



SHORE
Capital Partners

ClearPath Diagnostics Case Study

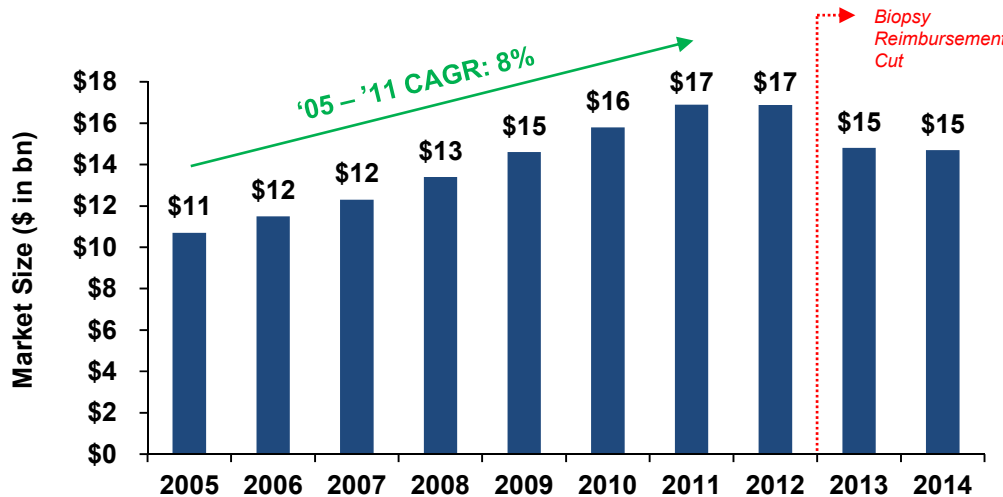
Diagnostic Lab Industry Overview

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)

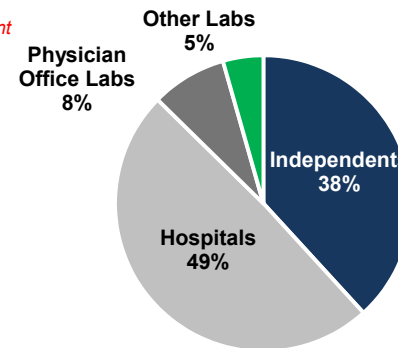
U.S. Anatomic Pathology Market Overview

Market Sizing & Growth



Anatomic Pathology Market Opportunity

Fragmentation



Growth Drivers

Aging Population and Incidence of Cancer

Focus on prevention to improve costs & outcomes

Increased survival rates require more active monitoring & testing

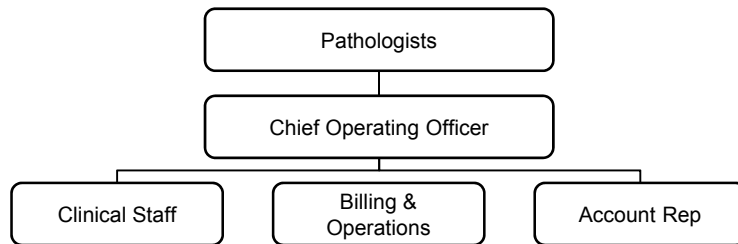
Improving technology allows more detailed diagnosis via multiple tests

Established Corporate Infrastructure for Growth

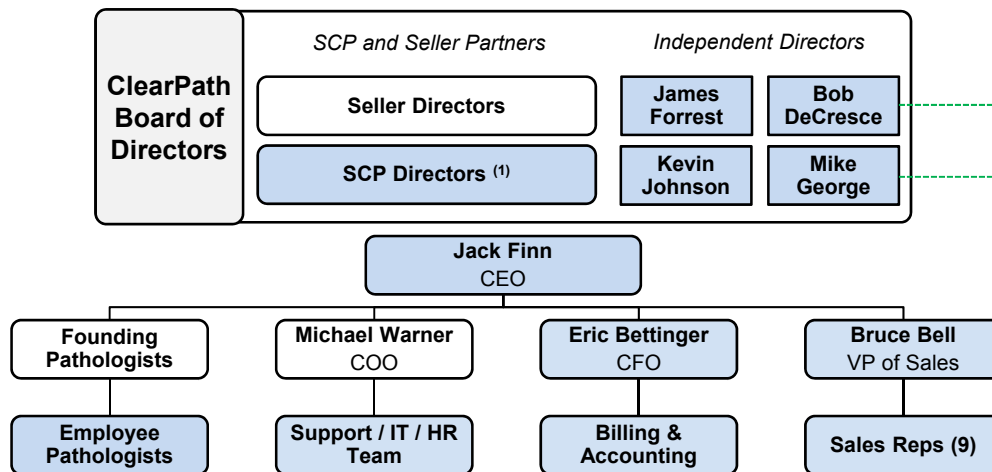
Shore developed a network of talented executives that each brought a unique set of skills to ClearPath Diagnostics

- 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



Post-Close



Select Board Detail (2)

Bob DeCresce, MD

Director of Clinical Laboratories, Rush University Medical Center

- ✓ Clinical expertise
- ✓ Past private equity experience



3rd largest hospital system in Chicago

Mike George

Former CEO, UroCor

- ✓ Compliance program
- ✓ Sales & Marketing
- ✓ New product introductions



**Market Cap: \$190M
Revenue: \$60M**

Kevin Johnson

Former CEO, DIANON Systems

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



**Market Cap: \$600M
Revenue: \$180**

Existing

New

(1) SCP Directors include Ryan Kelley, John Hennegan and Justin Ishbia.

(2) Figures illustrated as of respective transactions.

From Local Leader to Mature Enterprise

ClearPath emerged as one of the largest and fastest growing independent anatomic pathology laboratories in the Northeast

Diverse Services Support Geographic Growth

Overview

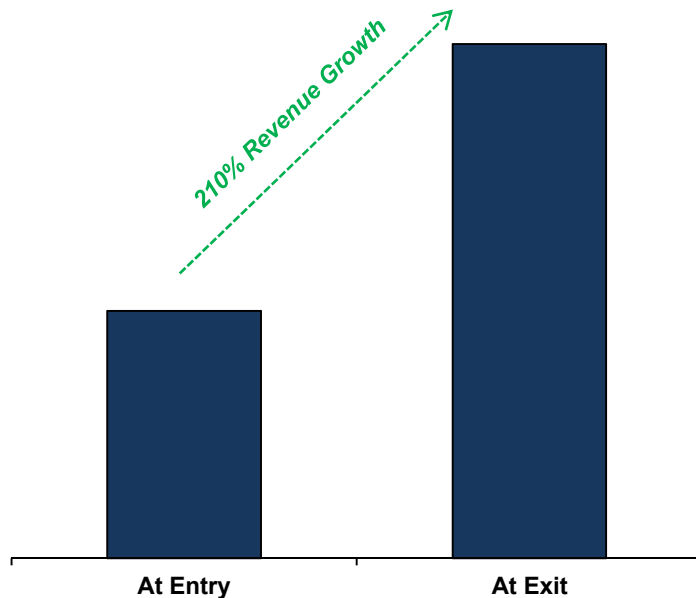
- Multi-specialty Anatomic pathology company with industry leading growth
- Five pathologists who have extensive experience in diagnostic pathology

Services

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

Added During Investment

Revenue Growth



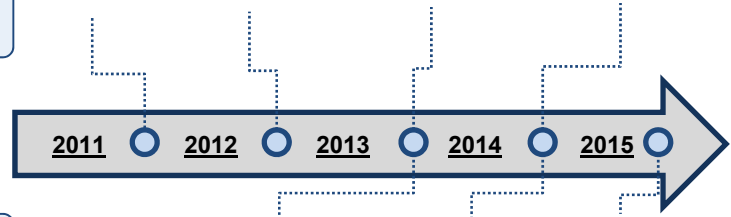
Expansion: Geographic & Test Menu

Geographic

- | | | | |
|--------------------|---|---|-----------------|
| <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| › City of Syracuse | › Binghamton, NY
› Albany, NY
› New Dover, CT
› Philadelphia, PA | › Lower Hudson
› New Jersey
› NE Pennsylvania | › Rochester, NY |

Test Menu

- | | | |
|---|---|--|
| <u>2013</u> | <u>2014</u> | <u>2015</u> |
| › Dermatopathology and hospital services
› Hired sales manager | › Expanded molecular testing
› Wallet share initiative | › STD testing initiative
› New pathologist with Rochester relationships |



Laboratory Investment Thesis and Execution

At Acquisition

At Exit

A 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

B 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

C 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

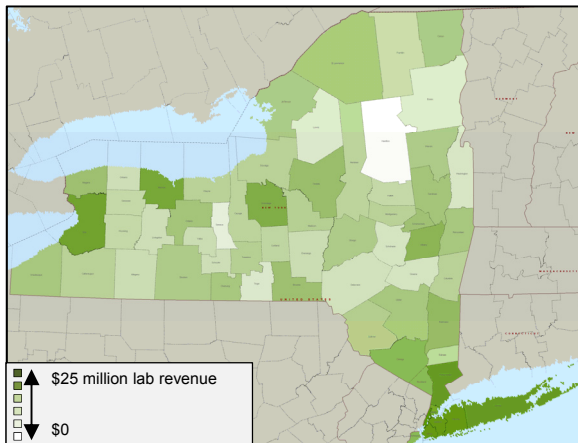
- Launched new molecular tests (e.g. HPV genotyping) that affirmed ClearPath's clinical leadership position
- Invented STI "panel" that allowed physicians to easily order a batch of tests for at-risk patients
- Initiated a "wallet share" program to educate referring physicians on the broad menu of services offered by ClearPath

A Systematic Approach to Growth

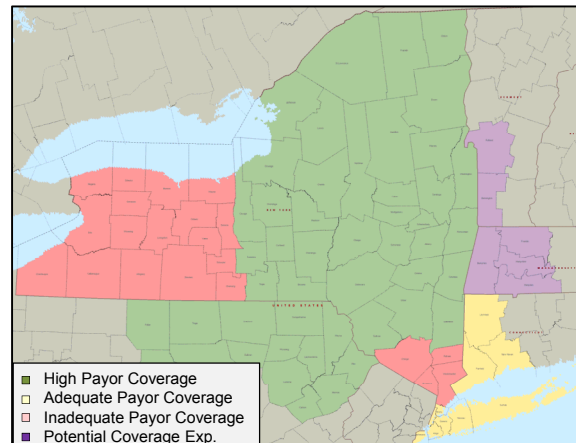
With Shore Capital’s assistance and the guidance of the Board, management reviewed every physician on a county by county basis to determine the potential for a new sales rep to be successful

- 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

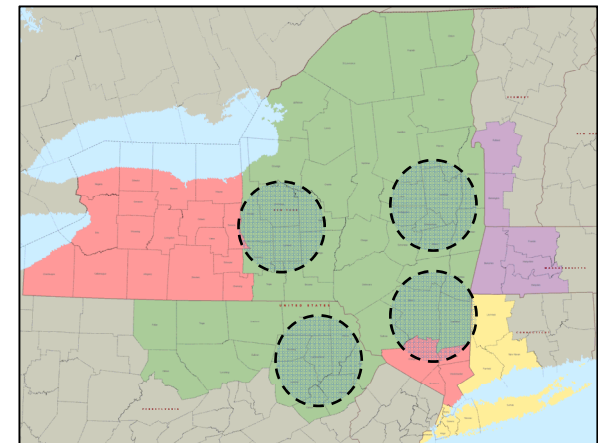
Market Size



Payor Coverage



Sales Rep Placement



Rep Placement

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

Geographic Coverage at Entry



Almost all revenue from Syracuse region

Geographic Coverage at Sale



Approximately half of revenue from Syracuse region

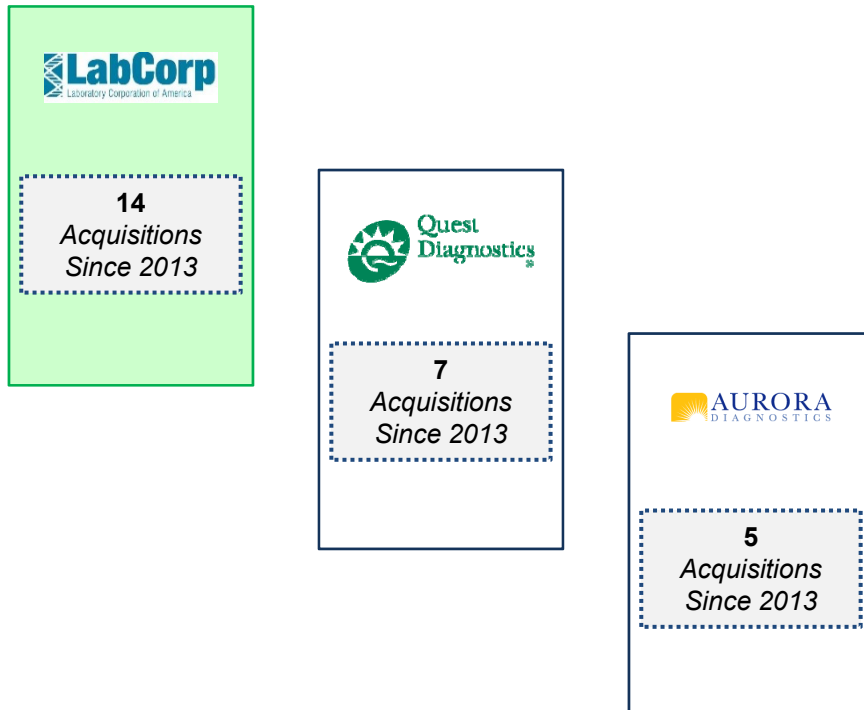
 Original Coverage Area
  Expansion Areas

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



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