

Your source for leveraged
and management Buyouts

Buyouts

Vol. 19, No. 2. January 23, 2006

Apax Hopes Spectrum Hits A Rich Vein

SNAPSHOT:

Target: Spectrum Laboratory Network

Buyer: Apax Partners

Legal Counsel: Buyer: Greenberg Traurig and Epstein, Becker & Green; Seller: Womble Carlyle Sandridge & Rice

Financial Advisor: Buyer: None; Seller: HAI Financial

As a nation ages, private equity prepares. It doesn't really matter what kind of healthcare business you are in—you will find a way to say that the aging U.S. population benefits your business.

"I can't tell you how many books we get on a regular basis where the first highlight is the aging demographic. They could be delivering babies and somehow it relates to the aging population," said **Buddy Gumina**, a partner at **Apax Partners**. Well, with lab testing, the argument runs a little more reasonably. Bottom line, said Gumina, "As people get older, they need more tests."

Demographics, therefore, was one of a few reasons Apax recently jumped into its deal with Spectrum Laboratory Network, which it closed earlier this month. Spectrum does blood, cellular, cancer and other types of testing. The company has 1,200 employees and \$120 million in net sales. The EBITDA margin is about 21%, said a spokeswoman.

Gumina said a lot of former managers in the lab space have been talking recently with Apax about starting up businesses. After a wave of consolidation by Quest Diagnostics

Inc. and Laboratory Corp. of America in the late '90s and early part of this decade, bought-out managers signed up for non-competes, which have been expiring. All that talk got Gumina and his colleagues thinking now might be the time to buy in the space.

Spectrum was previously owned by two not-for-profit hospitals, including Moses Cone Health System, which helped found Spectrum in 1998, and has maintained significant ownership in the transaction.

But to get back to demographics—they were compelling for Spectrum since the southeast attracts lots of retirees. Based in Greensboro, N.C., Spectrum supports about 7,000 physicians in North Carolina, South Carolina, Georgia, Tennessee and Virginia.

Apax, which competed with two other firms in the Spectrum buyout process, liked the regional footprint of Spectrum, said Gumina. "I do think there is room in these markets for a strong alternative to LabCorp and Quest," he said. And Apax won't need to move out of the five states where Spectrum currently has a presence to grow. Gumina added that size is important, though, since scale represents a barrier to entry and a requirement to get contracts.

"Right now we're in five states, but we're not in all the counties of those five states," said Gumina. In Georgia, it is mostly in Atlanta, and in Tennessee it is mostly in the eastern part of the state, he said.

As for deal details, the equity came out of Apax's 2000-vintage \$1.1 billion Excelsior VI fund and SKM's \$734 million

2000 vintage third fund (Apax merged with Saunders Karp & Megrue last year). The multiple on the Spectrum deal was within the market range, said Gumina, which is typically between 9x and 12x EBITDA, but deals can often be more expensive for a financial buyer. For Quest, for example, "12x is 8x because of synergies," he said.

Gumina said Apax's previous experience in the industry helped lock down the deal. When making a first impression, "You can spend the first couple hours talking about the basics of lab, or you can spend it digging your nails into how Spectrum does it differently," he said. Apax also provided its target a list of CEO phone numbers who have worked with Apax before, and even got some of those CEOs to call the target directly.

In the past year, Apax did a handful of deals in healthcare, including the acquisitions of Esprit Pharmaceuticals Inc., a specialty pharmaceutical company, Finland-based surgical supplies maker Molnlycke in April as well as add on purchases to two other platforms—Advanced Homecare Management and Voyager hospice. Gumina said Apax has completed more than 50 deals in U.S. healthcare since 1990.

Gumina noted one other factor as a favorable buyout condition for Spectrum—there hasn't been any significant Medicare cuts recently. Moreover, "There's not much on the horizon that indicates there would be a major change to the reimbursement environment," he said. —M.C.