

# LABORATORY

# INDUSTRY REPORT®



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## Independents Gaining Share vs. Quest & LabCorp

**E**leven of the nation's largest independent labs, representing more than \$600 million in annual revenue, are on track to grow at an average rate of 15% this year, according to an exclusive survey completed by *LIR*. This rate of growth is being driven almost entirely by market share gains, rather than acquisitions, and is coming largely at the expense of the nation's two lab heavyweights, Quest Diagnostics and LabCorp.

Chief executives at the independents say local relationships and personalized services are the keys to their success. Among the strongest-growing independents are Sunrise Medical Labs in New York, Westcliff Medical Labs in California, Clinical Pathology Labs in the Southeast, and LabOne in the Midwest.

For more on the outlook for independent labs and profiles on 11 companies, see *Inside the Lab Industry*, pp. 5-9. 🏠

## Will Other Payers Follow The Lead Of Medi-Cal?

**C**alifornia's Medicaid program, Medi-Cal, is adjusting its reimbursement for all lab tests to 80% of the lowest Medicare maximum allowable rate effective October 1 of this year. As a result of the move, labs that serve Medi-Cal patients will see their revenue from the program drop by an average of 10% to 15%, depending on test mix, according to Lila White, chief executive at the lab billing firm Xifin Inc. (San Diego, CA).

The Medi-Cal program covers 6.5 million enrollees and spent \$188.7 million on lab services in the fiscal year ended June 30, 2003. The new 80% ceiling is expected to save an estimated \$20 million annually vs. the current fee schedule, which reimburses Medi-Cal lab services at 50% to 92% of Medicare rates.

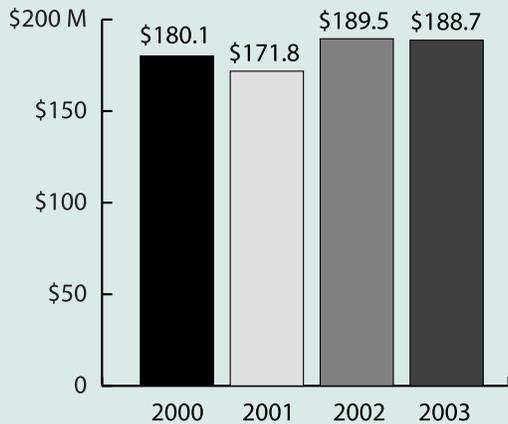
For most California labs, Medi-Cal only represents about 5% of their revenue so the reimbursement adjustment will be painful but not devastating. The bigger concern is that private health insurance companies, who now pay roughly 90% to 100% of the Medicare fee schedule, will follow the lead of Medi-Cal and ratchet rates down too. "That's what we're all afraid of," says William Schmalhorst, president of Physicians Automated Laboratory (Bakersfield, CA). ➔ p. 2



## ■ Will Other Payers Follow The Lead of Medi-Cal?, from page 1

The lowered Medi-Cal reimbursement will impact Quest Diagnostics the most. Quest, which acquired Unilab earlier this year, generates a total of more than \$500 million in annual revenue from the California market (excluding esoteric business at Nichols Institute). Medi-Cal revenues are estimated to comprise 4% to 8% of this total, or \$20 million to \$40 million per year.

**Medi-Cal Lab Expenditures** (in millions)\*



\*For fiscal years ending June 30  
Source: California Dept. of Health Services

The next biggest Medi-Cal lab provider is Health Line Clinical Laboratories (Burbank, CA), which derives about 33% of its \$60 million of annual revenue from the government program. However, chief executive Gary Burkhartsmeier believes the Medi-Cal rate reduction is a unique situation necessitated by the state's dire financial condition. Other payers will not look at it as an opportunity to lower their reimbursement, according to Burkhartsmeier.

But White says that many labs have language in their payer contracts that ties reimbursement to the Medi-Cal fee schedule. "I think these labs need to renegotiate their contracts, and there is some risk here. The question is whether or not a contract allows for renegotiation of rates before expiration if Medi-Cal fees change, and even if it does, will the payer use the

opportunity to shop around?" adds White.

Meanwhile, Mike Arnold, lobbyist for the California Clinical Laboratory Association (Sacramento), says another big issue is how the state handles its plans to send out a request for applications (RFA) to labs that want to continue to participate in the Medi-Cal program. Arnold emphasizes that the RFA is not an effort to put lab services up for competitive bidding. Rather, he says its intent is to reduce fraud and abuse. The state has not released the RFAs yet and no announcement has been

made regarding the specific new standards that will need to be met in order to remain a Medi-Cal lab provider.

However, one California lab manager speculates, "Every lab that is a Medi-Cal provider today, may not be a provider in the future." He believes that the loss of Medi-Cal privileges could have a far-reaching impact on other non-Medicaid business that a lab may have because many physician offices prefer one-stop shopping for lab services. 🏠

### Medi-Cal Reimbursement Changes for 12 Common Lab Tests

Code	Test Name	Former Reimbursement	New Reimbursement	Percent Change
82607	Vitamin B12	\$20.20	\$16.66	-17.5
82728	Ferritin	18.75	15.06	-19.7
82746	Folic Acid	19.69	16.26	-17.4
82947	Glucose	4.79	4.34	-9.4
80048	Basic Metabolic Panel	11.07	9.36	-15.4
80061	Lipid Panel	13.88	14.81	+6.7
84703	Pregnancy Test	9.36	8.30	-11.3
85610	Prothrombin Time	4.80	4.34	-9.6
87536	HIV-1 Viral Load	118.00	94.07	-20.3
88150	Traditional Pap	10.94	11.68	+6.8
88142	Liquid-Based Pap	28.00	22.40	-20.0
87621	HPV DNA Probe	44.70	38.80	-13.2
	Unweighted Average			-11.7

Source: LIR from Medi-Cal



## MDS Adds Lab To Tennessee Joint Venture

**M**DS Diagnostic Services (Brentwood, TN) is expanding Memphis Pathology Lab (MPL), a joint venture between MDS and Baptist Memorial Health Care (Memphis) with the addition of Med Lab, the outreach laboratory of Methodist Healthcare (Memphis).

Med Lab, which collects about \$8 million in outreach revenue per year, currently operates out of the main lab at Methodist University Hospital (Memphis). It has 90 employees who perform approximately 1 million billable tests per year. Over a 30-day period beginning October 1, Med Lab’s operations will be transferred to MPL’s freestanding 40,000-square-foot laboratory facility in Memphis. The main lab at Methodist University Hospital will continue to serve inpatients.

The merger is a non-cash transaction. In exchange for its outreach operations (and , client list and some equipment), Methodist Healthcare is getting a 20% equity stake in MPL and will hold two board seats. Baptist Memorial has a somewhat larger stake and holds three board seats, and MDS owns a majority stake with two board seats. MDS also manages the day-to-day operations, and John Mazzei, executive director and chief operating officer, reports to the board.

### Memphis Pathology Laboratory (MPL) and Med Labs at a Glance

	MPL	Med Labs	Combined
Annual revenue	\$36M	\$8M	\$44M
Billable tests per year	4M	1M	5M
Employees	280	90	340*
Patient service center	6	6	12

\*As a result of the merger, approximately 30 Med Labs employees will be cut, but they will be offered other jobs at Methodist Healthcare

Source: MDS

MDS and Baptist Memorial initially formed MPL in 1998 to go after the outreach market in western Tennessee, Arkansas, southeastern Missouri, and southwestern Kentucky. Mazzei says that over the past two years, MPL has grown by 25% to reach its current rate of \$36 million per year in collected revenue. With the

addition of Med Labs, MPL’s annual revenue will grow to \$44 million. Mazzei adds that MPL is able to fund its own capital expenditures and provide cash distributions to its owners. MPL’s biggest competitors include Quest, which operates major facilities in St. Louis, Atlanta, and Dallas, and LabCorp, which has big labs in Kansas City, Dallas, and Louisville.

Mazzei says Methodist Healthcare chose to partner with MDS because it wanted to continue to provide lab services to local physicians but was having trouble funding needed capital expenses.

MDS also operates lab partnerships with hospitals in Georgia and Florida and owns an independent lab in Poughkeepsie, New York named MDS Hudson Valley Labs. Last year it also began managing three hospital labs at Duke University Health System (Durham, NC) and a new 40,000 square-foot core lab in north Durham.

Chuck Locke, vice president of MDS’s U.S. lab operations, says that Duke and MDS are planning to launch an outreach program as well, although no timetable has been set. “It’s not a question of if, it’s a question of when,” says Locke. He adds, “We’ve seen the success that Spectrum has had against LabCorp, and now Quest is getting into North Carolina.... There’s an apparent desire [on the part of physicians] for alternatives to LabCorp.” 🏠



## Esoterix Breaking Into Top Ranks Of Reference Testing

The market to provide full-service reference lab testing on a national basis has been dominated by five companies (Quest, LabCorp, ARUP, Mayo, and Specialty Labs) over the past 10 years. However, a steady expansion of test menu and technical personnel at Esoterix (Austin, TX) has put the company in a position to compete with the majors.

Founded in 1995, Esoterix currently operates a total of 10 specialty testing labs around the country and has 800 employees, including 27 Ph.D.'s and M.D.'s. The company has added nearly 1,000 new tests to its menu over the past two years to reach its current total of 2,500, according to Jim McClintic, president.

Esoterix increased its revenue by 17% to \$86 million in 2002, and McClintic says the company is on track to grow by 25% to 30% this year to reach approximately \$110 million. He says the fastest-growing area has been difficult-to-diagnose cancers such as lymphoma/leukemia, where revenue averages roughly \$500 per case.

Rather than compete head on with the two giant reference labs (Quest and LabCorp), McClintic says Esoterix is positioning itself to be the secondary reference lab for large hospitals and independent labs. He says the biggest challenge is convincing clients that reference services are not a commodity and that there are differences in service and technical expertise among the large reference labs.

To distinguish itself, McClintic says Esoterix is actively looking to license and/or develop proprietary tests. For example, Esoterix has licensed testing technologies from Invirion Inc. (Chicago) that allows for the analysis of HIV in the specific cells where the virus replicates (as opposed to traditional testing methods that analyze plasma HIV levels). Esoterix has given its HIV testing service the brand name HIVComplete.

### Top 7 Reference Labs by Annual Revenue\* (\$ millions)

	2002	2003	Annual Growth
Quest Diagnostics**	\$800-\$900	\$900-\$1,000	15%-20%
LabCorp***	600-700	700-800	15%-20%
ARUP Laboratories	160	190	19%
Mayo Medical Laboratories	150-175	175-200	15%-20%
Specialty Laboratories	140	125	-11%
Esoterix	86	110	28%
Genzyme Genetics	89	102	15%
Total	\$2,025-\$2,250	\$2,302-\$2,527	15%-20%

\*Excludes identity/parentage testing

\*\*Includes testing performed at Quest's Nichols Institute West (San Juan Capistrano) and Nichols Institute East (Chantilly, VA) \*\*\*Includes testing performed at LabCorp's Center for Molecular Biology and Pathology (Research Triangle Park, NC), Center for Esoteric testing (Burlington, NC), ViroMed Labs (Minnetonka, MN), National Genetics Institute (Los Angeles, CA), and Dianon (Stratford, CT).

Source: LIR estimates

## Independent Labs Gaining Ground On Quest And LabCorp

Excluding acquisitions and strong growth from their esoteric testing businesses, Quest and LabCorp are each on track to record zero, or even negative, percentage growth in routine test volumes this year. Among those slicing into the big labs' market shares have been hospital lab networks (see *LIR*, August 2003, p. 1) and independent labs.

Independent lab CEOs tell *LIR* that the two big labs have distinct cost advantages when buying reagents and supplies, can secure exclusive managed care contracts, and are willing to price their routine tests at a loss in order to gain access to high-margin esoteric work.

But independents say that, all else being equal, hospitals, physicians, and nursing homes prefer to send their lab work to a local facility. They say they're winning market share by providing superior service. And what is superior service? It's making specimen pickups twice per day at times convenient for the physician rather than the lab; it's fixing a billing problem within 24 hours instead of weeks; it's providing test results over the phone by an MT; and it's maintaining a stable sales team instead of "restructuring" it every six months when a major acquisition is made.

For a closer perspective we offer the following profiles of what's happening at 11 independent labs from across the country:

With more than 1,000 employees, estimated annual revenue of \$140 million, and a growth rate well into the double-digits, **Clinical Pathology Laboratories** (CPL—Austin, TX) is the largest independent routine clinical lab in the nation (after Quest and LabCorp). Growth at CPL is being driven by a combination of market-share gains and small acquisitions. For more details, see the last issue of *LIR* (September 2003, p. 12).

**Bio-Reference Laboratories** (Elmwood Park, NJ), which covers New York, New Jersey, and Pennsylvania, is on pace to grow its revenue by some 11% to \$107.2 million for the fiscal year ending Oct. 31, 2003. The company says the increase is being driven by a 7% increase in patient counts and a 4% increase in revenue per patient.

Growth initiatives have included the recent opening of a new coagulation laboratory and the hiring of Yale S. Arkel, M.D., as medical director. The company is also expanding its GenPath unit, which specializes in oncology and hematology.

The company recently announced an expanded contract with Prison Health Services, a subsidiary of American Services Group Inc., to provide laboratory services for the entire state prison system of Pennsylvania. Finally, Bio-Reference, which has not made an acquisition in years, says it is back in the buying mode and looking at lab deals in the Northeast and Mid-Atlantic.

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In most areas of the country, Quest and LabCorp operate labs with \$50 million to \$100 million in annual revenue. As a result, except in the area of purchasing reagents and supplies, the cost structures at mid-sized independent labs (i.e., \$25 million to \$50 million) is similar to that of their national competitors.

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**LabOne** (Lenexa, KS) is on track to grow its healthcare testing business by 15% to 20% this year to reach about \$85 million, according to *LIR* estimates. The company also generates revenue of approximately \$220 million per year from lab testing for life insurance applicants and another \$25 million from drugs-of-abuse testing.

LabOne has a number of exclusive agreements with managed care organizations, including Coventry Healthcare of Kansas City, BlueCross BlueShield of Tennessee, BlueCross BlueShield of Kansas City, and Universal Care of Tennessee.

In addition, LabOne has contracts to provide its LabCard program to 3.5 million enrollees at self-insured companies and managed-care groups. Patients using LabCard incur no out-of-pocket expense; insurance companies and employers pay LabOne discounted rates directly. The LabCard business contributes approximately \$30 million in annual revenue to LabOne's healthcare testing business and is growing by more than 25% per year.

**Health Line Clinical Labs** (Burbank, CA) has been getting its highest growth from its continued expansion into the San Francisco area, according to Gary Burkhartsmeier, chief executive. Over the past few years the company has opened up a total of 20 patient service centers in northern California (it also has 80 PSCs in southern California).

Revenues are expected to grow by approximately 13% to \$60 million this year, according to Burkhartsmeier. He says about one-third of Health Line's revenue comes from Medi-Cal patients.

Roche Diagnostics is helping the company expand its molecular diagnostics lab and introduce real-time PCR testing, says Burkhartsmeier. New tests that are being added to the menu include HIV and hepatitis C genotyping and cystic fibrosis genetic analysis.

Burkhartsmeier cites flexibility with courier pickup schedules and the willingness to offer tests and supplies from a wide number of vendors as two areas where independent labs have a service advantage over the less-flexible national labs.

**Health Network Laboratories** (HNL—Allentown, PA) currently generates about \$41 million in annual revenue and is growing at 8% to 10% per year, according to David Beckwith, Ph.D., chief executive. HNL is owned by three hospitals (Lehigh Valley, Good Shepherd, and Muhlenberg) and operates as a for-profit independent lab.

About 60% of HNL's revenue comes from management of the rapid labs at its three hospital owners, the remainder comes from reference testing and outreach services provided at a core lab in Allentown (northeastern Pennsylvania). Beckwith says growth is coming from both inpatient and outreach testing volumes. Overall, HNL performs nearly 3 million billable tests per year.

Beckwith says the top advantage that HNL has over the two national commercial labs is customer service. He says the key is having systems in place to receive, process, and resolve client problems such as missed test requests or courier pickups. Beckwith says that he presides over weekly meetings with HNL's customer service department to make sure that client problems are being resolved promptly.

In terms of growth initiatives, Beckwith says that HNL is in the process of opening up a new molecular diagnostics lab that will offer HIV and hepatitis C viral load testing and genotyping, as well as cystic fibrosis genetic analysis.

Beckwith says HNL is also aggressively pursuing other hospitals to become equity partners. And the company is finding success in gaining access to managed care contracts that it had formerly been shut out

from. Recent wins include Keystone Health Plan East (Philadelphia) and HealthGuard (Lancaster, PA).

## **Sunrise Medical Laboratories**

(Hauppauge, NY), which covers New York City, Long Island, and surrounding suburbs, will grow to about \$40 million in revenue this year from \$34 million in 2002, according to chief executive Larry Siedlick.

Siedlick says most of Sunrise's growth is coming from market share gains due to better service. "The key question is, when your customer has a problem, how fast can your lab resolve it. There's no question that smaller labs respond quicker," he observes. "Most physicians would use the local lab if not for the exclusive managed care contracts that the big labs hold," he adds.

**Oregon Medical Laboratories** (OML—Eugene) grew its revenue by 11% to \$40 million in the fiscal year ended June 30, 2003, according to David Brink, chief financial officer. He says a good portion of the growth has come from OML's recent expansion into the Portland market. "We custom tailor our services to the needs of each client versus the national standards that the major commercial labs use," explains Brink.

New initiatives include the expansion of molecular testing capabilities. New tests that will be offered include genetic analysis of cystic fibrosis and hereditary hemochromatosis. Brink says OML is also considering the addition cytochrome P450 mutation analysis.

OML is owned by PeaceHealth (Bellevue, WA), which bought out an ownership stake that a local pathology group had in the venture in January 2000. About 70% of OML's revenue comes from its core lab in Eugene, Oregon, which operates an outreach program and drugs-of-abuse testing business. Thirty percent of revenue is derived from the management of inpatient

labs at three hospitals (Sacred Heart Medical Center, Cottage Grove, and Peace Harbor).

**Doctors Laboratory** (Valdosta, GA) is working to get a handle on the aggressive expansion it undertook over the past 12 months. This expansion included the opening of new labs in Birmingham and Dothan, Alabama, and in Panama City and Orlando, Florida. Doctors Lab also entered the Miami market through the acquisition of Sekot Laboratories, a small lab specializing in immunology and virology, in September 2002. Finally, the company launched a direct-to-consumer testing business under the "MyLab" brand name in mid-2001.

The expansion should help Doctors Lab grow by some 33% this year to about \$36 million in revenue, but it has also created some growing pains that have hurt bottom line results. Consequently, Roy Trucks was forced to resign from his position as chief executive in August. His replacement is Lamar Courson, who has been with Doctors Lab for 32 years and was most recently its director of operations.

Courson tells *LIR* that Doctors Lab is now focused on getting each of its five new labs to operate more efficiently. Other initiatives include the launch of an internally-developed Internet-based system for results reporting and order entry, and bringing more send-out tests in-house.

**Westcliff Medical Laboratories** (Newport Beach, CA) is on track to grow by about 17% this year to reach \$35 million of revenue, according to Rick Nicholson, president. He says his lab has found success by focusing on the physician accounts that fall below the radar of the big labs (i.e., accounts generating \$1,000 to \$5,000 per month in revenue).

In addition to its main lab in Newport Beach (just south of Los Angeles),

Nicholson says Westcliff operates 40 patient service centers throughout southern California. Growth plans include the opening of more PSCs and test menu expansion, including cystic fibrosis genetic analysis.

Among the advantages that privately-held independent labs have is the ability to manage their businesses more rationally, according to Nicholson. "If we grow 15% one year and 5% the next year, it's okay. The CEOs at the public companies are under pressure to grow double digits every year and it can lead them to make irrational decisions," notes Nicholson.

**Piedmont Medical Laboratory** (PML—Winchester, VA) is on track to grow its revenue by 10% to \$13.2 million this year, according to John Cardella, chief executive. He says growth is being fueled by share gains plus overall population growth in PML's market (*i.e.*, the northern suburbs of Washington, DC).

PML differentiates itself from the national labs by providing courier services to hospitals as frequently as three times a day and twice daily to physician offices, according

to Cardella. It also does not use an automated phone attendant, which causes delays and frustration to both patients and clients, according to Cardella. "If a client is having a customer service problem, I'll sometimes go out and meet with them myself," he adds.

PML is a for-profit independent lab owned by eight hospitals, including Winchester Medical Center, Culpeper Regional, and Fauquier Hospital. About 20% of revenue comes from stat services to its hospital owners and 80% from outreach services to 150 physician offices and 26 nursing homes.

Cardella says PML is working to add more hospital clients/owners. It is also developing a new molecular pathology lab and adding DNA-based HPV and chlamydia/gonorrhea tests to its menu.

**Physicians Automated Laboratory** (PAL—Bakersfield, CA), which covers central California, will increase its revenue by approximately 5% in 2003 to \$10 million, according to William Schmalhorst, M.D., president. He says growth is being fueled primarily by increasing orders from existing clients.

## Revenue Growth At 11 Independent Lab (\$ millions)

	Region	2002	Revenue 2003	Annual Growth
Clinical Pathology Labs*	Texas/Oklahoma/Virginia	\$120.0	\$140.0	17%
Bio-Reference	New York/New Jersey/Pennsylvania	96.6	107.2	11%
LabOne**	Kansas/Missouri/Tennessee	72.9	85.0	17%
Health Line Clinical Labs	California	53.0	60.0	13%
Health Network Labs	Pennsylvania/New Jersey	37.5	41.0	9%
Sunrise Medical Labs	New York	34.0	40.0	18%
Oregon Medical Labs	Oregon	36.0	40.0	11%
Doctors Lab	Georgia/Florida/Alabama	27.0	36.0	33%
Westcliff Medical Labs	California	30.0	35.0	17%
Piedmont Medical Lab	Virginia	12.0	13.2	10%
Physicians Automated Lab	California	9.5	10.0	5%
<b>Grand Total</b>		<b>\$528.5</b>	<b>\$607.4</b>	<b>15%</b>

\*Revenue and growth figures for Clinical Pathology Labs are estimated

\*\*Revenue for LabOne is for its healthcare testing business only (excludes life insurance applicant and drugs-of-abuse testing businesses) and have been adjusted to include the impact of the acquisition of Central Plains Laboratories in December 2002

Source: LIR based on company reports and interviews

Schmalhorst says that the constant mergers and acquisitions being made by the national labs have jaded many physician clients who get frustrated with the associated turnover in lab representatives. 🏠



## Aetna To Cover DNA Pap Test

**D**igene Corp. (Gaithersburg, MD) says Aetna Inc. (Hartford, CT) will cover its Hybrid Capture2 High-Risk HPV test in combination with a traditional Pap test as a primary screening tool for women 30 and older. The decision by Aetna, which has 13 million members across the country, could trigger broader insurance coverage for the combined HPV test and traditional Pap—the combination has been dubbed the “DNA Pap.”

Joanne Armstrong, medical director for women’s health at Aetna, says the combined test could save Aetna money because it will be provided once every three years for patients with normal results. The combined test is roughly three times as expensive than a Pap smear, but Aetna covers a Pap once every year for women with normal results.

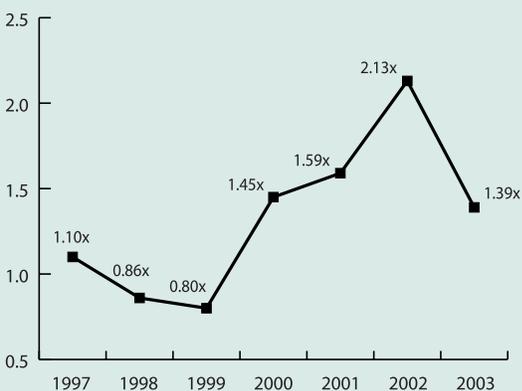
“This is a critical milestone in our ability to commercialize this test,” says Digene’s president, Charles Fleischman. “We look at our test as becoming the new standard of care in cervical cancer screening. This is a very important brick in the wall for Digene.” 🏠

## M&A Activity Keeps Fast Pace, But Prices Are Coming Down

**C**onsolidation in the lab industry continues at a fast pace, but it looks like acquisition prices peaked in 2002 when the average price paid to buy lab companies reached 2.13 times annual revenue, according to a review conducted by LIR. That peak coincides with the all-time high in stock prices for Quest Diagnostics and LabCorp in the summer of 2002. Back then, Quest and LabCorp

were each trading at market capitalizations equal to between 2-3 times their annual revenue. Today, they are each trading at about 1.6 times annual revenue.

**Average Revenue Multiple\* Paid To Acquire Labs**



\*Purchase price (including assumed debt)/annual revenue of acquired lab

Source: Laboratory Industry Report

The current acquisition focus seems to be on esoteric/genetic testing labs. In the past six months, for example, Pediatrix Medical Group (Fort Lauderdale, FL) has acquired Neo Gen Screening (Bridgeville, PA); Genzyme Genetics (Westborough, MA) bought the molecular genetics and cytogenetics laboratory business of Genetics & IVF Institute (Fairfax, VA); and Alfigen Inc. (Pasadena, CA) has acquired Laboratory Diagnostics (Norwalk, CT), a small cytogenetics lab.

Meanwhile, with the pool of potential large-scale acquisitions now shallow, it looks like Quest and LabCorp have turned their attention to smaller deals (*i.e.*, labs with \$50 million and less in annual revenue).

For example, Quest recently purchased Biotech Medical Labs (Scottsdale, AZ) and is now folding it into Sonora Quest Laboratories (Tempe, AZ), a joint venture between Quest and Banner Health System (Phoenix, AZ). And LabCorp recently acquired Clinical Labs Inc. (Throop, PA), a small routine lab serving northeastern Pennsylvania.



## Laboratory & Pathology Group Transaction Summary (\$ millions)

<i>Date</i>	<i>Buyer</i>	<i>Target</i>	<i>Purchase Price*</i>	<i>Acquired Revenue</i>	<i>Price/Revenue</i>
Feb-01	Quest	Clinical Labs of Colorado	\$47.0	\$30.0	1.57
Feb-01	Specialty Labs	BBI Clinical Labs	10.1	9.0E	1.26
Mar-01	Dynacare	Medical Arts of Oklahoma	7.7	20.0	0.39
Apr-01	LabCorp	Path Lab	108.0	51.6	2.09
Jun-01	LabCorp	ViroMed	43.7	25.2	1.73
Jun-01	Dynacare	IMMC Labs	2.8	3.0	0.93
Jun-01	Dynacare	Medstat	0.8	1.0E	0.80
Jul-01	Unilab	Medical Arts (in CA)	7.8	5.0	1.56
Aug-01	LabOne	Osborn Group	48.7	37.0	1.32
Oct-01	Medtox	Leadtech Corp	6.1	2.0	3.05
Nov-01	Dianon	Urocor	202.0	63.0	3.21
Dec-01	Quest	Clinical Diag Services	62.0	70.0	0.89
Dec-01	Quest	Las Marias Reference Lab	18.5	10.0	1.85
Mar-02	Unilab	Integrated Medical Labs	NA	NA	NA
Mar-02	LabCorp	Cytology Screening Inc.	NA	5.0E	NA
Mar-02	Quest	American Medical Laboratories	500.0	300.0	1.67
Apr-02	AmeriPath	Empire Pathology	NA	NA	NA
May-02	LabCorp	Cytology Screening Inc.	NA	NA	NA
Jul-02	AmeriPath	O'Quinn Medical Pathology	NA	NA	NA
Jul-02	LabCorp	Dynacare	700.0	238.0	2.94
Aug-02	LabCorp	Immunodiagnostic Labs	NA	NA	NA
Sep-02	Doctors Lab	Sekot Labs	NA	NA	NA
Dec-02	LabOne	Central Plains Laboratories	12.6	13.0	0.97
Dec-02	AmeriPath	Dermatopathology of Wisconsin	NA	NA	NA
Dec-02	Behrman Capital	Athena Diagnostics	122.0	41.6	2.93
Jan-03	AmeriPath	Nuclear Medicine and Pathology	NA	NA	NA
Jan-03	AmeriPath	Reference Pathology Associates	NA	NA	NA
Feb-03	LabCorp	N. Calif. lab assets of Quest/Unilab	4.5	27.0	0.17
Feb-03	Quest	Unilab	887.0	425.0	2.09
Mar-03	Welsh Carson	AmeriPath	792	479.0	1.65
May-03	Pediatrix	Neo Gen Screening	34.0	15.0	2.27
Jun-03	Clinical Path Labs	Fairfax Medical Labs	NA	NA	NA
Jul-03	Medtox	Cox Toxicology	0.3	0.4	0.75
Jul-03	Genzyme Genetics	molecular genetics lab of GIVF	NA	NA	NA
Jul-03	LabCorp	Clinical Labs Inc.	NA	NA	NA
Aug-03	Alfigen	Laboratory Diagnostics	NA	NA	NA
Aug-03	Quest	Biotech Medical Labs	NA	NA	NA
Aug-03	Acculab	Charlotte County Clinical Lab	NA	NA	NA
Pending	LabOne	MetLife Insurance Testing Lab	NA	NA	NA

E=estimated \*Purchase prices include assumed debt

Source: LIR and Haverford Healthcare Advisors



## Lab Stocks Rises 15%; Bio-Reference Up 46%

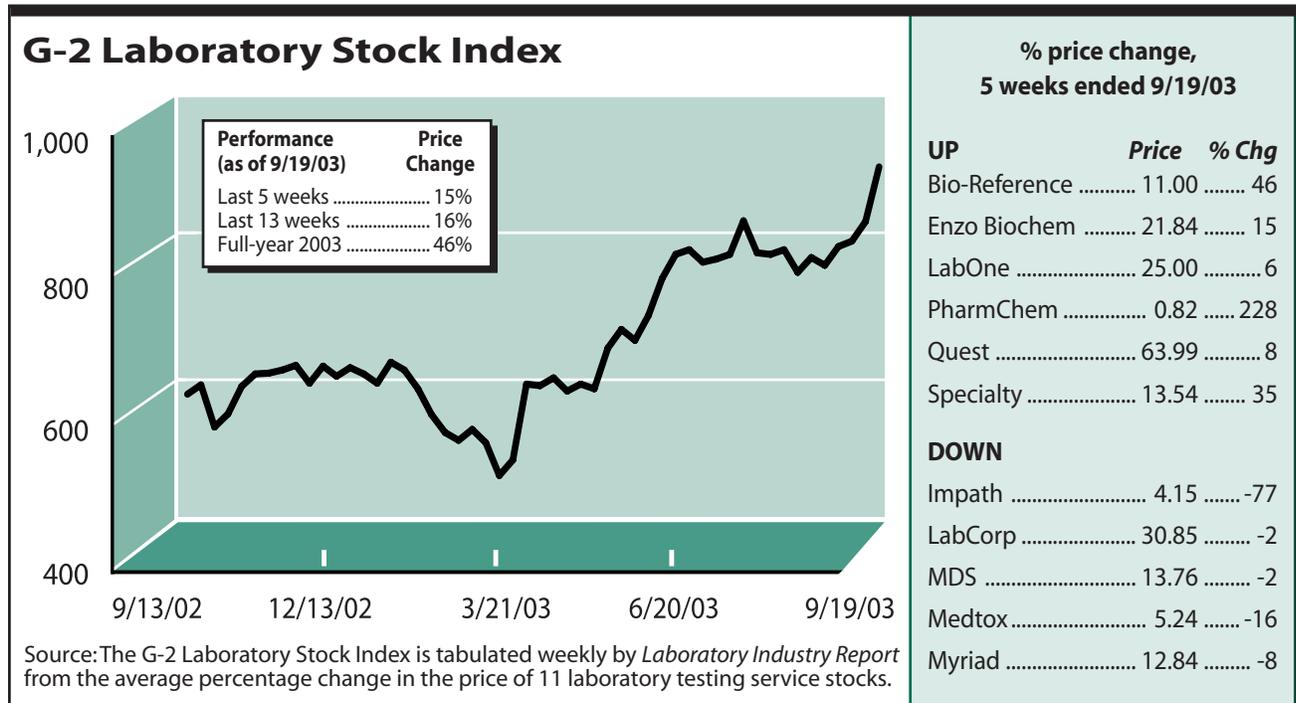
Stock prices for the 11 companies in the G-2 Laboratory Index jumped an unweighted average of 15% in the five weeks ended Sept. 19, 2003, with six stocks rising in price and five falling. So far this year, lab stocks have risen 46%, while the S&P 500 is up 18%, and the Nasdaq is up 43%.

**Bio-Reference Labs** (Elmwood Park, NJ) was up 46% to \$11 per share for a market capitalization of \$126 million. The company, which is growing at more than 10% per year without the aid of acquisitions, now trades at slightly more than one times its annual revenue of approximately \$107 million (see page 5 for more details).

**PharmChem** (Haltom City, TX), which provides drugs-of-abuse testing services and is evaluating opportunities to provide clinical testing, leapt 228% to \$0.82 per share for a market cap of about \$5 million. That's still equal to only about one-fifth the company's \$28 million in annual revenues.

**Specialty Laboratories** (Santa Monica, CA) gained 35% to \$13.54 per share for a market cap of \$302 million. The company now appears to have turned the corner on the employee-licensing problems it faced last year.

**Impath Inc.** (New York City), which was de-listed from the Nasdaq stock exchange on August 27 and now trades in the "Pink Sheets" over-the-counter market, fell 77% to \$4.15 per share for a market cap of \$69 million. The company has suffered from the revelation that its accounts receivable balance is likely overstated and that it may be forced into a Chapter 11 bankruptcy restructuring (see LIR, September 2003, p. 1). 🏠



# INDUSTRY *buzz*

The lab industry has successfully explained the inefficiency of a Medicare lab co-pay to Sen. Charles Grassley (R-Iowa) and other members of the House-Senate conference committee on Medicare reform, according to Mark Birenbaum, administrator of the American Association of Bioanalysts (St. Louis, MO), which represents the interests of independent labs.

But it doesn't matter. The Senate's Medicare reform bill needs \$18 billion to pay for increased reimbursement to rural healthcare providers and a co-pay is the least painful way for politicians to raise the money, says Birenbaum.

"Adding a few dollars to monthly Part B premiums would probably be the most efficient way to raise funds, but the politicians are scared to death of the uproar this would cause from seniors," says Birenbaum. "The lab co-pay is something that could be implemented before seniors understand what it'll cost them. So the lab industry has become the javelin catcher for the politicians," he adds.

Birenbaum says that pinning hopes on the growing possibility that Medicare reform will be scrapped because of the growing federal budget deficit is "dangerous thinking." "If President Bush begins to feel he needs this to be reelected, a Medicare reform package could move through quickly," he says. "Congressional staffers tell me the co-pay is still on the table, and we definitely have to worry about this." 🏠

## References in this issue

American Assn. of Bioanalysts  
314-241-1445

Bio-Reference Labs 201-791-2600

Clinical Pathology Labs  
512-873-1630

Digene 301-944-7000

Doctors Laboratory 912-244-4468

Esoterix 512-225-1100

Health Line Clinical Labs  
818-954-0202

Health Network Labs 877-402-4221

LabOne 913-888-1770

MDS (Brentwood, TN) 615-661-7920

Oregon Medical Labs 800-826-3616

Physicians Automated Laboratory  
661-325-5447

Piedmont Medical Lab  
540-536-5500

Sunrise Medical Labs  
800-782-0282

Westcliff Medical Labs  
949-646-0216

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