



SURVEY RESULTS

Are Hospital Laboratory Outreach Programs For Sale?



Health Care Development Services, Inc.

Hospital Laboratory Strategic Planning Since 1981

3100 DUNDEE ROAD, SUITE 116 • NORTHBROOK, IL 60062 • PHONE 847-498-1122 • FAX: 847-498-3264

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**Are Hospital Laboratory
Outreach Programs For Sale?**

**Survey of Hospital
Executives'
Views of Mergers and
Acquisitions of
Hospital - Based
Laboratory
Outreach Programs**

Survey Focus

- **Outreach Program Profitability**
- **Awareness of Recent Merger and Acquisition Activities**
- **Interest in Merging or Selling Laboratory Outreach Programs**
- **Partners and Buyers**
- **Reasons to Consider Merging or Selling Outreach Programs**
- **Potential Outcomes of Current M & A Discussions**

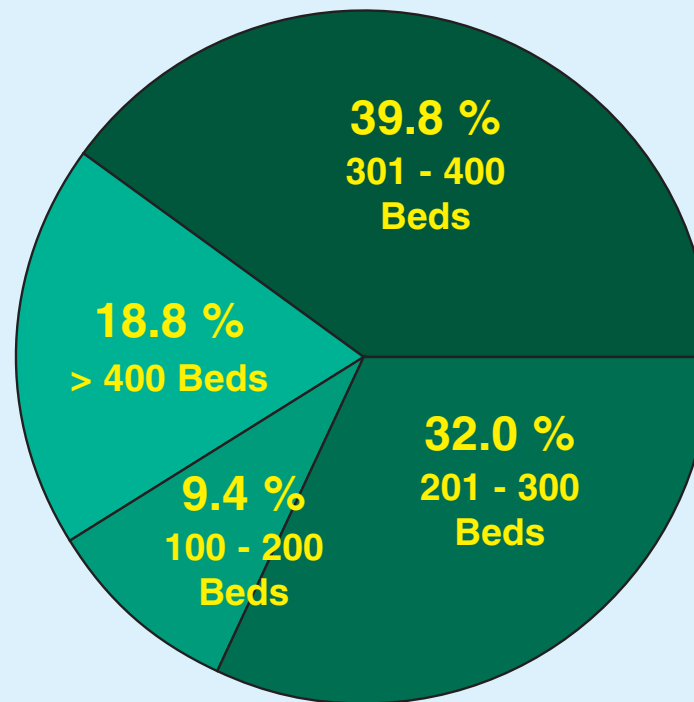


**Are Hospital Laboratory
Outreach Programs For Sale?**

**181 Survey
Responses Were
Received From
Mostly Mid-size
and Large Hospitals**

Table 1

RESPONSES BY HOSPITAL BED SIZE



**Are Hospital Laboratory
Outreach Programs For Sale?**

**Hospitals
Represented in the
Survey are Spread
Across the Country**

Table 2

GEOGRAPHIC DISTRIBUTION OF SURVEY RESPONDENTS

<u>Area</u>	<u>Respondents</u>
New England	10.5 %
East North Central	14.5 %
West North Central	17.1 %
Middle Atlantic	7.7 %
South Atlantic	15.5 %
East South Central	9.4 %
West South Central	9.4 %
Mountain	3.2 %
Pacific	12.7 %

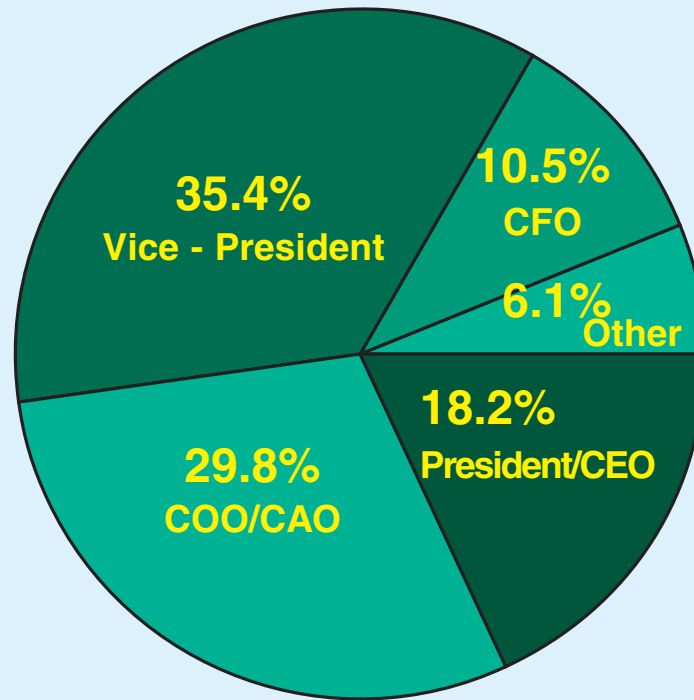


**Are Hospital Laboratory
Outreach Programs For Sale?**

**Survey
Respondents
Represent Mostly Senior
Hospital and Healthcare
System Executives**

Table 3

SURVEY RESPONDENTS BY JOB TITLE

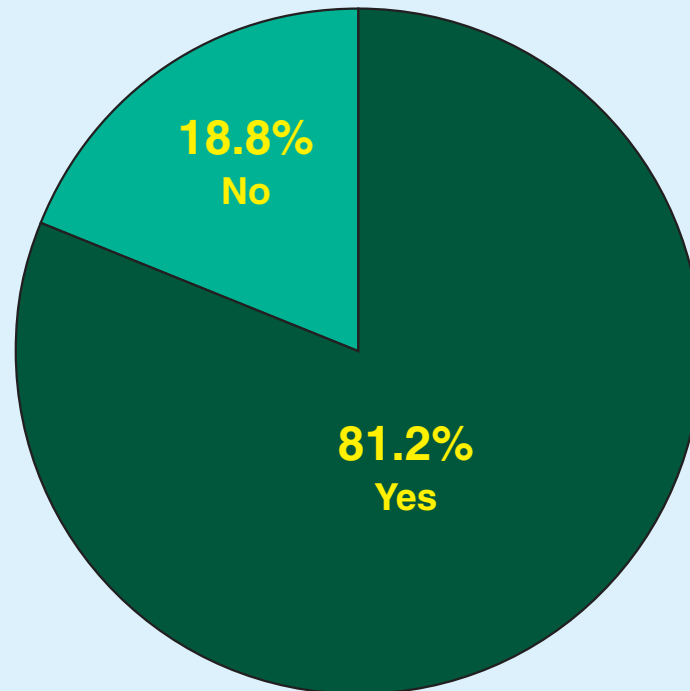


Are Hospital Laboratory Outreach Programs For Sale?

The Majority of Respondents' Hospitals Operate Laboratory Outreach Programs

Table 4

DOES YOUR INSTITUTION OPERATE A LABORATORY OUTREACH PROGRAM?

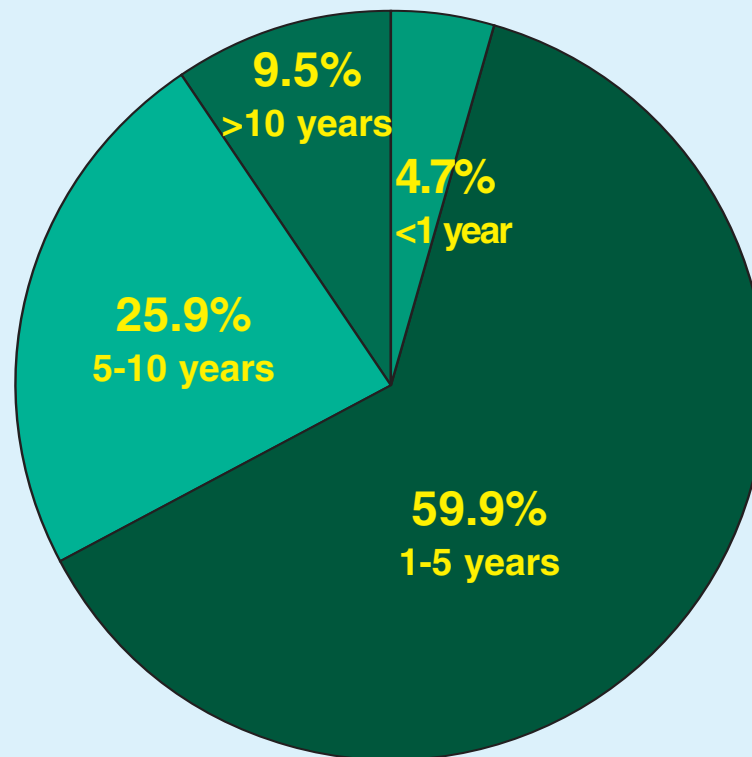


Are Hospital Laboratory Outreach Programs For Sale?

Most Respondents Have Operated Laboratory Outreach Programs for at Least 1-5 Years

Table 5

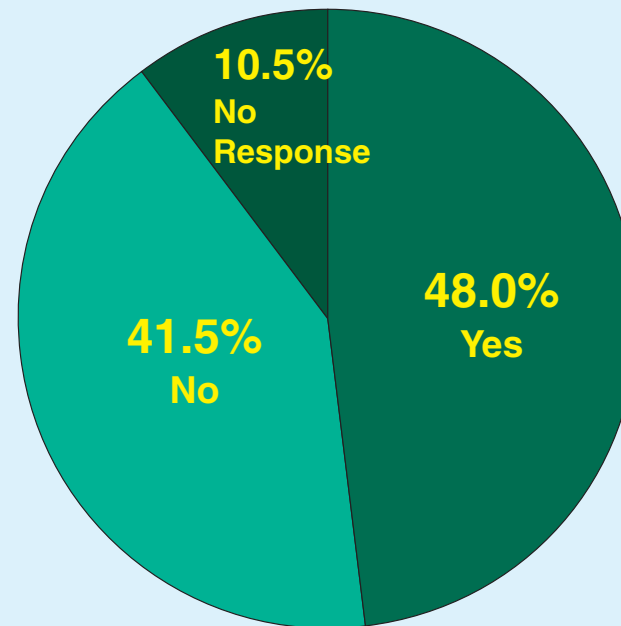
HOW LONG HAS YOUR LABORATORY OUTREACH PROGRAM BEEN IN OPERATION?



Are Hospital Laboratory Outreach Programs For Sale?

Has Your Institution Validated Outreach Program Profitability?

Table 6



COMMENTS:

Less than half of survey respondents with laboratory outreach programs have validated program profitability. Many respondents indicated their hospital did not have the necessary software for financial management.



Are Hospital Laboratory Outreach Programs For Sale?

Most Laboratory Outreach Program Operating Margins Range From 10% to 30% of Net Revenue

Table 7

<u>Operating Margin as % of Net Revenue</u>	<u>% Respondents</u>
0-10 %	29.6 %
11-20 %	36.6 %
21-30 %	23.9 %
> 31 %	9.9 %

COMMENTS:

More than half of the respondents report operating margins of less than 20 %. Many respondents indicated that estimates of operating margins are *not* based on detailed financial information.

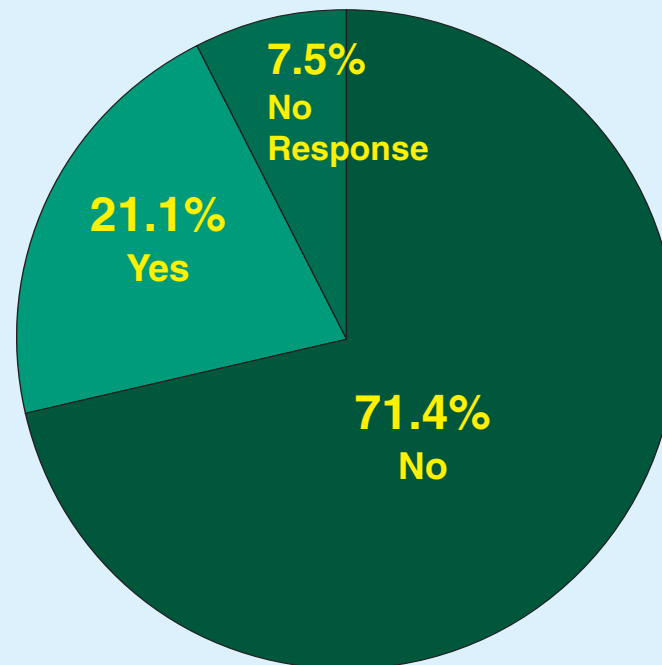


Are Hospital Laboratory Outreach Programs For Sale?

The Majority of Hospital Executives are not Aware of Mergers and Acquisitions of Hospital-based Laboratory Outreach Programs.

Table 8

AWARE OF MERGER AND ACQUISITION ACTIVITIES



COMMENTS :

Except for several laboratory industry newsletters, there has been very little health care industry coverage of laboratory outreach program merger and acquisition activity.

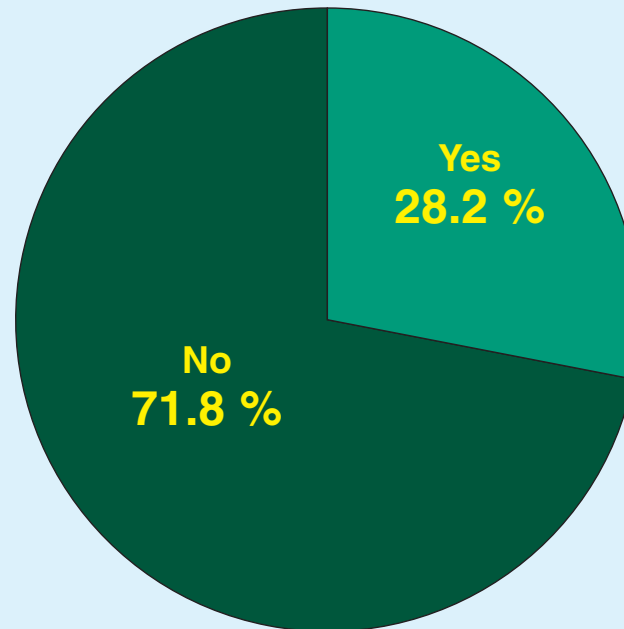


Are Hospital Laboratory Outreach Programs For Sale?

**Most Survey Respondents
Have not Been
Approached to Sell or
Merge Their Laboratory
Outreach Programs**

Table 9

*HAS YOUR HOSPITAL/HEALTHCARE SYSTEM BEEN
APPROACHED TO EITHER SELL OR MERGE ITS
LABORATORY OUTREACH PROGRAM?*



Are Hospital Laboratory Outreach Programs For Sale?

Of the Hospitals and Healthcare Systems Approached to Either Sell or Merge Their Lab Outreach Programs, Most are Greater Than 300 Beds

Table 10

*INSTITUTIONS APPROACHED TO SELL OR MERGE
THEIR LABORATORY OUTREACH PROGRAMS*

<u>Bed Size</u>	<u>Approach to Sell or Merge Laboratory Outreach Programs</u>
100 - 200	3.9 %
201 - 300	17.6 %
301 - 400	56.9 %
> 400	21.6 %



Are Hospital Laboratory Outreach Programs For Sale?

COO's and VP's Represent Hospital and Healthcare Systems in Preliminary M & A Discussions

Table 11

HOSPITAL OR HEALTHCARE SYSTEM REPRESENTATION

<u>Title</u>	<u>Institution Representation</u>
President/CEO	7.8 %
COO/CAO	64.7 %
Vice - President	23.5 %
CFO	4.0 %

COMMENTS :

Hospital or healthcare system COO's or CAO's are clearly the contact point for M & A activity.



Are Hospital Laboratory Outreach Programs For Sale?

Merge vs Sell Strategies Mostly Fall Along Expected Approaches

Table 12

M & A STRATEGIES

<u>Organization Type</u>	<u>Merge</u>	<u>Sell</u>	<u>Too Early To Tell</u>
Commercial Laboratory	67 %	19 %	14 %
Venture Capital Firm	NA	74 %	26 %
Other Healthcare Systems	78 %	0 %	22 %

COMMENTS :

Commercial Labs offer variety of “partnering” arrangements, while venture capital firms wants to acquire program assets.



**Are Hospital Laboratory
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**Infusion of Cash is
Number one
Reason for Considering
SALE
of Laboratory
Outreach Program**

Table 13

<u>Reason For Considering SALE</u>	<u>%</u>
Cash Infusion	40.0 %
Does Not Fit Mission	20.0 %
Management Difficulties	13.3 %
Regulatory Impact	6.7 %
Other	20.0 %



Are Hospital Laboratory Outreach Programs For Sale?

Expanded Markets and Economies of Scale are Primary Reasons for Considering Merger of Laboratory Outreach Programs

Table 14

<u>Reasons For Considering Merger</u>	<u>%</u>
Expand Markets	53.6 %
Take Advantage of Economies of Scale	32.1 %
Develop More Professional Program Management	7.1 %
Other	7.2 %

COMMENTS :

Even though lab consolidation activities have diminished during the past few years, the prospect for merging laboratory outreach programs may be an impetus for further lab consolidation.



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Most Survey Respondents Believe Merger or Sale of Laboratory Outreach Program Has Low Achievability

Table 15

<u>Strategy</u>	<u>Probability of Deal Completion</u>			
	<u>1 % - 25 %</u>	<u>26 % - 50%</u>	<u>51% - 75 %</u>	<u>76 % - 100 %</u>
Merger	25.0 %	60.7 %	10.7 %	3.6 %
Sale	60.0 %	26.6 %	13.4 %	0 %

COMMENTS :

While less than 15% of respondents considering merger or sale are optimistic about the deal being completed, it may be too early in the process to accurately predict the actual outcome.



Are Hospital Laboratory Outreach Programs For Sale?

Respondent Comments Ranged Over Many Issues

Respondent Comments Ranged Over Seven Issues

- Lab outreach program is key element in supporting medical staff
- Carve out contracts will influence decisions to merge or sell lab outreach program
- Long term impact hard to evaluate
- Venture capital firms are “coming out of the woodwork”
- Third party papers have national Labs in their pockets. Recent UHC RFP proves it!
- Profitability is very difficult to calculate
- Consulting firm objectivity called into question due to linkage to commercial, for-profit laboratory

