

# LABORATORY

# INDUSTRY REPORT®



Jondavid Klipp, Managing Editor

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## The Recipe For Success At Three Outreach Ventures

For years, many hospital labs believed they could fill excess capacity and generate extra revenue with minimal incremental cost by tacking on an outreach program to their existing inpatient lab infrastructure. Some hospitals have been able to make this strategy work, but *LIR* believes that at the majority, outreach has become a black hole.

Because most hospitals do not have the financial systems in place to accurately measure the net revenue their outreach programs are bringing in, they have no way to gauge profitability. Instead, the financial yardstick most hospitals rely on is gross charges, which is basically a meaningless number because of discounting and uncollected bills. As a result, these outreach programs are unable to make informed management decisions.

But not all hospital-owned outreach programs are operating in a fog. In fact, those hospitals that have separated their outreach into independent business entities have, for the most part, been successful. In this month's *Inside the Laboratory Industry* section, we profile three such ventures—ACL Laboratories, Carilion Consolidated Laboratory, and Centrex Clinical Laboratories. Each of these three labs has an outreach business with annual net revenue of \$20 million or more with a double-digit growth rate. For details, see pages 5-9. 🏠

## Specialty Labs Wins Premier Contract

Specialty Laboratories (Santa Monica, CA) has signed a group purchasing contract with Premier Inc. (San Diego, CA) and is now one of three lab companies that will compete to provide reference lab services to Premier's 1,450 hospital members. Participating Premier members order approximately \$200 million of reference lab testing per year through its group purchasing agreements.

Premier is the second large group purchasing organization (GPO) contract that Specialty has recently won. In October, Specialty joined ARUP and Mayo as authorized reference labs for Novation (see *LIR*, November 2004, page 9). With Premier and Novation, Specialty now contracts with six out of the nine largest GPOs in the nation. ➡ p. 2



■ **SPECIALTY LABS WINS PREMIER CONTRACT**, *from page 1*

Specialty's new agreement with Premier is effective Jan. 1, 2005, through Sept. 30, 2007. This marks the first time that Specialty will serve as an authorized reference lab to Premier members. Premier currently contracts with ARUP Labs, LabCorp, and Quest Diagnostics, but at press time had not announced which of these three labs it was dropping in favor of Specialty Labs.

Meanwhile, Amerinet (St. Louis, MO), the nation's third largest GPO, is currently in the final process of awarding new reference lab contracts. The RFPs have been returned, and new contracts will be announced during the first quarter of 2005, an Amerinet spokeswoman tells *LIR*. Amerinet has 1,862 hospital members and handles approximately \$150 million of reference lab testing per year; current contracted reference labs are LabCorp, Quest, and Specialty.

In addition, MedAssets HSCA (St. Louis, MO) says it's in the middle of an RFP process and will make a decision on new reference lab contracts by mid-2005. MedAssets, the fourth largest GPO in the country, is currently contracted with Quest, LabCorp, and Specialty and handles an estimated \$100 million of reference lab purchases per year.

Sixty-one percent of the nation's hospitals and 25% of independent labs use a GPO to buy the majority of their reference testing services, according to Washington G-2's *U.S. Laboratory Reference Testing* report. In total, Washington G-2 estimates that reference testing services purchased through GPO pricing structures represent more than \$800 million per year in sales. 🏠

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## Preferred Lab Vendors for Nine Largest GPOs

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<b>GPO</b>	<b>Hospital Members</b>	<b>Est'd Annual Reference Lab Purchasing Volume (\$MM)</b>	<b>Preferred Labs</b>
Premier*	1,450	\$200	ARUP, LabCorp, Quest
Novation	1,650	195	ARUP, Mayo, Specialty
Amerinet	1,862	150	LabCorp, Quest, Specialty
MedAssets HSCA	1,750	100	LabCorp, Quest, Specialty
Broadlane	856	56	Quest
HealthTrust	600	50	LabCorp, Quest
Managed Healthcare Assoc.	700	40	LabCorp, Quest, Specialty
Consorta	425	30	Quest, Specialty
Natl. Purchasing Alliance	165	20	Esoterix
<b>Total</b>		<b>\$841</b>	

\*Premier currently contracts with ARUP Labs, LabCorp, and Quest Diagnostics, but is in the process of establishing new contracts

Source: *Laboratory Industry Report*

## PharmChem Going Out Of Business

*PharmChem had 350 employees in 2002, but by February was down to 70.*

**P**harmChem (Haltom City, TX), a publicly traded drugs-of-abuse testing laboratory that lost several big customers in the past year, is selling off its operations and going out of business. Officials said in a press release that cost cuts, including extensive layoffs, have not been enough to offset declining sales.

Last year, PharmChem lost its largest customer, the Administrative Office of U.S. Courts, which represented 27% of 2003 sales. This was followed by this year's loss of contracts with Sears and Roebuck, representing 15% of 2003 sales, Lowes Cos. (12% of sales), and the U.S. Department of the Interior (6% of sales). In total, these four contracts represented \$16 million of PharmChem's \$26.5 million of revenue in 2003.

The company said that after those losses, its largest lender accelerated the repayment terms of a \$650,000 debt. "Had the bank not imposed these requirements, management believes that the company would have had sufficient cash resources to operate for an additional six to nine months," PharmChem said in its press release.

PharmChem said it has sold customer lists and trademarks related to its onsite drug-testing business, which generated \$1.2 million of revenue in 2003, to Kroll Laboratory Specialists (Gretna, LA). In addition, PharmChem has sold its managed workplace lab-based drug-testing business (\$400,000 of annual revenue) to First Advantage Screening Corp. (St. Petersburg, FL).

Under a pending deal, Kroll has also agreed to buy the customer list related to PharmChem's non-managed lab-based drug-testing business, which generated \$5.4 million of revenue in 2003. Once this last transaction is completed, the company's only remaining business will be its PharmChek sweat patch business (\$1.2 million of annual revenue). PharmChem says a small group of employees will continue to handle this business until it can be sold or shut down. 🏠

## Access Genetics Aims To Bring Molecular Diagnostics To Local Labs

**E**veryone knows that molecular and gene-based testing is the fastest-growing segment in the lab industry. Demand for these tests is growing at roughly 20% per year versus 4% to 6% for routine testing, estimates *LIR*. As a result, more and more local labs are seeking to add molecular testing capabilities, but a scarcity of experienced pathologists and lab staff has become a primary limiting factor toward achieving this goal.

For example, the American Board of Pathology (Tampa, FL) only began offering exams for certification in molecular genetic pathology in 2001 and has only certified a total of 54 physicians to date. In addition, the American Board of Medical Genetics (Bethesda, MD) has certified only three physicians in the specialty of molecular genetic pathology since its first exam in 2001.

The gap between the few physicians with experience and training in molecular pathology and the large number of labs seeking to build molecular testing labs is



*Ron McGlennen, M.D., 46, president of Access Genetics, is an assistant professor of pathology at the University of Minnesota Medical School and is board certified by the American Board of Medical Genetics, with a specialty in molecular genetic pathology.*

what led Ron McGlennen, M.D., to found Access Genetics (Eden Prairie, MN) in the summer of 2001. McGlennen had previously implemented molecular labs at Fairview-University Molecular Diagnostics Laboratory and Esoterix Molecular Genetics Laboratory.

Access Genetics, a privately-held company with 10 employees, including three medical technologists, is offering hospitals, independent labs, and pathology groups a turnkey solution (four patents pending) for developing their own molecular diagnostics labs combined with test result interpretation by McGlennen and his staff via the Web.

Over the past three years, Access Genetics has helped 10 labs develop molecular diagnostic capabilities, including CentraCare Health Systems (St. Cloud, MN), Health Partners (Minneapolis), Seacoast Pathology (Exeter, NH), and the University of Minnesota (Minneapolis). McGlennen expects to more than double its number of client labs within the next 12 months.

The motives for local labs to take molecular tests inhouse are three fold, says McGlennen: 1) labs can typically achieve substantial savings versus what the national reference labs charge; 2) turnaround times can be reduced to one to two days versus one to two weeks; and 3) added prestige in the eyes of physician clients. McGlennen says that Access Genetics can help labs already certified to perform high-complexity testing add a molecular testing capability within a matter of weeks. Once an agreement to proceed has been made:

- 1) Access Genetics orders a customized equipment suite from vendors, including a basic thermocycler, centrifuge, and PCR workstation that separate out pre- and post-PCR areas within one contained lab space.
- 2) The instruments and equipment are received at Access Genetics, where its proprietary software is installed and the complete system is tested for performance.
- 3) The equipment is then shipped to the lab client, where an MT from Access Genetics helps with installation, set-up, and a pre-training quality check.
- 4) An Access Genetics MT then trains the staff at the client lab for two to four days.
- 5) After the lab set-up and training, Access Genetics assists with assay validation protocols, samples, data crunching, and reports for medical director sign-off or regulatory requirements.
- 6) Access Genetics assembles test packages that includes reagents, controls and disposables, and ships them to its lab clients.
- 7) Client labs perform DNA extraction and gene chemistry utilizing the web-enabled testing system that provides testing aids to help the tech. A digital image of the gel is transmitted to Access Genetics via a HIPAA secure web portal.
- 8) McGlennen then provides an analysis and interpretation and transmits a customized patient report back to the lab client within a few hours.
- 9) The medical director at the client lab then reviews and signs off on the test-result report, sends it to the ordering physician, and bills for the test.
- 10) Access Genetics bills its lab clients for the initial equipment and supplies, sells pre-packaged test packages, and charges interpretation fees on a per-case basis.

McGlennen says that Access Genetics can get a molecular diagnostics lab with an initial seven-test menu (DNA-based HPV, Chlamydia/GC, cystic fibrosis genetic analysis, Factor V Leiden, Factor II Prothrombin and MTHFR) up and running at an all-inclusive cost of approximately \$40,000 per lab client. About 500 square feet of lab space is needed, he says. 🏠

## Three Outreach Ventures That Are Getting It Right

**B**elow we highlight the latest news at three hospital outreach ventures that are setting up the necessary foundations for success. The biggest parallel *LIR* sees between the three ventures is the high level of capital investment they are each making in new freestanding lab facilities, Web-based communications, and/or test menu expansion.



Bud Thompson

### **Carilion Plans New 50,000 Square-Foot Laboratory**

Carilion Consolidated Laboratory (CCL-Roanoke, VA) is making plans to build a 50,000-square-foot laboratory in Roanoke, according to Bud Thompson, executive vice president at Carilion Health System. He estimates the total cost of building the new facility will be roughly \$9 million and says construction is likely to begin in mid-2005.

CCL is a division of Carilion Health System (Roanoke) that operates like an independent lab with its own profit and loss statements. CCL, which has 320 FTEs, manages five hospital labs in western Virginia as well as a fast-growing outreach business that currently covers western Virginia and the Richmond and Tidewater areas, as well as northeast Tennessee. CCL currently performs 3.1 million billable tests per year, with about 50% of volume coming from the managed hospital labs and 50% from outreach. Average revenue per outreach test is roughly \$15.

CCL's main lab is currently located at Carilion Roanoke Memorial Hospital. Thompson says the new lab will consolidate the labs at Carilion Roanoke Memorial and Carilion Women's and Children's thereby freeing up space within the two hospitals. The new lab facility is also needed to accommodate growth at CCL's outreach program, which has increased its revenue by an average of more than 20% annually over the past five years, according to Thompson.

In the fiscal year ended Sept. 30, 2004, CCL's outreach business grew 23% to reach approximately \$20 million of net revenue. Thompson expects CCL to grow by 30% this year spurred by expansion into northern Virginia and Maryland, and additional markets in Tennessee. In addition, he says CCL just became a contracted lab with John Deere Health Plan. CCL will now compete with Quest Diagnostics, LabCorp, Medex, and LabOne to provide lab services to John Deere's 300,000 members in Tennessee.

All of the growth at CCL has come from volume gains, not price increases, says Thompson. "We're just trying to minimize the decrease every time we negotiate a contract," he explains. Nonetheless, CCL has a double-digit operating profit margin even after deducting the \$1.5 million overhead contribution it pays Carilion Health System each year, according to Thomas.

Carilion Health System will fund the construction of CCL's new lab from its capital budget, which totals \$130 million for fiscal-year 2005, according to

Thompson. Outside of this capital investment, he says CCL funds its operations, including market expansions, from its operating cash flow.

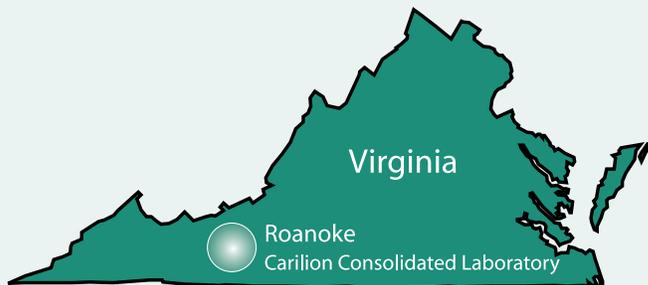
Thompson says CCL has looked at making some acquisitions, including Medex Regional Labs (Kingsport, TN), which is being purchased by Spectrum Laboratory Network (Greensboro, NC). But he notes that CCL has been successful in growing through geographic expansion and estimates that CCL invests about \$500,000 in the first year at each new market it enters for patient service centers, sales and customer service staff, phlebotomists, couriers, etc.

Many physicians are frustrated by the poor service (e.g., lost specimens, inability to reach a live person by phone, etc.) provided

by the national commercial labs, according to Thompson. "We compete by not being Quest or LabCorp," he says.

At the same time, Thompson believes many hospital outreach programs are struggling because they have made a limited commitment to the endeavor. He says two "must-haves" for success are: 1) a separate profit and loss statement and a management team with clear accountability for specific performance measures; and 2) an adequate investment in supporting infrastructure, including separate billing and collection, sales staff, customer support, and information systems. "Most hospitals will not have overwhelming success because they are trying to deliver outreach services using existing inpatient systems to lower marginal costs," he adds.

## Carilion Consolidated Lab in Brief



General manager: ..... Steve Harris  
 Medical director: ..... Lee Tucker, M.D.  
 Core lab: ..... Roanoke, VA  
 Hospitals served: ..... 22  
 Lab employees: ..... 320 FTEs  
 Patient service centers: ..... 8  
 Annual test volume: ..... 3.1 million (50% outreach)  
 Outreach revenue, 2004: ..... \$18-20 million  
 Web-connectivity vendor: ..... Atlas Medical  
 Reference labs: ..... LabCorp  
 Inception: ..... October 1995  
 Source: CCL

## Advocate Health Switching Eight Capitated Contracts To ACL Labs

Advocate Health Care, the largest health system in Illinois, is switching eight capitated lab service contracts from Quest Diagnostics to ACL Laboratories (West Allis, WI, and Chicago, IL), Jay Schamberg, M.D., general manager of ACL, tells *LIR*.

The contracts cover eight physician-hospital organizations (PHOs) with a combined 175,000 patients in the greater Chicago area. Altogether, the eight contracts will add between two million and four million annual billable tests to ACL, raising its total annual volume to 16 million to 18 million tests. As a result, total test mix at ACL will shift from its current 65% inpatient/35%

## ACL Laboratories in Brief

General manager: ..... Jay Schamberg, M.D.  
 Medical director (Illinois):..... Imad Almanaseer, M.D.  
 Core labs:..... Chicago, IL, and Milwaukee, WI  
 Hospitals served: ..... 22  
 Lab employees: ..... 950 Illinois/1,150 Wisconsin  
 Patient service centers: .....80 Wisconsin/10 Illinois  
 Annual test volume: ..... 14 million (35% outreach)  
 Outreach revenue, 2004: ..... \$37 million  
 Web-connectivity vendor: ..... Sysmex/Éclair  
 Reference labs: ..... ARUP, Quest Diagnostics  
 Inception: ..... May 2000

Source: ACL Laboratories



ambulatory to 50/50 by year-end 2005, says Schamberg.

He says the first PHO contract (Illinois Masonic Medical Center) transitioned on November 1 and the other seven will be moved over to ACL within the next 12 months. In addition, he says the new contracts will put ACL in a better position to compete for pull-through (non-capitated) business from the 2,600 physicians in the PHOs. "We will then go after another 2,400 affiliated physicians in Illinois and Wisconsin...Our goal is to provide lab services to 97% of affiliated physicians by 2007," he adds.

Schamberg says Advocate chose to award the contracts to ACL for two reasons: 1) to reduce costs; and 2) to improve the continuity of patient care. He says ACL has obtained all of the managed care contracts necessary to serve physician offices in Illinois and has standardized the commercial LIS system at all its labs in Illinois and Wisconsin to Misys/ Antrim.

In May, ACL installed Sysmex's Web-connectivity system (Éclair) and is now providing lab-test results online; order entry is slated to go live within the next few months.

In anticipation of its expanding outreach business, ACL has built a new 75,000 square-foot freestanding lab in Rosemont, Illinois (immediately adjacent to Chicago's O'Hare Airport). ACL will move its core lab from Advocate General Hospital to the new facility over the next few weeks.



Jay Schamberg, M.D

In addition, Schamberg says that ACL currently has 10 PSCs in Illinois, but is in the process of adding another 19 free-standing centers.

Tests that will be moved from ACL's inpatient labs in Illinois to the new lab facility will include cytogenetics, microbiology, histology, cytology processing and screen-

ing, special coagulation, and special chemistry.

The new laboratory also includes 700 square feet for ACL's molecular diagnostics lab. ACL currently performs about 18 different molecular tests, including HIV and hepatitis C viral load, herpes simplex, and B-cell gene arrangement. Tests that will soon be added include Bordetella pertussis, cystic fibrosis genetic analysis, and T-cell gene rearrangement, according to Schamberg. He expects ACL's current molecular test volume of 15,000 tests per year to increase dramatically as it adds the new PHO contracts.

ACL's outreach revenue grew by approximately 17% in 2004 to reach \$37 million and Schamberg expects stronger growth in 2005. "We're finally executing on what we planned to do when ACL Laboratories was first created," he notes.

What are Schamberg's words of advice for other outreach ventures? "Don't underestimate the infrastructure that's required to be

successful. Focus on the customer's needs, not the lab's needs. This often is not the case in hospital laboratories," he answers.

ACL Laboratories is a for-profit C-corporation that was formed in May 2000 when Advocate Health Care and Aurora Health Care (Milwaukee, WI), the largest health system in Wisconsin, signed a contract to combine their laboratory operations under a single management team in an effort to reduce costs and build outreach. ACL manages the labs at eight Advocate hospitals and 14 Aurora hospitals plus about 70 physician clinics.



Jack Finn

## Centrex Targeting The Reference Lab Market

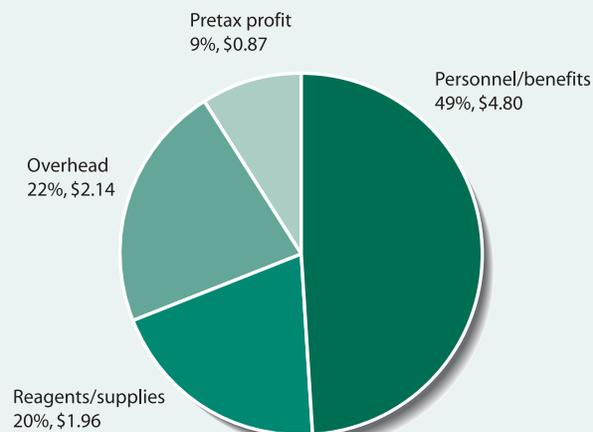
Jack Finn, president of Centrex Clinical Laboratories (New Hartford, NY), says

Centrex will add approximately 30 tests to its menu over the next 12 months and has begun marketing itself as a reference lab for smaller hospitals in central New York. Among the tests that Centrex will add are a number of tumor markers, including CA 125, CA 27.29, and CA 19.9, plus a variety of virology and infectious disease tests.

Meanwhile, Finn says that it's imperative that labs know their revenue and cost per test. For example, he says that Centrex's average revenue per billable test, including both inpatient and outreach, averages \$9.77 with an average cost per test of \$8.90 for a pretax profit of \$0.87 per test.

Looking strictly at outreach testing, Finn

### The Details Behind Centrex's Average Billable Test



Source: Centrex

## Centrex in Brief



General manager: ..... Jack Finn  
 Medical director: ..... Brett Hon, D.O., Ph.D.  
 Core lab: ..... New Hartford, NY  
 Hospitals served: ..... 3  
 Lab employees: ..... 340 FTEs  
 Patient service centers: ..... 21  
 Annual test volume: .... 3.1 million (70% outreach)  
 Outreach revenue, 2003: ..... \$20 million  
 Web-connectivity vendor: ..... Labtest.com  
 Reference lab: ..... LabCorp  
 Inception: ..... 1969

Source: Centrex

said that Centrex's average revenue per billable test is \$10.59, including capitation revenue equal to about \$8 per billable test (i.e., \$2 per-member per-month and utilization of three tests per year). He estimates that the incremental cost of adding each additional billable test to Centrex's existing operations ranges between \$4.75 and \$6.13.

Centrex is an independent for-profit lab owned by Faxton St. Luke's Healthcare in Utica, New York. Centrex provides outreach services throughout central New York and operates a core lab on the campus of St. Luke's Hospital (New Hartford, NY—central New York). Centrex also manages the inpatient labs Faxton Hospital and Little Falls Hospital and operates a rapid response lab in Syracuse. In addition, Finn says that Centrex is in discussions to manage the labs at several other hospitals in central New York and he expects to close on at least one deal within the next 12 months.

In 2003, Centrex performed 3.1 million billable tests and increased its revenue by 12% to reach \$30.3 million. About 30% to

35% of Centrex's test volume and revenue comes from the three inpatient labs it manages, with the remainder from outreach, according to Finn.

He strongly recommends employee incentive programs for recognizing outstanding work and notes that 12 Centrex managers are eligible for bonuses. For example, he says that Centrex's chemistry supervisor put in long hours over a number of months to ensure a smooth implementation of an automation system (Bayer Workcell) to consolidate all testing currently being performed on 11 analyzers from various vendors. The new system, which consists of two chemistry analyzers (Advia 2400's), two immunoassay analyzers (Advia Centaurs), a sample manager, and Centralink (the control station of the system), went live in April, and the chemistry supervisor received a \$5,000 bonus.

Finn also advocates the need for a well-staffed sales force. Centrex employs seven full-time sales and support employees, including two full-time sales and five sales/support reps. 🏠

## Commercial Labs Average 77 Days In A/R And Bad Debt Of 8.9%

**T**en large commercial labs had an average days in accounts receivable (DAR) of 77 days and bad-debt expense of 8.9% in the nine months ended Sept. 30, 2004. In other words, these 10 lab companies received payment an average of 77 days after sending out their bills and had to write off 8.9% of their net billings (after contractual allowances) as uncollectible.

**Quest Diagnostics** had the lowest DAR at 49 days. Quest's bad debt was \$172 million, or 4.5% of revenue, in the nine months ended Sept. 30, 2004. **LabCorp's** DAR was 53 days, with bad debt of \$150.5 million, or 6.5% of revenue.

Meanwhile, **Enzo Clinical Labs**, a subsidiary of Enzo Biochem (Farmingdale, NY), recorded bad debt of \$10.2 million, or 35.7% of its revenue of \$28.7 million in the fiscal year ended July 31, 2004. Enzo's DAR for fiscal-year 2004 was 167 days. **AmeriPath** (Riviera Beach, FL) had a DAR of 58 days in the nine months ended Sept. 30, 2004; bad debt expense was \$58.3 million, or 15.4% of its revenue of \$378.8 million. **Bio-Reference Labs** (Elmwood Park, NJ) had a DAR of 107 days in the nine months ended July 31, 2004; bad-debt expense was \$12.3 million, or 12.5% of its revenue for the period of \$98.4 million.

Meanwhile, the esoteric and drugs-of-abuse lab companies all reported respectable DARs and low bad-debt expenses. For example, **Specialty Laboratories** (Santa Monica, CA) had a DAR of 71 days and a bad-debt expense of less than 4%, and **Medtox** (Minneapolis) had a DAR of 59 days and a bad-debt expense of just 0.5%. **LabOne** (Lenexa, KS) had a DAR of 58 days and a bad-debt expense of 2%. 🏠

### Billing & Collection Management at the 10 Commercial Labs

<i>Lab Name</i>	<i>Accounts Receivable</i>	<i>Daily Revenue</i>	<i>Days in A/R</i>	<i>Bad Debt</i>
AmeriPath .....	\$80,633,000 .....	\$1,383,850 .....	58 .....	15.4%
Bio-Reference Labs .....	38,396,000 .....	359,598 .....	107 .....	12.5
Enzo Clinical Labs .....	13,100,000 .....	78,553 .....	167 .....	35.7
LabCorp .....	451,000,000 .....	8,468,676 .....	53 .....	6.5
LabOne .....	73,429,000 .....	1,271,766 .....	58 .....	2.0
Medtox .....	9,236,000 .....	157,516 .....	59 .....	0.5
Myriad Genetics .....	14,548,000 .....	155,200 .....	94 .....	3.6
Quest Diagnostics .....	686,045,000 .....	14,039,500 .....	49 .....	4.5
Specialty Laboratories* .....	25,735,000 .....	362,203 .....	71 .....	<4
ViroLogic* .....	5,515,000 .....	98,159 .....	56 .....	<4
Average for 10 cos. ....			77 .....	8.9

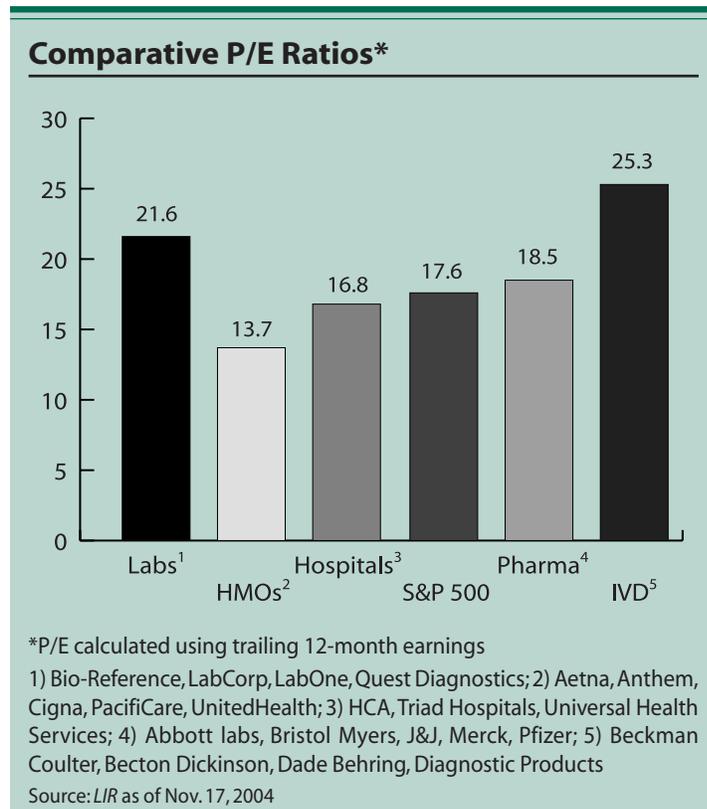
Note: All data is from reported financial results for the nine months ended Sept. 30, 2004, except for Bio-Reference (nine months ended 7/31/04); Enzo Clinical Labs (fiscal year ended 7/31/04); and Myriad Genetics (fiscal year ended 6/30/04).

\*Bad debt for Specialty Labs and ViroLogic was not available for the current period and is estimated by LIR at less than 4% each based on historical trends.

Source: LIR from company reports

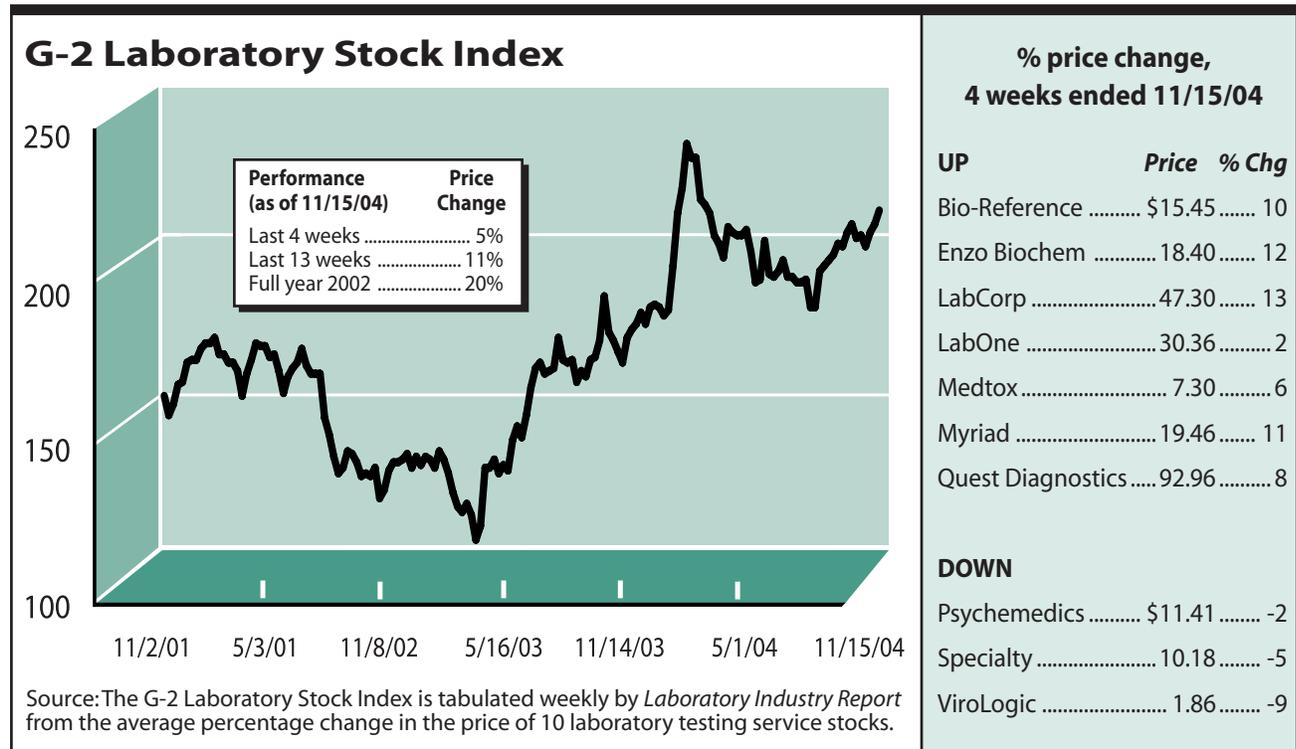


## Lab Stocks Up 5% In Latest Four Weeks



Stock prices for the 10 companies in the G-2 Laboratory Index rose an unweighted average of 5% in the four weeks ended Nov. 15, 2004, with seven stocks up in price and three down. So far this year, lab stocks have risen 20%, while the S&P 500 is up 7%, and the Nasdaq is up 4%.

How expensive are lab stocks compared with other healthcare stocks? A little bit on the high side is the answer based on the average price-to-earnings ratio of 21.6 for four lab stocks (Bio-Reference, LabCorp, LabOne, and Quest Diagnostics). This compares with a P/E of 17.6 for the S&P 500 Index. But with an average P/E of 25.3, IVD stocks (Beckman Coulter, Becton Dickinson, Dade Behring, Diagnostic Products) are the most expensive of the five healthcare sectors we analyzed. The least expensive were HMO stocks (average P/E of 13.7) followed by hospital chains (average P/E of 16.8). 🏠



# INDUSTRY *buzz*

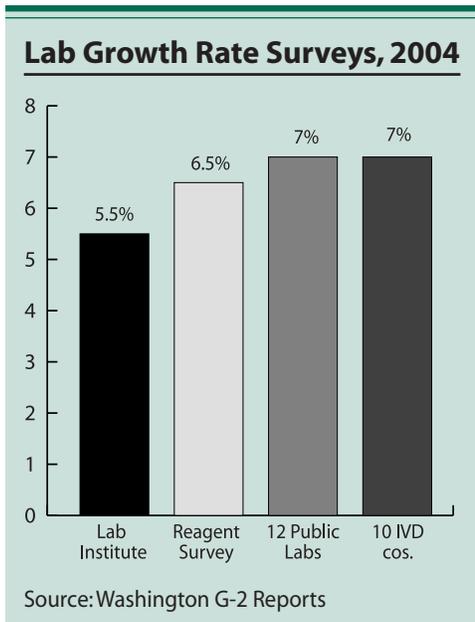
**HOW FAST IS THE U.S. CLINICAL LAB TESTING INDUSTRY CURRENTLY GROWING?** Four separate surveys recently conducted by Washington G-2 Reports suggest the answer falls in the range of 5.5% to 7% per year.

In September, G-2 Reports sent out an online survey to approximately 350 Lab Institute conference attendees. We got 115 respondents (57% hospitals; 27% independent labs; 16% POLs and other labs) and they reported an average of 5.5% test volume growth over the past 12 months.

In October, we sent out a separate online survey (G-2's First National Reagent Vendor Survey) to 4,000 lab directors, managers, and supervisors. The average annual test volume growth rate reported by the 182 respondents (76% hospitals; 18% independents; 6% POLs) was 6.5%.

Meanwhile, G-2's analysis of the first-half 2004 financial results at 12 publicly traded labs showed average growth of 7% (*see LIR, October 2004, pp. 1-2*). Finally, an analysis of the growth rates in the U.S. market for the 10 largest IVD companies (*e.g., Roche, J&J, Abbott, Bayer, etc.*) also revealed first-half growth of 7% (*see Diagnostic Testing & Technology Report, October 2004, page 3*).

In summary, if your lab is not growing in the 5.5% to 7% range, then you're losing market share to competitors. 🏠



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 Centrex Labs 315-797-0791  
 PharmChem, 817-605-5300  
 Premier Inc. 877-777-1552  
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