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Lakewood goes to Water Street

by Kelly Holman Posted 03:44 EST, 22, May 2006

Water Street Capital Partners said Monday, May 22, it completed the acquisition of a majority stake in **Lakewood Pathology Associates** for \$50 million.

Silver Point Finance LLC of Chicago provided senior debt to support Water Street's purchase of equity in Lakewood Pathology from company founder, president and CEO Raza Bokhari. Bokhari and other members of Lakewood's management team retained a minority interest.

Lakewood, based in the New Jersey town of that name, provides pathology services to hospitals, medical centers, physicians and dentists in more than 21 states.

"The primary opportunity for Lakewood's growth is organic," said Kip Kirkpatrick, a partner at Chicago-based **Water Street Capital**.

"Esoteric testing and anatomic pathology are growing very rapidly as the population ages and the lab industry gets better at testing for cancer," he said.

Physicians rely on anatomic pathology services to test for cancerous cells and changes in cells as a result of disease.

Lakewood Pathology plans to use proceeds from the investment to continue its organic growth by launching labs in new geographic territories, but acquisitions of small and mid-sized surgical pathology service companies are not out of the question, Kirkpatrick said.

"Partnering with Water Street Capital will significantly enhance our growth prospects and strengthen our ability to assist physicians in improving the standard of care for their patients," Bokhari said in a statement.

Besides Kirkpatrick, who was named chairman of Lakewood, Water Street's deal team included partner Tim Dugan and principal Eric Lev. Dugan joined Lakewood's board.

Bokhari will remain president and CEO of the company.

Kirkpatrick declined to comment on the deal's capital structure or Lakewood Pathology's financial figures.

A private equity firm that was formed when its founders left **J.P. Morgan Chase & Co.** private equity unit One Equity Partners in 2005, Water Street is investing equity from its \$370 million first fund.

Lab testing companies like **Quest Diagnostics Inc.** and **Laboratory Corp. of America Holdings** have largely consolidated the business for routine exams like blood analysis and cholesterol screening.

But the anatomic pathology testing industry is highly fragmented and growing at 8% to 10% annually, leaving Lakewood Pathology well-positioned for further growth, according to Kirkpatrick.

Kirkpatrick said an initial public offering or direct sale isn't out of the question as an exit for Water Street.

He said the deal, which closed May 18, did not stem from an auction.
