

VALUE FOCUS

Laboratory Services Industry



Mid-Year 2016

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 2.2% between 2010 and 2015, reaching an estimated \$17.1 billion in 2015. As defined by IBIS World, the laboratory services industry comprises the following segments: Product Performance & Safety Testing (42.6%), Product Certification (27.2%), Environmental Testing (14.9%), Agriculture & Food Testing (7.0%), Biological and Chemical Testing (6.3%), Other (2.0%). In addition to these segments, we will also focus 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 regulatory standards 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

Industry Specific	
Macroeconomic Overview	1
M&A Transactions	4
Guideline Company Pricing	7
Valuation Trends	8
Macroeconomic Overview	10
Benchmarking Data for Testing Laboratories	13
About Mercer Capital	15

Industry Specific Macroeconomic Overview

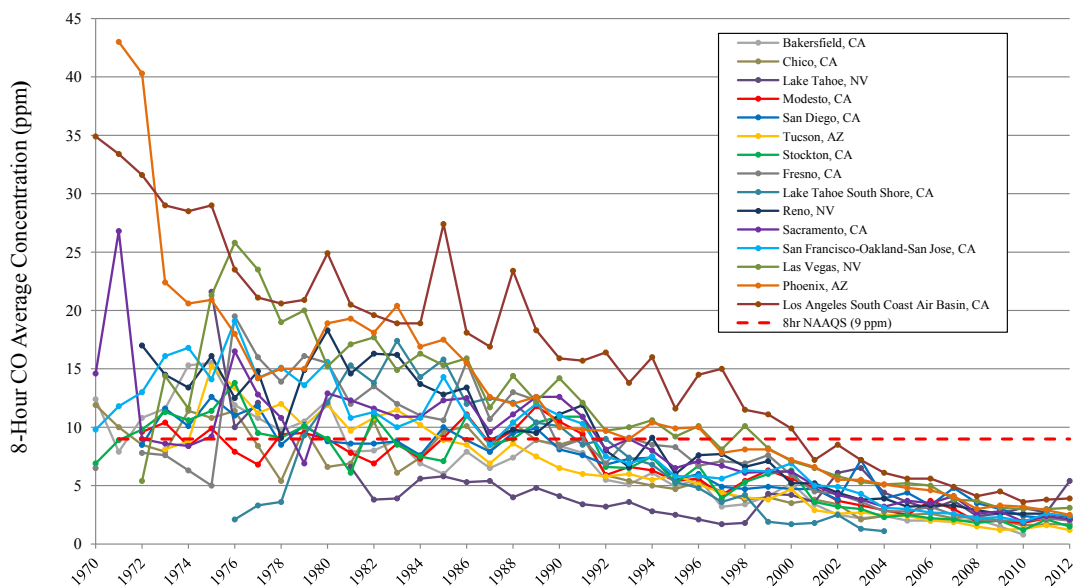
Environmental Testing

This category includes testing and monitoring of air, noise, water, and soil pollution, as well as industry waste production and disposal. Within an ever-changing atmosphere, this sector has become more robust to ensure compliance with governmental regulation as well as protecting and remediating the environment. Green initiatives and environmental concerns have influenced government and business policies, resulting in a move toward green

technology and increased demand for industry services. To the right is a graph sourced from the United States Environmental Protection Agency, indicating efforts over the years to improve air quality through reduction of carbon monoxide concentration. Over the period analyzed in the graph, research and development investments have improved the levels of air quality in each city.

U.S. EPA Region 9 Air Quality Trends, 1970-2012

8-Hour Carbon Monoxide (Co) Design Value Concentrations by Designated Area



Source: US EPA's Air Quality Systems (AQS) database (July 11, 2012 and June 25, 2013; last updated July 15, 2013). The 2008 national ambient air quality standard (NAAQS) for 8-hour carbon monoxide (CO) is 9 parts per million (ppm), not to be exceeded more than once a year. The design value is the second highest day's recorded value over a two-year period. The air quality monitor that has the highest design value for each two-year period in a designated area is shown here. X-axis labels represent the last year of a monitor's two-year time period. All exceptional event data (e.g., high winds and

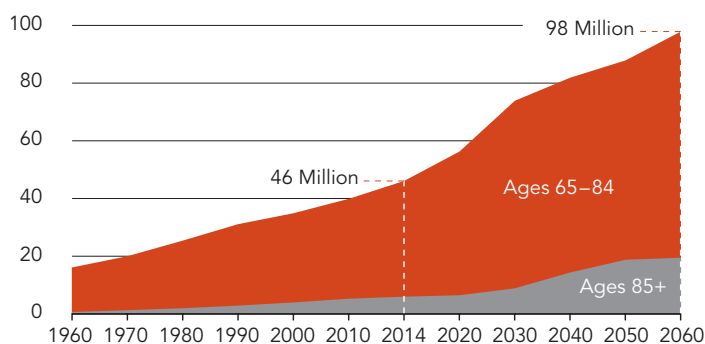
Industry Specific Macroeconomic Overview

Aging Population

Demand for medical laboratory services is positively linked to an aging population. The older population, those persons aged 65 or older, included nearly 46 million persons, or approximately 15% of the U.S. population in 2014. This is primarily due to the “Baby Boomers” (those born between 1946 and 1964) beginning to turn 65 in 2011 as well as improved life expectancy projections. Refer to the charts to the right which depict the projected growth in population aged 65 and over through 2060 (in millions as well as a percentage of total population).

Figure 1: U.S. Population Ages 65 and Older, 1960 to 2060 (Millions)

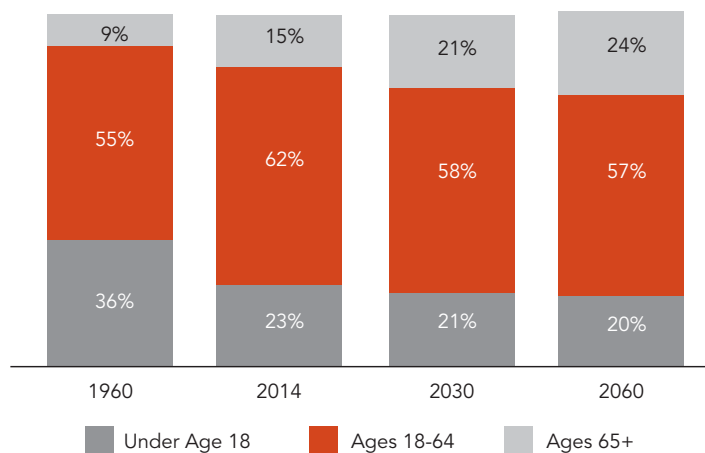
The Number of Americans Ages 65 and Older Will More Than Double by 2060



Source: PRB analysis of data from the U.S. Census Bureau.

Figure 2: Percent of U.S. Population in Selected Age Groups, 1960 to 2060

By 2060, Nearly One-Quarter of Americans Will Be Ages 65 and Older



Note: Numbers may not sum to 100 due to rounding.

Source: PRB analysis of data from the U.S. Census Bureau.

Industry Specific Macroeconomic Overview (continued)

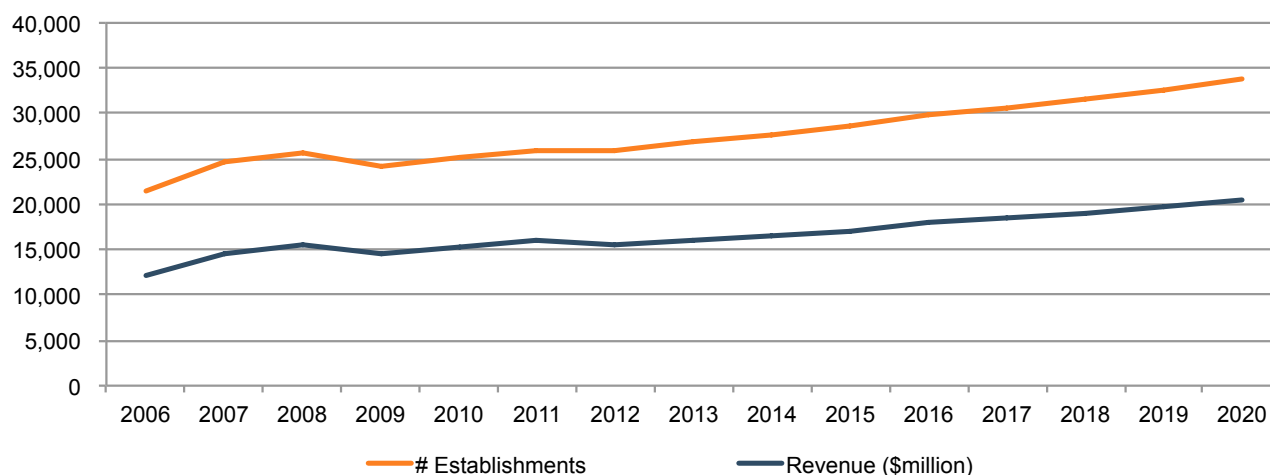
Revenue & Industry Structure

According to IBIS World, the Lab Services industry has seen revenue increase at an average annual rate of 2.2% between 2010 and 2015. The industry is expected to grow at an average annual rate of 3.4% during the next 5 year period as product manufacturers strive to maintain compliance with government regulation and federal law. The Consumer Product Safety Improvement Act of 2008 increased federal funding for the creation of new testing standards and created additional safety compliance requirements for every manufacturer of consumer products. The requirements and spending have increased in the years since that Act in addition to other measures. For example, during the next five years, the government is expected to implement more stringent environmental legislation. In 2014, President Obama announced a proposed rule that would cut carbon dioxide emissions from the nation's power plants to roughly 30% below their 2005 levels by 2030. In response, the Environmental Protection Agency (EPA) expects to issue final regulations this year.

Increased research and development (R&D) spending has been the primary driver of industry growth. R&D is positively correlated to economic growth. During the five years to 2015, R&D expenditure is projected to increase at an annualized rate of 4.1%, fueling demand for laboratory testing services.

The industry is fragmented, with the average revenue per establishment below \$1.5 million. While there are numerous establishments, competition in the industry is based on specialty. A small number of firms with expertise in a specific field, such as food testing or physical safety and engineering integrity, will compete amongst themselves for business. The number of established companies has grown at a compounded annual rate of 2.2% between 2010 and 2015 and is expected to experience continued stable compounded annual growth rate of 3.4% into the projected 2016-2020 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]
01/04/2016	Accutest Laboratories, Inc.	Merger/ Acquisition	Closed		70.00	SGS North America Inc.	United States and Canada	United States & Canada	Accutest Laboratories, Inc. owns and operates an environmental testing laboratory that provide environmental analytical services to industrial, engineering/consulting, and government clients in the United States. The company was founded in 1956 and is based in Dayton, New Jersey with laboratories in throughout the United States.
01/05/2016	Pathway Genomics Corporation	Private Placement	Announced		11.9	The IBM Watson Group	United States and Canada	United States & Canada	Pathway Genomics Corporation provides a comprehensive set of genomic testing services across the healthcare spectrum. Pathway Genomics Corporation was founded in 2008 and is headquartered in San Diego, California.
01/21/2016	Oregon Analytical Services, LLC	Merger/ Acquisition	Closed			EVIO Inc.	United States and Canada	United States & Canada	Oregon Analytical Services, LLC provides testing and safety screening services for dispensaries, growers, producers, and patients of medical marijuana in Oregon. The company was founded in 2014 and is based in Eugene, Oregon.
02/04/2016	Prism Analytical Technologies Inc.	Private Placement	Announced				United States and Canada	United States & Canada	Prism Analytical Technologies, Inc., a consultative air testing laboratory, focuses on chemical identification and analysis of air contaminants in the United States. The company was founded in 1992 and is based in Mt. Pleasant, Michigan.
03/21/2016	Signal Bay, Inc. (OTCPK:SGBY)	Private Placement	Closed				United States and Canada	United States & Canada	Signal Bay, Inc., together with its subsidiaries, provides advisory, management, and analytical testing services to the legalized cannabis industry in the United States. The company is headquartered in Las Vegas, Nevada.
03/21/2016	Capitol Ultrasonics, LLC	Merger/ Acquisition	Closed		30.3	Premium Inspection & Testing, Inc.	United States and Canada	United States & Canada	Capitol Ultrasonics, LLC specializes in nondestructive examination and nondestructive testing. The company was founded in 1972 and is based in Baton Rouge, Louisiana.
03/31/2016	Cincinnati Sub-Zero Products, Inc.	Merger/ Acquisition	Closed	65.0	65.7	Gentherm Incorporated (NasdaqGS:THRM)	United States and Canada	United States & Canada	Cincinnati Sub-Zero Products, Inc. designs and manufactures temperature management equipment for medical and industrial sectors in the United States and internationally. The company was founded in 1940 and is based in Cincinnati, Ohio.

M&A Transactions (continued)

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]
04/04/2016	Reterro, Inc.	Private Placement	Announced				United States and Canada	United States & Canada	Reterro, Inc. provides soil remediation and waste-stream cleaning services worldwide. The company was incorporated in 2012 and is based in Pleasanton, California with an additional office in San Pedro, California. It has facilities in Livermore and Silicon Valley, California; Texas; and Oregon.
05/16/2016	Chesapeake Testing Services, Inc.	Merger/ Acquisition	Closed		8.2	National Technical Systems Inc.	United States and Canada	United States & Canada	Chesapeake Testing Services, Inc. provides ballistic experimentation, non-destructive, sports, environmental simulation, ammunition/firearm, and X-ray computed tomography scanning testing services. The company was founded in 2006 and is based in Belcamp, Maryland.
05/23/2016	Wyle Inc.	Merger/ Acquisition	Closed	600.0	488.1	KBR Holdings, LLC	United States and Canada	United States & Canada	Wyle Inc. provides specialized engineering, professional, scientific, and technical services to the federal government. The company was founded in 1949 and is headquartered in El Segundo, California with additional offices in the United States.
06/08/2016	Integrated Paper Services, Inc.	Merger/ Acquisition	Closed		4.7	SGS North America Inc.	United States and Canada	United States & Canada	Integrated Paper Services, Inc. operates a testing lab that provides physical and analytical testing services for paper and pulp, nonwovens, packaging, personal care products, medical supplies, and allied industries. The company was founded in 1989 and is based in Appleton, Wisconsin.
06/17/2016	NSS Labs, Inc.	Private Placement	Closed			Delta-v Capital; LiveOak Venture Partners LP	United States and Canada	United States & Canada	NSS Labs, Inc., an information security company, operates as a security product testing laboratory that provides security product test reports, research, and analysis services. It delivers cyber risk management guidance to CEOs, CIOs, CISOs, and information security professionals worldwide. NSS Labs, Inc. was founded in 1991 and is based in Austin, Texas.
06/20/2016	Buflovak, LLC	Merger/ Acquisition	Closed		10.9	Hebeler Corporation	United States & Canada	United States & Canada	Buflovak, LLC engages in designing, manufacturing, and supplying technology for food, chemical, pharmaceutical, waste treatment, metals, and glass industries in the United States and internationally. The company was founded in 1993 and is based in Buffalo, New York with an additional office in East Stroudsburg, Pennsylvania.

Transaction Discussion

As noted in the transactions chart on the previous pages, the two largest acquisitions reported during the first half of 2016 were **KBR Holdings, LLC's** purchase of **Wyle, Inc.** (\$600.0 million transaction value) and **Gentherm Incorporated's** purchase of **Cincinnati Sub-Zero Products, Inc.** (\$65.0 million transaction value).

Gentherm Incorporated ("Gentherm") purchased Cincinnati Sub-Zero Products, Inc. for \$65.0 million in cash. In a separate deal, Gentherm also bought the Cincinnati SubZero real estate from the Berke family for \$7.5 million. The acquisition expands Gentherm's presence in the medical and industrial test equipment markets. Per Gentherm's recent SEC filing (June 30, 2016 10-Q), the aggregate purchase price of \$73.7 million (including the real estate purchase), has been preliminarily allocated to the values of assets acquired and liabilities assumed as of April 1, 2016 as shown in Table 1.

Allocating 22.4% and 17.4% of net assets acquired to net working capital and net fixed assets, respectively, leaves approximately 60% for allocation to intangible assets.

- The largest allocation to intangible assets is to goodwill, which represents approximately 30.5% of the total purchase price. This includes workforce and residual goodwill after all other intangible assets have been allocated.
- The second largest allocation is to the customer relationships, which represents approximately 15.5% of total purchase price, given the importance of existing relationships.
- The third largest allocation is to the tradename, which represents approximately 8.5%, of total purchase price, given the recognition of the Cincinnati Sub-Zero Products name.
- The fourth largest allocation is to technology, which represents approximately 4.3%, of total purchase price.

The joining of KBR Holdings, LLC ("KBR") with Wyle, Inc. creating the new company brand KBRwyle will combine KBR's presence in international, large-scale government logistics

and support operations with Wyle's specialized engineer, scientific, and technical services, predominately within contiguous U.S. companies. Total consideration amounted to \$600.0 million after approximately \$30 million adjustments for acquired tax benefits and net working capital. KBR funded \$400 million of the cash paid with borrowings under their Credit Agreement. Per KBR's 10-Q (for quarter-end June 30, 2016). The acquisition of Wyle, Inc. ("Wyle") moves KBR's government services business into the domestic U.S. high value engineering services industry for such clients as NASA and U.S. government military services. Although this particular acquisition is not specifically laboratory services, the environmental and industrial R&D, technical, and testing services provided by the Company are related to the types of services provided by many companies within the laboratory services industry.

Table 1: Purchase Price Allocation

	Value	% of Total
Tangible Assets		
Accounts Receivable	\$10,790	14.5%
Inventory	16,284	21.8%
Prepaid Expenses & Other Assets	1,144	1.5%
Property & Equipment	12,974	17.4%
Intangible Assets		
Customer Relationships	11,600	15.5%
Technology	3,200	4.3%
Tradename	6,370	8.5%
Goodwill	22,739	30.5%
Assumed Liabilities	(11,435)	-15.3%
Net Assets Acquired	73,666	98.7%
Cash Acquired	985	1.3%
Purchase Price	\$74,651	100.0%

Source: Gentherm SEC filings

Guideline Company Pricing

Selected Financial Data

\$Millions, as of June 30, 2016

Company Name	Ticker	Exchange	Sales	LTM EBITDA	LTM EBITDA Margin	Enterprise Value (EV)	EV / Sales	EV / LTM EBITDA
Medical Testing Labs								
Laboratory Corp of America Holdings	LH	New York	9,254.9	1,649.9	17.8%	13,300.6	1.4	8.1
<i>Clinical laboratory company serving the medical profession</i>								
Quest Diagnostics Inc	DGX	New York	7,517.0	1,716.0	22.8%	11,478.8	1.5	6.7
<i>Provides diagnostic testing information services</i>								
Life Sciences Tools & Services								
Waters Corp	WAT	New York	2,057.2	651.0	31.6%	11,381.3	5.5	17.5
<i>Provides liquid chromatography products & services for pharm, chemicals, & environmental</i>								
Agilent Technologies Inc	A	New York	4,096.0	838.0	20.5%	14,417.0	3.5	17.2
<i>Provides bio-analytical and electronic measurement solutions and services</i>								
PerkinElmer Inc	PKI	New York	2,274.1	410.7	18.1%	5,714.6	2.5	13.9
<i>Provides products, services, and solutions to diagnostics, research, environmental, industrial and lab services</i>								
Thermo Fisher Scientific Inc	TMO	New York	17,341.4	4,054.8	23.4%	58,145.4	3.4	14.3
<i>Provides analytical instruments, equipment, reagents and consumables, software, and services</i>								
Environmental & Facilities Services								
Republic Services Inc	RSG	New York	9,194.2	2,591.4	28.2%	17,676.3	1.9	6.8
<i>Provides non-hazardous solid waste collection, transfer, and recycling and disposal services</i>								
Stericycle Inc	SRCL	NASDAQ GS	3,196.8	649.7	20.3%	8,832.5	2.8	13.6
<i>Provides regulated and compliance solutions to the healthcare and commercial businesses</i>								
Waste Management Inc	WM	New York	13,097.0	3,378.0	25.8%	29,471.8	2.3	8.7
<i>Provides waste management environmental services</i>								
Other Labs & Related Services								
Danaher Corp	DHR	New York	21,422.5	4,706.8	22.0%	69,548.6	3.2	14.8
<i>Provides environmental, life sciences, & industrial technologies services to medical, industrial and commercial</i>								
Ecology and Environment Inc	EEI	NASDAQ GM	114.9	6.6	5.7%	43.8	0.4	6.7
<i>Environmental consulting firm</i>								
IDEXX Laboratories Inc	IDXX	NASDAQ GS	1,637.0	372.3	22.7%	8,315.2	5.1	22.3
<i>Provides diagnostic, detection, and information systems for veterinary, food, and water testing</i>								
Clean Harbors Inc	CLH	New York	3,178.7	450.9	14.2%	2,999.0	0.9	6.7
<i>Provides a variety of environmental remediation and industrial waste management services</i>								
Average (of above)			7,260.1	1,652.0	21.0%	19,332.7	2.7	12.1
Median (of above)			4,096.0	838.0	22.0%	11,478.8	2.5	13.6

Valuation Trends

We assessed the historical valuation trends of the above 13 companies by comparing each company's enterprise value divided by LTM EBITDA over the last two years at each quarter-end. The median multiple decreased from 14.1x to 13.6x during 1H16, though still comparable to observed multiples during the period. Companies focused on the life sciences tool and services garner the highest multiple (median of 15.1x) on the strength of more robust growth expectations.

Historical Valuation Trends for Guideline Comparable Companies

Enterprise Value/LTM EBITDA Multiple

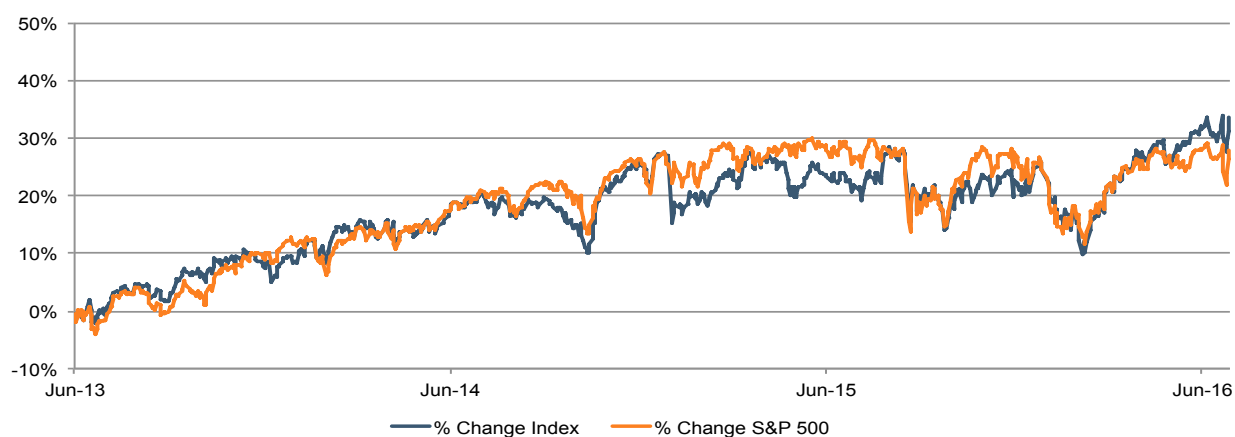
Company Name	6/30/16	3/31/16	12/31/15	9/30/15	6/30/15	3/31/15	12/31/14	9/30/14	6/30/14
Medical Testing Labs									
Laboratory Corp of America Holdings	8.1	8.6	8.6	7.9	9.7	9.2	10.6	10.1	10.2
Quest Diagnostics Inc	6.7	5.9	5.9	5.1	7.7	8.5	10.4	9.7	9.8
Life Sciences Tools & Services									
Waters Corp	17.5	16.3	16.7	15.0	16.4	16.9	17.5	15.7	17.2
Agilent Technologies Inc	17.2	16.1	17.9	12.1	13.6	12.9	13.5	11.9	12.3
PerkinElmer Inc	13.9	13.7	16.8	14.4	17.5	17.5	15.0	14.5	15.8
Thermo Fisher Scientific Inc	14.3	14.1	14.1	12.3	12.7	12.8	16.9	17.0	18.6
Environmental & Facilities Services									
Republic Services Inc	6.8	6.4	5.8	5.9	5.9	6.4	8.7	8.5	8.5
Stericycle Inc	13.6	17.4	16.7	20.3	18.2	18.0	19.5	17.9	18.2
Waste Management Inc	8.7	8.1	7.3	6.2	6.0	6.9	13.7	13.0	12.2
Other Labs & Related Services									
Danaher Corp	14.8	14.4	14.1	13.3	15.6	13.7	14.5	12.9	13.3
Ecology and Environment Inc	6.7	4.8	4.5	5.4	6.3	8.4	11.3	12.0	nm
IDEXX Laboratories Inc	22.3	19.1	17.8	20.3	17.9	22.9	22.9	18.6	21.7
Clean Harbors Inc	6.7	6.2	5.2	5.1	8.7	8.6	11.2	12.2	10.5
Average (of above)	12.1	11.6	11.6	11.0	12.0	12.5	14.3	13.4	14.0
Median (of above)	13.6	13.7	14.1	12.1	12.7	12.8	13.7	12.9	12.8

Valuation Trends (continued)

In addition, we created an index based on the above 13 companies and compared the performance to the S&P 500 over the last year as well as the last three years. As previously mentioned, the laboratory services industry is influenced by general macroeconomic conditions, depicted by the three year historical analysis below. Over the past twelve months, the index has appreciated almost 10%, compared to flat performance for the S&P500.

Historical Market Trends

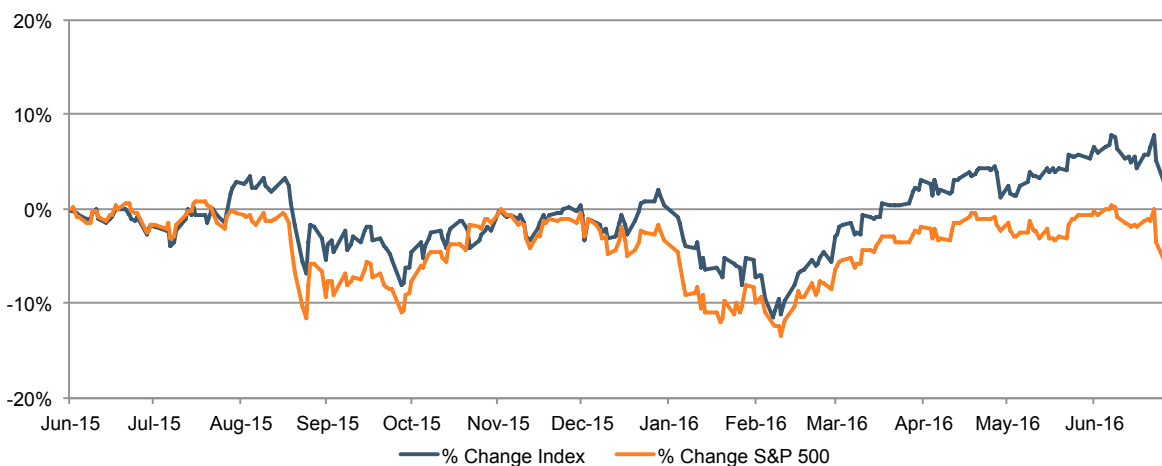
LTM



Source: Bloomberg

Historical Market Trends

Last 3 Years



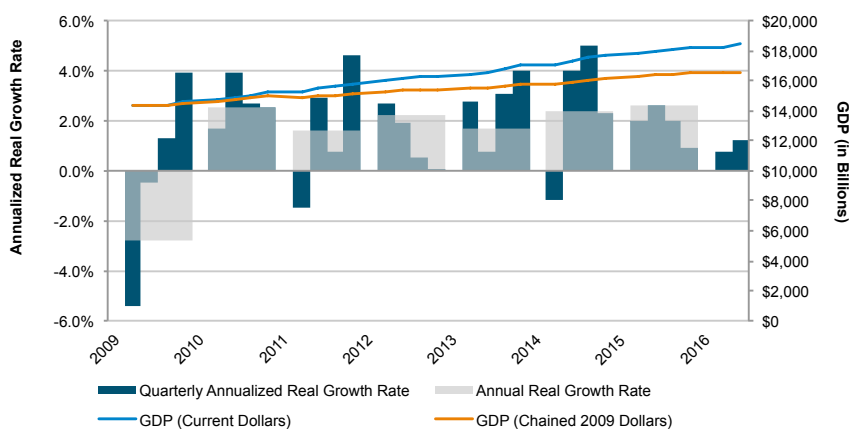
Source: Bloomberg

Macroeconomic Overview

Gross Domestic Product

According to advance estimates released by the Department of Commerce's Bureau of Economic Analysis (the "BEA"), Real Gross Domestic Product ("GDP") increased at an annualized rate of 1.2% during the second quarter of 2016. The increase was attributable to gains in personal consumption expenditures and exports, offset by declines in private inventory investment, nonresidential fixed investment, residential fixed investment, and state and local government spending. GDP grew 2.6% for all of 2015, compared to growth of 1.7% in 2013 and 2.4% in 2014.

Gross Domestic Product

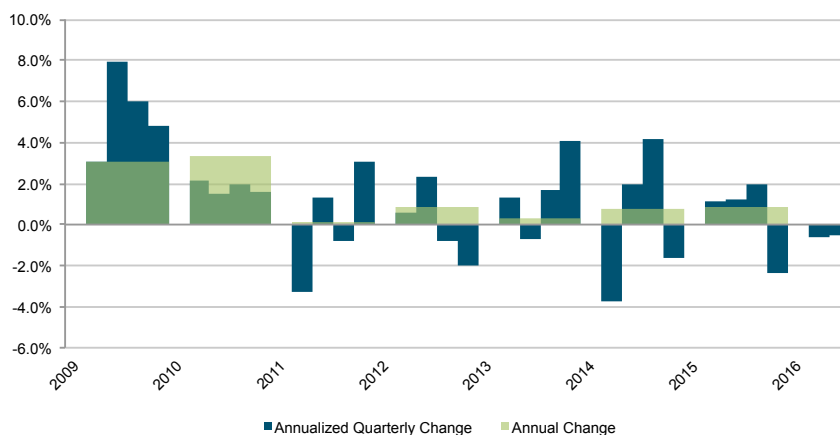


Source: Bureau of Economic Analysis

Business & Manufacturing Productivity

According to the BLS, seasonally adjusted nonfarm business decreased at an annual rate of 0.5% in the second quarter of 2016 as a function of output growth of 1.2% combined with an increase of 1.8% in hours worked. The productivity decrease in the second quarter follows decreases of 2.4% and 0.6% in the fourth quarter of 2015 and the first quarter of 2016, respectively. Productivity decreased 0.7% for the business sector (inclusive of farming activity) in the second quarter of 2016. This was the result of a 1.7% increase in unit labor costs and a 2.1% increase in hours worked, both of which are negative contributors to productivity. Manufacturing productivity decreased 0.7% during the quarter.

Change in Nonfarm Business Productivity



Source: Bureau of Labor Statistics

Macroeconomic Overview (continued)

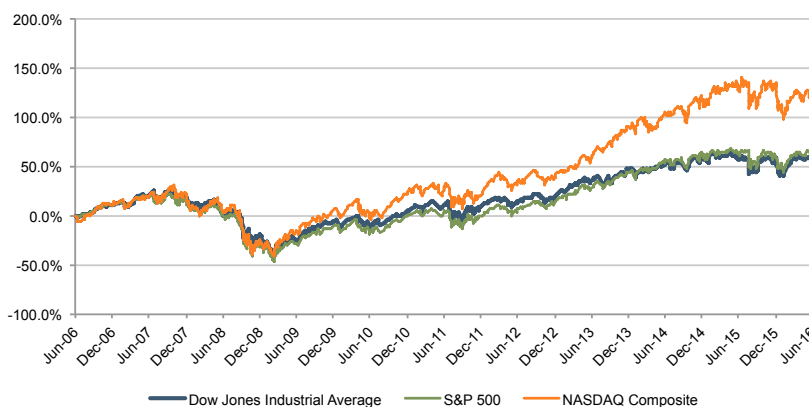
The Financial Markets

Fiscal 2015 and the first half of 2016 were marked by volatility in the stock markets, though, markets generally exhibited growth during the second quarter. The Brexit caused a sharp decline in prices that largely recovered by the end of the quarter. The Dow Jones Industrial Average ended the second quarter of 2016 at 17,929.99, up 1.4% for the quarter, following gains of 7.0% and 1.5% in the fourth quarter of 2015 and the first quarter of 2016, respectively. The S&P 500 Index increased 1.9% during the second quarter to close at 2,098.86, following gains of 6.5% and 0.8% in the fourth quarter of 2015 and the first quarter of 2016, respectively.

Yield Curve

Treasury yields fell during the second quarter on all maturities. Bond prices are negatively correlated with their respective yields, which can shift abruptly due to investor reactions to major variances in reported economic data versus market expectations (e.g., expected inflation, growth, monetary policy, and other Federal Reserve actions). Economists surveyed by *The Wall Street Journal* anticipate yields to rise over the next several years.

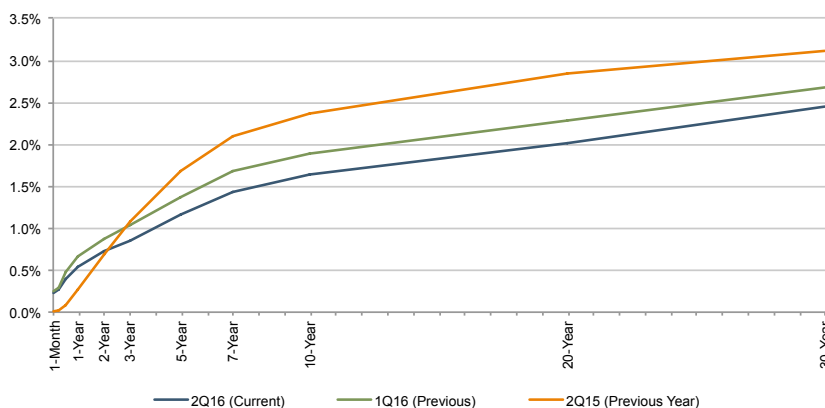
Equity Index Price Return



Source: Bloomberg L.P.

The NASDAQ Composite Index fell 0.6% during the second quarter to close at 4,842.67, following a gain of 8.4% in the fourth quarter of 2015 and a loss of 2.7% during the first quarter of 2016.

U.S. Treasury Yield Curve



Source: Federal Reserve Statistical Release H.15

Note: Figures shown are the average yield for the last month of the quarter.

Macroeconomic Overview (continued)

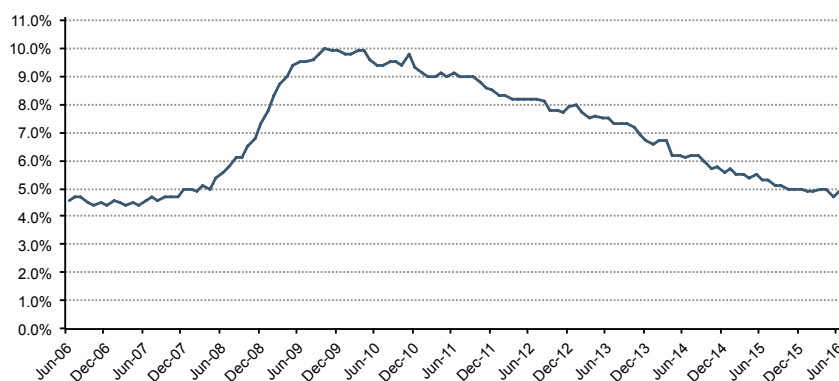
Unemployment and Payroll Jobs

According to the BLS, the unemployment rate was 4.9% in June 2016, compared to 5.0% and 4.7% in April and May, respectively. While unemployment has consistently fallen throughout the past several years, the labor force participation rate is lower relative to pre-recession levels with levels of 62.7% in June 2016. As job availability increases, the labor force participation may improve as individuals re enter the workforce. This, in turn, could lead to periodic increases in the unemployment rate even as the labor market improves. Economists anticipate an unemployment rate of 4.7% and 4.6% in December 2016 and June 2017, respectively.

Housing Market

Home building activity has 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 1,189,000 units in June 2016, 4.8% above the revised May rate but 2.0% below the June 2015 level. The seasonally adjusted annual rate of private housing units authorized by building permits was 1,153,000 units in June 2016, 1.5% above the revised May estimate but 13.6% below the June 2015 level.

Civilian Unemployment Rate

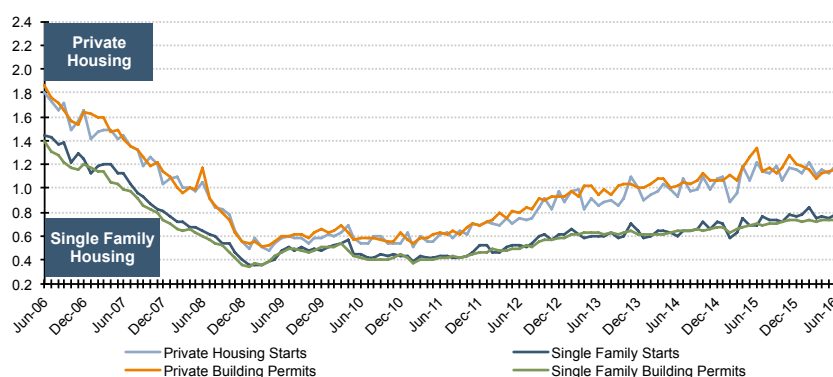


Source: Bureau of Labor Statistics

The number of nonfarm payroll jobs increased by 278,000 in June 2016. June's gain follows increases of 144,000 and 11,000 jobs in April and May, respectively. Economists anticipate payroll gains of approximately 165,000 jobs per month over the next year. Population growth adds approximately 118,000 individuals to the workforce per month.

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.

Benchmarking Data for Testing Laboratories

Benchmarking to peer performance is a valuable tool for business managers. In our valuation practice, we routinely examine peer data published by Risk Management Association ("RMA"). In this issue, we present a summary of the data presented by RMA for testing laboratories. The *2015-2016 Annual Statement Studies* published by RMA compiles average percentage income statements and balance sheets and key financial ratios of Testing Laboratories classified under the North American Industry Classification System ("NAICS") #54138. We compared three sales categories within this industry: \$5-10 million (48 companies), \$10-25 million (25 companies), and \$25 million and over (55 companies). The percentage balance sheet, percentage income statement, and selected financial ratios are summarized in the table to the right.

From a balance sheet perspective, the smaller companies carry larger debt balances (23% of total assets) than their larger peers (12% of total assets). The smaller firms tend to be more efficient with regard to asset utilization, generating sales of \$11.50 per dollar of fixed assets, compared to just \$6.50 for the larger companies. On a pre-tax basis, return on equity for the industry composites range from 20% to 30%, suggesting that tradenames, customer relationships and other intangible assets are important components of the value of such labs.

Peer Performance

Percentage Balance Sheets	Sales \$5-10M	Sales \$10-25M	Sales \$25M+
Total Current Assets	53.7%	54.6%	55.8%
Net Fixed Assets	31.3%	30.7%	27.4%
Other Assets	15.10%	14.70%	16.80%
Total Assets	100.0%	100.0%	100.0%
Total Current Liabilities	27.6%	24.0%	32.0%
Long-Term Debt	23.2%	12.2%	11.9%
Other Liabilities	5.3%	3.9%	5.1%
Total Liabilities	56.1%	40.1%	49.0%
Total Equity	43.9%	59.9%	51.0%
Total Liabilities & Equity	100.0%	100.0%	100.0%

Percentage Income Statements	Sales \$5-10M	Sales \$10-25M	Sales \$25M+
Operating Income	10.3%	8.6%	9.6%
Other Income/(Expense)	-1.5%	0.1%	-1.5%
Pre-Tax Income	8.8%	8.7%	8.1%
+ Depreciation & Amortization	1.5%	1.5%	1.2%
EBITDA	10.3%	10.2%	9.3%

Ratio Analysis	Sales \$5-10M	Sales \$10-25M	Sales \$25M+
Sales/Receivables	7.4	6.8	5.5
Sales/Working Capital	9.9	6.7	7.3
Sales/Net Fixed Assets	11.5	6.3	6.5
Pre-tax Return on Equity	20.5%	28.2%	29.6%

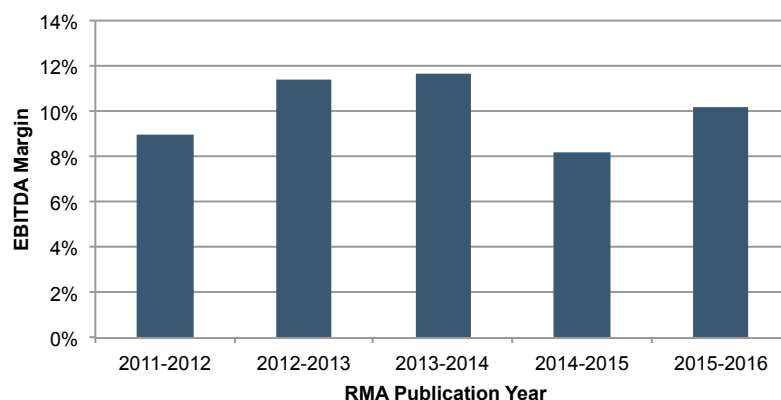
Source: 2015-2016 RMA Annual Statement Studies

Benchmarking Data for Testing Laboratories (continued)

The chart at right summarizes EBITDA margin by year for the middle size cohort. Over the period analyzed, margins have fluctuated between 8.2% and 11.7%.

The peer group data from RMA can help lab managers benchmark their operations against a diverse group of other labs and help identify opportunities for improvement.

EBITDA Margins



Note - NAICS 541380 (Sales of \$10-25 million)

Source: 2015-2016 RMA Annual Statement Studies

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 Calhoun, CPA/ABV

901.322.9761

calhounk@mercercapital.com

MERCER CAPITAL

Memphis

5100 Poplar Avenue, Suite 2600

Memphis, Tennessee 38137

901.685.2120

Nashville

102 Woodmont Blvd., Suite 231

Nashville, Tennessee 37205

615.345.0350

Dallas

12201 Merit Drive, Suite 480

Dallas, Texas 75251

214.468.8400

www.mercercapital.com