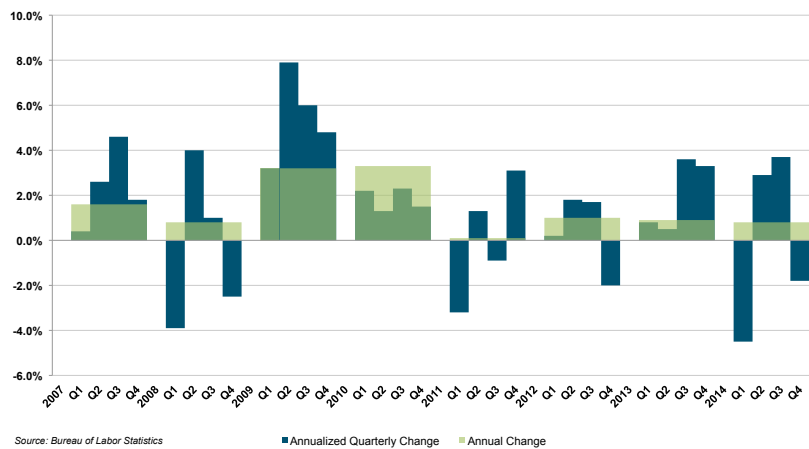


Source: Bureau of Economic Analysis

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, decreased at an annual rate of 1.8% in the fourth quarter of 2014. The decline was contrary to economists' expectations and follows a revised 3.7% increase in productivity during the third quarter. Real hourly compensation increased 2.1% during the fourth quarter. Annual average productivity was stable in the fourth quarter of 2014 relative to the fourth quarter of 2013. Productivity decreased 2.0% for the business sector (inclusive of farming activity) in the fourth quarter of 2014. This was the result of a 3.3% increase in output and a 5.3% increase in hours worked. Manufacturing productivity, generally more volatile in its quarterly measures, increased 1.3% during the quarter.

Change in Nonfarm Business Productivity



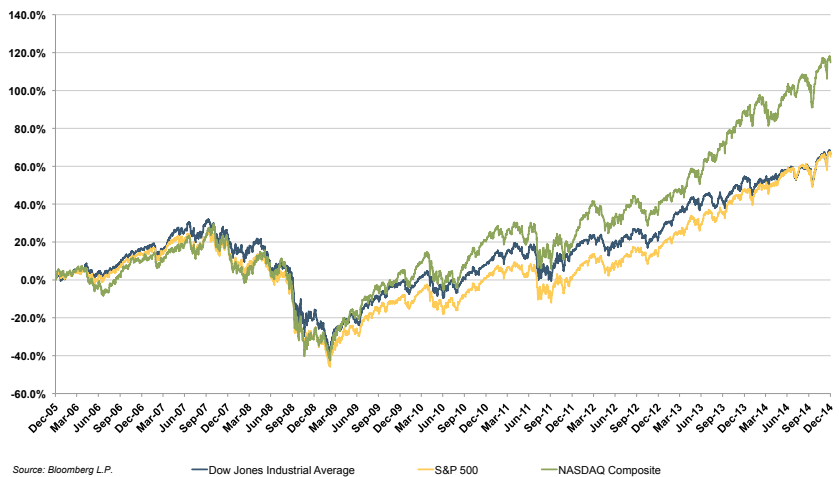
Source: Bureau of Labor Statistics

Macroeconomic Overview (cont.)

The Financial Markets

Broad market equity indices exhibited generally upward performance in the fourth quarter of 2014. Despite some losses in December, the Dow Jones recorded its sixth straight annual gain. Both the Dow Jones and the S&P reached records highs repeatedly throughout 2014. Yields on short-term U.S. Treasury securities rose during the fourth quarter, while yields on longer-term treasuries fell.

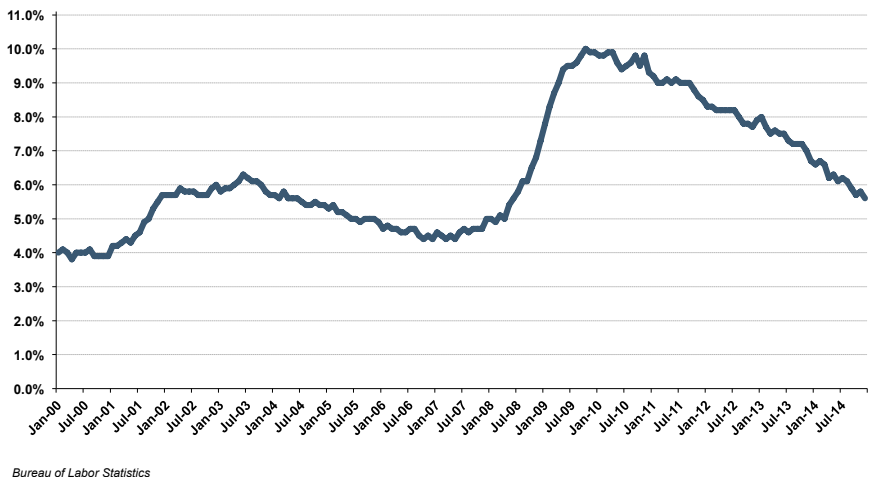
Equity Index Price Return



Unemployment

According to the Labor Department's Bureau of Labor Statistics ("BLS"), the unemployment rate was 5.6% in December 2014, down slightly from 5.7% in October and 5.8% in November. The December 2014 rate is the lowest rate since June 2008 and marks a return to pre-recession unemployment levels. While the December unemployment rate is lower than rates observed over the past several years, the labor force participation rate is also lower. The last time the labor force participation was lower than its current level was 1977. 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 unemployment rate in the short term. Economists surveyed by *The Wall Street Journal* anticipate an unemployment rate of 5.5% in June 2015 and a continued decline to 5.3% by year-end 2015.

Civilian Unemployment Rate



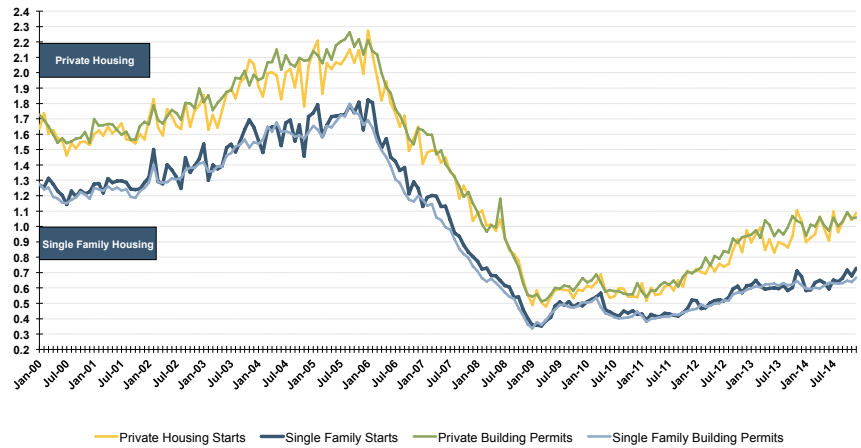
Macroeconomic Overview (cont.)

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 1,089,000 units in December 2014, 4.4% above the revised November rate of 1,043,000 units, and 5.3% above the December 2013 level. The seasonally adjusted annual rate of private housing units authorized by building permits (considered the best indicator of future housing starts) was 1,032,000 units in December 2014, 1.9% below the revised November estimate of 1,052,000, but 1.0% above the December 2013 level.

Seasonally Adjusted Annualized Rates of New Housing Starts and Building Permits

(millions of units)



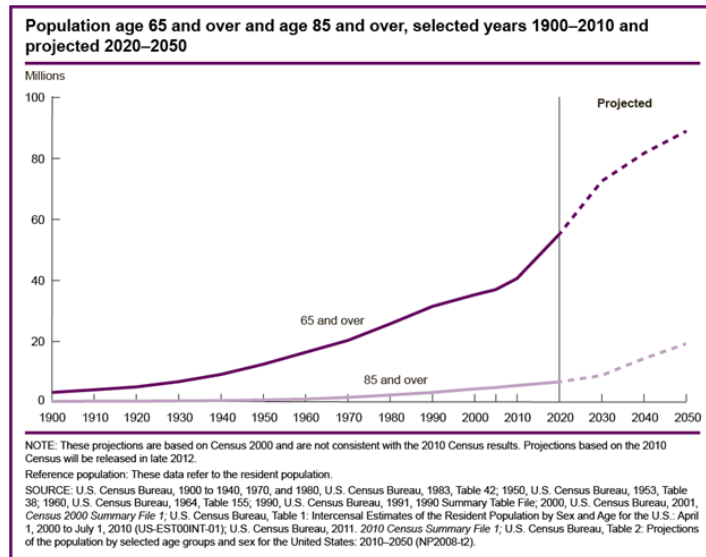
Source: U.S. Census Bureau
 Note: Permits at a given date are generally a leading indicator of future starts. Beginning with January 2004, building permit data reflects the change to the 20,000 place series.

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, approximately 20% of the U.S. population, and almost double the older population in 2000 of 35 million.

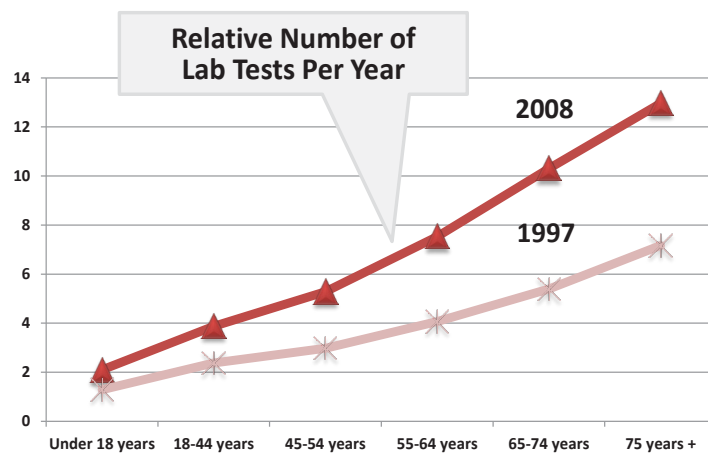
Aging Population



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. 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

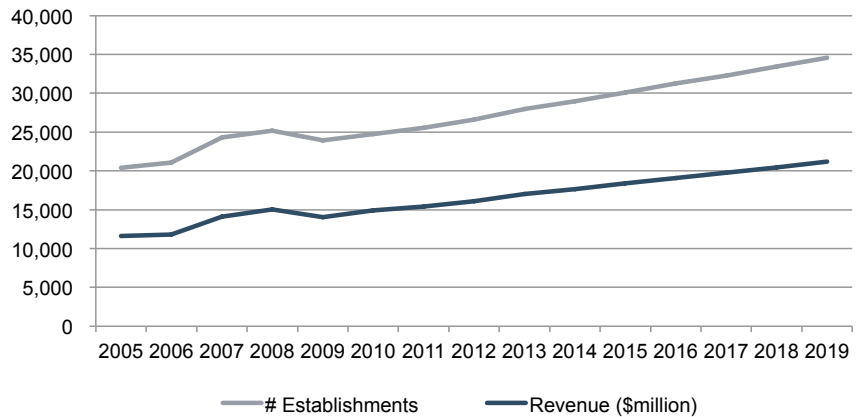
Industry Specific Macroeconomic Overview (cont.)

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

As noted in the following transactions table, LabCorp announced the acquisition of Covance on November 3, 2014. The transaction valued at \$5.6 billion implied a LTM EBITDA multiple of 13.3x. The announced deal price represented a 32% premium to the Covance closing price on October 31, 2014. LabCorp expects to achieve over \$100 million in annual cost synergies (anticipated to be fully realized within three years of the 1Q15 closing). A few of the announced strategic rationales for this transaction include, but are not limited to, growth in global reach, strengthening relationships with pharma, physicians, and patients, and creating the world's leading healthcare diagnostics company.

Shares of LabCorp fell 7.4% on the announcement, to \$101.23 per share, but subsequently rebounded to pre-announcement levels, closing the year at \$107.90 per share.

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]
11/03/2014	Covance Inc. (NYSE:CVD)	Merger/ Acquisition	Announced	6,382.23	2,509.68	Laboratory Corp. of America Holdings (NYSE:LH)	United States and Canada (Primary)	United States and Canada	Covance Inc., a drug development services company, provides a range of product development services to the pharmaceutical and biotechnology industries worldwide. It operates in two segments, Early Development and Late-Stage Development. The Early Development segment offers preclinical services, such as toxicology, pharmaceutical chemistry, nutritional chemistry and food safety, purpose-bred animals for biomedical research, and bioanalytical testing. The Late-Stage Development segment offers central laboratory services to biotechnology and pharmaceutical customers; and clinical development services. The company also provides laboratory testing services to the chemical, agrochemical, and food industries. Covance Inc. was founded in 1987 and is headquartered in Princeton, New Jersey.
08/29/2014	Ulrich Metrology Inc.	Merger/ Acquisition	Closed	6.57	3.7	Transcat Inc. (NasdaqGM:TRNS)	United States and Canada (Primary)	United States and Canada	Ulrich Metrology Inc., a calibration laboratory, focuses on providing calibration solutions to aerospace, automotive, and other industries in Canada. The company offers calibration, certification, and repair services in electrical, temperature, pressure, dimensional, force, and torque areas. It also offers on-site calibration services.
08/18/2014	Analysts, Inc.	Merger/ Acquisition	Closed	-	15.0	Bureau Veritas SA (ENXTPA:BVI)	United States and Canada (Primary)	Europe	Analysts, Inc., an analytical testing organization, provides industrial diagnostic evaluations and maintenance solutions. It serves power generation/utilities, process manufacturing, production machinery, manufacturing equipment, chemical, paper, textiles, primary metals, metalforming, plastics, petrochemical, waste treatment, mining/aggregate, agri/forest, marine, heavy construction, trucking, transit, and aircraft industries. The company was founded in 1960 and is based in Hawthorne, California, with laboratories worldwide.
07/28/2014	Galson Laboratories Inc.	Merger/ Acquisition	Closed	-	17.0	SGS SA (SWX:SGSN)	United States and Canada (Primary)	Europe	Galson Laboratories Inc., doing business as GAL Services, Inc., provides industrial hygiene analysis and monitoring solutions. It offers analytical laboratory testing services to the industrial hygiene, occupational health and safety, and environmental industries. The company was founded in 1970 and is based in East Syracuse, New York. It has facilities and offices in the United States and Canada.

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]
06/05/2014	Hudson Technologies Inc. (NasdaqC-M:HDSN)	Public Offering	Closed	15.0	51.34	-	United States and Canada (Primary)	-	Hudson Technologies, Inc. operates as a refrigerant services company that provides solutions to the refrigeration industry in the United States and internationally. The company's RefrigerantSide services also comprise predictive and diagnostic services for industrial and commercial refrigeration applications. The company serves commercial, industrial, and government customers, as well as refrigerant wholesalers, distributors, contractors, and refrigeration equipment manufacturers; and customers in petrochemical, pharmaceutical, industrial power, manufacturing, commercial facility, and property management and maritime industries. Hudson Technologies, Inc. was founded in 1991 and is headquartered in Pearl River, New York.
06/02/2014	Advanced Testing & Engineering Inc. and Commercial Aging Services LLC	Merger/ Acquisition	Closed	-	7.3	SGS SA (SWX:SGSN)	United States and Canada (Primary)	Europe	As of May 30, 2014, Advanced Testing & Engineering Inc. and Commercial Aging Services LLC was acquired by SGS SA. Advanced Testing & Engineering Inc. and Commercial Aging Services LLC represents the combined operations of SGS Advanced Testing & Engineering Inc. and SGS Commercial Aging Services LLC in their sale to SGS SA. SGS Advanced Testing & Engineering Inc. provides vibration testing and suspension component testing services. SGS Commercial Aging Services LLC provides patented catalyst aging services using the C-FOCAS system. The companies are based in Taylor, Michigan.
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. 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 Bioceuticals 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.

Guideline Company Pricing

Selected Financial Data

(in \$Millions, as of December 31, 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	796.9	97.3	12.2%	951.3	1.2	9.8
<i>Clinical laboratory serving the medical profession</i>								
Laboratory Corp of America Holdings	LH	New York	5,935.9	1,148.2	19.3%	12,202.5	2.1	10.6
<i>Clinical laboratory company serving the medical profession</i>								
Quest Diagnostics Inc	DGX	New York	7,308.0	1,303.0	17.8%	13,587.7	1.9	10.4
<i>Provides diagnostic testing information services</i>								
Life Sciences Tools & Services								
Waters Corp	WAT	New York	1,970.9	618.1	31.4%	10,813.0	5.5	17.5
<i>Provides liquid chromatography products & services for pharm, chemicals, & environmental</i>								
Agilent Technologies Inc	A	New York	6,981.0	1,214.0	17.4%	16,443.4	2.4	13.5
<i>Provides bio-analytical and electronic measurement solutions and services</i>								
PerkinElmer Inc	PKI	New York	2,223.4	386.6	17.4%	5,799.6	2.6	15.0
<i>Provides products, services, and solutions to diagnostics, research, environmental, industrial and lab services</i>								
Thermo Fisher Scientific Inc	TMO	New York	15,863.7	3,824.3	24.1%	64,596.3	4.1	16.9
<i>Provides analytical instruments, equipment, reagents and consumables, software, and services</i>								
Environmental & Facilities Services								
Republic Services Inc	RSG	New York	8,704.6	2,452.2	28.2%	21,339.4	2.5	8.7
<i>Provides non-hazardous solid waste collection, transfer, and recycling and disposal services</i>								
Stericycle Inc	SRCL	NASDAQ GS	2,446.6	655.6	26.8%	12,789.6	5.2	19.5
<i>Provides regulated and compliance solutions to the healthcare and commercial businesses</i>								
Waste Management Inc	WM	New York	14,059.0	2,449.0	17.4%	33,661.0	2.4	13.7
<i>Provides waste management environmental services</i>								
Other Labs & Related Services								
Danaher Corp	DHR	New York	19,763.3	4,366.0	22.1%	63,307.4	3.2	14.5
<i>Provides environmental, life sciences, & industrial technologies services to medical, industrial and commercial</i>								
Ecology and Environment Inc	EEL	NASDAQ GM	128.4	3.7	2.9%	41.6	0.3	11.3
<i>Environmental consulting firm</i>								
IDEXX Laboratories Inc	IDXX	NASDAQ GS	1,487.9	343.9	23.1%	7,881.7	5.3	22.9
<i>Provides diagnostic, detection, and information systems for veterinary, food, and water testing</i>								
Clean Harbors Inc	CLH	New York	3,436.0	386.2	11.2%	4,309.2	1.3	11.2
<i>Provides a variety of environmental remediation and industrial waste management services</i>								
Average (of above)			6,507.5	1,374.9	19.4%	19,123.1	2.8	14.0
Median (of above)			4,686.0	901.9	18.6%	12,496.0	2.4	13.6

Valuation Trends

We assessed the historical valuation trends of the 14 companies included in the guideline group by comparing each company's enterprise value divided by LTM EBITDA for the last eight quarters. The median multiple at 12/31/2014 was 13.6x compared to the median multiple at 12/31/2013 of 13.2x. Although the multiple decreased in early 2014, it rebounded in latter 2014 and remained stable for year-over-year comparisons.

Historical Valuation Trends for Guideline Comparable Companies

(Enterprise Value/LTM EBITDA Multiple)

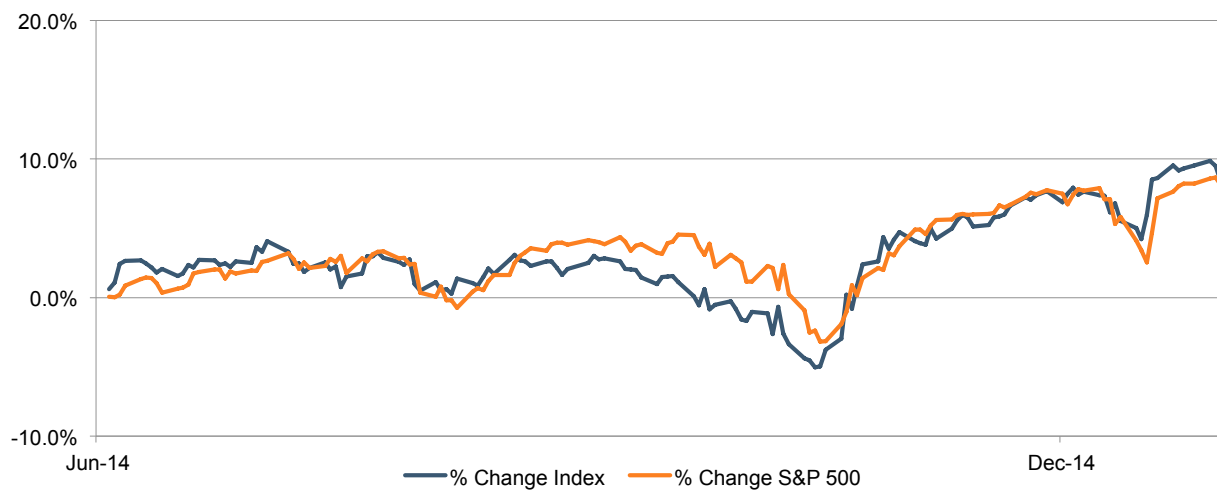
Company Name	12/31/14	9/30/14	6/30/14	3/31/14	12/31/13	9/30/13	6/30/13	3/31/13
Medical Testing Labs								
Bio-Reference Laboratories Inc	9.8	8.6	9.7	8.8	7.4	8.3	8.2	7.8
Laboratory Corp of America Holdings	10.6	10.1	10.2	9.7	8.9	9.3	9.5	8.7
Quest Diagnostics Inc	10.4	9.7	9.8	9.6	8.5	9.5	9.1	8.5
Life Sciences Tools & Services								
Waters Corp	17.5	15.7	17.2	18.2	16.4	17.9	16.9	15.9
Agilent Technologies Inc	13.5	11.9	12.3	12.0	12.3	11.2	9.5	9.0
PerkinElmer Inc	15.0	14.5	15.8	16.5	15.8	22.1	21.5	21.1
Thermo Fisher Scientific Inc	16.9	17.0	18.6	20.3	19.4	15.7	14.9	13.7
Environmental & Facilities Services								
Republic Services Inc	8.7	8.5	8.5	8.7	8.7	8.9	9.3	8.3
Stericycle Inc	19.5	17.9	18.2	17.6	18.2	18.6	18.5	18.5
Waste Management Inc	13.7	13.0	12.2	11.9	12.7	8.7	8.7	8.7
Other Labs & Related Services								
Danaher Corp	14.5	12.9	13.3	13.2	13.7	12.5	11.8	11.8
Ecology and Environment Inc	11.3	12.0	nm	nm	27.0	35.5	6.9	8.0
IDEXX Laboratories Inc	22.9	18.6	21.7	20.3	18.4	17.2	15.9	16.7
Clean Harbors Inc	11.2	12.2	10.5	9.7	10.4	11.2	11.2	13.6
Average (of above)	14.0	13.0	13.7	13.6	14.1	14.8	12.3	12.2
Median (of above)	13.6	12.5	12.3	12.0	13.2	11.9	10.4	10.4

Valuation Trends (cont.)

We created an index based on the 14 companies in the guideline group and compared their performance to the S&P 500 over the last six months, as well as the last three years. As previously mentioned, the laboratory services industry is influenced by general macroeconomic conditions. During the second half of 2014, the laboratory services industry was strongly correlated with the S&P 500. The trend is also evident in the three year analysis.

Historical Market Trends

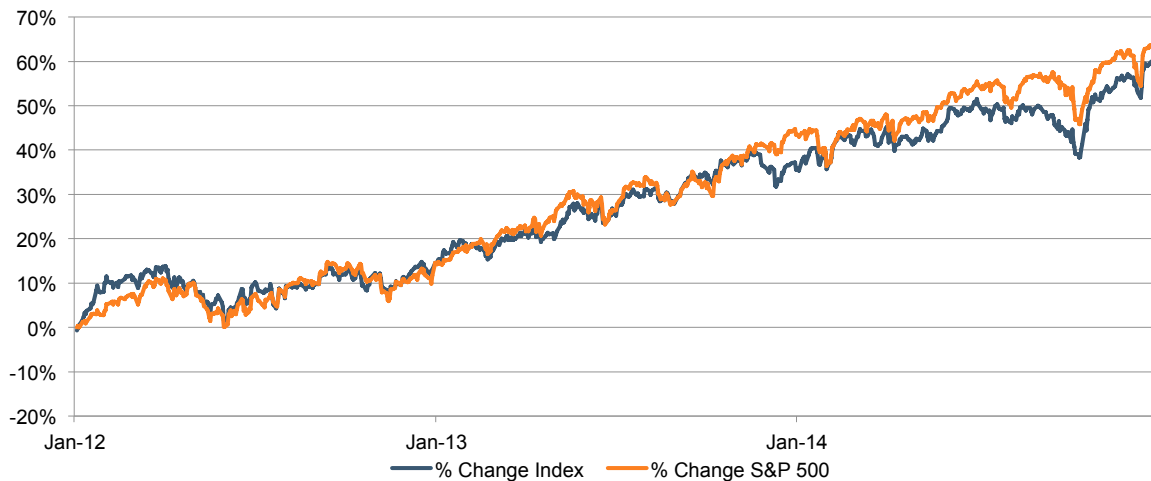
Last 6 Months



Source: Bloomberg

Historical Market Trends

Last 3 Years



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.

Contact Us

Travis W. Harms, CFA, CPA/ABV
901.322.9760
harmst@mercercapital.com

Timothy R. Lee, ASA
901.322.9740
leet@mercercapital.com

Nicholas J. Heinz, ASA
901.322.9788
heinzn@mercercapital.com

Karolina Grabowicz, CPA/ABV
901.322.9761
grabowiczk@mercercapital.com

Mercer Capital
5100 Poplar Avenue, Suite 2600
Memphis, Tennessee 38137
901.685.2120 (P)

www.mercercapital.com