

VALUE FOCUS

Laboratory Services Industry



Year-End 2015

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 2.3% 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 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

Benchmarking Data for Testing Laboratories	1
Industry Specific Macroeconomic Overview	3
M&A Transactions	5
Guideline Company Pricing	9
Valuation Trends	10
Macroeconomic Overview	12
About Mercer Capital	15

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%

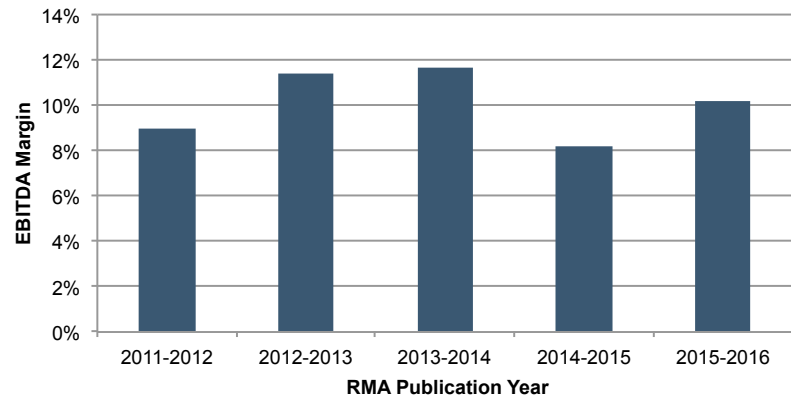
Source: 2015-2016 RMA Annual Statement Studies

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



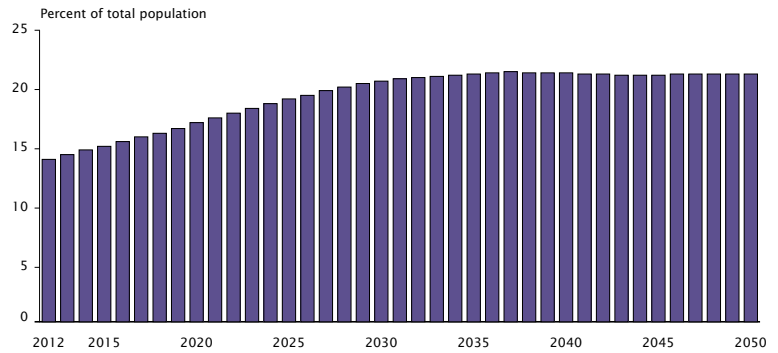
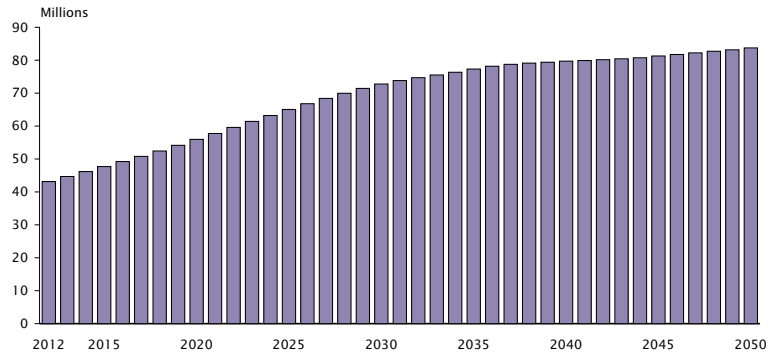
Note - NAICS 541380 (Sales of \$10-25 million)
 Source: 2015-2016 RMA Annual Statement Studies

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 43 million persons, or approximately 14% of the U.S. population in 2012. 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 between 2012 and 2050 (in millions as well as a percentage of total population).

Population Aged 65 and Over for the United States: 2012 to 2050



Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections.

Industry Specific Macroeconomic Overview (continued)

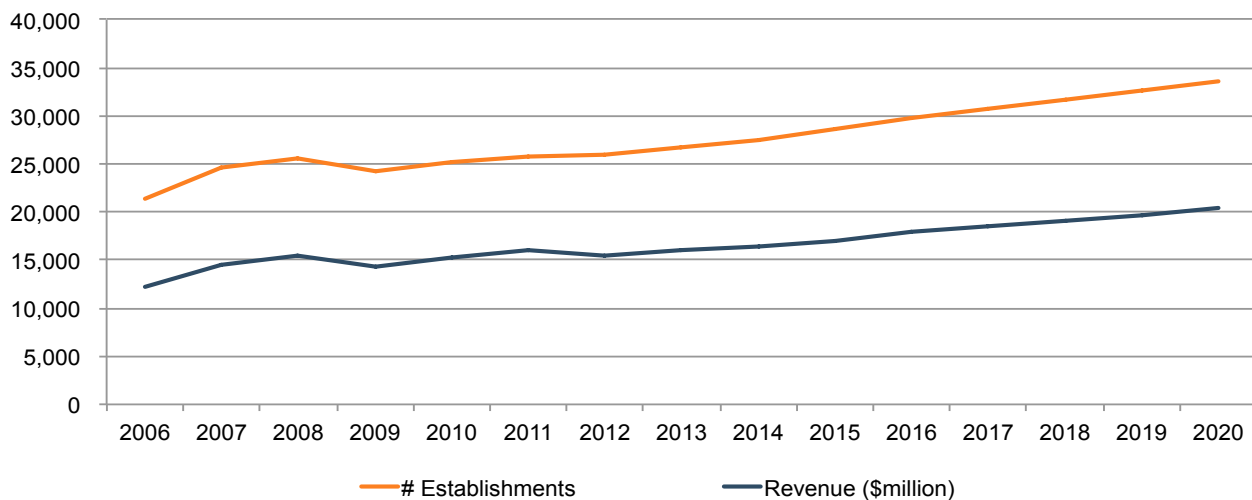
Revenue & Industry Structure

According to IBIS World, the Lab Services industry has seen revenue increase at an average annual rate of 2.3% between 2010 and 2015. The industry is expected to grow at an average annual rate of 2.3% 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. The Environmental Protection Agency (EPA) has responded to this and is expected to issue final regulations this year. As this

industry is impacted by the general economy, testing laboratories have benefited from economic growth through increased research and development (R&D) spending, which has in turn become the primary driver of industry 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 3.2% between 2010 and 2015 and is expected to experience continued stable compounded annual growth rate of 3.0% 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]
07/02/2015	Emerging Fuels Technology, Inc.	Private Placement	Closed	0.556	-	-	United States and Canada	-	Emerging Fuels Technology, Inc. provides catalyst development research services and related synthesis gas and hydroprocessing chemistry. It offers catalyst development and testing, analytical, hydroprocessing/hydrotreating and sample handling, engineering, and consulting services. The Company was founded in 2008 and is based in Tulsa, Oklahoma.
07/07/2015	Spectrum Analytical, Inc.	Merger/ Acquisition	Closed	5.0	-	Eurofins Scientific, Inc.	United States and Canada	United States and Canada	Spectrum Analytical, Inc., an environmental testing laboratory, engages in the performance of organic, inorganic, wet chemistry, and microbiological testing in various matrices. The company serves consulting companies, industries, municipalities, universities, and the public sector. Spectrum Analytical, Inc. was founded in 1990 and is based in Agawam, Massachusetts.
07/23/2015	Signal Bay, Inc. (OTCPK:SGBY)	Private Placement	Announced	0.075	0.125	St. George Investments, LLC	United States and Canada	United States and 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.
07/31/2015	Signal Bay, Inc. (OTCPK:SGBY)	Private Placement	Closed	1.0	0.125	Kodiak Capital Group LLC	United States and Canada	United States and 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.
08/11/2015	Qualtest, Inc.	Merger/ Acquisition	Closed	-	4.8	National Technical Systems Inc.	United States and Canada	United States and Canada	Qualtest, Inc. provides testing laboratory services to aerospace, defense, military, medical, and other commercial industries. The company was founded in 1986 and is based in Orlando, Florida. As of August 11, 2015, Qualtest, Inc. operates as a subsidiary of National Technical Systems Inc.
08/17/2015	THELEN ASSOCIATES, INC.	Merger/ Acquisition	Closed	-	16.5	Geotechnology, Inc.	United States and Canada	United States and Canada	THELEN ASSOCIATES, INC. provides geotechnical-testing engineering and construction materials testing services. The company was founded in 1971 and is based in Erlanger, Kentucky, with locations in St. Louis, Missouri; Erlanger and Lexington, Kentucky; Memphis, Tennessee; Overland Park, Kansas; Fairview Heights, Illinois; Cincinnati and Dayton, Ohio; Oxford, Mississippi; and Jonesboro, Arkansas. As of August 17, 2015, THELEN ASSOCIATES, INC. operates as a subsidiary of Geotechnology, Inc.
09/21/2015	CR Labs, Inc.	Merger/ Acquisition	Closed	0.439	0.098	Signal Bay, Inc. (OTCPK:SGBY)	United States and Canada	United States and Canada	CR Labs, Inc., a marijuana testing laboratory, provides marijuana compliance testing services to the cannabis industry. The company was founded in 2014 and is based in Bend, Oregon. As of September 18, 2015, CR Labs, Inc. operates as a subsidiary of Signal Bay, Inc.

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]
09/28/2015	Apex Geoscience Inc.	Merger/ Acquisition	Closed	-	30.1	Braun Intertec Corporation	United States and Canada	United States and Canada	Apex Geoscience Inc. provides testing laboratory, and geotechnical and environmental consulting services in the United States. The Company was founded in 1995 and is based in Tyler, Texas with additional offices in the Amarillo, Dallas-Fort Worth Metroplex, the Houston area, Longview, Lufkin, Oklahoma City, Paris, Texarkana, Tyler, and Wichita Falls, Texas. As of September 25, 2015, Apex Geoscience Inc. operates as a subsidiary of Braun Intertec Corporation.
11/13/2015	ATC Group Services, Inc.	Merger/ Acquisition	Closed	63.41	-	Bernhard Capital Partners Management LP	United States and Canada	United States and Canada	ATC Group Services, Inc. operates as an environmental consulting, engineering, and testing company. It serves clients in petroleum, real estate, retail, manufacturing, financial services, insurance, construction, telecommunication, education government, and hospitality industries in the United States and internationally. The company was founded in 1982 and is based in Lafayette, Louisiana with additional offices in the United States. ATC Group Services, Inc. is a former subsidiary of Cardno USA, Inc.
11/16/2015	Lawrence Ripak Co., Inc. and Ripak Aerospace Processing LLC	Merger/ Acquisition	Closed	23.7	-	Magellan Aerospace Processing Long Island Inc.	United States and Canada	United States and Canada	Lawrence Ripak Co., Inc. and Ripak Aerospace Processing LLC represents the combined operations of Lawrence Ripak Co., Inc. and Ripak Aerospace Processing LLC in their sale to Magellan Aerospace Processing Long Island Inc. As of November 16, 2015, Lawrence Ripak Co., Inc. and Ripak Aerospace Processing LLC were acquired by Magellan Aerospace Processing Long Island Inc. Lawrence Ripak Co., Inc. and Ripak Aerospace Processing LLC provide nondestructive testing and metal finishing services. The companies are based in West Babylon, New York.
12/02/2015	Emerging Fuels Technology, Inc.	Private Placement	Closed	3.0	-	-	United States and Canada	-	Emerging Fuels Technology, Inc. provides catalyst development research services and related synthesis gas and hydroprocessing chemistry. It offers catalyst development and testing, analytical, hydroprocessing/hydrotreating and sample handling, engineering, and consulting services. The company was founded in 2008 and is based in Tulsa, Oklahoma.
12/15/2015	Whitehouse Laboratories, Inc.	Merger/ Acquisition	Closed	56.0	-	Albany Molecular Research Inc. (NasdaqGS:AMRI)	United States and Canada	United States and Canada	Whitehouse Laboratories, Inc. provides analytical laboratory testing services for materials, finished products, containers, and package systems. It serves pharmaceutical, medical device, and personal and consumer product manufacturing companies in the United States and internationally. The company was founded in 2002 and is based in Lebanon, New Jersey. As of December 15, 2015, Whitehouse Laboratories, Inc. operates as a subsidiary of Albany Molecular Research Inc.

Transaction Discussion

As noted in the transactions tables on the previous pages, the two largest acquisitions reported during the second half of 2015 were **Bernhard Capital Partners Management LP** purchase of **ATC Group Services, Inc.** (\$63.4 million transaction value) and **Albany Molecular Research Inc.** purchase of **Whitehouse Laboratories, Inc.** (\$56.0 million transaction value).

The joining of **Bernhard Capital Partners Management LP** with **ATC Group Services, Inc.** will enhance the partnership's experience within the environmental services market, and the companies expect steady forecasted growth. Financial details of the deal have not yet been disclosed.

Albany Molecular Research Inc. ("AMRI") acquired 100% equity interest of **Whitehouse Laboratories, Inc.** ("Whitehouse") for total consideration of \$54.0 million cash and an additional \$2.0 million in

AMRI common stock shares contingent upon Whitehouse meeting 2015 targets. As Whitehouse Laboratories specializes in testing services including chemical and material analysis, the acquisition will augment AMRI's discovery, development, and manufacturing services. Historical financial results for Whitehouse are summarized below.

Whitehouse is a highly profitable (EBITDA margins in excess of 50%) and fast-growing (25% year-over-year revenue growth in 2015) specialty lab. If the maximum earnout payment is made, the total purchase price represents 10.5x EBITDA for the twelve months ended September 30, 2015. While no earnings estimates for 2016 are available, recent growth suggests that the multiple of forward EBITDA is likely lower than the trailing multiple. This transaction is a great example of the importance of profitability and earnings growth to the value of a specialty lab. See the table below.

Historical Financials for Whitehouse Laboratories, Inc.

	LTM Sept-15	Fiscal 2014	9 mos. Sept-15	9 mos. Sept-14	Y-o-Y Growth
Revenue	\$10,013.8	\$8,417.3	\$7,910.3	\$6,313.7	25.3%
Cost of Revenue	3,788.2	3,160.8	2,822.8	2,195.4	28.6%
Selling, General & Admin	1,040.7	909.4	763.6	632.3	20.8%
Operating Income	\$5,185.0	\$4,347.1	\$4,323.9	\$3,486.0	24.0%
Depreciation & Amortization	173.0	134.8	115.5	77.3	49.4%
EBITDA	\$5,358.0	\$4,482.0	\$4,439.4	\$3,563.4	24.6%
Revenue	100.0%	100.0%	100.0%	100.0%	
Cost of Revenue	37.8%	37.6%	35.7%	34.8%	
Selling, General & Admin	10.4%	10.8%	9.7%	10.0%	
Operating Income	51.8%	51.6%	54.7%	55.2%	
Depreciation & Amortization	1.7%	1.6%	1.5%	1.2%	
EBITDA	53.5%	53.2%	56.1%	56.4%	

Source: AMRI SEC filings

Transaction Discussion (continued)

Historical Financials for Bio-Reference Laboratories

	LTM Apr-15	Fiscal 2014	9 mos. Apr-15	9 mos. Apr-14	Y-o-Y Growth
Revenue	\$882.5	\$832.3	\$432.8	\$382.6	13.1%
Cost of Revenue	484.4	462.3	244.1	221.9	10.0%
Selling, General & Admin	308.5	286.6	157.9	135.9	16.1%
Operating Income	\$89.5	\$83.4	\$30.9	\$24.8	24.6%
Depreciation & Amortization	6.1	5.6	3.2	2.7	17.6%
EBITDA	\$95.6	\$89.1	\$34.0	\$27.5	23.9%
Revenue	100.0%	100.0%	100.0%	100.0%	
Cost of Revenue	54.9%	55.5%	56.4%	58.0%	
Selling, General & Admin	35.0%	34.4%	36.5%	35.5%	
Operating Income	10.1%	10.0%	7.1%	6.5%	
Depreciation & Amortization	0.7%	0.7%	0.7%	0.7%	
EBITDA	10.8%	10.7%	7.9%	7.2%	

Source: BRLI SEC filings

During August 2015, **OPKO Health, Inc.** ("OPK") closed on its merger with **Bio-Reference Laboratories** ("BRLI"). The merger transaction, which was announced in June, was unusual in that the acquirer, OPK, was much smaller, in terms of revenue, than BRLI. Prior to the merger, OPK was focused on the urological market, known for a next-generation prostate test (4Kscore) and a point-of-care diagnostic test for PSA. BRLI is the third-largest full service clinical laboratory in the US. Among the stated goals of the transaction is enhancing sales of laboratory testing for prostate cancer, as well as additional OPKO diagnostic products currently in research and development. The market's response to the announcement was tepid, and the nominal value of the stock-for-stock deal fell over 50% from announcement through the closing date. As shown in the table at right, the implied transaction value fell from 15.8x trailing twelve month EBITDA at announcement to 10.3x at closing.

Implied Value of OPK Transaction

	Announce	Close
OPK Shares Issued	76.6	76.6
times: Share Price	\$19.12	\$12.38
Equity Purchase Price	\$1,463.9	\$947.9
plus: Net Debt	46.4	39.8
Aggregate Purchase Price	\$1,510.3	\$987.7
Multiple of LTM Revenue	1.7x	1.1x
Multiple of LTM EBITDA	15.8x	10.3x

Source: BRLI SEC filings

Guideline Company Pricing

Selected Financial Data

\$Millions, as of December 31, 2015

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	8,680.1	1,460.5	16.8%	12,524.7	1.4	8.6
<i>Clinical laboratory company serving the medical profession</i>								
Quest Diagnostics Inc	DGX	New York	7,493.0	1,703.0	22.7%	10,116.3	1.4	5.9
<i>Provides diagnostic testing information services</i>								
Life Sciences Tools & Services								
Waters Corp	WAT	New York	2,042.3	657.4	32.2%	10,964.5	5.4	16.7
<i>Provides liquid chromatography products & services for pharm, chemicals, & environmental</i>								
Agilent Technologies Inc	A	New York	4,038.0	775.0	19.2%	13,880.9	3.4	17.9
<i>Provides bio-analytical and electronic measurement solutions and services</i>								
PerkinElmer Inc	PKI	New York	2,262.6	356.0	15.7%	5,986.1	2.6	16.8
<i>Provides products, services, and solutions to diagnostics, research, environmental, industrial and lab services</i>								
Thermo Fisher Scientific Inc	TMO	New York	16,965.4	4,024.4	23.7%	56,687.5	3.3	14.1
<i>Provides analytical instruments, equipment, reagents and consumables, software, and services</i>								
Environmental & Facilities Services								
Republic Services Inc	RSG	New York	9,115.0	2,608.8	28.6%	15,202.9	1.7	5.8
<i>Provides non-hazardous solid waste collection, transfer, and recycling and disposal services</i>								
Stericycle Inc	SRCL	NASDAQ GS	2,985.9	615.0	20.6%	10,249.2	3.4	16.7
<i>Provides regulated and compliance solutions to the healthcare and commercial businesses</i>								
Waste Management Inc	WM	New York	12,961.0	3,290.0	25.4%	23,865.8	1.8	7.3
<i>Provides waste management environmental services</i>								
Other Labs & Related Services								
Danaher Corp	DHR	New York	20,908.6	4,536.2	21.7%	63,790.0	3.1	14.1
<i>Provides environmental, life sciences, & industrial technologies services to medical, industrial and commercial</i>								
Ecology and Environment Inc	EI	NASDAQ GM	123.6	9.8	7.9%	43.9	0.4	4.5
<i>Environmental consulting firm</i>								
IDEXX Laboratories Inc	IDXX	NASDAQ GS	1,601.9	368.9	23.0%	6,562.4	4.1	17.8
<i>Provides diagnostic, detection, and information systems for veterinary, food, and water testing</i>								
Clean Harbors Inc	CLH	New York	3,275.1	461.8	14.1%	2,398.5	0.7	5.2
<i>Provides a variety of environmental remediation and industrial waste management services</i>								
Average (of above)			7,111.7	1,605.1	20.9%	17,867.1	2.5	11.6
Median (of above)			4,038.0	775.0	21.7%	10,964.5	2.6	14.1

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 increased from 12.1x to 14.1x during 4Q15, primarily as a result of multiple expansion among medical testing labs and life sciences tools & services companies. Companies focused on the life sciences tools and services garner the highest multiple (median of 15.9x) on the strength of more robust growth expectations.

Historical Valuation Trends for Guideline Comparable Companies

Enterprise Value/LTM EBITDA Multiple

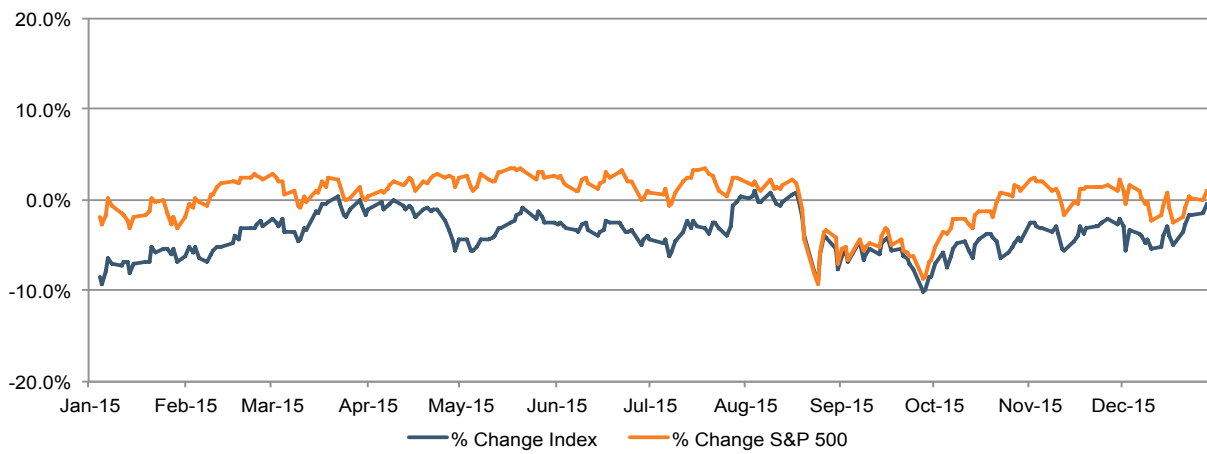
Company Name	12/31/15	9/30/15	6/30/15	3/31/15	12/31/14	9/30/14	6/30/14	3/31/14	12/31/13
Medical Testing Labs									
Laboratory Corp of America Holdings	8.6	7.9	9.7	9.2	10.6	10.1	10.2	9.7	8.9
Quest Diagnostics Inc	5.9	5.1	7.7	8.5	10.4	9.7	9.8	9.6	8.5
Life Sciences Tools & Services									
Waters Corp	16.7	15.0	16.4	16.9	17.5	15.7	17.2	18.2	16.4
Agilent Technologies Inc	17.9	12.1	13.6	12.9	13.5	11.9	12.3	12.0	12.3
PerkinElmer Inc	16.8	14.4	17.5	17.5	15.0	14.5	15.8	16.5	15.8
Thermo Fisher Scientific Inc	14.1	12.3	12.7	12.8	16.9	17.0	18.6	20.3	19.4
Environmental & Facilities Services									
Republic Services Inc	5.8	5.9	5.9	6.4	8.7	8.5	8.5	8.7	8.7
Stericycle Inc	16.7	20.3	18.2	18.0	19.5	17.9	18.2	17.6	18.2
Waste Management Inc	7.3	6.2	6.0	6.9	13.7	13.0	12.2	11.9	12.7
Other Labs & Related Services									
Danaher Corp	14.1	13.3	15.6	13.7	14.5	12.9	13.3	13.2	13.7
Ecology and Environment Inc	4.5	5.4	6.3	8.4	11.3	12.0	nm	nm	27.0
IDEXX Laboratories Inc	17.8	20.3	17.9	22.9	22.9	18.6	21.7	20.3	18.4
Clean Harbors Inc	5.2	5.1	8.7	8.6	11.2	12.2	10.5	9.7	10.4
Average (of above)	11.6	11.0	12.0	12.5	14.3	13.4	14.0	14.0	14.6
Median (of above)	14.1	12.1	12.7	12.8	13.7	12.9	12.8	12.6	13.7

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. Shares of lab services and related companies trailed the broader equity markets throughout much of the second half of 2015, although the sector's relative performance recovered by the end of the year.

Historical Market Trends

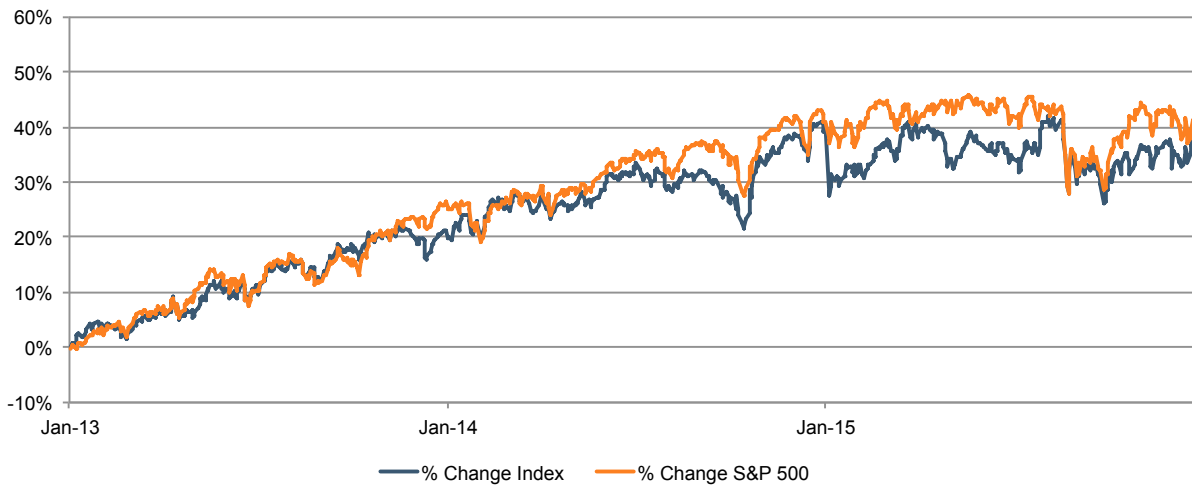
LTM



Source: Bloomberg

Historical Market Trends

Last 3 Years



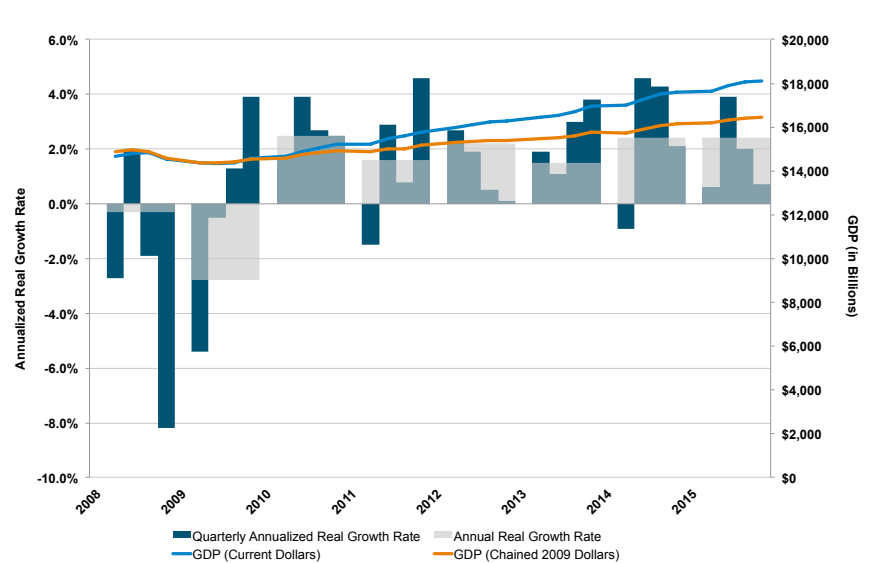
Source: Bloomberg

Macroeconomic Overview

Gross Domestic Product

According to advance estimates released by the Department of Commerce's Bureau of Economic Analysis (BEA), Real Gross Domestic Product (GDP), the output of goods and services produced by labor and property located in the United States, increased at an annualized rate of 0.7% during the fourth quarter of 2015. The increase was attributable to gains in personal consumption expenditures, residential fixed investment, and federal government spending. Private inventory investment, exports, and nonresidential fixed investment decreased. Imports (which are subtracted from the national income and product accounts used in the calculation of GDP) increased.

Gross Domestic Product

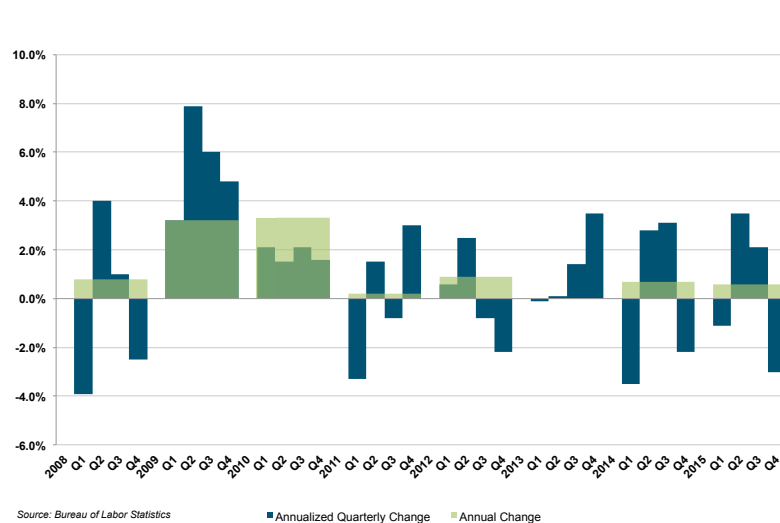


Source: Bureau of Economic Analysis

Business & Manufacturing Productivity

According to the Bureau of Labor Statistics (BLS), seasonally adjusted nonfarm business productivity decreased at an annual rate of 3.0% in the fourth quarter of 2015. The decrease was a function of relatively flat output growth combined with an increase of 3.3% in hours worked. Hourly compensation, real hourly compensation, and unit labor costs also experienced increases. The productivity decrease in the fourth quarter follows increases of 3.5% and 2.1% in the second and third quarters, respectively. Annual average productivity increased 0.3% in the fourth quarter of 2015 relative to the fourth quarter of 2014.

Change in Nonfarm Business Productivity



Source: Bureau of Labor Statistics

Productivity decreased 2.7% for the business sector (inclusive of farming activity) in the fourth quarter of 2015. This was the result of a 3.4% increase in hours worked and a 0.6% increase in output. Manufacturing productivity, generally more volatile in its quarterly mea-

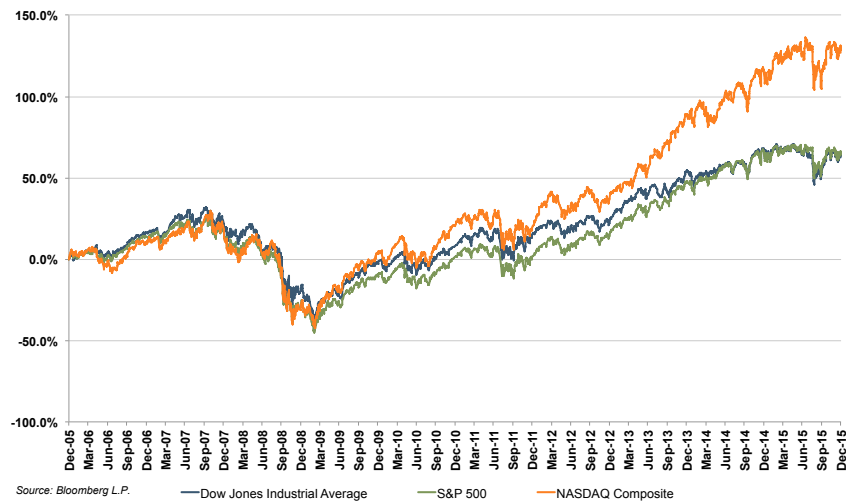
asures, decreased 0.4% during the quarter. In the second quarter of 2015, BLS issued revised productivity measures for all periods since 2010, reflecting revisions in source data, which resulted in weaker productivity growth than previously thought.

Macroeconomic Overview (continued)

The Financial Markets

December 2015 marked the end of a volatile year in the financial markets. After losses in the third quarter, four major indices exhibited growth during the fourth quarter of 2015. Most Treasury yields improved during the quarter, due largely to the actions of the Federal Reserve. The Dow Jones Industrial Average ended the fourth quarter of 2015 up 7.0% for the quarter, though down 2.2% during 2015. The S&P 500 Index also increased 6.5% during the fourth quarter and down 0.7% in 2015. The NASDAQ Composite Index rose 8.4% during the fourth, and overall, rose 5.7% during 2015. The following chart shows the relative price performance of the Dow Jones Industrial Average, S&P 500, and NASDAQ Composite Indices.

Equity Index Price Return

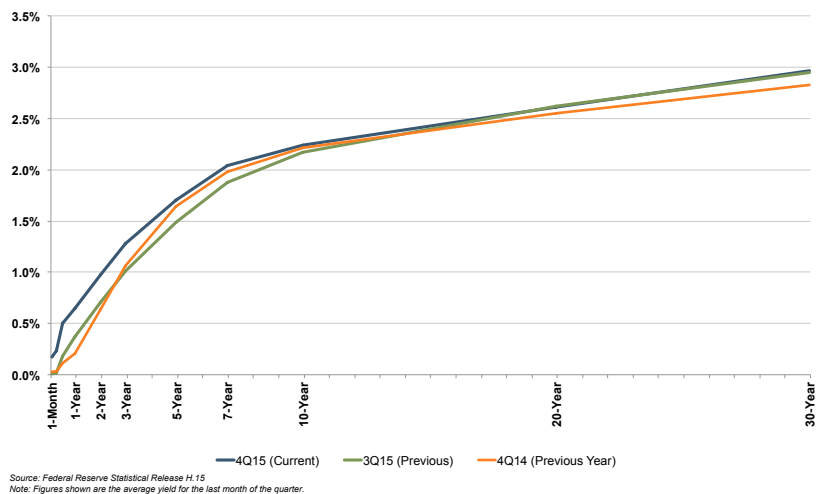


Yield Curve

Driven by higher interest rates, bond yields either rose or remained constant throughout the fourth quarter of 2015. 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.

U.S. Treasury Yield Curve

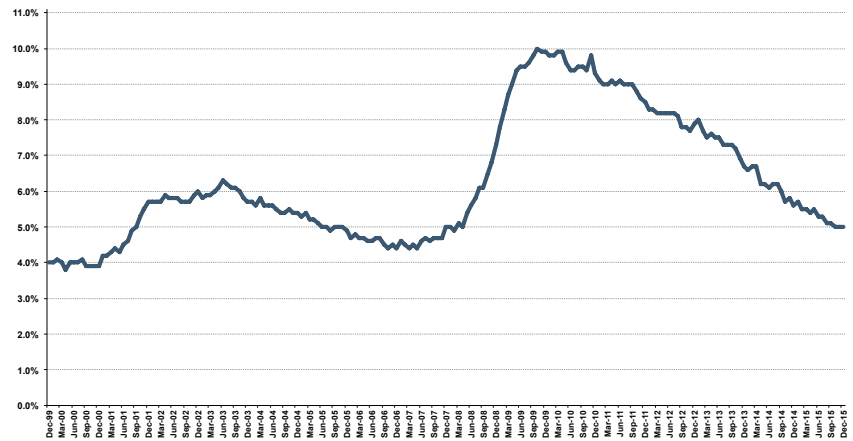


Macroeconomic Overview (continued)

Unemployment and Payroll Jobs

According to the BLS, the unemployment rate was 5.0% in December 2015, unchanged from October and November. Unemployment rates increased steadily throughout 2008 and into 2009, peaking at 10% in October 2009. The October 2009 unemployment rate represented the highest level since 1983. Pre-recession unemployment levels were reached in December 2014. While unemployment has consistently fallen throughout the past several years, the labor force participation rate is also lower relative to pre-recession levels. In December 2015, the labor force participation rate stood at 62.6% (relative to mid- to high- 60s prior to the recession). The labor force participation rate in the third quarter was generally lower than the rate in the second quarter of 2015. Excluding the recent trend, the last time the labor force participation rate was lower than its current level was 1977. As job availability increases the labor force could increase due to individuals re-entering the workforce, which could lead to periodic increases in the unemployment rate in the foreseeable future. Economists surveyed

Civilian Unemployment Rate



Source: Bureau of Labor Statistics

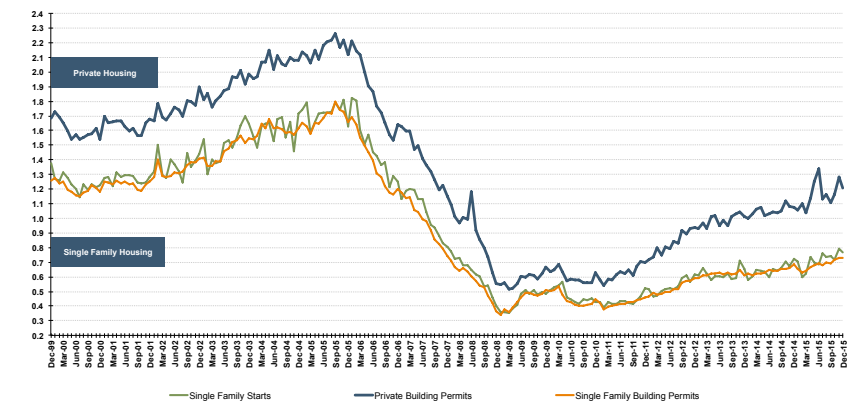
by *The Wall Street Journal* anticipate an unemployment rate of 4.8% by mid-2016 and a further decline to 4.7% by December 2016. The number of nonfarm payroll jobs increased by 292,000 in December 2015. December's gain follows increases of 307,000 and 252,000 jobs in October and November, respectively. During 2008 and 2009, the economy lost nearly 8.7 million nonfarm payroll jobs. Experts believe the economy is still short nearly 2.7 million jobs. Economists surveyed by *The Wall Street Journal* anticipate payroll gains of approximately 191,000 jobs per month over the next year. Population growth adds approximately 102,000 individuals to the workforce per month.

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 1,149,000 units in December 2015, 2.5% below the revised November rate of 1,179,000 units but 6.4% above the December 2014 level. The seasonally adjusted annual rate of private housing units authorized by building permits (considered the best indicator of future housing starts) was 1,232,000 units in December 2015, 3.9% below the revised November estimate of 1,282,000 but 14.4% above the December 2014 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.

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

Dallas
12201 Merit Drive, Suite 480
Dallas, Texas 75251
214.468.8400

Nashville
102 Woodmont Blvd., Suite 231
Nashville, Tennessee 37205
615.345.0350

www.mercercapital.com