



# Diagnostic Testing and Technology Report

Competitive Intelligence & Analysis for an Expanding Global Market

Vol. I, No. 10/June 2001

## CONTENTS

### TOP OF THE NEWS

Bayer shareholders nix breakup .....	1
JNJ negotiating to buy Inverness glucose unit for \$1.3 billion .....	1

### M&A & PARTNERSHIPS

Genzyme to acquire Wyntek for \$65 million .....	3
Roche to invest \$57 million in new cancer unit .....	4
Carter-Wallace to split up ....	10
Akzo agrees to sell diagnostic unit .....	10

### INSIDE DIAGNOSTICS INDUSTRY

Will steep market valuations limit M&A activity? .....	5
Companies featured: Cytec, i-Stat, Cygnus, Digene, Visible Genetics, Vysis .....	5-7

### TECHNOLOGY

Axis-Shield to introduce genetic test for osteoporosis ..	3
GE Medical to develop gene imaging system .....	4

### FINANCIAL NEWS

Top IVD execs got nearly \$1 million each last year .....	8-9
IVD stocks jump 25% .....	11

### G-2 INSIDER

House bill would revamp Medicare lab fees .....	12
---	----



Established 1979

## Bayer Shareholders Vote Down Breakup Proposal

A resounding 98.8% of Bayer AG shareholders who cast votes at the company's annual meeting in Leverkusen, Germany on April 27 voted against a proposal from investment firm Tweedy, Browne Co. (New York City) to split the German giant into three separate and distinct companies: health-care; chemicals and polymers; and agricultural chemicals. Tweedy, Browne managing director Thomas Shrager believes the market value of Bayer's health-care business (pharmaceuticals, diagnostics, and OTC products) is being held down within Bayer's conglomerate structure (*DTTR*, Apr. '01, p.1; Feb. '01, p. 1).

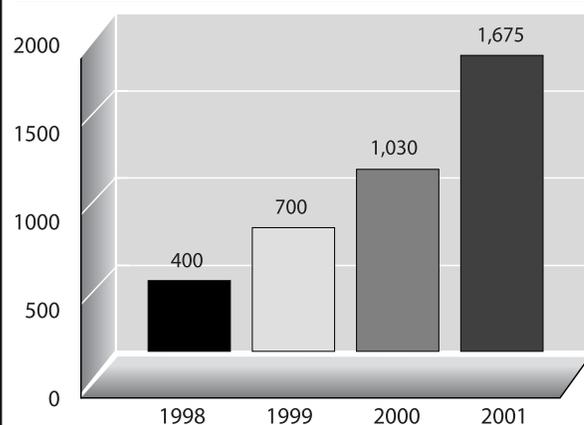
Analysts tell *DTTR* that the vote was not as lopsided as the reported tally appears because many institutional investors (such as investment banks and insurance firms) chose to show their displeasure with *Continued on p. 4*

## J&J May Buy Inverness Glucose Unit For \$1.3B

Johnson & Johnson (New Brunswick, NJ) and Inverness Medical Technology (Waltham, MA) have announced they are in "advanced discussions regarding a definitive agreement" whereby J&J would acquire Inverness' glucose monitoring business for \$1.33 billion worth of J&J common stock. Inverness has been developing / manufacturing electrochemical glucose monitoring meters and strips for J&J since 1995 and will ship an estimated 1.675 million meters to J&J this year. Inverness generated first-quarter 2001 revenue of \$51.254 million (+36% from a year ago), including \$38.7 million (+64%) from its glucose monitoring business. Annualizing this figure (\$38.7 million x 4 = \$154.8 million) indicates that J&J would pay 8.6 times revenue for this potential acquisition. *Continued on p. 2*

### Inverness Meter Shipments To J&J

(in thousands)



Source: Lehman Brothers estimate

▲ **J&J May Buy Inverness**, from page 1

Under the proposed deal, Inverness' non-diabetes businesses—nutritional supplements, over-the-counter pregnancy and ovulation tests, and infectious disease kits—would be split off to form a new publicly traded company owned by existing Inverness shareholders. Based on first-quarter 2001 results, these businesses have combined annual revenue of approximately \$50 million.

The businesses to be acquired by J&J would include Inverness' electrochemical blood glucose meter and strip business and two of its recent acquisitions—LXN Corp. (San Diego, CA), which makes dual glucose and fructosamine monitors, and Integ Inc. (St. Paul, MN), which has developed an interstitial fluid sampling technology. Inverness acquired LXN on March 28 for 795,110 shares of Inverness common stock plus \$6 million in cash. Integ was acquired on Jan. 23 for 1.9 million common shares plus \$5.1 million in cash.

Under the terms being discussed, shareholders of Inverness would receive \$35 worth of J&J common stock for each Inverness share they own plus shares in the new spun-off business (nutritional supplements, OTC tests, and infectious disease kits). Based on 38 million fully diluted shares of Inverness, the deal places a value of \$1.33 billion on Inverness' glucose monitoring business. J&J says it would take a \$100 million one-time write-off related to in-process research and development if it completes the acquisition.

J&J's potential purchase of Inverness' glucose monitoring business would cap a six-year relationship between the two companies. In 1995, Inverness and Lifescan (Milpitas, CA), which is owned by J&J, entered into a development and global distribution agreement related to an electrochemical system for whole blood glucose meters and strips. Electrochemical systems require a smaller sample size, have greater ease of use, and provide results quicker than J&J's in-house photometric technology. The first product from the partnership, One Touch FastTake, was launched in early 1998. A second-generation product, One Touch Ultra System, was launched late last year.

Inverness makes the FastTake test strips at its 103,500 square-foot plant in Inverness, Scotland; meters are subcontracted to a manufacturing firm in China. J&J's Lifescan markets the products worldwide.

Between 1998 and 1999, Lifescan's effort to market the electrochemical product was half-hearted, as management was concerned with the cannibalization of its existing photometric meter share customers. During this time, however, the glucose monitoring business shifted quickly to electrochemical products launched by Lifescan's competitors. As a result, Sara Michelmore, analyst at SG Cowen, estimates that Lifescan's worldwide market share dropped below 30% in 2000 from 38% in 1997.

*Inverness' largest shareholders include Pequot Capital Management (Westport, CT), with 3.167 million shares, and Ron Zwanziger, chairman of Inverness, with 2.716 million shares*

<b>Inverness At A Glance (\$000)</b>		
	<b>First Quarter 2001</b>	<b>First Quarter 2000</b>
Total revenue .....	\$51,254 .....	\$37,697
—Glucose monitoring .....	38,700 .....	23,600
—Other products .....	12,600 .....	14,100
Operating income .....	2,892 .....	3,507
Net income .....	-52,123* .....	1,235
*Includes one-time charge of \$56.1 million connected with acquisitions of Integ Inc. and LXN Corp.		
Source: Inverness		

In early 2000, J&J installed a new management team at Lifescan, which then shifted the primary focus of the unit's 1,000-person sales force to the electrochemical technology made by Inverness. Consequently, analysts at Lehman Brothers estimate that Inverness will ship 1.675 million meters to J&J this year, up 63% from 1.03 million in 2000. 🏠

---

## Genzyme To Acquire Wyntek For \$65 Million

**G**enzyme General (Cambridge, MA), a division of Genzyme Corp. (also in Cambridge), has agreed to acquire Wyntek Diagnostics Inc. (San Diego, CA) for \$65 million in cash. The deal is expected to close by the end of June. Wyntek, a privately held company founded in 1994, makes pregnancy tests for physician office use and over-the-counter sale to consumers. It also makes CLIA-waived tests for strep A and infectious mononucleosis. Wyntek generated \$17.5 million in revenue in 2000 and expects to reach \$25 million this year, according to Chris Fan, PhD, president. The company's 45,000 square-foot manufacturing facility in San Diego is expected to continue operations as part of Genzyme.

Genzyme General operates a diagnostic manufacturing business named Genzyme Diagnostics, which has manufacturing and marketing offices in Cambridge; San Carlos, CA; Kent, England; and Russelsheim, Germany. Genzyme Diagnostics makes novel or specialty products for clinical chemistry and immunochemistry as well as rapid tests for infectious disease. In 2000, it generated revenue of \$61.5 million (up 6% over the previous year). Genzyme General also operates genetic testing labs that specialize in DNA-based tests for cystic fibrosis and prenatal diagnosis of chromosome abnormalities. These labs generated revenue of \$61.3 million last year (up 7%).

Genzyme General's largest business is pharmaceuticals. Its leading products are Cerezyme and Ceredase—treatments for Gaucher's disease, a rare enzyme-deficiency condition. In 2000, pharmaceutical revenue totaled \$626.1 million (up 20%). 🏠

---

## Axis-Shield To Introduce Genetic Test For Osteoporosis

*Eight million American women and men have osteoporosis, according to the National Institutes of Health*

**A**xis-Shield PLC (Dundee, Scotland) will introduce its first genetic test for osteoporosis, or brittle bone disease, in the U.S. this summer, according to George Zajicek, business development director. Axis-Shield will sell the kit through an exclusive agreement with Specialty Laboratories (Santa Monica, CA), an esoteric testing company with annual revenue of more than \$150 million.

The test identifies patients with a predisposition to osteoporosis by screening for a mutation of the gene COL1A1, which makes people more likely to have low bone density. The test may reduce the need for expensive and time-consuming bone mineral density scans and help reduce the healthcare burden of fractures by allowing treatment to be targeted to those most at risk, says Zajicek.

John Schultz, business development director for Specialty, tells *DTTR* that the company is in the final stages of validating the kit in its own laboratory. The test will be offered for research use only; a list price has not yet been determined. 🏠

▲ **Bayer Shareholders**, from page 1

Bayer's current structure by not voting at all. However, institutional shareholders could not bring themselves to vote against Bayer management, which had strenuously counseled shareholders against the breakup. To do so likely would have excluded them from any future investment banking service deals with the healthcare giant.

In his address to shareholders, Manfred Schneider, chairman and chief executive of Bayer, said, "The related cost and risk [of a breakup] would be considerable. The idea that the value of the independent entities could rise faster than that of the company in its current form is based largely on speculative assumptions about future trends and valuations."

Meanwhile, Shrager had an opportunity to address the 7,000 Bayer shareholders at the annual meeting. In his plea, Shrager offered the following anecdote: "A German friend of Will Browne, one of my senior partners at Tweedy Browne, told him 10 years ago that German companies looked upon shareholders as mushrooms—to be kept in the dark, except for the big bank shareholders, and thrown periodically some manure (or dividends). Have things changed since then?"

Addressing his own question, Shrager tells *DTTR*, "The answer is 'no.' Bayer shareholders acted like mushrooms ... Investors have lost an historic opportunity to unlock shareholder value."

Separately, Bayer announced that in the three months ended March 31, overall net income fell 20.5% to 442 million euros (US \$388 million); revenue was up 8% to 7.901 billion euros (US \$6.932 billion). 🏠

---

## GE Medical To Develop Gene Imaging System With Genometrix

*GE Medical Systems accounted for about \$7.5 billion of General Electric's \$129.9 billion in revenue last year*

**G**E Medical Systems (Waukesha, WI) and Genometrix Inc. (The Woodlands, TX) have agreed to work together to develop gene and protein imaging systems to help predict a patient's genetic risk for diseases such as breast and prostate cancer. The alliance is GE's first venture into the gene analysis tools market. In the project, GE will share its molecular imaging technology, while privately held Genometrix will contribute its applied genomics research and DNA chip technology. The University of Texas M.D. Anderson Cancer Center (Houston) will pilot the initial research using these combined technologies. The companies expect to have their first diagnostic product available in about three years. Financial terms were not disclosed. 🏠

---

## Roche To Invest \$57 Million In New Cancer Unit

**R**oche Diagnostics (Indianapolis, IN) says it will invest 100 million Swiss francs (US \$57 million) over the next five years on a new unit devoted to cancer care. The goal of the unit will be to integrate diagnostic testing and therapy for cancer patients. "Our new business offering follows the emerging trend for patient stratification of drug treatment by utilizing diagnostic tests and translation of contextual diagnostic information into treatment schedules. Roche's Herceptin and Xeloda [both are drugs for breast cancer] are the first examples of successful cancer care programs," says Heino von Prondzynski, division head of Roche Diagnostics. 🏠

# *inside the diagnostics industry*

## Will J&J-Inverness Deal Spark More Consolidation?

*IVD companies with proprietary technology in high-growth sectors such as glucose monitoring and DNA-based testing may be the most attractive acquisition targets for major manufacturers looking to boost growth*

Johnson & Johnson's announcement that it is negotiating to acquire the glucose monitoring business of Inverness Medical Technology (*see p. 1*) highlights the potential for the largest IVD manufacturers to gobble up smaller device makers with coveted technologies. Martin Madaus, president of Roche Diagnostics Corp. (Indianapolis, IN), tells *DTTR*, "It's hard to see a major consolidation [for Roche]. We have critical mass. A major merger or acquisition would create so much overlap. It's more interesting to look at the next tier and smaller companies." *DTTR* surmises that the other major IVD manufacturers (such as Abbott Laboratories, J&J, Bayer, etc.) have similar views.

One stumbling block to increased consolidation is the high valuations at which most of the leading buyout candidates now trade. Take **Cytec Corp.** (Boxborough, MA) for example. Its ThinPrep system is quickly becoming the new standard for cervical cancer screening. Cytec has a stunning market capitalization of \$2.874 billion. That's an amount equal to 15.1 times the company's annualized first-quarter revenue (*see table, p. 6*). In contrast, Beckman Coulter has a market cap of \$2.311 billion, with annualized revenue of \$1.731 billion for a multiple of 1.3.

Of course, a rich valuation doesn't appear to be a roadblock for Johnson & Johnson, which may wind up paying nearly nine times revenue to acquire the glucose monitoring business of Inverness. With little opportunity for consolidation among the top five IVD companies, the major manufacturers may feel compelled to turn to the next tier—despite this sector's high valuations. Here's a brief summary/update on several potential takeover candidates.

**i-Stat Corp.** (East Windsor, NJ) makes a hand-held blood analyzer for use at the patient's bedside. The analyzer simultaneously performs different combinations of commonly ordered blood tests (*e.g.*, sodium, potassium, chloride, glucose, creatinine, urea nitrogen, hematocrit, etc.) in about two minutes. In the fourth quarter of 2000, i-Stat introduced a hand-held analyzer that runs all i-Stat cartridges as well as Abbott's Medisense glucose strips. The company says that 95% of the approximately 200 million blood tests (electrolyte and blood gas) performed on a "stat" basis each year in the U.S. can be performed on the i-Stat analyzer.

i-Stat is currently developing three additional tests for the measurement of coagulation: kaolin ACT, partial thromboplastin time, and prothrombin time. The company is also studying the development of cardiac marker tests.

In September 1998, i-Stat entered into a long-term worldwide marketing agreement with Abbott. In connection with this agreement, Abbott purchased two million shares of i-Stat common stock at \$11.35 per share for a total \$22.7 million investment equal to an 11% stake. Approximately 85% of i-Stat's revenue is currently derived from Abbott.

In the three months ended March 31, i-Stat recorded a net loss of \$3.826 million vs. a net loss of \$4.669 million a year earlier; revenue was up 11% to \$12.328 million. Cartridge shipments increased 34% to 2.759 million units at an average sales price of \$3.39 per cartridge.

**Cygnus Inc.** (Redwood City, CA) has developed a wrist-worn device that monitors glucose levels for diabetics without breaking the skin. The company's GlucoWatch Biographer utilizes an "electro-osmosis" system, which extracts glucose from fluid between skin tissue, rather than blood.

On March 22, GlucoWatch was cleared by the U.S. Food & Drug administration as a prescription device for adults with diabetes. Cygnus recently signed a related U.S. market research agreement with J&J-owned Lifescan (Milpitas, CA). Terms give Lifescan exclusive access for a limited period of time to data from a pilot GlucoWatch marketing program in 15 U.S. cities. The agreement also gives Lifescan the right of first refusal with respect to a Comprehensive Collaboration Agreement to market, distribute, and support customers in the U.S.

In the three months ended March 31, Cygnus reported a net loss of \$4.947 million vs. a net loss of \$5.115 million a year earlier; revenue (mostly from research milestone payments) increased to \$5.033 million from \$1.038 million. As of March 31, Cygnus had \$15.96 million in cash and short-term investments. Since its inception in 1985, Cygnus has accumulated net losses totaling \$220.77 million. The largest shareholder in the company is Fidelity Management & Research Corp. (FMR—Boston, MA), which owns a 10% stake.

**Digene Corp.** (Gaithersburg, MD) recently announced that MDS Inc. (Toronto, Canada), the largest laboratory testing company in Canada, has begun offering the Digene Hybrid Capture 2 HPV DNA test as a reflex test for women with inconclusive Pap smear results.

MDS is the first laboratory in Canada to make Digene's test available on a national basis. MDS serves more than 15,000 Canadian physicians who perform over one million Pap tests annually. In the three months ended Jan. 31, 2001, MDS generated \$114.6 million (Canadian) from its lab operations, including \$85.1 million from Canada and \$29.5 million from the U.S.

**The High Price For New IVD Technology**

Company	Market Capitalization	Annual Revenue*	Market Cap/Revenue	Key Investors
Cygnus	\$221.7	\$20.1	11.0	FMR-10%
Cytc	2,874.1	189.9	15.1	MFS -13%
Digene	517.0	36.0	14.4	Armonk Partners-29%
i-Stat	312.3	49.3	6.3	Abbott-11%
Visible Genetics	246.0	14.3	17.2	Franklin Resources-13%
Vysis	215.4	28.9	7.5	BP Amoco-66%

\*Based on annualized results for the three months ended March 31, 2001 Source: DTTR

Digene's HPV test is the only FDA-approved test for human papillomavirus, which is associated with some 99% of cervical cancer cases. U.S. lab companies such as Quest Diagnostics, Laboratory Corp. of America, and Unilab are already using the test in the U.S. The test costs labs \$20-25 each and is reimbursed by Medicare under CPT code 87621 (capped at

\$48.50)—HPV Amplified Probe Technology billed x 2 (two tests per patient specimen; includes low risk and high risk)—for a total of \$97 per specimen tested.

Separately, Roche has agreed to distribute Digene Corp.'s Hybrid Capture 2 test in Europe, the Middle East, and Africa. The Roche agreement replaces a similar agreement with Abbott that Digene has terminated.

In the three months ended March 31, Digene recorded a net loss of \$1.646 million vs. a net loss of \$1.633 million a year earlier; revenue was up 47% to \$9.01 million. Digene's largest shareholder is Armonk Partners, which owns 4.702 million shares for a 29% stake. Armonk Partners is an investment partnership; the managing partners are Evan Jones, chairman of Digene, and Charles Fleischman, president.

**Vysis Inc.** (Downers Grove, IL) recently signed a cooperative research and development agreement with the National Cancer Institute (Bethesda, MD). The objective is to develop genomic targets for detecting and distinguishing pre-malignancies from invasive cancer and for determining the propensity of a pre-malignancy to progress to invasive cancer. Initial areas of focus will be cervical and breast cancer. The work will be conducted in the NCI laboratory of cancer researcher Thomas Ried, MD.

Vysis' PathVysion HER-2 assay helps physicians determine which breast cancer patients will benefit from specific treatments. Vysis also makes AneuVysion (for detection of prenatal chromosomal abnormalities) and UroVysion (for identifying chromosomal abnormalities in cells in a patient's urine). Abbott is the exclusive distributor of Vysis' PathVysion HER-2 assay and UroVysion assay in North America and Europe (*see DTTR, May '01, p. 1*). Abbott employs a worldwide total of approximately 300 sales representatives focused on molecular diagnostics.

In the three months ended March 31, Vysis reported net income of \$1.085 million vs. a loss of \$1.319 million in the same period a year ago; revenue was up 41% to \$7.219 million. Vysis was incorporated in April 1991. The company's business represents the consolidation of multiple research units and programs of the former Amoco Corporation. In December 1998, Amoco merged with British Petroleum to become BP Amoco (London, England). Vysis completed an initial public offering in February 1998; BP Amoco has retained a 66% stake in the company.

**Visible Genetics** (VGI—Toronto, Canada) submitted a 510(k) application to FDA for its TruGene HIV-1 assay last September. However, an apparent heavy workload at the agency has caused approval expectations for TruGene to be pushed ahead, from July to September. Genotype tests such as VGI's TruGene HIV-1 sequence the genes of the HIV virus. Physicians use this information to better understand a specific patient's resistance profile (*see DTTR, April '01, p. 4*). In the three months ended March 31, VGI reported a net loss of \$8.58 million vs. \$5.716 million a year earlier; revenue fell 2% to \$3.573 million. VGI's largest shareholder is the mutual fund group Franklin Resources, which owns a 13% stake. 🏠

## Top IVD Execs Got An Average Of Nearly \$1M Each Last Year

**T**he top executives at 18 IVD manufacturers received a total of \$17.477 million in cash compensation last year for an average of \$970,951 per executive, according to a *DTTR* analysis of data filed with the Securities & Exchange Commission.

*The seven executives on Bayer's board of management received total remuneration of 10.4 million euros (US \$9.1 million) in 2000, according to the company's latest annual report*

The average salary for the 18 executives in 2000 was \$473,448; bonuses averaged \$344,615 and "other" compensation \$152,888.

Excluding Abbott Laboratories and Johnson & Johnson, the average compensation for the remaining 16 executives was \$590,615—this includes \$356,006 in salary, bonuses of \$178,299, and "other" compensation of \$56,311.

Ralph Larsen, chairman of Johnson & Johnson (New Brunswick, NJ), was the highest-paid IVD executive (excluding stock options), earning a total of \$4.703 million in salary, bonus, and other compensation. He also received 10-year options to purchase 750,000 shares of J&J stock at a base price of \$101.38 per share with an estimated present value of \$22.34 million (*for details, see DTTR, April '01, p. 9*).

Miles White, chairman of Abbott Diagnostics (Abbott Park, IL), was next with \$3.324 million in total compensation. He also received 10-year options to purchase 450,000 shares of Abbott stock with a potential value of \$24.886 million (*for details, see DTTR, April '01, p. 8*).

John Wareham, chairman of Beckman Coulter (Fullerton, CA), earned \$1.426 million in total compensation last year, including a salary of \$680,633, a bonus of \$667,450, and other compensation of \$77,937. In addition, he received 135,000 stock options with a grant date present value of \$1.326 million. Beckman Coulter reported net income of \$125.5 million in 2000 vs. \$106 million in 1999; revenue was up 18% to \$1.887 billion. The company's stock increased 65% last year to \$41.94 per share.

David Schwartz, chairman of Bio-Rad Laboratories (Hercules, CA), was the only other top IVD executive to earn more than \$1 million in salary, bonus, and other compensation last year. Schwartz earned a total of \$1.38 million and also received 74,000 10-year stock options valued at \$2.63 million (assuming stock appreciation of 10% per year). Bio-Rad earned \$31.1 million in 2000 vs. \$11.721 million in 1999; revenue was up 31% to \$725.884 million. The company's stock rose 36% last year to \$31.80 per share.

Edward Ludwig, president of Becton Dickinson (Franklin Lakes, NJ), earned a salary of \$562,500, a bonus of \$425,000, plus other compensation of \$5,321 last year. He also received 110,000 10-year stock options potentially worth \$1.273 million.

Patrick Sullivan, president of Cytoc Corp. (Boxborough, MA), earned a total of \$808,177 in salary, bonus, and restricted stock. He also received 110,100 10-year stock options potentially worth \$1.981 million. Kim Blickenstaff, president of Biosite (San Diego, CA), earned total compensation of \$516,746 last year and also received 100,000 10-year stock options potentially worth \$5.04 million. ▲

**2000 Senior Executive Cash Compensation**

<i>Company/Executive</i>	<i>Salary</i>	<i>Bonus</i>	<i>Other Comp*</i>	<i>2000 Total Comp</i>	<i>2000 Co. Net Income</i>	<i>2000 Stock % Chg</i>
<b>Abaxis<sup>1</sup></b>						
Clinton Severson, Chmn	\$200,000	\$112,500	\$0	\$312,500	-\$1,460,000	-23%
<b>Abbott Labs</b>						
Miles White, Chmn	1,390,961	1,800,000	132,827	3,323,788	2,786,000,000	33%
<b>Beckman Coulter</b>						
John Wareham, Chmn	680,633	667,450	77,937	1,426,020	125,500,000	65%
<b>Becton Dickinson<sup>2</sup></b>						
Edward Ludwig, Pres	562,500	425,000	5,321	992,821	392,897,000	29%
<b>Bio-Rad</b>						
David Schwartz, Chmn	525,314	260,825	594,067	1,380,206	31,100,000	36%
<b>Biosite</b>						
Kim Blickenstaff, Pres	287,500	227,711	1,535	516,746	6,163,000	153%
<b>Careside</b>						
W.Vickery Stoughton, Chmn	249,336	0	21,047	270,383	-16,939,000	-81%
<b>Cholestech<sup>3</sup></b>						
Warren Pinckert, Pres	236,707	152,694	3,444	392,845	3,132,000	-8%
<b>Cytc</b>						
Patrick Sullivan, Chmn	275,000	514,438	18,739	808,177	38,163,000	105%
<b>Diagnostic Products</b>						
Michael Ziering, Chmn	400,000	60,000	25,500	485,500	28,250,000	123%
<b>Diametrics</b>						
David Giddings, Chmn	349,039	187,085	0	536,124	-2,647,617	-31%
<b>Digene<sup>4</sup></b>						
Evan Jones, CEO	238,917	83,333	0	322,250	-6,767,000	156%
<b>Inverness</b>						
Ron Zwanziger, Chmn	350,000	0	0	350,000	10,639,623	1122%
<b>i-Stat</b>						
William Moffitt, Pres	350,000	57,400	552	407,952	-7,495,000	82%
<b>Johnson &amp; Johnson</b>						
Ralph Larsen, Chmn	1,435,000	1,550,287	1,718,195	4,703,482	4,800,000,000	13%
<b>Meridian<sup>5</sup></b>						
William Motto, Chmn	371,000	104,344	43,908	519,252	7,111,000	-32%
<b>Quidel</b>						
Andre de Bruin, CEO	393,433	0	3,559	396,992	-5,846,000	-26%
<b>Ventana</b>						
Christopher Gleeson, Pres	226,719	0	105,359	332,078	-27,295,000	-26%
<b>Total, 18 execs</b>	8,522,059	6,203,067	2,751,990	17,477,116		
<b>Average, 18 execs</b>	\$ 473,448	\$ 344,615	\$ 152,888	\$ 970,951		

\*Other compensation includes the value of restricted stock awards, plus company contributions to retirement plans and life insurance policies, but excludes options granted.

1) Abaxis' net income is for the fiscal year ended March 31, 2001. 2) Becton's net income is for the fiscal year ended Sept. 30, 2000. 3) Cholestech's net income is for the fiscal year ended March 31, 2001. 4) Digene's net income is for the fiscal year ended June 30, 2000. 5) Meridian's net income is for the fiscal year ended Sept. 30, 2000.

Source: DTTR from Securities & Exchange Commission filings

## Carter-Wallace To Sell Diagnostic/Drug Business

*MedPoint is a new specialty healthcare business being created by former executives of Warner-Lambert and Becton Dickinson, with financial backing from the Carlyle Group and the Cypress Group investment firms*

**C**arter-Wallace Inc. (New York City) has agreed to sell its healthcare business for \$408 million to an investment group led by MedPointe Capital Partners (Short Hills, NJ). The healthcare business includes diagnostic unit Wampole Laboratories (Cranbury, NJ) and pharmaceutical unit Wallace Laboratories (also in Cranbury). Wampole makes enzyme and fluorescent immunoassay tests to detect infectious and autoimmune disease. The company's Clearview product line includes rapid tests for pregnancy, group A strep, chlamydia, and *C. difficile*. Wallace makes the Soma muscle relaxant and Rynatan/Tussi cough-cold product lines. Combined, Wampole and Wallace generate roughly \$280 million of revenue per year.

Under a separate agreement, Carter-Wallace says it will sell its remaining consumer products business for \$739 million in cash to Armkel LLC, a partnership of consumer packaged-goods maker Church & Dwight Co. and the private investment firm Kelso & Co. (New York City). Carter-Wallace's consumer business includes Trojan condoms, Arrid deodorant, and Nair hair remover as well as a line of at-home pregnancy, ovulation, and urinary tract infection kits. Annual revenue for this unit totals roughly \$275 million per year. ▲

## Akzo Agrees To Sell Diagnostics Unit To bioMerieux

**D**utch chemical group Akzo Nobel NV has accepted a takeover bid for its IVD business by bioMerieux-Pierre Fabre (Marcy l'Etoile and Castres, France). bioMerieux had initially made an offer for the operations in February (*DTTR*, *March '01*, p. 8). Akzo said the unit, part of its Organon Teknika business (Boxtel, The Netherlands), had failed to achieve the size necessary to compete in a consolidating global market. Financial terms of the agreement have not been disclosed.

Organon Teknika's diagnostics business employs some 1,800 people—including about 500 people in Durham, NC—and generates estimated annual revenue of 275 million euros (US \$242 million).

Not part of the deal with bioMerieux is Organon Teknika's pharmaceuticals business (annual revenue: 275 million euros) and staff (400 employees). This business will be transferred to Akzo's human pharmaceutical unit.

In the fiscal year ended Sept. 30, 2000, bioMerieux reported net income of 46.4 million euros (US \$41 million) on revenue of 600.7 million euros (US \$529 million). In

December 2000, bioMerieux merged with Pierre Fabre, a privately held pharmaceutical and cosmetics firm. With the addition of Organon Teknika's IVD business, bioMerieux-Pierre Fabre will generate annual revenue of more than 2 billion euros (US \$1.78 billion) per year, including roughly 1.1 billion euros (US \$965 million) from pharmaceuticals and cosmetics and 900 million euros (US \$785 million) from diagnostics. ▲

### bioMerieux In Brief

(fiscal year ends Sept. 30—in millions of euros)

	1998	1999	2000
Total revenue .....	492.7	513.4	600.7
R&D expenditures .....	58.4	68.4	58.4
Pretax income .....	43.0	41.2	76.7
<i>(excluding exceptional items)</i>			
Net income .....	23.1	23.1	46.4

Source: bioMerieux

## IVD Stocks Jump 25% In Latest Five Weeks, Digene Up 93%

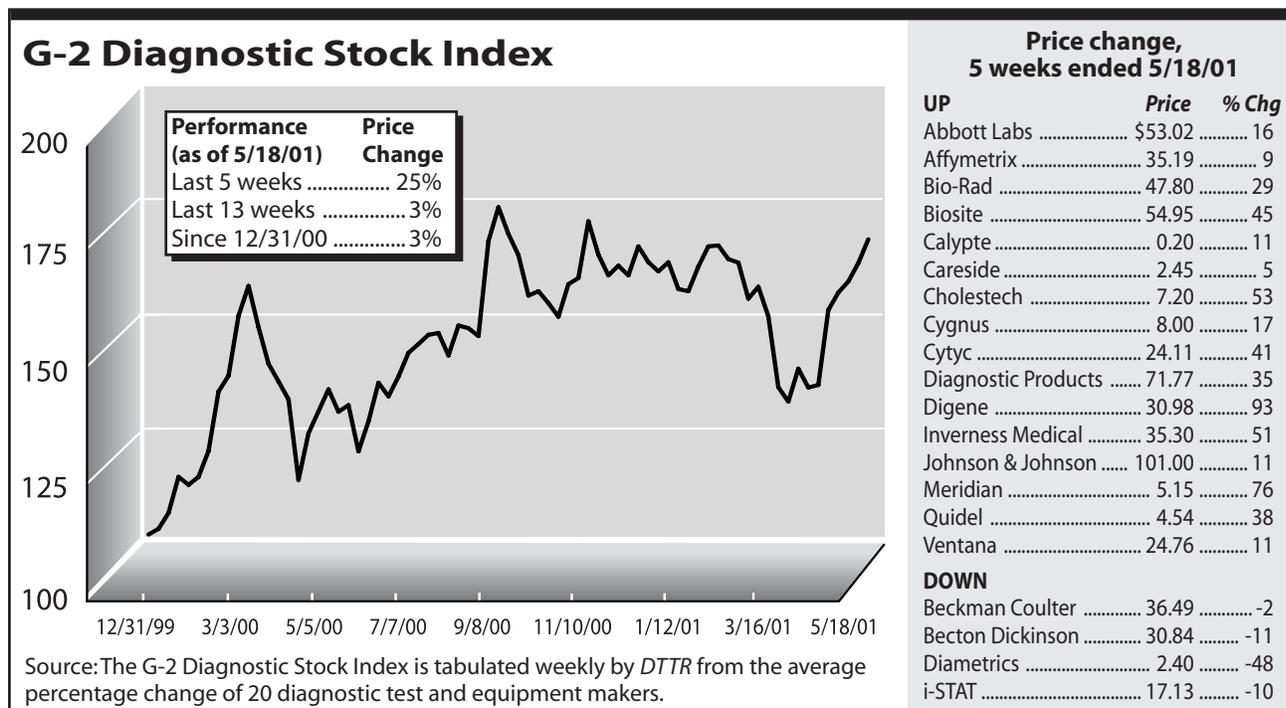
The G-2 Diagnostic Stock Index rose 25% in the five weeks ended May 18. Sixteen stocks in the index went up in price, four fell. Since the start of the year, the index has risen 3%, while the S&P 500 is down 2% and the Nasdaq is down 11%.

Shares of **Digene Corp.** (Gaithersburg, MD), which manufactures a DNA-based test for human papillomavirus (HPV), soared 93% to \$30.98 per share, giving the company a market capitalization of \$517 million. The company recently announced that Roche will distribute its HPV tests in Europe, the Middle East, and Africa (*see p. 7*).

**Meridian Bioscience** (Cincinnati, OH) saw its stock rise 76% to \$5.15 per share for a market capitalization of \$75 million. The company reported a net loss of \$1.616 million for the three months ended March 31, compared with net income of \$1.849 million a year earlier; revenue fell 5% to \$13.866 million. In addition, the company recently hired Larry Baldini as its vice president of operations. Baldini previously was director of operations for sensory systems at Instrumentation Laboratories (Ann Arbor, MI).

**Diametrics** (St. Paul, MN) plunged 48% to \$2.40 per share for a market cap of \$64 million. For the three months ended March 31, the company reported a net loss of \$1.128 million vs. a net loss of \$1.143 million a year earlier; revenue was up 1% to \$5.716 million. Diametrics makes blood and brain tissue/fluid testing devices for hospital point-of-care testing. The company's lead product is the IRMA (immediate response mobile analysis) System, an electrochemical-based blood testing system that weighs about four pounds and uses disposable cartridges to provide several of the most frequently ordered blood tests within 90 seconds. 🏠

Shares of Bayer, which trade on the German stock exchange and are not part of the G-2 Diagnostic Stock Index, have fallen 16% so far this year to 47.40 euros per share



# G-2 Insider

In calendar 2000, Medicare Part B spending on clinical laboratory services totaled \$3.93 billion. This compares to spending of \$4.23 billion in calendar 1995 and represents an average annual decline of 1.5% for the latest five years. The decline has occurred even as the Medicare-eligible population has increased by about 1% per year and consumer prices have risen by some 3% per year over the same time frame. If Medicare Part B lab spending had merely kept pace with senior population growth and inflation over the past five years, payments would have totaled \$4.78 billion last year.

Some relief could be in store for laboratories and the diagnostic manufacturers that supply them. On May 10, the "Medicare Patient Access to Preventative & Diagnostic Tests Act" (HR 1798) was introduced in the U.S. House of Representatives by Rep. Jennifer Dunn (R-WA). The bill incorporates several recommendations of the Institute of Medicine study whose congressionally mandated report on current and alternative Medicare lab payment methods was released last December.

Key provisions in the bill include:

- The Health Care Financing Administration should reinstitute annual consumer price index adjustments to the Medicare lab fee schedule, beginning in 2002.
- HCFA should establish an open, public process for incorporating new laboratory tests under Medicare and fair payment levels to ensure that beneficiaries have access to the latest technology.
- HCFA should set fees for all other lab tests on the fee schedule at their national caps (in effect, a single, national fee schedule) to streamline payment processing and paperwork.

Because most private payers set their lab reimbursement rates based on Medicare's, any pricing relief afforded by the Dunn bill could have an enormous ripple effect throughout the \$33 billion U.S. lab testing industry and the \$9 billion IVD manufacturing industry that supplies it. 🏠

## Company References

Axis-Shield  
00 44 (0) 1382 422000  
Bayer Diagnostics 914-631-8000  
bioMerieux (St. Louis, MO)  
314-731-8500  
Carter-Wallace 212-339-5000  
Cygnus 650-369-4300  
Cytoc Corp. 978-263-8000  
Diametrics 651-639-8035  
Digene 301-944-7000  
GE Medical Systems  
800-643-6439  
Genometrix 281-465-5000  
Genzyme General 617-252-7500  
Inverness 781-647-3900  
i-Stat 609-443-9300  
Johnson & Johnson  
732-524-0400  
Meridian Bioscience  
513-271-3700  
Organon Teknika (Durham, NC)  
919-620-2000  
Roche Diagnostics  
317-849-9350  
Specialty Laboratories  
310-826-6543  
Visible Genetics 416-813-3240  
Vysis 630-271-7000

## DTR Subscription Order or Renewal Form

**Subscription** includes 12 monthly issues, e-mail Alerts, annual company index, newsletter binder, plus exclusive savings on other G-2 publications and programs

**YES**, enter my subscription at the regular rate of \$379/yr

or

**YES**, as a current subscriber to the **National Intelligence Report, Laboratory Industry Report, or G-2 Compliance Report**, enter my subscription at the special subscriber rate of \$279/yr

### Please Choose One:

Check enclosed (payable to Washington G-2 Reports)

American Express     VISA     MasterCard

Card # \_\_\_\_\_ Exp. Date \_\_\_\_\_

Cardholder's Signature \_\_\_\_\_

Name As Appears On Card \_\_\_\_\_

### Ordered by:

Name \_\_\_\_\_

Title \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ St \_\_\_\_\_ Zip \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_

e-mail address \_\_\_\_\_

### Return to:

Washington G-2 Reports  
29 West 35<sup>th</sup> Street, 5<sup>th</sup> Floor  
New York, NY 10001-2299  
Tel: (212) 629-3679  
Website: [www.washg2.com](http://www.washg2.com)

### For fastest service:

Call (212) 629-3679  
or fax credit card order  
to (212) 564-0465

6/01

**Note:** subscribers outside the U.S. add a \$50 postal surcharge

© 2001 Washington G-2 Reports. All rights reserved. Reproduction in any form prohibited without express permission. Reporting on commercial products is to inform readers only and does not constitute an endorsement.

*Diagnostic Testing & Technology Report* (ISSN 1531-3786) is published by Washington G-2 Reports, 1111 14<sup>th</sup> St NW, Ste 500, Washington DC 20005-5663. Tel: 202-789-1034. Fax: 202-289-4062. Order line: 212-629-3679. Website: [www.washg2.com](http://www.washg2.com)

Publisher: Dennis W. Weissman. Editor: D.J. Curren. Managing Editor: Jondavid Klipp, [labreporter@aol.com](mailto:labreporter@aol.com)