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Outreach Industry Trends

March 2008

Is Outreach for You?

Outreach programs can contribute well over 50% of total hospital EBITDA.

Industry Trends - Size of Laboratory Market

- **Comparison of Routine, Esoteric, Genomic, and Anatomic Pathology Testing Markets:**

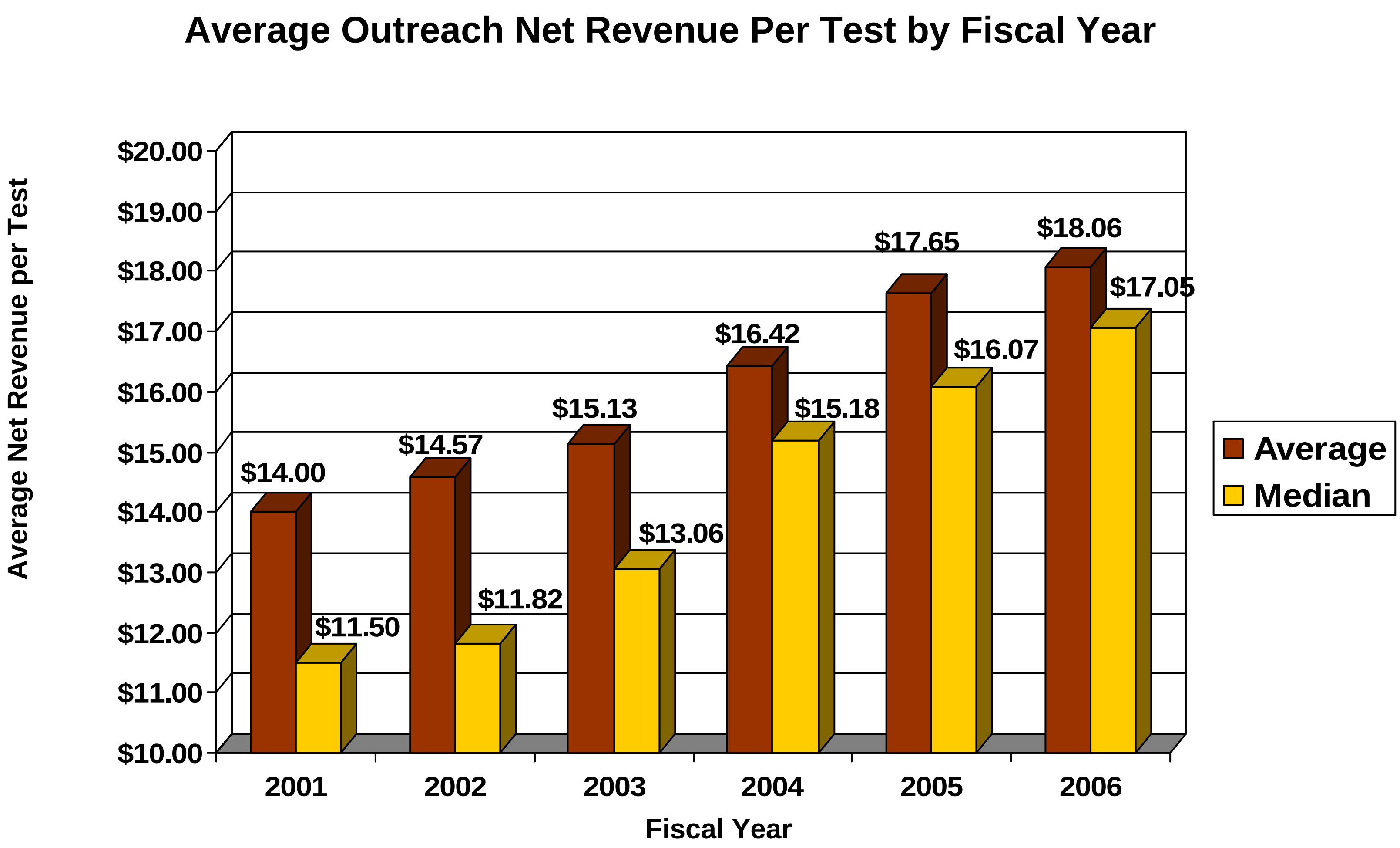
Description	Routine Testing	Esoteric Testing	Genomic Testing	Anatomic Pathology
Market Size (in billions)	$26.0 - $28.0	$2.0 - $2.5	$1.4[1]	About $6.0
Percent of Total Market	74%	6%	3%	17%
Growth/year (%)	1%-3%	7%-9%	16%	3%-5%
Growth Drivers	Aging population	Scientific advances	Scientific advances	Aging population
Pricing Trends	Commoditized market–top players have stronger pricing	Declining slightly due to increasing competition	Stable to increasing, New tests are priced at a premium	Stable with threats of Medically Unlikely Edits (MUEs)

Source: Company reports and Sun Trust Robinson Humphrey Capital Market estimates, March 2002; Genomic Testing revised in 2006.

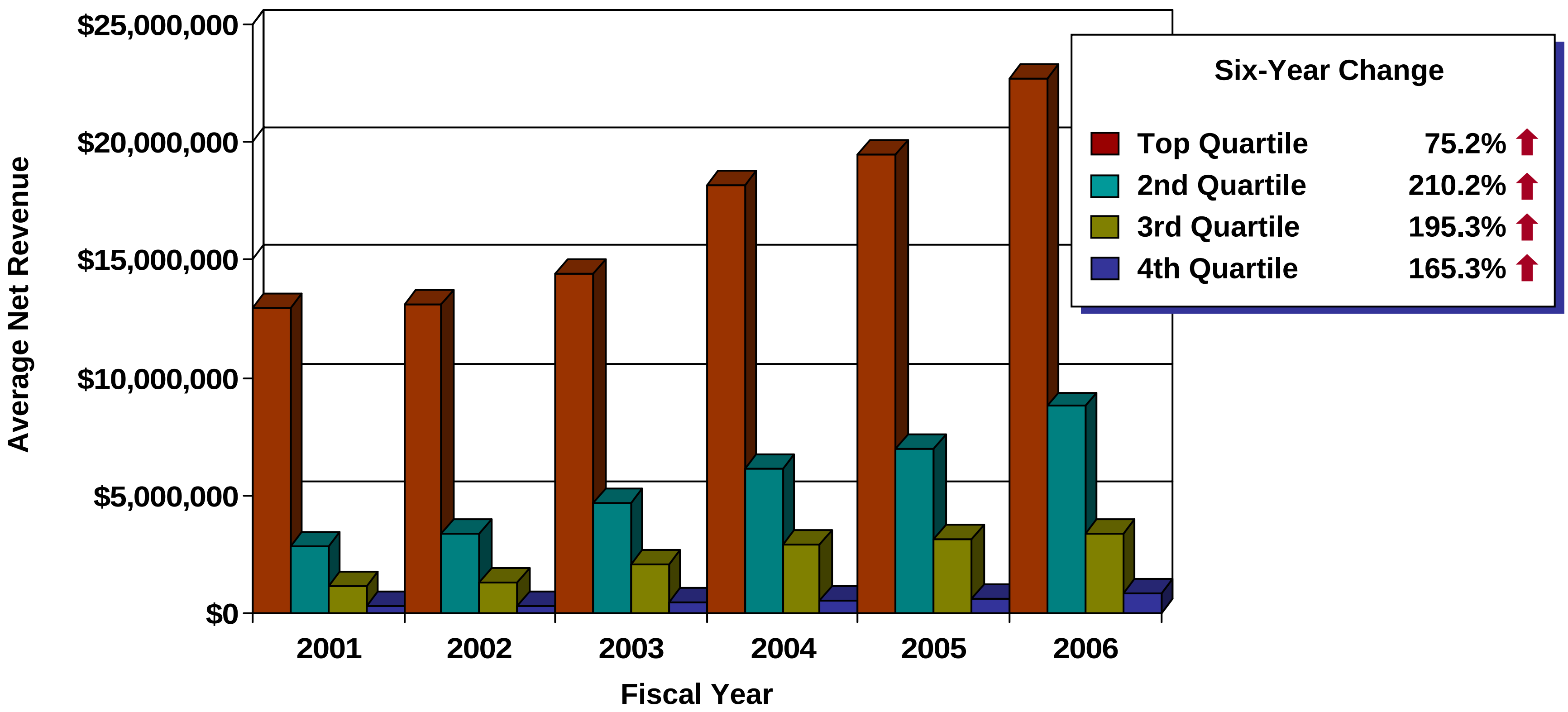
- **Modest growth is expected in the anatomic pathology market with an expected annual growth rate of 3-5%.**
- **Within the clinical reference segment, routine diagnostic testing is expected to grow 1-3%, driven by the higher growth esoteric segment with its 7-9% growth and the genomic testing segment with an expected 25% growth rate.**

[1]In 2004, LabCorp had molecular testing revenue of $465 million; Quest Diagnostics had gene-based revenues of $600 million.

Reimbursement Continues to Grow



Lab Revenue Growth Over Six Years



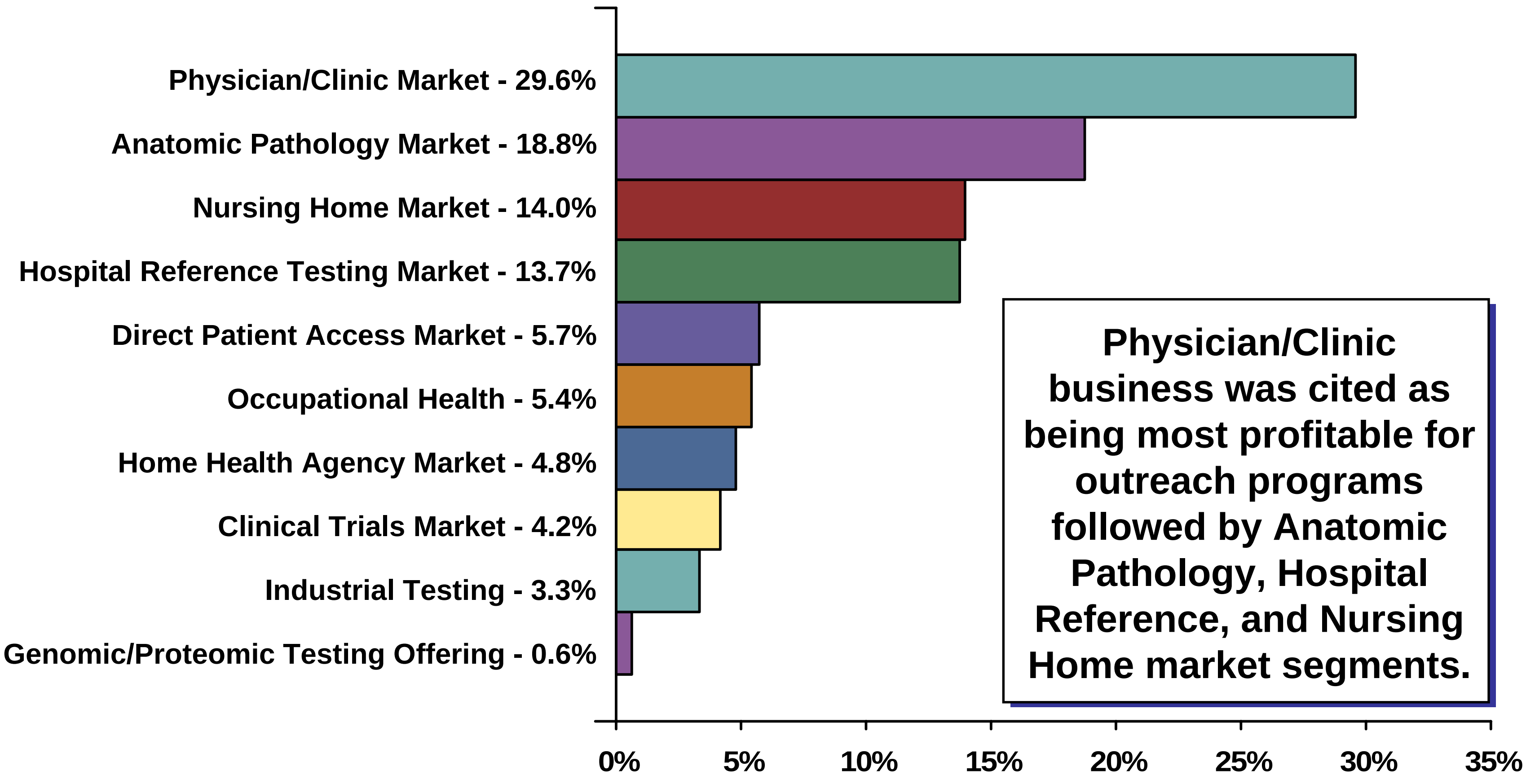
Outreach revenue, on average, grew 22.5% for all respondents for the most recent two-year time period, or 11.3% annually.

Profitability of Lab Outreach

	Core Laboratory (7)	Full-Service Hospital Laboratory (24)
	% Contribution Margin	% Contribution Margin
Maximum	59.0%	60.0%
Upper Quartile	41.0%	33.9%
Median	30.0%	21.0%
Lower Quartile	14.0%	13.5%
Minimum	9.5%	1.6%
Average (Mean)	29.8%	24.8%
Standard Deviation	18.7%	15.7%
Maximum	$ 27,200,000	$ 38,100,000
Upper Quartile	$ 14,810,936	$ 7,516,397
Median	$ 9,734,000	$ 3,629,331
Lower Quartile	$ 5,925,116	$ 951,209
Minimum	$ 1,200,000	$ 100,000
Average (Mean)	$ 10,756,564	$ 6,693,470
Standard Deviation	$ 7,067,203	$ 9,158,541

Note: Contribution Margin is net revenue less direct operating expenses for incremental testing.

Profitability of Lab Outreach by Market Segment



Physician/Clinic business was cited as being most profitable for outreach programs followed by Anatomic Pathology, Hospital Reference, and Nursing Home market segments.

Lab Outreach Competitors 2004-2006

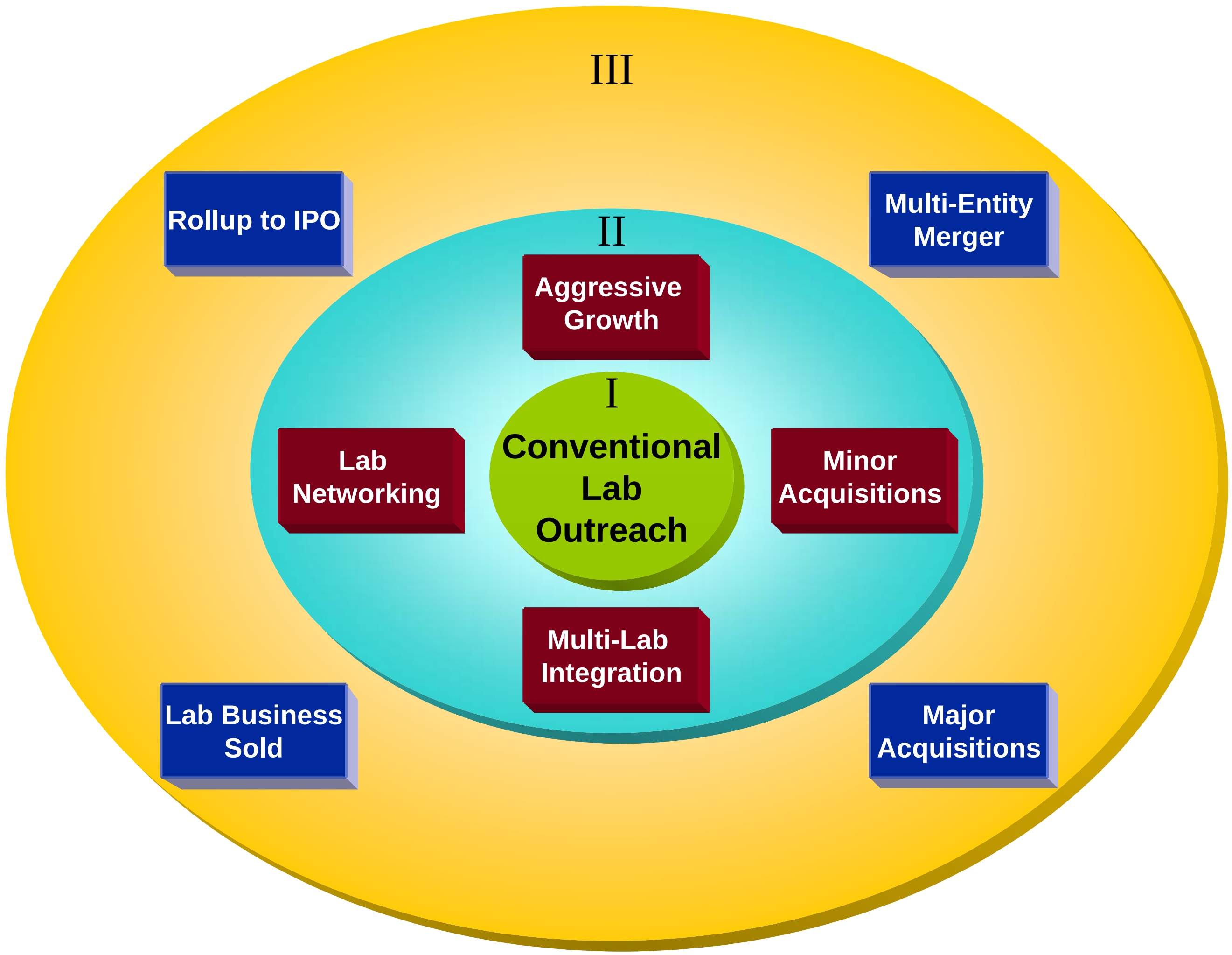
Laboratory	2004 Respondents	Percent of Total	2005 Respondents	Percent of Total	2006 Respondents	Percent of Total
Quest Diagnostics	114	37.6%	115	42.6%	71	29.6%
LabCorp	106	35.0%	96	35.6%	99	41.3%
Regional Hosptial Outreach Program	42	13.9%	21	7.8%	27	11.3%
Regional Independent Laboratory	32	10.6%	31	11.5%	28	11.7%
Physician Group Laboratory	0	0.0%	4	1.5%	3	1.3%
Other*	9	3.0%	3	1.1%	12	5.0%
TOTAL	303	100.0%	270	100.0%	240	100.0%

*Other Listed:

- LabOne
- Mayo
- Spectrum
- Specialty
- UniLab
- Various other listed laboratories

LabCorp is the most important competitor to survey respondents followed by Quest Diagnostics. Regional independent laboratories are in third place, followed closely by regional hospital outreach programs.

Lab Development Phases

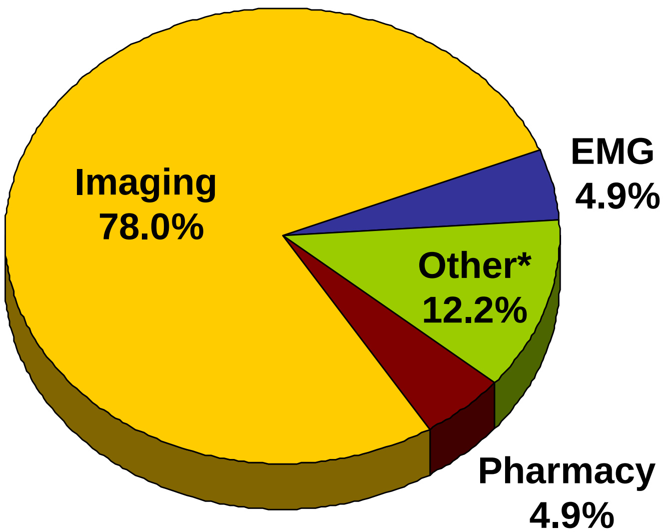


Outreach Review - Diagnostic Imaging

OTHER CLINICAL AND DIAGNOSTIC SERVICES

	Yes	No	Unsure
Do you market any other diagnostic or clinical services along with laboratory services?	28.1%	67.8%	4.1%

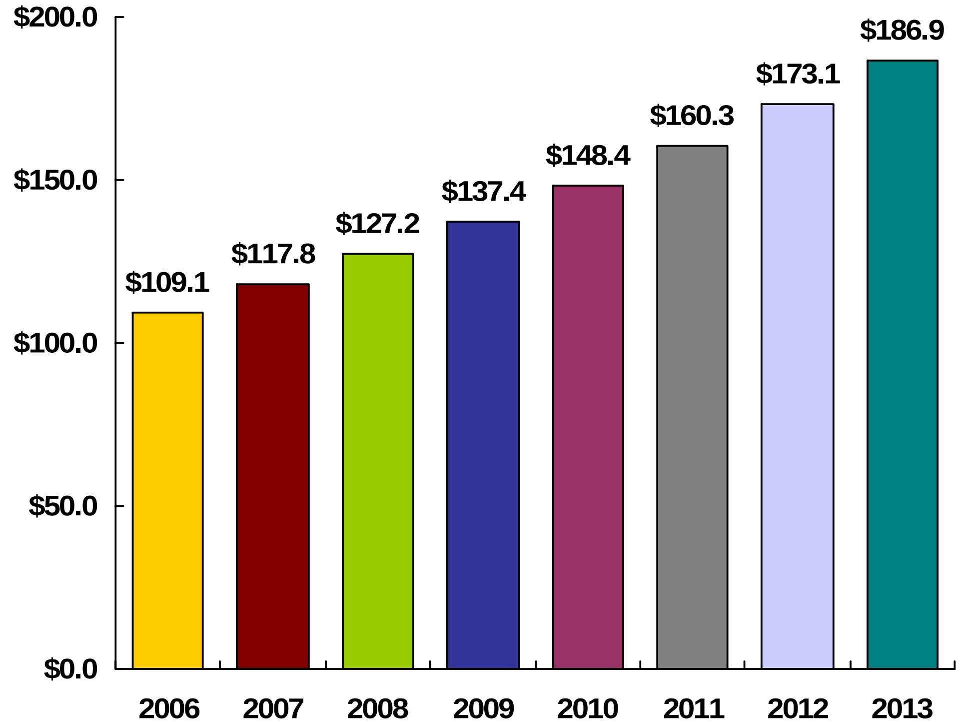
Other Services Marketed



*Other Listed:
- Home Health Services
- Occupational Health
- Rehabilitation Services
- Wellness Clinic

Diagnostic Imaging Market

Diagnostic Imaging Industry Revenue Projections, 2006-2013 ($Billions)[1]

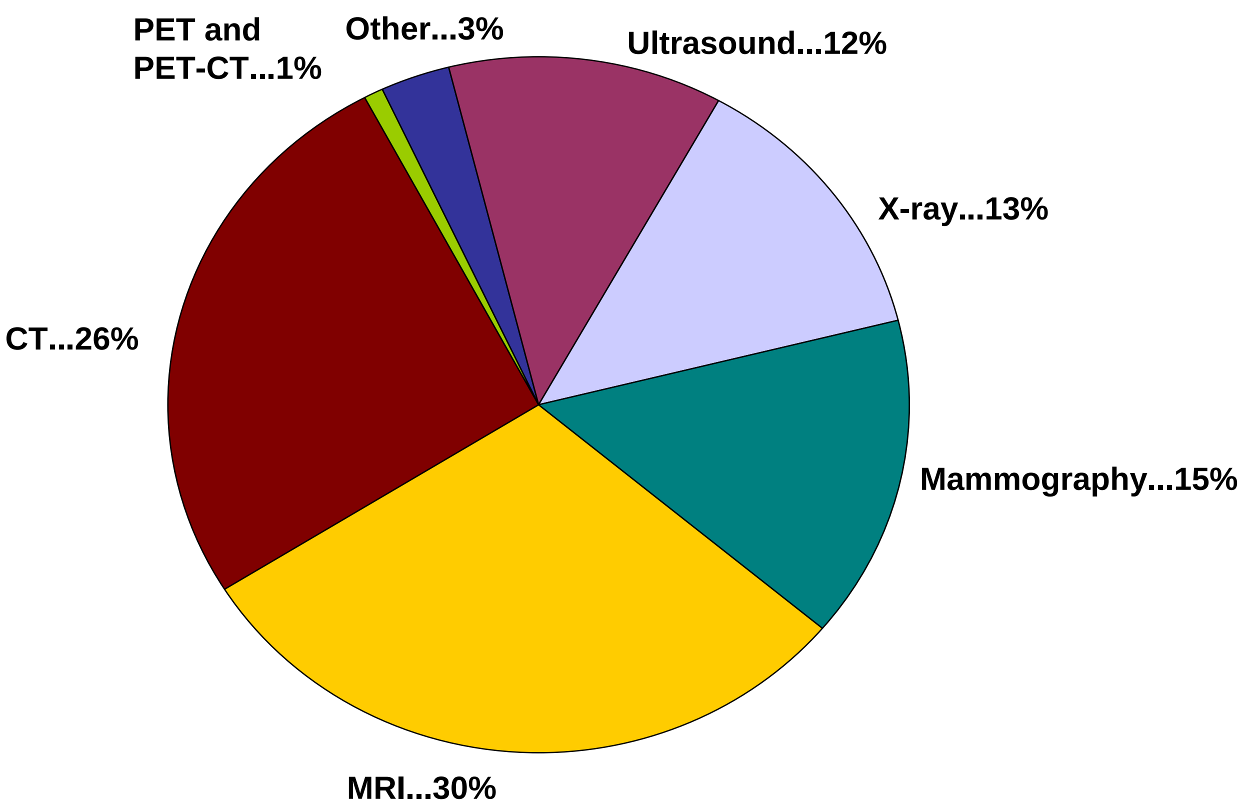


Source: Washington G-2 Reports estimates.

[1]Washington G-2 Reports, *2006 Diagnostic Imaging Industry Strategic Outlook - Market Trends & Analysis*.

Imaging Market Share By Modality

Diagnostic Imaging Market Share, 2004 *(by modality)*[1]



Source: Washington G-2 Reports.

[1]Washington G-2 Reports, *2006 Diagnostic Imaging Industry Strategic Outlook - Market Trends & Analysis*.

Imaging Trends by Modality

Projected Imaging Procedure Volumes In United States

(In millions)[1]

	2002	2008	CHANGE
X-ray	143	130	-9%
CT	45	100	122
MRI	23	50	133
Ultrasound	58	90	57
Other	55	60	10

Source: Blue Cross Blue Shield Association, Medical Cost Reference Guide, October 2004.

[1]Washington G-2 Reports, *2006 Diagnostic Imaging Industry Strategic Outlook - Market Trends & Analysis*.

Top Five Competitors - Imaging

Top Five Large Diagnostic Imaging Providers

***(Revenues in $Millions)*[1,3]**

COMPANY	REVENUE	CENTERS[2]
Alliance Imaging (Anaheim, CA)	**$432.0**	**62/465**
InSight Health Services (Lake Forest, CA)	**290.9**	**120/115**
HealthSouth (Birmingham, AL)	**250.0***	**96**
MedQuest Associates (Alpharetta, GA)	**274.6**	**94**
Radiologix (Dallas, TX)	**251.3**	**76**

*Washington G-2 Reports projection. Actual figure unavailable.

Unlike laboratory, the diagnostic imaging market is highly fragmented with only a few large companies and many small regional centers.

[1]Data as of November 1, 2005.

[2]First number is fixed sites; second is mobile units.

[3]Washington G-2 Reports, *2006 Diagnostic Imaging Industry Strategic Outlook - Market Trends & Analysis.*

Growth Projections by Modality

- **Imaging centers are projecting the greatest volume growth by modality in:**
  - **CT scan by 41%.**
  - **MRI scan by more than 26%.**
  - **Ultrasound by 24%.**

PET Imaging Volume is expected to triple in the next five years.

Forces Driving Growth

1. Escalating demand for healthcare services from an aging population.
2. Increasing role of diagnostic imaging in healthcare.
3. Greater consumer awareness of and demand for preventative diagnostic screening.
4. Increased number of high-end procedures (PET and PET/CT scanners).

Challenges - Hospitals vs. Independents

Biggest Challenges Faced in Terms of Growing Business[1]

HOSPITALS	INDEPENDENT IMAGING CENTERS
Decline in reimbursement from federal and/or private payers 34.9%	**Competition from physician specialists 36.4%**
Keeping up with costly advances in equipment and IT 20.6%	**Competition from independent diagnostic imaging centers 27.3%**
Competition from independent diagnostic imaging centers 17.5%	**Decline in reimbursement from federal and/or private payers 13.6%**
Difficulty in finding and hiring qualified radiological tech employees 11.1%	**Competition from major corporate chains 9.1%**
Competition from physician specialists …. 6.3%	**Other* 9.1%**
Competition from major chains, such as HealthSouth, Alliance, or Radiologix 1.6%	**Keeping up with costly advances in equipment and IT 2.3%**
	Difficulty in finding and hiring qualified radiological tech employees 2.3%
	*Includes difficulty in getting insurance contracts, declining scan volume, and capital for replacement of equipment.

N = 136.

[1]Washington G-2 Reports, *First National Diagnostic Imaging Survey*, 2005.

Reimbursement - Hospitals vs. Independents

Imaging Reimbursement Trends[1]
(Average payment in $)

MODALITY	AVERAGE PAYMENT	
	Hospital	Free-Standing
MRI	$752	$673
CT	618	317
PET	2,300	2,210
Ultrasound	261	111
X-Ray	185	88
Mammography	92	76

[1]Washington G-2 Reports, *First National Diagnostic Imaging Survey*, 2005.

Power of a Combined Outreach Program

	LABORATORY ALONE	COMBINED LAB/IMAGING
Contribution Margin	20-30%	60-70%

- **Combine high volume/low margin business (lab) with a low volume/high margin business (imaging).**
- **Leverage relationships and infrastructure across multiple departments.**

Take Home Lessons

- Do your homework.
- Run it like a separate business entity.
- Make it an institutional priority.

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