

# LABORATORY

# INDUSTRY REPORT®



Jondavid Klipp, Managing Editor

Vol. XIII, No. 8/August 2004

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## What's New In The California Lab Market?

It's been almost 18 months since Quest Diagnostics (Teterboro, NJ) acquired Unilab (Tarzana, CA) for \$918 million in February 2003, and *LIR* thought that now would be a good time to check up on what's new in the California lab market. Most of the action appears to be taking place in northern California, where Quest has closed a major lab in San Francisco and shifted testing to Unilab facilities in San Jose and Sacramento. LabCorp is building a position in northern California through acquisitions, while several new hospital outreach programs and independent lab competitors have sprung up as well.

In southern California, the biggest changes won't occur until early in 2005. That's when Quest plans to close two major labs in the Los Angeles area (a former SmithKline lab in Van Nuys and a Unilab facility in Tarzana) and consolidate operations into a new 100,000+ square-foot lab that is under construction in West Hills (about 25 miles northwest of Los Angeles).

Sometime in the next two years, Quest is also expected to begin the complicated process of transitioning Unilab's billing system to its own system. For more details on what's happening at eight of the largest labs in California, see *Inside the Laboratory Industry*, pages 5-8.

## Medex Regional Labs Stems Losses, Quest, LabCorp, Carilion Eye Takeover

Medex Regional Laboratories (Kingsport, TN), which filed for Chapter 11 bankruptcy reorganization in April 2003, is back in the black. Medex was hit for a loop early last year when it discovered that its ex-CEO, Michael Ladd, had forged board member signatures so he could obtain \$8.5 million in bank loans to fund his disastrous expansion strategy (see *LIR*, May and June 2003). Now Ladd is serving a 41-month sentence for fraud at a federal prison in Kentucky, and a new management team has cleaned up the mess he left behind at Medex. But the Medex story is not over yet. Several commercial labs and hospital systems are now competing in a bidding process to take Medex over and complete the bankruptcy reorganization.



Medex operates the four Wellmont Health System labs, seven independent collection stations, two cancer center labs, and four physician office labs in northeastern Tennessee.

■ **REGIONAL LABS STEMS LOSSES**, from page 1

After the bankruptcy filing, Ed Bush was promoted to system director of Medex from his previous position of lab director. Bush tells *LIR* that at its low in early 2003, Medex was losing \$1 million per month on annual revenue of about \$20 million. To stem the losses, Medex closed offices in Knoxville, Chattanooga, and Nashville and cancelled three major building projects. Medex also laid off 150 employees and instituted a wage freeze for its remaining staff of 310 FTEs. Finally, Bush notes that Medex made drastic cutbacks to its information technology budget, lowering it from \$100,000 per month to \$10,000.

“Spending was out of control...There were no checks or balances...If Medex had been run more carefully, the company probably would have been hugely successful,” notes Bush. He says that Medex is currently earning a small net profit and that annual revenue has actually increased to the \$24 million to \$25 million range.

Bush would not comment on the bankruptcy auction for Medex that’s now under way. But *LIR*’s review of documents filed with the U.S. Bankruptcy Court Eastern District of Tennessee combined with information gleaned from numerous sources involved with the situation suggest that at least four companies may have submitted bids for Medex.

At the top of the list is Wellmont Health System (Kingsport, TN), which has a 100% equity stake in Medex, but must submit a bid that will satisfy Medex’s creditors. Based on an appraisal made by Haverford Healthcare Advisors (Paoli, PA), Wellmont had offered \$4 million to buy Medex out of bankruptcy earlier this year.

But Carilion Consolidated Laboratories (CCL-Roanoke, VA), a hospital outreach program that recently expanded into northeastern Tennessee, filed a protest with the bankruptcy court claiming that information regarding Medex’s business had

not been made available to any potential bidders except Wellmont. As a result, the bankruptcy court put Wellmont’s bid on the shelf and opened up the bidding process.

Bids were due by July 6. In addition to Wellmont and CCL, bankruptcy court filings show that Quest Diagnostics and LabCorp have expressed an interest in bidding as well as Mountain States Health Alliance (Johnson City, TN) and Fairfax Medical Laboratories (Chantilly, VA), which is owned by Clinical Pathology Laboratories (Austin, TX). Finally, *LIR* hears that Spectrum Laboratory (Greensboro, NC) is also pursuing Medex.

The decision on the winning bid will be made by three parties: bankruptcy court trustee, MacRae Sharp; Medex’s unsecured creditors; and Wellmont. After the top bid is announced, the other bidders will have one more chance to make another proposal.

Wellmont is involved in the bid review process because its interests are so closely tied to Medex. The main lab for Medex is located at Wellmont’s Bristol Regional

## Medex Regional Labs at a Glance

System director: ..... Ed Bush  
 Director of laboratories:..... Gail Price  
 Chief financial officer: ..... Dick Ray  
 Employees: ..... 310 FTEs  
 Main lab: ..... Bristol, TN (25,000 sq. ft.)  
 2004 revenue: ..... estimated \$24.5M  
 Source: *LIR* from Medex and U.S. Bankruptcy Court Eastern District of Tennessee

## Medex's Top 10 Unsecured Creditors

Name of Creditor	Amount of Claim
Bayer Corp.	\$1,334,703
S&P Consultants	485,000
Wellmont Health Systems	465,587
Cerner Corp.	403,900
ARUP	397,410
Fisher Healthcare	278,837
Dade Behring	172,012
Molecular Pathology Laboratory	168,065
Enhanced Systems Consulting	154,364
Eastman Chemical Company	145,434
Total, all unsecured creditors	\$5,823,623

Source: U.S. Bankruptcy Court Eastern District of Tennessee

Medical Center (Bristol, TN). In addition, Medex earns about \$14.5 million of annual revenue from a lab services agreement to manage Wellmont's inpatient labs. Medex's remaining \$10 million of annual revenue comes from outreach testing.

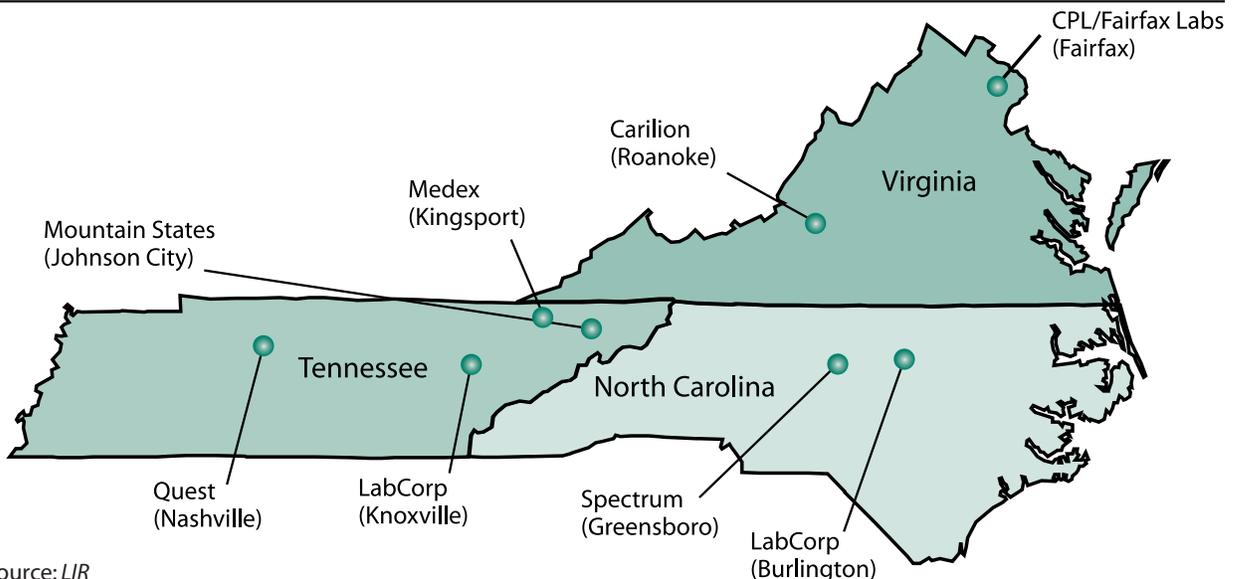
The winning bidder for Medex will gain a strong foothold in a market that is becoming increasingly competitive. Within the past year, Quest and LabCorp have both expanded their presence in Tennessee, while CCL and Spectrum have each just entered the state.

CCL is a division of Carilion Health Systems (Roanoke) that operates like an independent lab.

CCL, which has 320 FTEs, manages five hospital labs in western Virginia as well as a fast-growing outreach business. Total annual revenue is approximately \$35 million, including \$15 million from outreach. Executives at CCL would not comment on their involvement with Medex.

Spectrum is an independent lab owned by High Point Regional Health System (High Point, NC) and the Moses Cone Health System (Greensboro, NC). Spectrum's primary market is North Carolina, but the company has been expanding into nearby markets including Tennessee. Nate Headley, president, says Spectrum expanded into Knoxville and the Tri-cities area (Johnson City, Bristol, and Kingsport) late last year and is now generating about \$2 million per year in revenue from these markets. Overall, he anticipates that Spectrum will increase its revenue to \$89 million this year, up 11% from \$80 million in 2003. Regarding Medex, Headley would only say, "We are pursuing it." 🏠

## Labs In The Medex Story



Source: LIR

## Quest Wins BCBS Of Florida HMO Contract

**Q**uest Diagnostics (Teterboro, NJ) has won a three-year contract (effective August 1) to provide lab services to Blue Cross Blue Shield of Florida's HMO subsidiary, Health Options Inc. The new agreement covers approximately 775,000 members in Health Options' BlueCare HMO plan and Medicare & More plan. LabCorp had formerly held the contract.

BCBS of Florida also covers about 2.8 million members in PPO and traditional indemnity plans. Barry Schwartz, M.D., vice president of care and network management at BCBS of Florida, tells *LIR* that Quest, LabCorp, and a variety of smaller independent labs will continue to serve these members.

Schwartz says that Quest was chosen as the preferred provider for HMO members based on four factors, including the number and location of PSCs, especially pediatric blood drawing sites, and willingness to open new PSCs. Quest currently has 160 PSCs in Florida and major labs in Tampa, Deerfield Beach, and Miramar.

Other factors considered, according to Schwartz, were service, staffing, and cleanliness of PSCs, especially at peak hours; quality of lab testing; and price. He says that BCBS of Florida weighted each of the four criteria equally, although he acknowledged that measuring quality of testing was not easy.

Schwartz says that BCBS of Florida's HMO members will need to use Quest if they want covered lab services. "We do enforce use of our networks fairly vigorously...That's the whole premise of an HMO," he adds.

Is the cost of lab testing a major cost concern at BCBS of Florida? No, answered Schwartz. He says the main drivers of the 10% to 15% annual increases in healthcare premiums over the past few years have been rising hospital expenses, drug costs, and increased use of new and expensive diagnostic imaging procedures. 🏠

## Bio-Reference Acquires Cytogenetics Lab

**B**io-Reference Labs (Elmwood Park, NJ) has acquired the cytogenetics lab business of Cancer Genetics Inc. (CGI-Milford, MA) for \$2.5 million. The transaction included the commercial lab facility and about a dozen technical employees. Richard Flaherty, vice president at Bio-Reference, says the lab will remain in operation and Ramana Tantravahi, Ph.D., will continue to direct the operations as scientific director.

Cancer Genetics' lab business generates a couple of million dollars per year in revenue, but Bio-Reference was its biggest customer, accounting for nearly 90% of sales, according to Flaherty. He says that Bio-Reference plans to insource additional cytogenetics testing it has been sending out to other reference labs.

The acquisition is the second made by Bio-Reference this year. In March, Bio-Reference acquired Metropolitan Diagnostic Medical Laboratory (Brooklyn, NY) for \$546,000. Metropolitan had annual revenue of \$1 million and has been consolidated into Bio-Reference's main lab in northern New Jersey, says Flaherty. 🏠

## IPA Contracts Are The Key To The California Lab Market

Despite the fears of hospital and physician groups, the lab marketplace in California has actually gotten more competitive since Quest acquired Unilab. This is especially the case in northern California, where several new competitors have entered the market within the past two years, including Stanford University Hospital, Hunter Labs, and Health Line Clinical Labs. Meanwhile, LabCorp has greatly expanded its presence in northern California with several significant acquisitions over the past two years, and John Muir/Mount Diablo Health System continues to expand its successful outreach program.

The key to market share growth in northern California has always been independent

practice association (IPA) contracts. Without the intervention of the Federal Trade Commission (FTC), the combined operations of Quest and Unilab would have held six of the top seven IPA contracts in northern California, giving the merged company a near stranglehold on the market. But the FTC forced Quest to divest four IPA contracts to LabCorp as a condition for closing the deal. Among the four contracts LabCorp picked up were two biggies with Brown and Toland Medical Group, which covers 235,000 health plan members in the San Francisco area, and Alta Bates Medical Group, which covers 75,000 members in the Oakland area.

### Big IPA Lab Contracts in Northern California

IPA Name	# Physicians	Health Plan		Lab Contract
			Members	
Hill Physician's Medical Group .....	2,000	335,000		Quest Diagnostics
Brown and Toland Medical Group .....	1,600	235,000		LabCorp
Santa Clara County IPA .....	900	112,000		Stanford University
Alta Bates Medical Group .....	600	75,000		LabCorp
Muir/Diablo Medical Group IPA .....	600	75,000		JMMDHS Lab
Physicians Medical Group of San Jose .....	300	60,000		Quest Diagnostics
Affinity Medical Group IPA .....	700	51,000		Quest and LabCorp
Total .....	6,700	943,000		

Source: LIR

*The wild card in northern California is PAML (Spokane, WA). Sources tell LIR that PAML is in discussion with several hospital systems regarding the formation of a new lab network.*

Quest's position in northern California was weakened further when the lab at Stanford University Hospital won a contract with Santa Clara County IPA (SCCIPA-San Mateo, CA), a network of 900 physicians and about 112,000 patients. Quest had formerly held the contract, and the win has given Stanford's new outreach program an immediate base to build from.

Despite the new competition, Quest still holds the crown jewel of IPA contracts: Hill Physician's Medical Group, which covers 335,000 members in the East Bay area. Quest is also the exclusive lab provider to Physicians Medical Group of San Jose and shares (with LabCorp) a contract with Affinity Medical Group IPA. But the competition, especially LabCorp, Stanford, and Health Line, is aggressively pursuing IPA contracts, and if the Hill Physicians contract ever changes hands, the whole lab market in northern California will be turned on its head.

**LabCorp**, which operates major labs in San Diego and Los Angeles, is building market share in northern California through acquisitions. In August 2002, LabCorp bought Immunodiagnostic Labs (San Leandro, CA), an infectious disease testing lab, located near San Francisco.

But LabCorp really established its position in northern California when it purchased five rapid response labs, 46 PSCs, and four IPA contracts from Quest in early 2003 for a price of only \$4.5 million.

Most recently, LabCorp acquired Redding Pathologists Lab (Redding, CA) from its six pathologist owners. *LIR* hears that

LabCorp purchased the cytology and clinical lab portion of the business for somewhere in the neighborhood of \$18 million, or approximately 1.5 times acquired annual revenue of about \$12 million. Redding's former owners are maintaining their anatomic pathology practice, which was not part of the deal.

**John Muir/Mount Diablo Health System** (JMMDHS-Walnut Creek), which operates the biggest hospital outreach program in northern California, is growing its test volume at about 15% to 20% per year, according to Scott Liff, executive director and general manager.

JMMDHS operates main labs at John Muir Medical Center and Mount Diablo Hospital and has 21 PSCs. Combined, the JMMDHS labs have 450 FTEs and perform about five

## The California Lab Market



million reportable test results per year, of which 75% is outreach testing—1,500 physician clients and 300 nursing homes. These figures include 600 physicians that JMMDHS serves through a contract with the Muir/Diablo Medical Group IPA.

Liff says that because of growth, JMMDHS is building a new 45,000 square-foot core lab that will consolidate testing at the two hospital labs. The new facility is expected to open in early next year.

The lab at **Stanford University Hospital and Clinics** (Palo Alto) entered the outreach market in late 2003 in conjunction with winning the SCCIPA contract, which became effective Jan. 1, 2004.

Susie Lu, vice president of clinical lab and pathology services at Stanford University,

tells *LIR* that the contract and subsequent pull-through business have given Stanford's new outreach program a major boost. Lu would not provide specific details on testing volumes and revenue, but she did note that Stanford has increased its number of draw stations in northern California from five to 50 over the past 18 months. And she says that growth from outreach is already forcing the new program to expand into another building on Stanford's campus.

She says that Stanford's higher service levels combined with the availability of its pathologists for consultations and 24-7 service have helped it gain market share.

**Sutter Health System** (San Francisco) has taken a more cooperative approach with Quest, which serves as the main reference lab for Sutter's 26 hospitals. Ron Workman, M.D., vice president of pathology and laboratory medicine for Sutter, says that Sutter and Quest recently signed an agreement to provide more integrated lab services to Sutter's affiliated medical groups.

Under the agreement, which is not a joint venture and does not involve any merging of assets, Sutter and Quest are working to create information system interfaces that will allow the sharing of insurance and demographic data for physician office patients. The interfaces will allow Quest to do direct third-party billing for specimens that are collected by the Sutter labs and physician offices and forwarded to Quest. Sutter will continue to handle its own billing for all tests not referred to Quest.

Workman says Sutter has chosen to get its information systems more tightly connected to Quest because of California's anti-markup law, which prevents labs from hiking prices on tests that have been referred to another lab. The new structure will allow Sutter to avoid the problem of

getting big bills for esoteric tests that it has sent out, but is unable to collect full payment for from third-party insurers.

"The big reference labs are looking more and more like pharmaceutical companies. They are inventing and marketing new services faster than the government and insurance companies can figure out how to reimburse. We want to get our hospitals out of the middle of that," says Workman.

The benefit to Quest will be stronger ties to one of the largest health systems in northern California. The Sutter system includes 26 hospital labs, with a combined 1,000 lab employees that perform 11 to 12 million billable tests per year. The benefit to the physician groups will be a streamlined single point of contact for lab services, according to Workman.

In general, Sutter has avoided large-scale initiatives into the outreach market beyond Sutter's affiliated medical groups because of unfavorable economics, notes Workman. He says that although IPA capitation rates have edged up over the past few years, they are still hovering around \$1 per-member per-month—a level that is difficult for labs to earn a profit. He also cites the billing and collection challenges associated with outreach. "Most outreach programs believe they are profitable, but most are probably not profitable," he adds.

Nonetheless, Workman says that each Sutter hospital operates with a certain level of autonomy and that two—Marin General Hospital (Greenbrae) and Sutter Medical Center (Sacramento)—have launched outreach programs within the past 18 months. "These Sutter affiliates feel they can and will compete for non-Sutter physician business," he notes.

Finally, Workman observes that both Quest and LabCorp have each increased their

efforts to form partnerships and joint ventures with hospital labs. "If any lab is not managing their costs or service levels well, hospitals can turn to Quest or LabCorp. People who manage and direct hospital labs had better sit up and take notice," he concludes.

**Health Line Clinical Labs** (HLCL-Burbank) made a big push into the northern California market about two years ago. Gary Burkhartsmeier, chief executive, says HLCL has gained share in Sacramento, Fresno, and Modesto, but has had difficulty in the San Francisco area where the competition is more intense. As a result, HLCL recently closed eight PSCs in San Francisco and now has four.

Burkhartsmeier says that winning a major IPA contract would give HLCL a leg up in northern California. "We'll be competing aggressively for IPA contracts," he adds.

He says that HLCL is also working to expand its test menu and begin marketing its services to hospitals. Recently added new tests include cystic fibrosis genetic analysis and an array of tests that can be reflexed of thin-layer Paps, including HPV, Chlamydia and gonorrhea, and genital herpes tests.

HLCL's revenue was unchanged in 2003 at approximately \$53 million. Burkhartsmeier says HLCL's growth was held in check because of a 15% reduction in Medi-Cal lab fees that became effective on Oct. 1, 2003 (see *LIR*, October 2003, pp. 1-2). HLCL gets about 35% of its revenue from Medi-Cal.

It's been only a few months since we last highlighted **Hunter Laboratories** (see *LIR*, May 2004, pp. 1-2), but Chris Riedel, president, says his lab continues to grow like gangbusters. Over the past three months, he says Hunter has added four new PSCs to reach a total of 14 and added 10 new employees to reach 60.

Riedel says that Quest appears to be far more aggressive in hunting down missing requisition information from physician office clients and seeking payment directly from patients. He believes this has caused some Quest clients to seek out other lab partners, such as Hunter. But Riedel notes that Hunter is not competing for low-priced IPA contracts.

**Westcliff Medical Laboratories** (Newport Beach), which is focused on the southern California market, grew by 17% last year to reach \$35 million of revenue and should grow by about 15% to reach \$40 million this year, according to Richard Nicholson, president. Because of the growth, Nicholson says Westcliff will move from its current 30,000-square-foot lab in Newport Beach to an 80,000-square-foot facility in Santa Ana in the fall.

Nicholson attributes Westcliff's growth to general market growth plus some market share gains. "Every time Quest consolidates a patient service center, we pick up a few new physician offices," he notes. What are the advantages Quest and LabCorp have over smaller labs? "Greater geographic coverage, bigger name recognition, and better brochures," answers Nicholson.

He adds that the extra room at Westcliff's new laboratory will also give it the space needed to expand its molecular testing capabilities.

**The Lab** (Folsom), an independent lab company with 40 employees and roughly \$4 million per year in revenue, may soon open two PSCs in Sacramento, says president David Carrozza. The Lab currently has a total of 15 PSCs in Folsom and Roseville (just outside of Sacramento). Carrozza says that he has not noticed any disruption in the service levels of Quest/Unilab, but adds, "Physicians like knowing they have options." 🏠

## Medicare Part B Lab Spending Up 9% To \$5.5 Billion

**M**edicare Part B spending on clinical laboratory services continues to surge. The latest data from CMS's 2004 Medicare Trustee's Report shows that Part B lab spending increased by 9% to \$5.484 billion in calendar-year 2003.

Reduced reimbursement rates and aggressive governmental monitoring for fraud and abuse had put downward pressure on Part B lab spending throughout most of

the 1990s. Between 1993 and 1998, Part B lab spending fell from \$4.291 billion to \$3.622 billion, an average annual decline of 3%.

However, Part B lab spending has rebounded strongly over the past five years. From 1998 to 2003, spending increased at an average rate of 8.7% per year. Over the same time period, total Medicare program expenditures increased by 5.6% per year to reach \$280.8 billion in calendar-year 2003.

As a result, Medicare Part B lab spending now represents 2% of the overall Medicare budget (\$5.484 billion/\$280.8 billion=2.0%), up from 1.7% in 1998.

The Medicare program covered a total of 41 million enrollees in 2003. Over the past three years, annual Part B lab spending per enrollee has increased by 9.2% per year to \$133.76. 🏠

**Part B Spending on Clinical Lab Services, 1991-2003 (\$ billions)**



Note: Includes all Part B spending on lab services, including independent lab, hospital outpatient/outreach, and physician office labs Source: CMS

## Esoterix Wins National UnitedHealth Contract

**E**soterix (Austin, TX) has won a three-year national contract (effective June 1) to provide reference lab services to UnitedHealth Group (Minneapolis).

Esoterix now has the opportunity to compete for lab business against Quest Diagnostics and LabCorp, which already have national contracts with UnitedHealth.

Previously, UnitedHealth had contracted with Dianon Systems as a third lab choice, but Dianon was acquired by LabCorp in January 2003. Jim McClintic, chief executive of Esoterix, says that right after Dianon was purchased, Esoterix began pitching itself to UnitedHealth as a replacement. Esoterix operates 10 specialty testing labs across the United States, including anatomic pathology labs in San Diego and Brentwood, Tennessee.

"We worked on getting this contract for 15 months, but it was worth it," McClintic tells *LIR*. He says the biggest benefit for Esoterix will be greater access to specialty physician offices. The benefits of being an in-network lab provider outweigh the discounted fees that UnitedHealth will pay Esoterix, according to McClintic. "Physicians are reluctant to send work to an out-of-network lab if

there's a chance their patient will get billed... There are too many hurdles to jump for out-of-network labs," he adds.

Esoterix generated a total of \$107 million of revenue in 2003, of which about 85% came from hospital clients and 15% from physician offices. McClintic says Esoterix is on track to increase its revenue by about 20% this year. He anticipates that Esoterix will gain most of its new business from the UnitedHealth contract at the expense of out-of-network labs rather than Quest or LabCorp.

As of March 31, 2004, UnitedHealth provided health plan coverage to a total of 10.7 million members, including 6.2 million HMO members, 3 million PPO, 235,000 Medicare, and 1.2 million Medicaid. Its largest markets are in the Midwest, Southwest, and mid-Atlantic. In addition, UnitedHealth recently acquired Oxford Health Plans (Norwalk, CT), which covers 1.5 million members in the New York City area. 🏠

## Commercial Labs Average \$149K In Revenue Per FTE

In last month's *LIR*, we ran a table that showed average annual revenue per full-time equivalent for 12 commercial labs. This table contained a typo in the footnotes that probably caused some confusion for readers. For clarification, we are rerunning the table with the corrected footnote plus corrected information for Esoterix.

Readers should be advised that we calculated the number of FTEs for each commercial lab by adding full-time employees and part-time employees, but each part-timer was counted as one-half an FTE. For example, Esoterix has 707 full-time employees and 55 part timers, or a total of 730 FTEs under our formula (707 + 50% of 55=735 FTEs). 🏠

### Financial Benchmarks at 12 Commercial Labs, 2003

Company	Revenue (millions)	Full-Time Employees*	Revenue/Employee	Pretax Income (millions)	Pretax Income/Employee
Quest Diagnostics	\$4,738.0	37,200	\$127,364	\$737.8	\$19,833
LabCorp	2,939.4	23,000	127,800	540.4	23,496
AmeriPath	485.0	2,685	180,634	10.6	3,954
Specialty Laboratories	119.7	683	175,187	-9.3	-13,543
Bio-Reference	109.0	871	125,183	8.6	9,878
Esoterix	107.0	735	145,578	NA	NA
Genzyme Genetics	101.5	700	145,000	NA	NA
LabOne**	88.5	607	145,725	NA	NA
US Labs	53.9	360	149,722	NA	NA
Medtox	51.5	417	123,436	-0.3	-739
ViroLogic	33.4	187	178,497	-5.5	-29,455
Enzo Biochem***	29.5	186	158,602	NA	NA
Averages			\$148,561		\$1,918

\*includes all administrative and technical staff; part-time employees are counted as one-half FTE

\*\*for LabOne's clinical lab business only, employees are estimated based on pro rata revenue

\*\*\*calculated for Enzo's clinical lab business only

Source: *LIR* from company reports



## Lab Stocks Down 2%

Stock prices for the 11 companies in the G-2 Laboratory Index fell an unweighted average of 2% in the four weeks ended July 12, 2004, with three stocks up in price, one unchanged, and seven down. So far this year, lab stocks have risen 6%, while the S&P 500 is unchanged and the Nasdaq is down 3%.

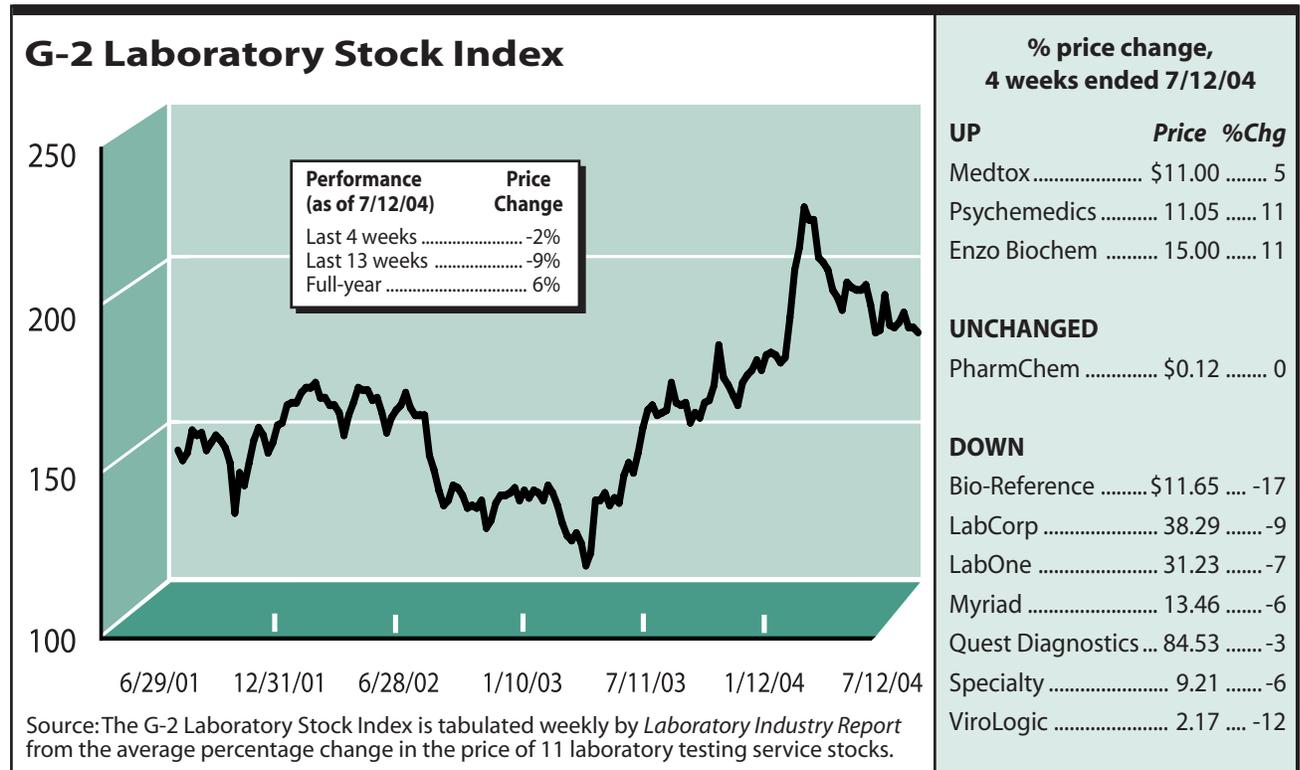
Which lab stocks offer investors the best value? On a price-to-earnings ratio basis, the answer is **LabCorp**, which at \$38.29 per share currently trades at 16.5 times its earnings of \$2.32 per share for the trailing four quarters.

On a price-to-revenue and price-to-book basis, **Medtox** (St. Paul, MN) is the cheapest. The company has a market cap of \$54 million, which is one times its annual revenue of \$52.6 million and 1.5 times its book value of \$35.6 million. 🏠

### Stock Market Valuations for 10 Lab Companies\*

Company	Price/Revenue	Price/Book	Price/Earnings
Bio-Reference .....	1.1	4.0	20.2
Enzo Biochem .....	8.6	4.1	N/A
LabCorp .....	1.8	2.8	16.5
LabOne .....	1.5	3.5	24.8
Medtox .....	1.0	1.5	N/A
Myriad Genetics .....	6.5	2.8	N/A
Psychemedics .....	3.4	11.0	36.4
Quest Diagnostics .....	1.8	3.5	19.5
Specialty Labs .....	1.7	1.8	N/A
ViroLogic .....	2.7	4.9	N/A

\*Based on reported financials for trailing 12 months Source: LIR from Reuters' data as of June 12



# INDUSTRY *buzz*

It seems like everybody wants to get into the lab business these days. Over the past six months, I've fielded phone calls from at least half a dozen venture capital firms seeking market data to help them develop business plans for new labs. A lot of the interest appears to be in starting up flow cytometry labs to take advantage of the boom in demand for cancer testing.

But if it were my money, I'd be looking to start up a Pap testing lab. With reimbursement at around \$25 to \$30, I hear the margins on thin-layer Pap tests are pretty good. But even better are all of the reflex tests that can be performed (when necessary of course) from thin-layer specimen vials, such as high-risk HPV testing (reimbursed at \$45 to \$50) and Chlamydia/GC DNA probes (\$25 to \$50). Add it all up and Pap testing and related assays can bring in more than \$100 per sample.

I'd name my imaginary startup Women's Laboratory Services (WLS) and the test menu would include all the tests that OB/GYN offices order, including cystic fibrosis genetic analysis (another lucrative test).

Where would I locate my lab? In Las Vegas—the fastest-growing city in the nation. Las Vegas also happens to be dominated by Quest Diagnostics and the local OB/GYNs would probably welcome having another lab in the area. Being in Las Vegas would also offer WLS the opportunity to expand into nearby Los Angeles or Phoenix.

Will I do it? No way. I've got to get working on the next issue of *Laboratory Industry Report*.

🏠 Jondavid Klipp, managing editor

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Quest Diagnostics 201-393-5000  
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Laboratory Industry Report (ISSN 1060-5118) is published by Washington G-2 Reports, 1111 14th St NW, Ste 500, Washington, DC 20005-5663.

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