

Denver's UniPath Sells Its Histo Labs to APP

► UniPath and American Pathology Partners announce a two-part business agreement

►► **CEO SUMMARY:** *UniPath ended a long search for a business partner with ample capital and resources to help it continue its aggressive rates of growth in specimen volume, market share, and revenue. UniPath announced the sale of its technical laboratories to American Pathology Partners of Brentwood, Tennessee, along with a business agreement to provide pathology professional services. The agreement leaves UniPath in full control of its professional corporation.*

IN RECENT YEARS, PATHOLOGY SUPER GROUP **Unipath, LLC**, of Denver, Colorado, has entertained a number of prospective buyers. Last month, it announced a combination sale and partnership with **American Pathology Partners, Inc. (APP)** of Brentwood, Tennessee.

There are two parts to this laboratory acquisition. In the first part, APP acquired the histology laboratory assets, namely UniPath, LLC. This includes the 40,000 square foot independent central lab in Denver and on-site laboratories in 11 hospitals in Colorado. The 120 employees working in these facilities are now employed by APP-UniPath, LLC.

► Two-Part Transaction

In the second part of this transaction, UniPath's professional corporation (PC) entered into an agreement to cooperatively develop new business with APP and provide professional pathology services. Under this arrangement, UniPath's 25 pathologists maintain full ownership and control of their professional corporation.

"The purchase offer made to us by American Pathology Partners was funda-

mentally different than what we were offered from other interested buyers," stated Karim Sirgi, M.D., UniPath's President. "Other buyers wanted an outright purchase of both the technical laboratory facilities and the professional corporation.

"Then, after acquiring the professional corporation, these other buyers indicated that they would put the pathologists on salary," added Sirgi. "That would mean loss of pathologist control on many key professional matters. But in the deal with APP, the UniPath PC remains intact and all professional matters remain under the control of pathologists. That aspect of the deal was extremely important to us."

Under the business agreement between UniPath and APP, capital will be available to UniPath to fund expansion of business services and acquire new diagnostic technologies and lab equipment. APP will support a sales force that promotes UniPath's services in markets outside of Colorado.

UniPath has annual revenues of approximately \$25 million. During 2008, UniPath handled 173,000 patient cases representing 363,000 specimens.

American Pathology Partners was formed last year with \$75 million in funding from **New Enterprise Associates**, a venture capital firm in Chevy Chase, Maryland. Now that APP has its first lab partner in place, it intends to deploy its sales force to win new business for the UniPath venture in states west of the Mississippi River and possibly on the east coast as well.

Pathologists at UniPath faced a business dilemma common to many thriving pathology group practices: not enough business capital to sustain growth. “The goal behind the business transaction is to take us to the next level,” Sirgi commented. “All our accomplishments over the past 12 years are a result of the physicians’ direct investments in our lab, the equipment, the technology, and the hiring of subspecialists. UniPath was 100% internally financed and managed.

► Required Additional Capital

“Finally, our company reached a point in its business life where, to reach the next level of growth and profitability, UniPath required a national partner with ample capital resources, as well as a different outlook on the national business landscape,” he continued. “We recognize the need to continually add new molecular technology and support all the informatics and business services necessary for success in today’s competitive market for anatomic pathology services.”

UniPath’s pathologists expect that APP will be the right catalyst to spark increased growth in market share, specimen volume and revenue. “As the first deal and the first large platform laboratory for APP, we hope a lot of opportunities come our way in terms of providing support services to other labs throughout the United States,” said Michael Venrick, M.D., UniPath’s Medical Director.

“We are already a big player in this part of the country, but there is room for expansion in terms of additional technologies that we don’t currently offer,” added Sirgi. “There

are additional lines of business that we are not structured to offer at this time. We don’t look at this partnership as a static business deal. We look it as a dynamic opportunity to propel us forward in our goals to expand in Colorado and beyond.”

► Moving To The Next Level

Venrick agreed, saying, “One motivating factor for UniPath’s pathologist-shareholders was that it wasn’t sufficient—and it wasn’t interesting either—merely to merge or be acquired. We wanted an alliance or a partner who would help us move to the next level. We realized that we needed an influx of capital and business expertise that we didn’t necessarily have. We also wanted help to move us into new territories and to help us develop new markets and new products. We are confident that APP is the right partner to help us achieve these objectives.”

THE DARK REPORT believes this transaction between UniPath and American Pathology Partners is noteworthy. It is the first business deal for the fledgling APP, which became operational last spring. As long-time clients and readers of THE DARK REPORT know, from the mid-1990s forward, a steady progression of “pathology consolidators”—companies formed to acquire and operate multiple pathology groups—appeared. Most of these companies never gained traction and soon disappeared, generally by acquisition to larger lab company.

► Envious Growth Record

APP believes it has a different business model and it has certainly attracted a credible pathology super-group as its first business transaction. UniPath has an enviable track record of sustained revenue growth and market share gains. Now allied with American Pathology Partners, UniPath has the potential to become a serious competitor on a national scale. **TDR**

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