

LABORATORY INDUSTRY REPORT®

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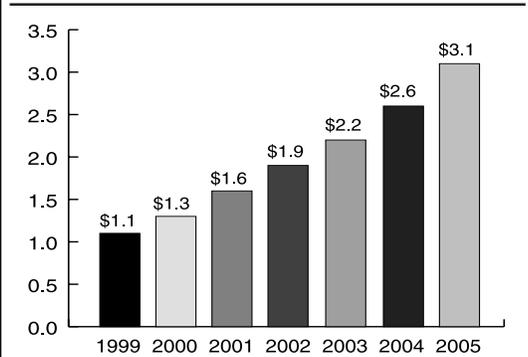
Spotting The Next Big Gene-Based Tests

The market for molecular testing at clinical laboratories in the U.S. should grow by approximately 18% per year from \$1.3 billion in 2000 to more than \$3 billion in 2005, according to estimates from Frost & Sullivan (San Antonio, TX). To date, most of the growth has come from molecular testing to detect and monitor infectious diseases, particularly HIV and hepatitis C.

But IVD manufacturers and esoteric testing labs have begun to introduce new gene-based tests designed to predict an individual's propensity to certain cancers such as melanoma, colorectal and bladder cancer. New tests also are being developed to monitor the effectiveness of drugs in treating everything from breast cancer to brain tumors. Gene-based testing for inherited diseases, especially cystic fibrosis and hemochromatosis, is beginning to take off as well.

For an overview of several gene-based tests now gaining widespread use, see *Inside The Laboratory Industry*, pp. 5-7.

Est'd Molecular Diagnostics Revenue At U.S. Clinical Labs, 1999-2007 (\$B)



Source: Frost & Sullivan

Quest To Buy American Medical Labs For \$500M

Quest Diagnostics (Teterboro, NJ) has signed a definitive agreement to acquire American Medical Laboratories, the largest privately held lab in the nation with major testing facilities in Chantilly, VA and Las Vegas, NV. The price is \$500 million, including a \$340 million cash payment to AML stockholders plus \$160 million in assumed AML debt. The purchase will boost Quest's annual revenue run rate to approximately \$4 billion and give it a 40% share of the total estimated U.S. commercial lab market of \$9.9 billion per year. The \$500 million purchase price is equal to 1.67 times AML's \$300 million in annual revenue. The acquisition will supersede AML's plans for an initial public offering.

Continued on p. 2



■ **QUEST**, from page 1

During a Feb. 7 conference call, Kenneth Freeman, chairman of Quest, said that after completion of the deal, Quest plans to keep open AML's major testing facilities in Chantilly (a suburb of Washington, DC) and Las Vegas. AML currently derives approximately \$170 million in annual revenue from its Virginia lab and \$130 million from its Nevada lab.

Quest's purchase of AML will give it a major presence in Nevada, the state with the nation's fastest-growing population

The addition of AML's two big facilities, Freeman said, will ease capacity constraints at Quest's Nichols Institute (San Juan Capistrano, CA), where the focus is on esoteric testing. Quest generated approximately \$275 million from gene-based tests in 2001, he noted, up more than 20% from \$225 million in 2000.

Through the acquisition, Quest will also regain access to several big hospital contracts that it had lost to AML over the past few years. In 2000, for example, AML became a preferred provider for the Healthtrust Purchasing Group and Quest was dropped. Also in 2000, AML replaced Quest as the primary reference lab for Kaiser Permanente. In total, AML currently serves approximately 470 hospitals, 148 independent labs and 7,000 physician office clients.

The biggest risk for Quest is customer attrition. One reason why many hospital labs have chosen AML as their primary reference lab is because AML generally does not compete against them for physician office outreach business. After Quest acquires AML, some hospital customers may choose to switch to another reference lab to avoid competitive conflicts.

Meanwhile, the AML acquisition agreement marks another coup for investment firm Golder, Thoma, Cressey Rauner (Chicago, IL), which has also had success with its

investment in Dynacare (Dallas, TX and Toronto, Canada). GTCR partnered with AML chairman Timothy Brodник to purchase AML in May 1997 for \$23 million in cash plus assumed debt.

From the sale to Quest, GTCR will get approximately \$222 million in cash in exchange for its current 65.3% stake in AML. Brodnik will receive roughly \$19 million for his 5.6% stake.

Other big winners in the transaction are AML executive vice president Jack Bergstrom, who owns a 2.7% stake worth roughly \$9 million, and AML board member Jerrold Glick, who owns 9.9% worth about \$34 million.

During the conference call, Freeman noted that the current management team at AML is expected to stay on with Quest after the acquisition is completed. ▲

**Quest Diagnostics,
AML Financials For 2001 (\$MM)**

	<i>Quest</i>	<i>AML¹</i>
Total revenue	\$3,627.7	\$300.0
—Clinical lab	3,482.0	300.0
—Trials, kits, other	145.7	0
EBITDA ²	556.7	37.3
Net income	162.3	1.2
Est'd Accessions	107.0	8.8
Avg. price/accession	32.56	34.09
Employees ³	26,000	2,850
Revenue/employee	\$139,500	\$104,000

¹Estimated data based on annualizing reported results for the nine months ended Sept. 30, 2001.

²EBITDA=earnings before interest, taxes, depreciation, amortization and non-recurring charges.

³Based on data from latest annual reports, with each part-time employee counted as 1/2 FTE.

Source: LIR from company reports



Concentration In Lab Market Continues With Quest, AML Deal

The overall U.S. laboratory testing market (including commercial, hospital, physician office and other labs) totaled \$35.4 billion in 2001, according to LIR estimates

The purchase of American Medical Laboratories by Quest Diagnostics will raise Quest's annual revenue to roughly \$4 billion, giving it a 40% share of the total \$9.9 billion of revenue generated by all U.S. commercial labs, according to estimates by *Laboratory Industry Report (LIR)*. "The industry remains ripe for consolidation," says Quest chairman Kenneth Freeman. Despite Quest's growing share of the commercial lab market, Wall Street analysts do not anticipate that regulators will block the purchase of AML because of antitrust concerns.

A *LIR* analysis of the 26 largest commercial labs in the U.S. shows that they generated nearly \$9 billion in revenue in 2001, accounting for 90% of the total commercial lab market. The top five commercial labs—Quest (with AML), Laboratory Corp. of America, AmeriPath, Unilab and Dynacare—generated an estimated \$7.2 billion of revenue in 2001, accounting for 73% of the total commercial lab market. 🏢

Commercial Laboratory Universe By 2001 Revenue (\$MM)

<i>Company (Headquarters)</i>	<i>Estimated Revenue, 2001</i>	<i>% Share of All Commercial Labs</i>	<i>% Share of Total Market</i>
Quest Diagnostics (Teterboro, NJ)	\$3,628	37	10
LabCorp (Burlington, NC)	2,200	22	6
AmeriPath (Riviera Beach, FL)	418	4	1
Unilab (Tarzana, CA)	390	4	1
American Medical Labs (Chantilly, VA)	300	3	1
Dynacare (U.S. operations-Dallas, TX)	290	3	1
LabOne (Lenexa, KS) ¹	255	3	1
Impath (New York City)	178	2	*
Specialty Labs (Santa Monica, CA)	175	2	*
Dianon (Stratford, CT) ²	170	2	*
ARUP Labs (Salt Lake City, UT) ³	145	1	*
Mayo Medical Labs (Rochester, MN)	125+	1	*
Bio-Reference Labs (Elmwood Park, NJ)	81	1	*
MDS (U.S. operations-Brentwood, TN)	75+	1	*
Clinical Pathology Labs (Austin, TX)	75+	1	*
Genzyme Genetics (Framingham, MA)	72	1	*
Esoterix (Austin, TX)	65	1	*
Medtox Scientific (St. Paul, MN)	48	*	*
PharmChem (Haltom City, TX)	46	*	*
Doctors Laboratory (Valdosta, GA)	35+	*	*
Athena Diagnostics (Worcester, MA)	35	*	*
Enzo Clinical Labs (Farmingdale, NY)	35	*	*
Clinical Reference Labs (Lenexa, KS)	30+	*	*
Sunrise Medical Labs (Hauppauge, NY)	30	*	*
Diagnostic Lab Services (Honolulu, HI)	25+	*	*
Myriad Genetics (Salt Lake City, UT)	24	*	*
Total, 26 companies	8,950	90	25
Other independent labs	960	10	3
Grand total	\$9,910	100	28

¹Estimate includes a full year's worth of revenue from acquisition of Osborn Group.

²Estimate includes a full year's worth of revenue from acquisition of UroCor.

³Estimated annual revenue is for the 12 months ended June 30, 2001.

*Less than 1%.

Source: *LIR* from company reports

Sunrise Labs Wins Suffolk County, MDNY, UnitedHealth Contracts

Sunrise Medical Laboratories (Hauppauge, NY), a privately held commercial lab, has won an exclusive contract with the Suffolk County Department of Health Services (Long Island, NY) to provide lab services to patients who receive care through the department's 20+ health centers throughout the county. The contract, which becomes effective March 1, should bring Sunrise roughly 500 patients' samples per day, according to Larry Siedlick, chief executive of Sunrise. The contract was formerly held by Quest Diagnostics.

In addition, Siedlick notes that Sunrise became the exclusive provider of lab services to MDNY Healthcare (Melville, NY) under a capitated contract effective last Jan. 1. The contract was formerly held by Enzo Clinical Laboratories (Farmingdale, NY) and covers approximately 80,000 HMO enrollees.

Last Sept. 15, Siedlick adds, Sunrise became a preferred lab to UnitedHealth Group members in the New York City area. Other preferred labs serving UnitedHealth include Quest, Laboratory Corp. of America, Dynacare, Bio-Reference and Dianon, to name a few.

Siedlick says that recent contract wins more than offset the loss of a contract to serve HMO members of Empire Blue Cross Blue Shield. Quest won this contract in late 2001 (*LIR, Aug. '01, p. 3*).

Sunrise, which has 220 employees, operates a main lab in Hauppauge (on central Long Island) and 15 patient service centers in the New York City area. To accommodate growth, Sunrise recently expanded its main lab facility by 10,000 square feet to a total of 28,000 square feet. Sunrise generated \$30 million of revenue in 2001, up from \$26 million in 2000, according to Siedlick.

TriCore, Memorial Medical Center Sign Shared Services Agreement

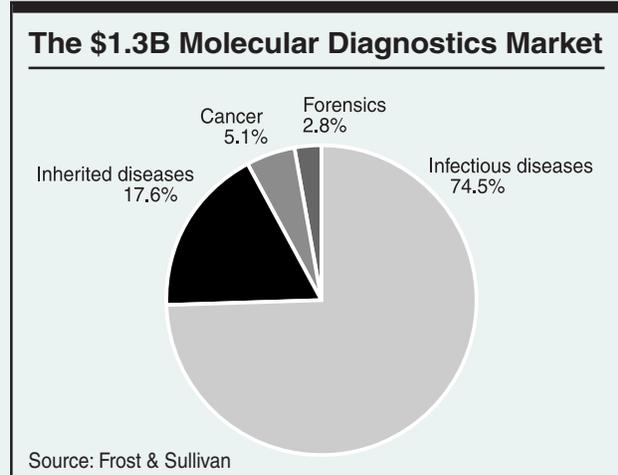
TriCore Reference Laboratories (Albuquerque, NM) and Memorial Medical Center (MMC-Las Cruces, NM) have signed a two-year shared services agreement, effective Jan. 31, 2002. Under the agreement, the laboratory at MMC will provide stat or routine testing for TriCore clients in Las Cruces, located about a three-hours' drive south of Albuquerque. In addition, MMC has agreed to use TriCore as its referral laboratory for specialized tests. MMC had previously used Specialty Laboratories (Santa Monica, CA) as its primary reference lab.

Separately, TriCore has announced that it has hired Russell Duke, PhD, as its president and chief executive. Duke replaces Linda Cole, PhD, who has retired. Duke was formerly president and laboratory director of Kronos Science Laboratory (Phoenix, AZ), a privately held lab focused on direct-to-consumer testing.

TriCore, formed in 1998, is a consolidated lab serving Presbyterian Healthcare Services and the University of New Mexico Hospital (both in Albuquerque), and St. Vincent Hospital in Santa Fe. TriCore employs roughly 600 FTEs and performs more than four million billable tests per year, including 2+ million from outreach. 🏠

Genetic Testing Grows For Cystic Fibrosis, Hemochromatosis

Growth in the molecular diagnostics market to date has been driven by increased utilization of testing and monitoring of HIV and hepatitis C, says Frost & Sullivan analyst Eugenia Shen. Of the estimated \$1.3 billion in revenue



generated by molecular diagnostics in 2000, Shen estimates that 74.5% was related to infectious disease testing, 17.6% to inherited disease and prenatal testing, 5.1% to cancer diagnostics, and 2.8% to forensic testing at government law enforcement testing facilities. Shen believes, however, that molecular testing for cancer and inherited diseases will outpace the growth in infectious disease testing.

To get an idea of which molecular tests are growing the fastest, LIR surveyed six large hospitals and three commercial labs across the country. Though our approach was unscientific, labs most frequently noted great volume

increases in genetic tests for cystic fibrosis and hereditary hemochromatosis. These two tests were also frequently cited by hospital labs as recent additions to in-house test menus—another indication of growing volume.

Genetic Tests Frequently Being Brought In-House At Hospitals

Test	Typical Charge*
Cystic fibrosis	\$240
Factor V Leiden	155
Hereditary hemochromatosis	175
HCV genotyping	325
HIV genotyping	300

*Estimated average charge (after discounts) by national reference labs to hospital clients. Source: LIR based on survey of six hospital laboratories

Labs tell LIR that testing volume for cystic fibrosis, diagnosis and carrier detection have exploded since the American College of Obstetricians & Gynecologists (Washington, DC) issued guidelines in October 2001, recommending that doctors offer the testing to “every Caucasian—or the partner of a Caucasian—who is pregnant or considering having a baby.” In fact, several commercial labs on both coasts say their monthly testing volume for cystic fibrosis has more than tripled since release of the guidelines.

The typical price for testing for the 25 common cystic fibrosis genetic mutations is about \$240. Last year, LIR estimates, some 150,000 cystic fibrosis tests were performed, indicating a market of roughly \$36 million. That should more than double this year. (For more on cystic fibrosis testing, see LIR, Nov. '01, p. 3.)

The second molecular test for which volume appears to be rising rapidly (though not nearly as fast as cystic fibrosis) is gene analysis for hereditary hemochromatosis.

Hereditary hemochromatosis, or iron overload, is a common autosomal recessive genetic disorder in which excess iron accumulates in the blood and is deposited in tissues and organs—particularly the liver, thyroid, heart, pancreas and gonads. Over time, these iron deposits can lead to deadly complications such as liver cancer and diabetes in adulthood. Early symptoms of hereditary hemochromatosis tend to appear between ages 40 and 60 and include fatigue, joint pain and arthritis.

About 32 million Americans (one in 10) are symptomless carriers, making hereditary hemochromatosis one of the most common of the known genetic disorders in the U.S., according to the Centers for Disease Control & Prevention (CDC). More than one million

Albert Nichols Esoteric Test Pioneer Passes Away

Dr. Albert “Al” Nichols, an internist and endocrinologist who founded the Nichols Institute (now part of Quest Diagnostics), died in his sleep on Jan. 26, 2002 at his Aspen, CO vacation home, according to *The Orange County Register*. Nichols was 67 and had been retired since 1994, when Nichols Institute was sold to Corning Clinical Laboratories, which then spun off its lab unit as Quest Diagnostics.

Nichols founded the Institute in 1971 above a bait shop in Los Angeles. It went on to become a cutting-edge esoteric laboratory and kit manufacturing facility, developing the first thyroid tests and a test for cystic fibrosis, among others. In 1980, he moved the facility to San Juan Capistrano. In 1985, Nichols Institute went public, raising \$5.9 million. Annual revenue reached \$280 million by 1993.

Nichols is survived by his wife, Tricia, four daughters and two grandchildren.

people (one in every 200-400) actually have the disease. Whites of northern European descent are at highest likelihood of being affected, and men are more commonly affected than women. Women often develop symptoms at a later age than men because women lose significant amounts of iron through menstruation, pregnancy and lactation.

Historically, most cases remain undiagnosed until late in the course of the disease when irreversible damage has already occurred. Yet, notes Sandra Thomas, president and founder of the American Hemochromatosis Society (AHS-Lake Mary, FL), hemochromatosis is one of the few genetic diseases for which a simple effective therapy exists. It is treated by removing blood (phlebotomy) from the patient in order to lower the level of iron.

As a result of the prevalence of hereditary hemochromatosis and the ability to treat it, CDC says it is trying to raise physicians’ awareness of the disease. “Early detection of iron overload disease represents a major prevention opportunity. Detection and treatment of iron overload, early in the course of illness, can substantially reduce the severity of symptoms, organ damage and death from associated chronic diseases,” U.S. Surgeon General David Satcher, MD, PhD, recently stated. CDC has yet to issue formal screening guidelines for hemochromatosis, but says that examining the appropriateness of universal screening is a priority.

There are two ways to screen for the disease. One is through a blood iron profile. A percent of saturation greater than 40% and/or serum ferritin greater than 150 ng/ml indicates that a patient may have hereditary hemochromatosis and the tests should be repeated as soon as possible, according to AHS guidelines.

AHS also advocates general population

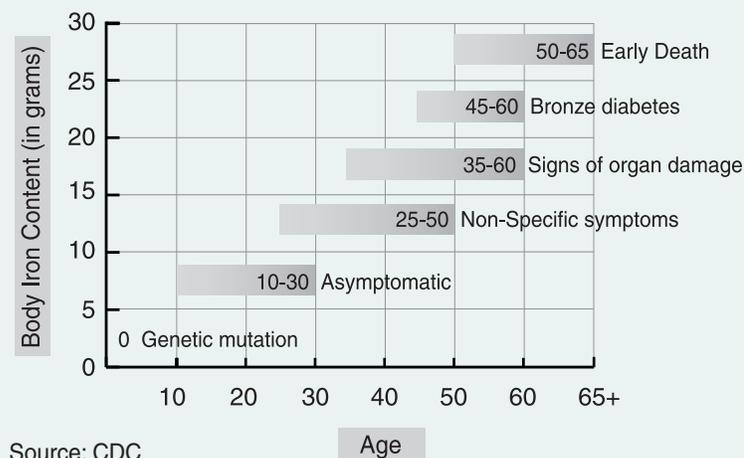
screening for the two genetic mutations (Cys282 and his63) that cause hereditary hemochromatosis. Thomas notes that because hemochromatosis is frequently never diagnosed and can lead to fatal cases of liver cancer, heart disease, diabetes, etc., it is difficult to estimate the total number of deaths originating from this disease. CDC says it is working to expand its prevalence estimates and associated morbidity and mortality in the U.S.

Thomas points out that because of a general lack of knowledge about hemochromatosis on the part of primary care physicians, many laboratories are marketing genetic tests directly to consumers. For example, Kimball Genetics Lab (Denver, CO) markets a test collection kit for hereditary hemochromatosis gene analysis over the Internet for \$125. Consumers get the kit in the mail, take a cheek swab, and mail the sample back to Kimball for testing. Results are provided within 24 hours. HealthCheck USA (San Antonio, TX) and HealthScreen America (Jacksonville, FL) also market Kimball's collection kit and lab service under a private label agreement with a cost to consumers of \$165-\$169 per test.

National reference labs like Quest Diagnostics, Laboratory Corp. of America, Mayo and ARUP provide the test to hospital clients for roughly \$150-\$200 per test (after discounts). Major medical centers with hereditary hemochromatosis screening and treatment programs include Michigan State University (East Lansing), Pittsburgh-National Hemochromatosis Center, and the University of Washington (Seattle).

LIR was unable to come up with a good

Course Of Hereditary Hemochromatosis



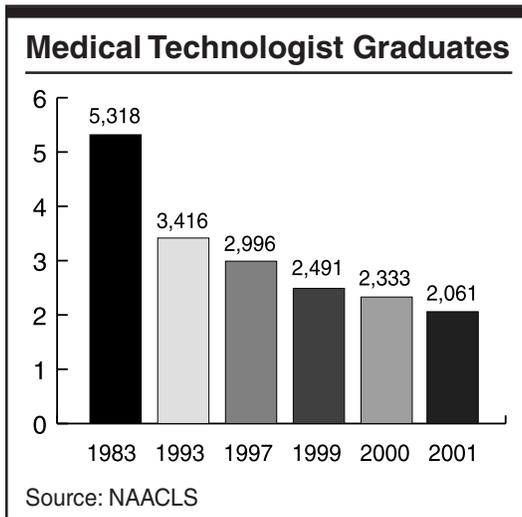
estimate of the number of hereditary hemochromatosis gene analysis tests performed each year in the U.S. However, more and more hospitals tell *LIR* that this is a test they have recently brought in-house because of increasing volume.

In January 2001, the National Institutes of Health announced the launch of a five-year study to genotype at least 100,000 patient samples to validate the association between genetic mutations and hemochromatosis. The University of Minnesota, working through Fairview University Medical Center, is the central laboratory for this study and John Eckfeldt, MD, PhD, is the principal investigator. This is the largest genotyping study ever sponsored by NIH.

Other gene-based tests for which labs are reporting big volume increases are HIV and HCV genotyping to help physicians determine effective drug therapies for patients. Labs also cite increased testing for the Factor V Leiden genetic mutations. Factor V Leiden affects about 5% of Caucasians and Hispanics, but is more rare among blacks and Asians. The defect quadruples the risk of developing potentially deadly blood clots in women. It is also thought to be linked to multiple miscarriages. 🏠

Lab Workforce Shortage Expected To Intensify

The laboratory personnel shortage is likely to get a lot worse before it gets any better, according to the latest data from the National Accrediting Agency for Clinical Laboratory Science (NAACLS-Chicago, IL). That's because a large portion of medical technologists and medical lab technicians working today are nearing retirement, and the number of new people entering the field is dwindling.



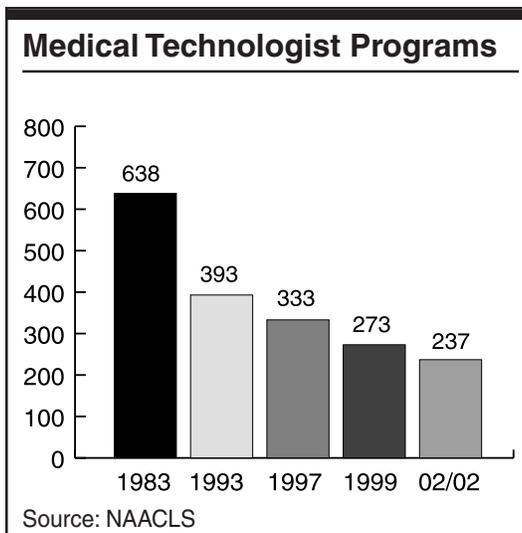
The number of new medical technologists fell from 2,333 graduates in 2000 to 2,061 in 2001, NAACLS reports. Similarly, the number of medical laboratory technicians graduating from accredited programs declined to 1,940 in 2001 from 2,469 the year before, while the number of new histology technologists and technicians fell to 109 from 141.

The only uptrend in new laboratory professionals has been in the number of cytotechnologists—an increase from 224 graduates in 1999 to 262 in 2001, according to data from the American Medical Association. Despite this increase, laboratory managers across the country tell *LIR* that finding

and hiring cytotechs is extremely difficult.

Meanwhile, a survey of laboratory managers and administrators conducted by Park City Solutions/Lab Services Group (Ann Arbor, MI) in June/July 2001 showed that staff shortages were a major issue at 84% of hospital labs (n=165) and 70% of commercial labs (n=20). "Five or 10 years ago, personnel cuts at labs were fairly common. Today, labs have become very reluctant to lay off staff," notes Carmelita Lovett, vice president, consulting support at Park City Solutions/Lab Services Group.

Olive Kimball, PhD, chief executive of NAACLS, thinks current shortages are nearly guaranteed to get a lot worse in the coming years. That's because the number of colleges, universities and hospitals offering accredited degrees in clinical laboratory science (CLS) continues to plummet. At year-end 1999 there were 273 accredited



programs; as of February 2002 the number had dropped to 237. CLS programs that have closed in the past 12 months include programs at Avila College (Kansas City, MO), the University of Wyoming (Laramie), Florida International University (Miami) and the Medical University of South Carolina (Charleston).

CLS programs across the country continue to close down because of declining enrollment, Kimball says. "It's a very rigorous, scientific curriculum, and potential students are choosing less rigorous majors that lead to higher paying jobs." Starting salaries for new medical technologists average \$27,000 per year, according to AMA. "Certainly the salaries [for lab professionals] need to be higher, but we need to do a better job of raising the awareness of the importance of lab testing to potential students as well," Kimball says. 🏠

Rochester Hospitals Collaborate On Capitated Lab Contract

Three health systems in Rochester, NY have agreed to integrate their laboratory information systems and standardize testing in order to serve a new capitated contract with BlueCross BlueShield of the Rochester Area. Under the contract, Strong Health, ViaHealth Inc. and Unity Health System will provide all non-inpatient lab services to BCBS of Rochester's 723,000 HMO, PPO and indemnity members in the Rochester area.

Health Systems Providing Lab Services To BCBS Of Rochester

<i>Name</i>	<i>Hospitals</i>
Strong Health	University of Rochester Medical Center, Highland Hospital
ViaHealth	Rochester General Hospital, ViaHealth of Wayne
Unity Health*	Park Ridge Hospital

*Unity Health also owns ACM Laboratory, a commercial reference lab.
Source: *LIR* from health systems

Capitated reimbursement for lab services to commercial members will be roughly \$1.75-\$2 per member per month; cytology and surgical pathology will be paid on a fee-for-service basis, according to Jim Redmond, spokesman for BCBS of Rochester. Testing for Medicare members will continue to be paid under the Medicare lab fee schedule. Redmond says the new lab contract, which becomes effective July 1, 2002, will enable BCBS of Rochester to save more than \$4 million per year in costs. Previously, the insurer had separate fee-for-service contracts with each of the three health systems.

BCBS of Rochester had been seeking to consolidate its lab contract to a single provider for more than a year, says Redmond. The insurer had considered contracting with one of the national commercial labs, he notes, but preferred to keep the contract within the community. Redmond says BCBS of Rochester is now considering contracts with the three health systems for other sub-acute care services.

In order to make the contract a financial success, the three health systems face the daunting challenge of integrating their lab information systems on a common platform. The goal will be to eliminate duplicative testing as well as figure out how to divide the monthly capitation checks. The hospitals have also cited plans to standardize testing and develop centers of excellence for specific tests. 🏠

Revenue Per Admission Up 9.2% At Leading For-Profit Hospitals

In the three months ended Sept. 30, 2001, net revenue per inpatient admission at six leading for-profit hospital chains (representing 415 hospitals) increased by a weighted average of 9.2% to \$7,296 vs. \$6,681 for the comparable period a year earlier, according to a *LIR* analysis of company reports. The 9.2% increase marks a major hike from the 6.7% year-over-year uptick reported by for-profit hospitals in third-quarter 2000 (*LIR*, Dec. '00, p. 9).

Although average length of stay at the six hospitals analyzed appears to be in a slight uptrend, hospitals report that higher pricing accounts for the majority of the increase in net revenue per admission. The increased revenue should ease some of the



pressure on hospital laboratory budgets, which comprise an average of 4-5% of overall budgets at most hospitals. Laboratory managers tell *LIR*, however, that most lab budget increases are being soaked up by pay hikes for existing employees and costs associated with finding and hiring new workers.

Third-quarter 2001 data for the six hospitals analyzed also show that inpatient admissions are increasing by 2.9% per year. The combination of increasing admissions, plus higher revenue per admission, indicates an overall inpatient cost trend of 12.1% per year.

Scott Estes, analyst at Deutsche Bank Alex. Brown (New York, NY), notes that hospitals with market clout now have the upper hand in contract negotiations with managed care companies. Estes believes that hospitals will again garner impressive price increases in a rough range of 5-9% during 2002. The majority of these price increases are “locked in,” he notes, since most pricing contracts for this calendar year have already been negotiated.

HCA-The Healthcare Company (Nashville, TN), the nation’s largest for-profit hospital chain with 182 hospitals (primarily in Texas and Florida), generated \$7,109 of revenue per inpatient admission in third-quarter 2001, up 8.3%; inpatient admissions were up 2.6% to 380,800; and average length of stay rose to 4.9 days from 4.8 days. HCA reported third-quarter net income of \$256 million vs. \$174 million for the comparable prior-year period; revenue was up 8.4% to \$4.438 billion.

Tenet Healthcare (Santa Barbara, CA), which operates 114 hospitals (primarily in California, Florida and Texas), generated \$9,242 of revenue per inpatient admission in the third quarter, up 14.9%; inpatient admissions were up 2.3% to 232,195; and average length of stay rose to 5.3 days from 5.2 days. Tenet reported third-quarter 2001 net income of \$89 million (after a \$103 million charge from early retirement of debt) vs. \$175 million for the comparable prior-year period; revenue was up 16.4% to \$3.394 billion. In addition to better pricing, Tenet attributes the growth of its net revenue per admission to its strategy of expanding high acuity services such as cardiology, orthopedics and neurology. 🏠

“Same-Facility” Inpatient Trends At For-Profit Hospitals

<i>Company/ # Hospitals</i>	<i>Net Revenue Per Admission</i>		<i>Inpatient Admissions</i>	
	<i>3Q01</i>	<i>Annual Chg.</i>	<i>3Q01</i>	<i>Annual Chg.</i>
HCA/182	\$7,109	8.3%	380,800	2.6%
Tenet/114*	\$9,242	14.9%	232,195	2.3%
Triad/44	\$6,909	6.1%	70,312	3.7%
Health Management/38	\$5,164	7.2%	46,318	3.5%
LifePoint/21	\$4,474	2.9%	16,875	1.9%
Providence Healthcare/16	\$5,589	1.0%	13,638	7.3%
Weighted Avg.**	\$7,296	9.2%	NM	2.9%

*Tenet data are for the three months ended Nov. 30, 2001.

**Based on 44% weight for HCA, 27% for Tenet, 11% for Triad and 18% for other companies.

Source: *LIR* from company reports

Lab Stocks Fall 2% In Latest Six Weeks

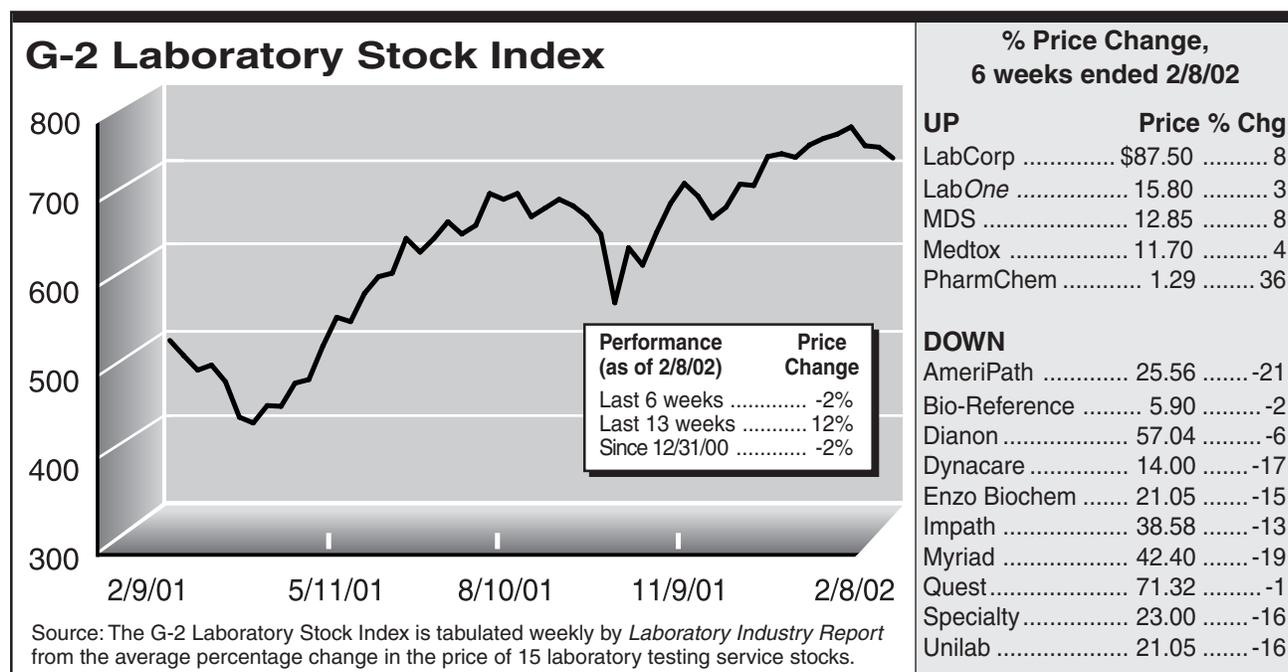
The 15 stocks in the G-2 Laboratory Index fell an unweighted average of 2% in the six weeks ended Feb. 8, 2002, with 10 stocks declining in price and five advancing. Over the same time period, the S&P 500 was down 5% and the Nasdaq was down 7%.

Laboratory Corp. of America (Burlington, NC) rose 8% to \$87.50 per share for a market capitalization of \$6.2 billion. LabCorp recently reported net income of \$40.8 million for the fourth quarter of 2001 vs. \$20.9 million for the fourth quarter of 2000; revenue was up 16% to \$563.8 million vs. \$486.1 million. The 16% revenue increase was the result of a 12% volume gain, plus a 4% increase in average revenue per accession.

Quest Diagnostics (Teterboro, NJ) slipped 1% to \$71.32 per share for a market capitalization of \$7 billion. Quest recently reported fourth-quarter 2001 net income of \$50.9 million vs. \$25.4 million for fourth-quarter 2000; revenue was up 9% to \$910.4 million. The revenue gain included a 3.5% increase in testing volume, plus a 4% increase in average revenue per requisition. The balance of the revenue increase was generated by Quest's non-clinical testing businesses (clinical trials testing, test kit sales, and information systems).

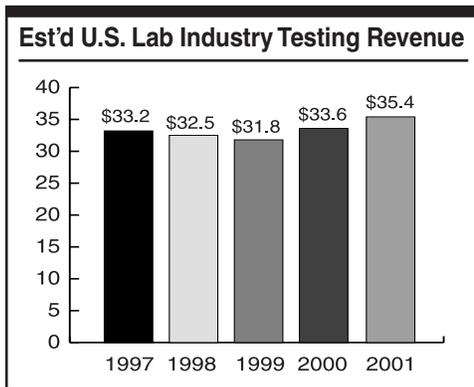
Lab stocks declining in price in the latest six weeks included **AmeriPath** (Riviera Beach, FL), which fell 21% to \$25.56 per share; **Myriad Genetics** (Salt Lake City, UT), down 19% to \$42.40 per share; and **Dynacare** (Dallas, TX and Toronto, Canada), down 17% to \$14 per share.

This month we have added **Enzo Biochem** (Farmingdale, NY) to the G-2 Laboratory Stock Index. Enzo generates approximately \$60 million in annual revenue, including about \$35 million from its Enzo Clinical Labs unit. 🏠



INDUSTRY *buzz*

The U.S. clinical laboratory testing industry grew by 5.5% in 2001 to \$35.4 billion, including approximately 3% from test volume growth and 2.5% from pricing gains. This is one of the major findings of **Laboratory Market Leaders Report: U.S. Diagnostic Testing Facilities**, a new market research and strategic planning report published by Washington G-2 Reports.



The report attributes the industry growth to a number of factors, including an increased focus by government payers and managed care companies on early detection and prevention of disease through laboratory testing. Medicare, for example, now covers Pap smears once every two years, and payment for conventional and thin-layer Pap testing has more than doubled. And in the past few years, Medicare has expanded colorectal and prostate cancer screening to reach beneficiaries at earlier ages.

The single most negative prospect for the industry, according to the report, is the growing shortage of medical technologists and medical laboratory technicians, a workforce crisis that is likely to exert major upward pressure on labor expenses at all clinical laboratories.

References in this issue

American Hemochromatosis Society
407-829-4488

American Medical Laboratories
703-802-6900

BCBS of Rochester 585-454-1700

Duke University Medical Center
919-684-8111

Enzo Biochem 516-755-5500

HCA 615-344-9551

Kimball Genetics 800-320-1807

LabCorp 336-584-5171

MDS Inc. 416-675-7661

National Accrediting Agency for
Clinical Laboratory Science
773-714-8880

Quest Diagnostics 201-393-5000

Sunrise Medical Labs 800-782-0282

Tenet Healthcare 805-563-7000

TriCore 505-224-7999

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Laboratory Market Leaders Report: U.S. Diagnostic Testing Facilities is scheduled to be released later this month. The 125+ page report is available to Washington G-2 Reports subscribers for \$795 and to non-subscribers for \$995. To order, call 212-629-3679. For further details, contact Jondavid Klipp, author of the report and managing editor of *Laboratory Industry Report*, at 845-463-0080. 🏠

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