Diagnostic Lab Industry Overview

Shore Capital identified diagnostic labs as an attractive segment for investment in 2009

- Despite comprising only 2% of total healthcare spending, lab services are estimated to impact 70 – 80% of healthcare decisions and allow for the early detection of clinical issues, ultimately reducing healthcare spending through improved outcomes.
- Clinical pathology dominated by large industry competitors like Quest Diagnostics (“Quest”) and Laboratory Corporation of America (“LabCorp”), which are often characterized by less personalized service.
- Focus on Anatomic pathology (“AP”) due to industry fragmentation, “high touch” nature of services, above average historical growth, and opportunity for niche providers to compete with large national players.
- Incremental revenue is very accretive (i.e. low marginal cost).

Sources: Laboratory Economics, Company Information
Established Corporate Infrastructure for Growth

Shore developed a network of talented executives that each brought a unique set of skills to ClearPath Diagnostics

- At close, Shore invested in the corporate infrastructure necessary to scale the company and build a sales team to execute a geographic growth strategy

Pre-Close

Pathologists

Chief Operating Officer

Clinical Staff

Billing & Operations

Account Rep

Post-Close

ClearPath Board of Directors

SCP and Seller Partners

Independent Directors

SCP Directors

Seller Directors

James Forrest

Bob DeCresce

Kevin Johnson

Mike George

Jack Finn

CEO

Founding Pathologists

Michael Warner

COO

Support / IT / HR Team

Billing & Accounting

Bruce Bell

VP of Sales

Employee Pathologists

Eric Bettinger

CFO

Existing

New

Select Board Detail (2)

Bob DeCresce, MD

Director of Clinical Laboratories, Rush University Medical Center

- Clinical expertise
- Past private equity experience

Mike George

Former CEO, UroCor

- Compliance program
- Sales & Marketing
- New product introductions

Kevin Johnson

Former CEO, DIANON Systems

- Sales & marketing
- Building a salesforce
- Supporting transformational growth

(1) SCP Directors include Ryan Kelley, John Hennegan and Justin Ishbia.
(2) Figures illustrated as of respective transactions.
ClearPath emerged as one of the largest and fastest growing independent anatomic pathology laboratories in the Northeast

**Overview**
- Multi-specialty Anatomic pathology company with industry leading growth
- Five pathologists who have extensive experience in diagnostic pathology

**Services**
- Cytology
- Gynecological pathology
- Skin Pathology
- HPV
- Molecular Diagnostics
- Microbiological Analysis

**Diverse Services Support Geographic Growth**

**Revenue Growth**
- 210% Revenue Growth

**Expansion: Geographic & Test Menu**

**Geographic**
- 2011: City of Syracuse
- 2012: Binghamton, NY
- 2013: Lower Hudson, NE Pennsylvania
- 2014: Rochester, NY

**Test Menu**
- 2013: Dermatopathology and hospital services
- 2014: Expanded molecular testing
- 2015: STD testing initiative

**Added During Investment**
- Hired sales manager
- Wallet share initiative
- New pathologist with Rochester relationships
<table>
<thead>
<tr>
<th><strong>Laboratory Investment Thesis and Execution</strong></th>
<th><strong>At Acquisition</strong></th>
<th><strong>At Exit</strong></th>
</tr>
</thead>
</table>
| **Develop Infrastructure for Growth** | • Physician-practice led by three pathologists  
• COO oversaw employees, limited interaction with clients  
• 1 sales representative with limited oversight or support | • Hired growth-oriented CEO, CFO and VP of Sales to lead expansion  
• Added 8 experienced sales professionals  
• Hired new pathologists with geographic and clinical expertise  
• Launched customer service program with COO to touch the top 50 accounts every quarter |
| **Expand Geographically** | • Sales exclusively in Syracuse metro market  
• Referrals come predominantly from physicians that knew the three founding pathologists  
• Desire to expand but lacked capital and wanted an experienced partner | • Sales reps covered all of the state of New York  
• Significant revenue from four states  
• Collaborated with company’s largest payor to pursue geographies in need of lab services |
| **Expand Test Menu** | • ClearPath focused on biopsies and Pap smears (“Paps”)  
• While the Company adopted new technology for Paps, innovation in other fields was limited | • Launched new molecular tests (e.g. HPV genotyping) that affirmed ClearPath’s clinical leadership position  
• Invented STI “panel” that allowed physicians to easily order a batch of tests for at-risk patients  
• Initiated a “wallet share” program to educate referring physicians on the broad menu of services offered by ClearPath |
A Systematic Approach to Growth

With Shore Capital’s assistance and the guidance of the Board, management reviewed every physician on a county by county basis to determine the potential for a new sales rep to be successful:

- Market sizing analysis was overlaid with status of key payor contracts in a given geography
- Markets were then ranked and used to drive sales rep recruiting
- Once reps were hired, market analysis became their potential customer list

### Market Size

![Map showing market size](image)

- $25 million lab revenue
- $0

### Payor Coverage

![Map showing payor coverage](image)

- High Payor Coverage
- Adequate Payor Coverage
- Inadequate Payor Coverage
- Potential Coverage Exp.

### Sales Rep Placement

![Map showing sales rep placement](image)
Diversifying A Concentrated Customer Base

Before the partnership, ClearPath’s customer base was almost exclusively Syracuse-based and revenue was driven by U.S. Pap smears and biopsies

- Hired 8 additional sales team members to cover geographic expansion
- Revamped the sales commissions structure to align incentives and reward top performers
- Created a weekly ‘sales dashboard’ to monitor progress, track at risk accounts and reward top performers
Sale Dynamics

After building the strongest independent pathology laboratory in New York, Shore Capital was approached by multiple interested parties

► Given the limited number of strategic acquirors, and their history of bidding aggressively for rapidly growing laboratories, Shore Capital managed the sale process

Active Strategic Acquirors

- **LabCorp**
  - 14 Acquisitions Since 2013

- **Quest Diagnostics**
  - 7 Acquisitions Since 2013

- **Aurora Diagnostics**
  - 5 Acquisitions Since 2013

Buyer Consideration

- Given the history of consolidation in the lab industry it was expected that national laboratories Quest Diagnostics and LabCorp would be the most aggressive bidders

- ClearPath’s expertise in women’s health / gynecological pathology was recognized by competitors throughout the Northeast

- Buyers viewed ClearPath as the platform for developing a regional women’s health initiative

- ClearPath was approached by multiple national laboratories and shared financial information with the most qualified parties

- Based on the terms of the offer and the strategic fit with ClearPath, LabCorp was selected as the buyer