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Acquisition-Oriented Regional Diagnostic Labs Stays on Sidelines for Now

When Regional Diagnostic Laboratories (RDX) began life last spring, it was the putative life of the party.

The Brentwood, Tenn.-based Regional Diagnostic was born with money: up to \$250 million from the private equity firm Warburg Pincus to acquire labs throughout the United States.

“Our team will seek out opportunities where we can deploy the strategies and capital to create a number of regionally dominant outreach laboratories throughout the U.S. that can assure superior service and quality to health systems and their clinicians,” Brian C. Carr, its chairman and chief executive officer, said in a statement announcing the company’s formation last May.

Carr was a co-founder of InformDX (now part of AmeriPath), and later American Esoteric Laboratories, and most recently OralDNA Labs (now part of Quest Diagnostics). Regional Diagnostic’s management team includes John G. Mazzei, who held a variety of high-level management positions before working with Carr, Mark Farrington, and Sam Daniel, a co-founder of OralDNA Labs.

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Upcoming Conferences

Molecular Coding and Billing Workshop:
How to Get the Right Payment in 2013
Jan. 24, 2013
The Westin Atlanta Airport
Atlanta
www.G2Intelligence.com/codingworkshop

Volume to Value
Redefining Lab Services in a Changing Market
Feb. 25-27, 2013
The Westin Beach Resort & Spa
Fort Lauderdale, Fla.
www.G2Labvalue.com

Pathology Institute
Grow Your Practice in Turbulent Times:
Pathology Business Models and Strategies That Work
Feb. 28-March 1, 2013
The Westin Beach Resort & Spa
Fort Lauderdale, Fla.
www.G2Path.com

www.G2Intelligence.com

PerkinElmer Acquires Chinese Infectious Disease Laboratory

PerkinElmer Inc. is expanding its blood testing business with a specific focus on the Chinese market.

Waltham, Mass.-based PerkinElmer in November acquired Shanghai Haoyuan Biotech Co. Ltd., which focuses on infectious disease diagnostics. The terms of the transaction were not disclosed.

Shanghai Haoyuan was founded in 1997 by a molecular biologist who worked in the United States for several years, with the intent of improving the screening process for hepatitis B, which afflicts about 10 percent of the Chinese population. It is now a leading supplier of molecular infectious disease screening technologies for blood banks and laboratories throughout China.

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■ RDX LABS STAYS ON THE SIDELINES, *from page 1*

In an interview with *Laboratory Industry Report*, Carr noted that Regional Diagnostic is focused on hospital-based outreach labs. He believes that health system acquisition of physician practices will continue in the near term and that this appetite requires that systems free up capital to engage in such transactions.

"Although it varies, many health systems don't believe they need to own a lab in the ACO world," Carr said.

Yet seven months into its existence, Regional Diagnostic has turned into something of a wallflower. Although it came so close to pulling the trigger on acquiring several unnamed laboratories in the Midwest that it briefly posted job openings for its would-be targets on its Web site, the company has yet to close a deal.

Carr said it could be months, if not another year, before his venture takes the plunge.

The reasons for the hesitation are numerous, but it is primarily because Regional Diagnostic is waiting for the punchbowl sediment to settle before taking a drink.

Carr believes the industry is being roiled by uncertainty.

Common Themes

"We are seeing a common theme," Carr said. He added that many of the labs he has observed are under a variety of financial pressures, including shrinking margins and pricing pressures. "They were all fighting at the revenue line. We had to take a step back and ask 'is this the right time to buy these labs, or are we on the cusp of what we would consider abnormal headwinds?'"

Not only is the industry dealing with Medicare cuts that will take place in the first part of 2013, but the Centers for Medicare and Medicaid Services' recent decision to cut the technical component of the surgical pathology code 88305 by 52 percent is expected to have widespread repercussions for anatomic pathology labs.

"In my 25 years in the business, I can never recall a CPT code that represents as much as 80 percent of a business being cut as much. . . . [T]hat is Draconian," Carr said.

Little Upside From ACA For Labs

Moreover, Carr does not believe the ushering in of the primary components of the Patient Protection and Affordable Care Act have nearly as much upside for labs than it will for hospitals. As a result, he has decided it makes more sense for Regional Diagnostic to be patient and "let some of these things work through the system"—in other words, see if lab valuations go down.

"How would you like to have recently acquired a pathology practice for three times revenue?" Carr asked. "It's this type of scenario that is causing buyers to pause right now."

However, given the amount of money Warburg Pincus has staked on Regional Diagnostic—and its past successes financing deals in the laboratory sector—Carr noted that the private equity firm is comfortable being patient.

"We had to take a step back and ask 'is this the right time to buy these labs, or are we on the cusp of what we would consider abnormal headwinds?'"

**—Brian C. Carr,
chairman and CEO,
Regional Diagnostic Laboratories**

“They have seen the cycles come and go, but Warburg Pincus remains committed to the space and will continue to actively explore and seek out quality investment opportunities,” Carr said. 

Health Network Labs Enters Into Relationship With Extract Systems

Health Network Laboratories (HNL) has begun offering an electronic health records interface to its network clients.

HNL, which is based in Allentown, Pa., is deploying interface software provided by Extract Systems of Madison, Wis.

“Implementing LabDE is aligned with our commitment to provide responsive service to clients and patients.”

—Ray Stein, HNL manager of lab applications

“Clinicians need quick access to critical patient data to improve patient care and minimize the chance of duplicative tests and therapies,” said Extract President David Rasmussen. “Enhanced connectivity among health care organizations also contributes to better operational efficiencies and streamlined workflow.”

Use of LabDe System

The Extract application is known as LabDE. Along with sending laboratory data directly into a patient’s electronic health record, specific analytical data is also pulled out to help make other clinical decisions.

“Implementing LabDE is aligned with our commitment to provide responsive service to clients and patients,” said Ray Stein, HNL’s manager of lab applications. “Providing access to structured clinical data in the EHR improves health care quality, reduces medical errors, and lowers costs.”

Specific terms of the relationship between HNL and Extract were not disclosed.

Owned by Lehigh Valley Health Network, HNL has developed strategic relationships with Roche Diagnostics and the Mayo Clinic for molecular and other forms of esoteric testing. It also performs a specialized cardiac test for Hunter Laboratories in Northern California. 



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Inside The Lab Industry



Quest Streamlines Operations, Focuses on Future Growth

Quest Diagnostics announced last month a major reorganization that will refocus its management and product lines, slash costs, and return the New Jersey-based national laboratory to a higher level of growth.

The plans, dubbed “Our New Quest,” were detailed at a daylong investor’s event in New York—the first ever in company history. It came almost exactly seven months after Steve Rusckowski was named chief executive officer and about five weeks after an October management shakeup where four senior-level managers were let go, three new ones were brought on, and plans were announced to cut up to 600 executive positions—three layers of management—by the end of 2013.

Quest, which performs 500 million tests a year and represents about 9 percent of the entire U.S. lab market, reported flat revenue and per-share operating income growth for the third quarter, ending Sept. 30, and its share price is virtually unchanged from where it was a year ago. Meanwhile, Rusckowski said the market is growing about 4 percent per year. “We have not grown at market rates, and therefore we have lost share,” he said, noting that the changes planned represent a “fresh new look” for the company. “We need to start growing . . . [and] eventually gain share.”

Paring Management

Rusckowski said Quest will streamline its six different business operations as well as their management—in some areas as many as 10 operational layers exist—make quicker decisionmaking, focus on capturing more of the esoteric testing market, and improve its management of scientific innovation. Meanwhile, it will cut costs by \$500 million by 2014 (compared to 2011 numbers) and \$600 million by the end of that year via its “Invigorate” cost-cutting program.

“We have not grown at market rates, and therefore we have lost share.”

*—Steve Rusckowski,
CEO, Quest Diagnostics*

Quest will also try to take advantage of the growth of insured patients as a result of the Patient Protection and Affordable Care Act and enter into more direct alliances with hospitals. Executives also intend to improve the performance of Celera, a personal disease management firm Quest acquired last year.

Rusckowski said Quest will also continue to nurture its international business, which although growing faster than the rest of the company, is not expected to be a significantly larger component in the future.

Meanwhile, the company is operationally consistent in the work it is currently performing, according to company officials. John Haydon, the senior vice president of operations, noted Quest’s quality controls and processes are excellent. “We are a machine every single night,” he said of the day-in, day-out business of conducting tests—a “pretty good base,” but it needs to be arrayed more horizontally than vertically. Quest’s dedication to the concept of Lean Six Sigma needs to break out of the testing venue and be deployed companywide, he added.

Haydon noted that Quest does not exploit its data in a systematic way. The company would like to standardize more of its IT processes to cut costs, reduce its estimated \$300 million in bad debt, and improve the collections process.

Improving Payer Relations

Everett Cunningham, the recently appointed senior vice president of commercial operations, said Quest will not only fully integrate its sales staff but also place focus on enhancing its relationships with health plans.

“We need to win in the health plan space,” Cunningham said, adding that Quest must be “less reactionary in working with key decisionmakers for health plans. . . . [W]e will make sure we invest and deploy [in this area].”

Cunningham also said that the company would invest in technology to better and more quickly respond to customers and would deploy cloud-based tools and mobile connectivity.

“We have to call on profitable customers. . . . [Y]ou’re going to see a much more rigorous process and plan in terms of call planning,” he said. And there will also be daily measurements regarding the performance of the sales staff.

“We need to win in the health plan space.”
—Everett Cunningham, senior VP, commercial operations, Quest Diagnostics

Chief Financial Officer Bob Hagemann, who has been with Quest for more than 20 years and more than 14 in his current position, said the company would reduce its debt by

between \$500 million and \$700 million by the end of this year in order to retain a strong credit rating. It will also continue to return a good portion of its strong cash flow — averaging about \$800 million a year in 2010 and 2011 — to its shareholders in the form of dividends and stock repurchases.

Indeed, Quest announced during the conference a 76 percent boost in its quarterly dividend to 30 cents per share, or \$1.20 per calendar year.

But a lot of capital will also be used to improve Quest’s overall operating performance—Hagemann said expenditures are expected to increase about 1 percent of revenue each year for the next several years, primarily to modernize and automate equipment.

Hagemann indicated that Quest’s future would not be tied to huge deals such as the Celera acquisition, which cost it nearly \$350 million. Instead, the company’s acquisitions would be more narrowly focused “fold-in” assets that can be easily integrated into the larger organization.

“We’re not anticipating doing larger acquisitions at this point,” Hagemann said. He added that future deals would be “much more easily managed.” 

■ PERKINELMER ACQUIRES CHINESE TESTING FIRM, *from page 1*

The deal gives PerkinElmer four infectious disease assays approved by the Chinese equivalent of the U.S. Food and Drug Administration. They include a qualitative three-in-one assay for the detection of hepatitis B (HBV), hepatitis C (HCV), and the HIV virus; two clinical quantitative assays that screen for HBV and HCV; and one qualitative assay screen for chlamydia and gonorrhea.

“Integrating Haoyuan’s screening products with PerkinElmer’s diagnostics capabilities will help to further advance the health of the Chinese people.”

*—Robert Friel, CEO,
PerkinElmer*

PerkinElmer sees a huge opportunity in the nucleic acid testing market in China. The nation’s demand for transfused blood is growing at a 15 percent annual clip, leading to government mandates and funding for infectious disease screening. The Chinese government wants all blood to undergo testing with nucleic acid technologies by the end of 2015, replacing the older antibody testing methods.

“By combining PerkinElmer’s robust disease screening capabilities with Haoyuan’s proprietary reagents and equipment, the company will be able to offer highly sensitive systems and assays for quality detection of blood-borne infections for the Chinese market,” said PerkinElmer Chief Executive Officer Robert Friel. “Integrating Haoyuan’s screening products with PerkinElmer’s diagnostics capabilities will help to further advance the health of the Chinese people by offering leading technology that ensures accurate diagnosis of infectious diseases at a low cost.”

The transaction “strengthens the safety of the blood banks in China while creating an opportunity for future implementation in other countries,” PerkinElmer said in a statement. The company expects no impact from the deal on its bottom line for 2012 and 2013, and projects it to be positively accretive starting in 2014. 

Halifax Health Expands Lab Services

Halifax Health, a two-hospital system in central Florida, has made a major investment to upgrade its laboratory system and expects to eventually provide lab services to other providers in the region.

Altogether, Halifax Health invested \$1.6 million on equipment upgrades at its on-site hospital labs in Daytona Beach and Port Orange. The upgrades are expected to be completed by early January.

According to published reports, the investment will double Halifax Health’s current laboratory capacity of about 5 million tests per year and will greatly speed its ability to process tests. A basic metabolic panel that took about 10 minutes to be completed will take about three minutes with the upgrade. The time to process a thyroid hormone test will be cut to 16 minutes from 45 minutes.

No specifics were available as to what laboratory equipment was upgraded. A Halifax Health spokesman did not respond to requests for comment.

As a result of the overhaul of the laboratory equipment, Halifax Health will begin marketing its services to clinics and other providers in the Daytona Beach region, according to published reports.

Halifax Health operates Halifax Health Medical Center in Daytona Beach and Halifax Medical Center of Port Orange. 

New Jersey Hospital Responds to Sandy With Mobile Lab Services

Hackensack University Medical Center in Northern New Jersey has been lending a badly needed hand in the wake of superstorm Sandy—a hand that includes limited laboratory services.

Four hospitals in the Greater New York City area were shut down by the storm, including such powerhouses as NYU Langone Medical Center, which has yet to reopen and whose research laboratories were all but destroyed by flooding.

The 775-bed hospital, located about eight miles west of New York City, has been deploying what is called a mobile satellite emergency department (MSED) at hospitals in the region whose services have been degraded or taken offline.

Housed in Trailers

Hackensack's two MSEDs are housed in 43-foot-long semitruck trailers with expandable sides. Each trailer includes seven critical-care beds and can function as a roving emergency department. The units are funded as part of a disaster preparedness initiative in conjunction with the U.S. Department of Defense.

MSED units were deployed in Hillsborough, N.J., just after the storm and at Ocean Medical Center in Brick, N.J., and Jersey City Medical Center in the days immediately following. A unit is currently deployed at Long Beach Medical Center in Long Beach, N.Y.

Long Beach Medical Center filed a formal request for the MSED unit through the Emergency Management Assistance Compact, a national state-to-state mutual aid system.

Although Ocean and Jersey City Medical Centers still have lab capabilities, the MSED is providing some basic testing for Long Beach Medical Center, according to Gary Del Moro, Hackensack UMC's emergency preparedness manager.

Low-Maintenance Equipment Selected

The MSED is equipped with a RapidPoint 500, a Siemens unit that can provide quick tests of blood gas, electrolytes, glucose and lactate levels, CO-oximetry, and hemoglobin levels. Del Moro said the unit was picked for lab services because of its reliability and doesn't need a lot of maintenance.

"We used to use a Coulter analyzer, but it was too difficult to maintain," Del Moro said. He added that since the MSEDs can sit undeployed for a year or more at a time, low-maintenance lab equipment that doesn't require many reagents is required.

Currently, the MSED at Long Beach is treating about 100 patients a day, according to Del Moro, although he was unable to say what proportion of them require lab services. 



Think Tank Advocates Competitive Bidding for Laboratories

A proposal by a leading think tank to cut America’s health care costs includes competitive bidding—and significant revenue cuts—for laboratories.

The Senior Protection Plan, as proposed by the politically progressive Center for American Progress in Washington, D.C., would reduce health care spending by \$385 billion over a decade. The linchpin of the plan would be the use of competitive bidding for health care products and services.

The plan includes competitive bidding for a variety of health care services, including medical devices, nondurable medical products, and laboratory services. For labs, the report projects savings of \$4.2 billion over a decade should competitive bidding be launched by 2015.

The report noted that the use of competitive bidding for durable medical equipment starting in 2011 has cut costs by an estimated 42 percent.

“Cutting federal health care spending by shifting it onto others is blunt and shortsighted—it doesn’t reduce health care costs. But there’s a better way: Our approach reduces overall health care costs without forcing seniors, children, and disabled people to forgo necessary care,” said Neera Tanden, president of the Center for American Progress. “Our proposals focus on reforms that strengthen these programs and reduce national health expenditures, helping make America more competitive in the long term.”

However, competitive bidding for laboratory services has been fiercely battled by the sector, which claims it would cause severe financial hardship for many laboratories. In 2008, a competitive bidding demonstration project launched by the Centers for Medicare and Medicaid Services was shut down after a federal lawsuit was filed by Internist Laboratory, Sharp Healthcare, and Scripps Health challenging the program. The parties successfully obtained an injunction against launching the demonstration in the San Diego area. The litigation was supported by virtually all of the industry trade groups, including the National Independent Laboratory Association and the American Clinical Laboratory Association.

The center’s proposal for Part B lab competitive bidding marks the third time this year that this payment method has been brought to the fore as a Medicare cost-saver. 

References

Center for American Progress 202-682-1611	Halifax Health 386-254-4000	Quest Diagnostics 800-222-0446
Extract Systems 608-216-7950	Health Network Laboratories 610-402-8170	Regional Diagnostic Labs 615-577-5888
Hackensack University Medical Center 201-996-2000	PerkinElmer 203-925-4602	

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