

LABORATORY INDUSTRY REPORT®

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HIGHLIGHTS

TOP OF THE NEWS

- M&A may heat up 1
- Lab vets start NYC lab 1-2

CONTRACTS

- Quest wins MVP contract 2
- HHLA wins Cigna, UnitedHealth contracts 3
- Florida Medicaid cuts rates 10% 8
- Bonfils wins big tissue typing contract 8

PATHOLOGY

- Bostwick Labs on a roll 4

INSIDE THE LAB INDUSTRY

- Three big labs up for sale 5
- Recent M&A activity 6
- M&A table, 2003-Feb. 2005 7

PEOPLE

- Hirings and firings in the lab industry 10

FINANCIAL

- Public labs grew 6% in 2004 9-10
- Lab stocks down 5% 11

INDUSTRY BUZZ

- Digene launches ad campaign 12



Big Labs On The Auction Block

After a relatively quiet year of merger and acquisitions, it looks like things are going to heat up again. *LIR* has learned that two major labs are currently up for sale—Esoterix and SED Medical Laboratories—while a third (Specialty Laboratories) is weighing its “strategic options.” Potential buyers for any of these three labs would of course include Quest Diagnostics and LabCorp, and *LIR* hears that several investor groups are interested in entering the lab business as well.

There’s no guarantee that a sale of any of these three labs will ever be completed, but any transaction(s) would result in a big shift in market place dynamics. For example, if one of the two big commercial labs were to acquire Specialty or Esoterix, their contracting leverage with GPOs, managed care companies, and reagent vendors would be strengthened. On the other hand, competitors like ARUP Laboratories and Mayo Medical Labs would probably reap millions of dollars of new business from client attrition.

Meanwhile, the potential sale of SED Medical Laboratories could give either Quest or LabCorp a major new presence in New

Mexico. A situation that would have pluses and minuses for SED’s main competitor: TriCore Reference Laboratories. More details, pp. 5-7. 🏠

Labs That Could Get Sold This Year

Name	Type	Annual Revenue
Specialty Labs	national reference lab	\$135M
Esoterix	national reference lab	\$125M
SED Medical Labs	hospital lab management/ regional outreach program	\$50M

Source: *LIR*

Lab Industry Veterans Start New York City Lab

Yet another new company has been formed by former lab executives left jobless by merger and acquisition activity. This one is called National Laboratory Partners (Brooklyn, NY) and it’s being backed by the venture capital firm Kline Hawkes & Co. (Los Angeles, CA). NLP’s chief executive is Craig Dawson, age 53, who served as chief operating officer at American Medical Laboratories (AML) from July 2001 through mid-2002 when AML was acquired by Quest Diagnostics. NLP’s chief scientific officer is Len Poikey, Ph.D., age 51, who was formerly executive vice president of operations at AML. ➡ p. 2



■ LAB INDUSTRY VETERANS START NYC LAB, *from page 1*

NLP is a holding company that began operations with the acquisition of Universal Diagnostic Labs (Brooklyn, NY) in late December. Universal operates a main lab in Brooklyn and 10 PSCs in the New York City area. It generated an estimated \$20 million to \$25 million of revenue last year.

With capital from Kline Hawkes and management from Dawson and Poikey, Universal is expected to expand its test menu, add Web-connectivity features, and ramp up its sales and marketing efforts. Meanwhile, sources in the New York City lab market tell *LIR* that NLP is likely to close on additional acquisitions in the New York metropolitan area by year's end.

Alain Rothstein, a principal at Kline Hawkes, says NLP will compete by offering a high level of customer service, including rapid turnaround times. "The lab industry is large enough. . . . The key is execution," he says.

New Labs Formed by Experienced Executives

Company	Date Formed/ Transformed	Top Execs From
American Esoteric Laboratories	November 2003	AmeriPath
CBLPath	June 2003	Dianon
Clariant (formerly ChromaVision)	November 2004	Impath
Hunter Laboratories	July 2003	Meris Laboratories
National Laboratory Partners	December 2004	AML
Southern Diagnostics	August 2003	Dynacare
Xenomics	April 2002	AML

Source: *LIR*

NLP is the seventh lab company to be formed or transformed by displaced lab executives in the past three years. The latest is ChromaVision (San Juan Capistrano, CA), which hired a bunch of ex-Impath pathologists and medical technologists in mid-2003, got a CLIA certificate in November 2004, changed its name to Clariant early this year, and now performs cancer testing from a new 11,000-square-foot lab in Irvine, California. 🏢

Quest Wins MVP Health Care Contract

Quest Diagnostics has won an exclusive contract to provide laboratory services to HMO members of MVP Health Care (Schenectady, NY) in the Hudson Valley of New York. The contract, which became effective in October 2004, covers approximately 100,000 members and was previously held by LabCorp, which originally picked up the contract through its acquisition of MDS Hudson Valley Laboratories (Poughkeepsie, NY) in March 2004.

Separately, *LIR* hears that several hospitals in the Hudson Valley—Vassar Brothers Hospital, Northern Dutchess Hospital, and Kingston and Benedictine Hospitals—may switch their lab management contracts from LabCorp/MDS to Quest.

The three hospital labs had received local reference testing services from a 30,000-square-foot MDS Hudson Valley laboratory in Poughkeepsie (about 60 miles north of New York City). But in August 2004, LabCorp shut this facility down and moved the testing volumes to more distant labs in New Jersey and Albany, New York. 🏢



Home Healthcare Lab Wins Cigna, UnitedHealth Contracts



Janet Azevedo

Home Healthcare Laboratory of America (HHLA—Franklin, TN) has won separate preferred-provider contracts with Cigna HealthCare (effective Jan. 1, 2005) and UnitedHealth Group (effective March 1, 2005) to provide home healthcare lab testing services. Janet Azevedo, president of HHLA, says the contracts will help HHLA to increase its revenue by more than 50% this year to \$20 million. She says the company had been negotiating for these contracts, each of which covers all HMO, PPO, and indemnity plan members, for more than two years.

HHLA, which was founded in 1997, is focused on the home healthcare market. The company has developed a proprietary system that allows providers to draw blood and ship it directly to HHLA’s lab in Franklin, Tennessee (near Nashville), without centrifuging.

The system, dubbed Lab-in-a-Box, includes a five- by eight-inch Styrofoam box that contains all the necessary blood collection supplies and a pre-addressed diagnostic pouch for overnight shipping. The system helps home healthcare nurses keep their blood draw supplies well organized and includes phase change materials that keep whole blood specimens at a constant temperature for both winter and summer packing without freezing. HHLA also differentiates itself by providing test results to physicians, pharmacists, and nurses.

Azevedo says that HHLA charges a premium price for its services, but winds up saving its clients money by virtually eliminating the need for redraws and the additional clinical costs associated with false test results obtained from compromised specimens. HHLA’s average revenue per accession is \$59.

She estimates that the U.S. market for providing lab testing to home healthcare patients is between \$800 million and \$1 billion per year and involves mostly routine testing for chronically ill and home infusion therapy patients. The market is served by Quest Diagnostics, LabCorp, hospitals, and independent labs, but

HHLA is the only national lab company focused on home healthcare, according to Azevedo.

The biggest challenges with serving this market are associated with billing and collection. “We have electronic data transfer connections for patient data with all our larger customers, but the lion’s share of our work remains intense and

constant education of the nurses that draw the blood,” notes Azevedo. She says the vigilance has allowed HHLA to reduce its days in accounts receivable from a high of 110 days in 2000 to just 45 days at yearend 2004.

HHLA is owned by company management and a group of venture capital firms that have invested a total of approximately \$7 million in the company, including Dauphin Capital Partners, Sightline Partners, Solidus, and Capital Health Partners of Washington, DC. 🏠

Home Healthcare Laboratory of America at a Glance

Chairman:	James Hoover
President:	Janet Azevedo
Headquarters/lab:	Franklin, TN (20,000 sq. feet)
Employees:	75
Projected revenue, 2005:	\$20 million
Inception:	1997
Source: HHLA	



Bostwick Triples Revenue, Opens New Lab In London

Bostwick Laboratories (Richmond, VA), a privately held lab primarily focused on prostate biopsies, tripled its revenue last year to reach approximately \$30 million. Company president Donna Batterham expects Bostwick to double its business this year.

In November, Bostwick Labs moved into a 65,000-square-foot laboratory and office space, nearly tripling its old facility size of 23,000 square feet. The company also operates a satellite lab in Orlando, Florida, and recently opened new labs in Phoenix, Arizona, and London, England. The company has 180 employees, including a sales and marketing staff of 31 people in the United States and two in London.

Dr. Bostwick, who is chairman, medical director, and majority shareholder of Bostwick Labs, created the company in 1999 after an eight-year stint as professor of pathology at the Mayo Clinic.

Meanwhile, Batterham attributes Bostwick's growth to superior service and the market opportunities created by acquisitions activity at the commercial labs. "The more companies that they buy, the faster we grow," says Batterham. Major pathology lab acquisitions completed over the past two years have included LabCorp's purchases of Dianon and US Labs and Genzyme Genetics' acquisition of Impath, notes *LIR*.

Batterham says test-result turnaround time for 80% of the prostate biopsies performed by Bostwick is 24 hours or less versus roughly three to seven days at the big commercial labs. She says that clients that call in with technical

questions are immediately connected to a pathologist for consultation. Live people answer Bostwick's phones, not automated answering machines, she adds.

In addition to performing prostate biopsies, Bostwick Labs is the only lab in the United States that currently performs a new urine-based molecular test for prostate cancer named uPM3. Published studies have shown that uPM3 testing has a sensitivity of 67% and specificity of 89%, and an overall accuracy of 81% for detection of prostate cancer compared with approximately 40% for total PSA. uPM3 test was developed by DiagnoCure (Quebec City, Canada), and Gen-Probe (San Diego, CA) has licensed the technology and plans to begin marketing an ASR (analyte specific reagent) version to other labs before year's end.

Over the past 12 months, Batterham says Bostwick Labs has added new expertise in other areas of urologic cancer. Last year, the company hired Deborah Josefson, M.D., to head up an expansion into gastrointestinal pathology. Prior to joining Bostwick, Josefson was the director of anatomic pathology at the VA-Nebraska Western Iowa Health Care System. 🏠

Bostwick Laboratories at a Glance

Chairman:	David Bostwick, M.D.
President:	Donna Batterham
Headquarters/lab:	Richmond, VA (65,000 sq. feet)
Employees:	180, including 15 physicians
Projected revenue, 2005:	~\$60 million
Inception:	1999
Source: Bostwick Laboratories	

The Short & Skinny On Three Big Lab Acquisition Candidates

After a lull in 2004, it looks like lab acquisitions are set to heat up again.

News that Esoterix (Austin, TX) is up for sale was first reported by the Wall Street publication *The Deal*. Executives at Esoterix did not return *LIR*'s calls seeking comment, but we hear that the financial book on the company is being passed around to potential buyers, including Quest Diagnostics, LabCorp, and investor groups.

Esoterix, which has a total of about 800 employees, operates 10 specialty laboratories around the country, including an allergy and asthma lab in Gainesville, Florida; a molecular genetics lab in Eden Prairie, Minnesota; and a coagulation lab in Aurora, Colorado.

Esoterix's majority owner is the venture capital firm Behrman Capital (New York City). *LIR* estimates that the company could fetch anywhere from \$200 million to \$300 million, or roughly 2.5 times its estimated revenue of \$125 million for 2004.

SED Medical Laboratories (Albuquerque, NM) is one of the biggest independent labs in the southwest. SED acts as the reference lab for five hospitals in New Mexico, including Lovelace Hospital and Albuquerque Regional Medical Center, and also provides outreach services throughout the state. SED has approximately 500 employees and generated an estimated \$50 million of revenue in 2004.

SED is owned by the hospital management company Ardent Health Services (Nashville, TN), which acquired the lab as part of its \$209 million purchase of the Lovelace Health Systems (Albuquerque) in January 2003. Reliable sources tell *LIR* that Ardent has put SED up for sale. Executives at Ardent and SED were not available for comment.

Recently completed sales of similar labs suggest that Ardent could receive approximately one times annual revenue for SED, or about \$50 million. The most comparable transaction has probably been LabOne's purchase of Alliance Laboratory Services (Cincinnati, OH) in January 2004 for \$42.4 million, or 0.85 times ALS's annual revenue of \$50 million.

Specialty Laboratories (Valencia, CA) recently hired David Schreiber (at a salary of \$27,083 per month plus perks) to evaluate strategic options for the company. A spokesman says such options could include a sale of the company or the purchase of another laboratory. Schreiber, who is a board member at Specialty, has the experience to do either, notes *LIR*.

Schreiber served as chief financial officer of Dianon from 1996 to January 2003, and was involved with Dianon's acquisition of UroCor for \$202 million, or 3.2 times revenue, in late 2001. He also helped orchestrate the sale of Dianon to LabCorp for \$605 million, also at 3.2 times revenue, in January 2003.

LIR estimates that Quest or LabCorp might be willing to pay \$300 million to \$400 million, or 2.5 to 3.0 times sales, for Specialty. We hear that more than one interested buyer has approached Specialty over the past year, but that indications of interest have been turned away by the company's founder and majority owner, James Peter, M.D., Ph.D.

Disagreement over the future direction of Specialty may have contributed to the recent resignation of CEO Doug Harrington, M.D. *LIR* hears that Harrington was in favor of a sale of the company, while Peter has been holding out for a premium price. A Specialty spokesman says Harrington left strictly to spend more time with his family.

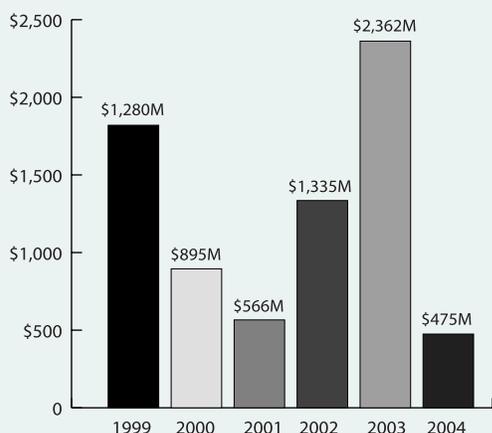
times Impath's estimated annual revenue of \$125 million.

So far this year, three deals have been closed with a combined transaction value estimated at \$210 million. In January, Adventist Healthcare (Rockville, MD) purchased Cytology Services of Maryland (Laurel, MD), a small cytology lab.

In February, Quest Diagnostics bought Omega Medical Labs (Reading, PA) for an undisclosed sum. Omega was owned by Jerome Marcus, M.D., who founded the company in 1983. Omega has more than 300 employees and operates 40 patient service centers in eastern Pennsylvania. Revenue for 2004 is estimated at \$20 million to \$30 million.

LabCorp completed its acquisition of US Labs (Irvine, CA) on February 3. LabCorp paid \$155 million in cash, or about 2.2 times US Labs' revenue of \$70 million in 2004. In an apparent effort to avoid the customer attrition that has occurred in past acquisitions, LabCorp has retained the management of US Labs, including CEO Judd Jessup, and they continue to run the day-to-day operations at the lab. 🏢

Value of Laboratory Mergers, Acquisitions, and IPOs



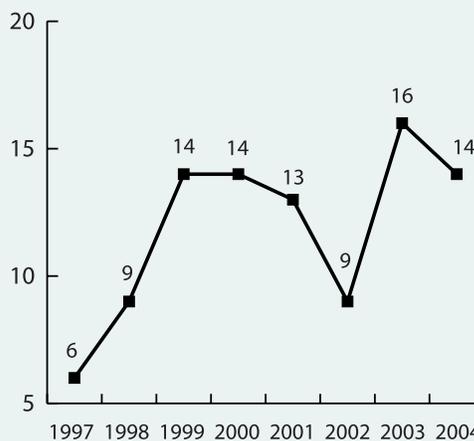
Source: *Lab Industry Strategic Outlook 2005*

Recent Merger & Acquisition Activity

After a record \$2.4 billion of laboratory mergers and acquisitions in 2003, consolidation in the lab industry fell to a five-year low of \$475 million worth of transactions in 2004, according to data from Washington G-2's special report *Lab Industry Strategic Outlook 2005*.

A total of 14 deals were closed last year. Genzyme Genetics (Westborough, MA) was the most aggressive acquirer. In February 2004, Genzyme bought the cytogenetics lab, Alfigen Inc. (Pasadena, CA), for \$47.6 million, or approximately 2.4 times Alfigen's estimated annual revenue of \$20 million. In May 2004, Genzyme purchased the cancer-testing operations of Impath (New York City) for \$215 million, or 1.7

Number of Laboratory Mergers, Acquisitions, and IPOs



Source: *Lab Industry Strategic Outlook 2005*

LABORATORY INDUSTRY REPORT

Laboratory Mergers & Acquisitions, January 2003-March 2005 (\$ millions)

Date	Buyer	Target	Purchase Price*	Acquired Revenue	Price/Revenue
Jan-03	LabCorp	Dianon	\$605.0	\$188.0	3.22
Feb-03	LabCorp	N. Calif. lab assets of Quest/Unilab	4.5	27.0	0.17
Feb-03	Quest Diagnostics	Unilab	918.0	425.0	2.16
Mar-03	Welsh Carson	AmeriPath	800.0	479.0	1.67
May-03	Pediatrix	Neo Gen Screening	34.0	15.0	2.27
Jun-03	Clinical Path Labs	Fairfax Medical Labs	NA	NA	NA
Jul-03	Hunter Laboratories	China Town Lab	NA	NA	NA
Jul-03	Medtox	Cox Toxicology	0.3	0.4	0.75
Jul-03	Genzyme Genetics	molecular genetics lab of GIVF	NA	NA	NA
Jul-03	LabCorp	Clinical Labs Inc.	NA	17.0	NA
Aug-03	Alfigen	Laboratory Diagnostics	NA	NA	NA
Aug-03	Sonora Quest	Biotech Medical Labs	NA	3.0	NA
Aug-03	Acculab	Charlotte County Clinical Lab	NA	NA	NA
Oct-03	LabOne	MetLife Insurance Testing Lab	NA	NA	NA
Oct-03	Clinical Path Labs	Pathology Laboratories Inc.	NA	12.5	NA
Nov-03	American Esoteric Labs	Viral Diagnostics	NA	NA	NA
Jan-04	American Esoteric Labs	ThromboCare Laboratories	NA	NA	NA
Jan-04	LabOne	Alliance Lab Services	42.4	50.0	0.85
Feb-04	Genzyme Genetics	Alfigen	47.6	20.0	2.38
Mar-04	LabOne	Northwest Toxicology	10.0	11.5	0.87
Mar-04	LabCorp	MDS Labs in NY and GA	NA	25.0	NA
Mar-04	LabCorp	Redding Pathologists Lab	19.0	9.5	2.00
Mar-04	Bio-Reference	Metropolitan Diagnostic Med Lab	0.5	NA	NA
May-04	Genzyme Genetics	Impath	215.0	125.0	1.72
Jul-04	Bio-Reference	Cancer Genetics' cytogenetics lab	2.5	NA	NA
Aug-04	American Esoteric Labs	Cenetron's molecular testing lab	NA	5.0	NA
Sep-04	American Esoteric Labs	Memphis Pathology Lab	NA	NA	NA
Dec-04	LabCorp	Clinical Labs of the Black Hills	NA	10.0	NA
Dec-04	National Lab Partners	Universal Diagnostic Labs	NA	22.0	NA
Dec-04	Spectrum Lab	Medex Regional Labs	13.5	24.5	0.55
Jan-05	Adventist Health Corp.	Cytology Services of Maryland	NA	NA	NA
Feb-05	LabCorp	US Labs	155.0	70.0	2.21
Feb-05	Quest Diagnostics	Omega Medical Labs	NA	25.0	NA

NA=not available

*Purchase prices include assumed debt

Source: *Lab Industry Strategic Outlook 2005*



Florida Medicaid Cuts Independent Lab Fee Schedule

Florida’s Agency for Health Care Administration has made an across-the-board 10% cut to the state’s Medicaid fee schedule for independent labs. The reduction was mandated by the Florida Legislature (HB 1835) because FAHCA was unable to execute on plans to award a statewide capitated contract for inde-

pendent lab services. Two separate attempts by FAHCA to issue RFPs were thwarted by protests filed by the American Clinical Laboratory Association and its two biggest members: Quest Diagnostics and LabCorp (see *LIR*, March 2005, p. 10).

Prior to April 1, Florida Medicaid had reimbursed independent labs on a fee schedule that was about 30% below Medicare rates. Florida’s Medicaid rates for independent labs are now approximately 40% below Medicare. 🏠

Rate Comparison for 10 Common Tests: Medicare vs. Florida Medicaid				
Code	Description	Medicare	FL Medicaid	Difference
86141	HS CRP	\$18.09	\$11.25	-38%
86701	Antibody; HIV-1	12.41	9.00	-27%
86803	Hep C Antibody	19.94	12.15	-39%
80061	Lipid Panel	18.72	8.55	-54%
82728	Ferritin	19.03	12.60	-34%
83090	Homocysteine	23.57	4.05	-83%
83970	Parathyroid Hormone	57.67	36.45	-37%
86695	Antibody; Herpes, Type 1	18.43	11.25	-39%
87901	HIV Genotyping	359.69	320.20	-11%
82106	AFP, Amniotic Fluid	23.44	13.95	-40%
Average				-40%

Source: *LIR* from CMS and Florida Medicaid

Bonfils Wins Musculoskeletal Transplant Foundation Contract

Laboratories at Bonfils (LAB-Denver, CO) has won an exclusive contract to perform lab testing for the Musculoskeletal Transplant Foundation (MTF-Edison, NJ). The contract, which became effective on March 1, was formerly held by ViroMed (Minneapolis, MN), an esoteric testing lab owned by LabCorp.

MTF is the largest tissue bank in the nation. In 2004, MTF distributed more than 340,000 tissue grafts (including musculoskeletal tissues, heart valves, and skin and corneas) to more than 250,000 patients. LAB—a subsidiary of Bonfils Blood Center—is an esoteric testing lab that specializes in infectious disease, microbiology, and immunogenetics. LAB has 72 FTEs and performs about 400,000 tests per year.

Under the contract, LAB will test MTF donor specimens to ensure safe tissue for transplant patients. The testing regimen will include all required infectious disease assays, nucleic acid tests for hepatitis C and HIV, and microbiological procurement cultures.

A spokeswoman for MTF says LAB won the contract because of its expertise in nucleic acid testing, ability to respond to clients’ needs and requests in a timely manner, and streamlined Web order entry and results reporting system. 🏠

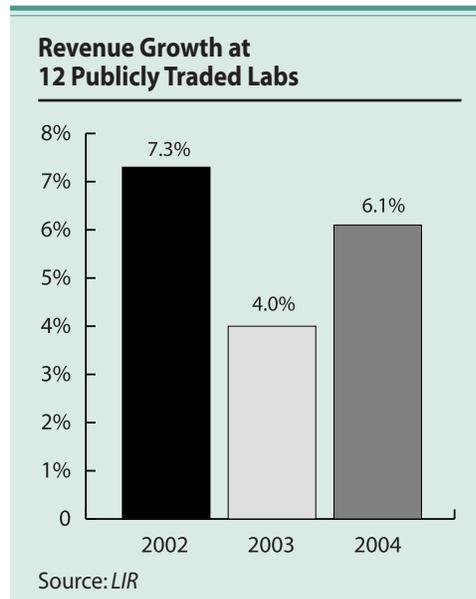


Publicly Traded Labs Grew 6% Last Year

Twelve publicly traded lab companies increased their revenue by 9% to \$9.8 billion. On a pro forma basis (i.e., after adjustments for acquisitions) growth was 6.1%. This compares with pro forma growth of 4% in 2003 and 7% in 2002.

The fastest-growing publicly traded lab was **Myriad Genetics** (Salt Lake City), whose main product is its BRACAnalysis test for hereditary breast cancer.

Myriad grew its lab business by 25% to \$43.3 million in fiscal year 2004 (ended June 30, 2004).



Next was **Bio-Reference Labs** (Elmwood Park, NJ), which grew by 24% to \$136.2 million (after adjustments for two small acquisitions). The revenue gain was due to a 19% increase in requisition volume and a 5% increase in revenue per requisition to \$53.71. **Psychemedics** (Cambridge, MA), which specializes in hair testing for drugs of abuse, grew by 18% to \$18.9 million.

After adjustments for its acquisitions of Alliance Laboratory Services and Northwest Toxicology, **LabOne** (Lenexa, KS) grew by 15% to \$468.2 million. LabOne's average revenue per clinical lab requisition was up 6% to \$37.38; drugs-of-abuse testing was up 4% to \$12.60 per req; and insurance applicant lab testing was flat at \$17.20 per req.

Specialty Laboratories (Valencia, CA) increased its revenue by 13% to \$134.8 million, including a 21% increase in volume to 3.002 million

Revenue Growth at 12 Publicly Traded Lab Companies (\$000)

Company	Revenue Full-Year 2004	Revenue Full-Year 2003	Reported Change	Pro forma Change*
Quest Diagnostics	\$5,126,600.0	\$4,737,900.0	8.2%	6.7%
LabCorp ¹	3,084,800.0	2,939,400.0	4.9	2.5
AmeriPath	507,271.0	485,003.0	4.6	4.6
LabOne	468,236.0	346,020.0	35.3	15.0
Genzyme Genetics ²	188,166.0	102,147.0	84.2	6.0
Bio-Reference ³	136,184.0	109,034.0	24.9	24.0
Specialty Laboratory	134,803.0	119,653.0	12.7	12.7
Myriad Genetics ⁴	43,294.0	34,683.0	24.8	24.8
Medtox Scientific ⁵	43,219.0	39,424.0	9.6	9.1
ViroLogic	36,801.0	33,379.0	10.3	10.3
Enzo Clinical Labs ⁶	28,672.0	29,514.0	-2.9	-2.9
Psychemedics	18,937.1	15,995.3	18.4	18.4
Total, 12 companies	9,816,983.1	8,992,152.3	9.2	6.1
Total, 10 companies (exl. Quest and LabCorp)	1,605,583.1	1,314,852.3	22.1%	10.9%

*After adjustments for acquisitions. ¹Pro forma change for LabCorp is estimated. ²Pro forma change for Genzyme Genetics is estimated.

³Bio-Reference's fiscal year ends Oct. 31. ⁴Myriad Genetics' revenue is for its lab business only; fiscal year ends June 30.

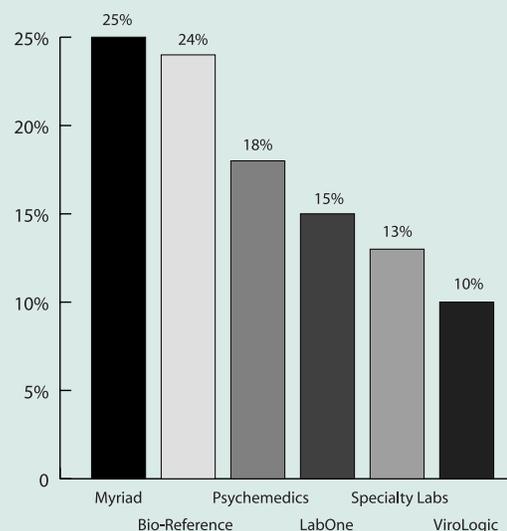
⁵Medtox's revenue is for lab services only. ⁶Enzo's fiscal year ends July 31.

Source: LIR from company reports

requisitions and a 7% decrease in average price to \$44.90 per requisition. Revenue at **ViroLogic** (South San Francisco, CA), which is focused on esoteric tests for infectious disease, increased by 10% to \$36.8 million in 2004.

The largest lab, **Quest Diagnostics** (Teterboro, NJ), grew by 7% to \$5.127 billion. **LabCorp** (Burlington, NC) increased its revenue by 2.5% to \$3.085 billion. Excluding Quest and LabCorp, the 10 other publicly traded lab companies grew by a weighted average of 10.9% (after adjustments for acquisitions) in 2004. 🏢

Fastest-Growing Publicly Traded Labs



Source: LIR

Movers & Shakers: The latest news in hirings, promotions, resignations, and retirements in the lab industry

LabCorp has named **William Hayes** chief financial officer, effective June 3, to replace **Wesley Elingburg**, who will retire. . . **Martin Stefanelli** has become president and chief operating officer at **Asterand** (Detroit, MI), which operates a human tissue and blood bank. Stefanelli was formerly executive vice president and chief operating officer at Ameripath.

American Esoteric Laboratories (AEL-Nashville, TN) has hired two former executives from MDS Laboratories. **John Mazzei** has been named vice president and executive director of AEL's Memphis Pathology Laboratory, which was acquired by AEL in September 2004. In addition, AEL has named **Chuck Locke** as vice president of development and administration.

BREAKING NEWS:

In an unusual transaction, **Carilion Health System** (Roanoke, VA) has purchased **Park City Solutions' Laboratory Services Group** effective April 1. In a letter to clients, **Kathleen Murphy, Ph.D.**, senior vice president, said the consulting business will operate independent of its new owner. The only visible change will be a new company name: Chi Solutions, Inc. Carilion operates one of the largest outreach businesses in the southeast, Carilion Consolidated Laboratory. More details in the next issue of LIR.

James Root has resigned as senior vice president of **Park City Solutions Laboratory Services Group** (Ann Arbor, MI) and moved to sunny Tucson, Arizona. **Kathleen Murphy, Ph.D.**, has been promoted to senior vice president of the PCS Laboratory Services Group (see related news to the left). . . **Wendell O'Neal, Ph.D.**, has resigned from his position as executive vice president at **LabAlliance** (Cincinnati, OH) and started a healthcare consulting company named WHISK Group.

And finally, LIR has learned that **Hal Rose**, chief executive of **Quentin Medical Laboratory** (Brooklyn, NY), has resigned. Rose had been with Quentin, an independent lab with about \$10 million in annual revenue, for 17 years. The company is now going through a reorganization. 🏢

Lab Stocks Fall 5% In Latest Five Weeks

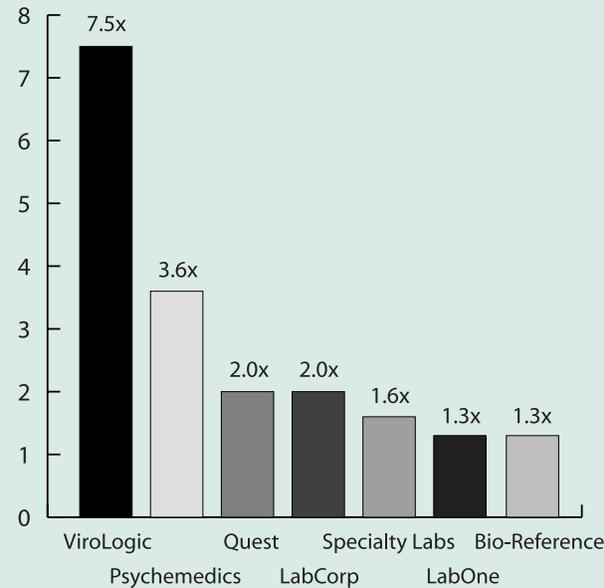
Stock prices for the 10 companies in the G-2 Laboratory Index fell an unweighted average of 5% in the five weeks ended March 21, 2005, with two

stocks up in price, one unchanged, and seven down. So far this year, lab stocks are down 9%, while the S&P 500 is down 2%, and the Nasdaq is off 8%.

In terms of valuation, **ViroLogic** (South San Francisco, CA) currently trades at the highest multiple of annual revenue. The company has a stock market capitalization of \$277 million and annual revenue of \$36.8 million for a price/revenue ratio of 7.5 (i.e., \$277 million divided by \$36.8 million = 7.5).

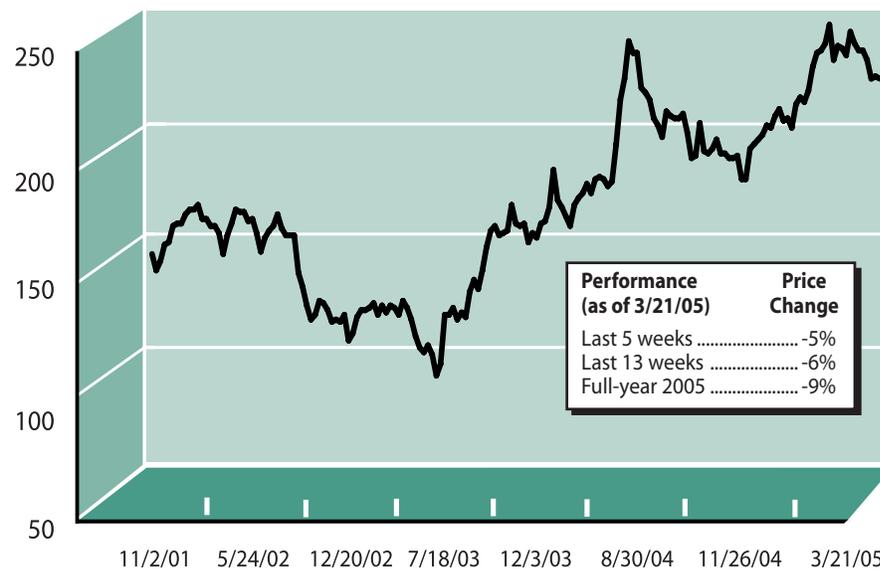
The next most highly valued lab stock (3.6 times revenue) is **Psychemedics** (Cambridge, MA), which specializes in hair testing for drugs of abuse. **Quest Diagnostics** and **LabCorp** are each currently valued at 2.0 times their annual revenue. **Specialty Labs** trades at 1.6 times, while **LabOne** and **Bio-Reference** each trade at 1.3 times. 🏠

Price/Revenue Ratios for Seven Lab Stocks



Source: LIR

G-2 Laboratory Stock Index



Source: The G-2 Laboratory Stock Index is tabulated weekly by *Laboratory Industry Report* from the average percentage change in the price of 10 laboratory testing service stocks.

% price change, 5 weeks ended 3/21/05

Up	Price	%Chg
Psychemedics	\$13.50	5
Quest Diagnostics	100.13	2
Unchanged		
Myriad	21.32	0
Down		
Bio-Reference	\$13.39	-10
Enzo Biochem	14.65	-17
LabCorp	45.40	-8
LabOne	33.40	-5
Medtox	7.76	-5
Specialty	9.25	-7
ViroLogic	2.37	-5

INDUSTRY buzz

Although Digene's DNA-based HPV test is quickly becoming the standard of care for indeterminate Pap tests, doctors have been slower to use it as a primary screen for cervical cancer. To help speed along the process, Digene has begun a \$3+ million magazine and TV advertising campaign aimed at patients. The 30-second TV ads began in mid-March in three cities: Atlanta, Baltimore, and Philadelphia. The magazine ads have been placed in 10 national magazines, including *People*, *Ladies Home Journal*, and *Redbook*, and read: "If you're a gambling woman, then getting a Pap test is just fine."

Direct-to-Consumer Advertising in the Lab Industry				
Date	Company	Product	Description	Budget
1998-1999	Cytc	ThinPrep	12 cities	\$6M
Sept. 2002-Feb. 2003	Myriad Genetics	BracAnalysis	TV ads in Denver and Atlanta, national magazines	\$3M
2003-present	Quest Diagnostics	QuestTest	Partnerships with supermarkets and pharmacies, Internet ads	NA
June 2004-Feb. 2005	Exact Sciences	PreGen-Plus	TV ads in FL and NC, local newspaper ads	NA
March-May 2005	Digene	DNA HPV test	TV ads in Atlanta, Baltimore, Philadelphia National magazines	\$3-5M

Source: LIR

The Digene commercials come on the heels of a similar direct-to-consumer ad campaign by Exact Sciences for its PreGen-Plus colorectal cancer test. But while advertising by test vendors has seemed to work, most laboratories that have launched direct-to-consumer marketing programs for routine testing, including Quest Diagnostics, have had disappointing results. 🏠

References in this issue

Bostwick Labs 800-214-6628
 Digene 301-944-7000
 Esoterix 800-444-9111
 Home Healthcare Laboratory of America 888-522-4452
 Laboratories at Bonfils 303-365-9000
 National Laboratory Partners 718-859-4777
 PCS Laboratory Services Group 734-662-6363
 SED Medical Laboratories 800-999-5227
 Specialty Laboratories 661-799-6543

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