

# LABORATORY ECONOMICS

*Competitive Market Analysis For Laboratory Management Decision Makers*

## **LABCORP TO BUY PAML; QUEST TO BUY PEACEHEALTH LABS; EXTENDED FTC ANTITRUST REVIEW LIKELY**

**T**wo long-rumored lab deals have officially been announced. LabCorp has reached an agreement to acquire Pathology Associates Medical Laboratory (PAML-Spokane, WA) plus its stake in five lab outreach networks managed by PAML. Separately, Quest Diagnostics says it's buying PeaceHealth Laboratories (Springfield, OR). These transactions, if completed, will dramatically alter the competitive landscape for clinical lab services in the Pacific Northwest and may prompt an extended antitrust review by the Federal Trade Commission (FTC). *Continued on page 2.*

## **NORTHWELL HEALTH INVESTING \$100+ MILLION TO BUILD TWO NEW CENTRAL LABS**

**W**hile some big hospital-owned lab businesses are being sold to commercial labs, Northwell Health (New Hyde Park, NY) is making a major financial commitment to its lab business Northwell Health Laboratories (formerly North Shore-LIJ Laboratories).

Northwell is investing \$60 million to build a new 100,000-square-foot core lab in Long Island and is investing another \$48 million to build a 36,000-square-foot microbiology and molecular diagnostics lab in Queens, New York.

“It’s our hope that Northwell Health Laboratories, on the strength of our service to the greater New York metropolitan region, will be a strong argument for retaining laboratories as ‘in-system,’ to serve as a core asset of highly integrated health systems,” says James Crawford, MD, PhD, Executive Director and Senior Vice President for Laboratory Services. *Continued on page 5.*

## **POPLAR TO BUY BANKRUPT BOSTWICK LABS**

**B**ostwick Laboratories (Uniondale, NY) has filed for Chapter 11 bankruptcy reorganization and plans to sell its business to rival pathology lab company Poplar Healthcare (Memphis, TN). The sale is expected to be completed within 45 days. During the interim, Poplar is providing Bostwick with a credit line of up to \$5.1 million so that it can pay employees and keep its New York laboratory open. *Continued on page 11.*

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**LABCORP TO BUY PAML** (cont'd from page 1)

LabCorp's planned purchase of PAML will bring it the largest independent lab in the Pacific Northwest. PAML is currently 75% owned by Providence Health & Services, which operates 34 hospitals and 600 physician clinics in Oregon, Washington, Alaska, Montana and California. Catholic Health Initiatives (Denver, CO) paid \$37 million for a 25% stake in PAML in 2009.

PAML operates a 72,000-square-foot laboratory near the Providence Sacred Heart Medical Center & Children's Hospital campus in Spokane. PAML employs about 800 people in the Spokane area and performs more than 14 million tests per year generating approximately \$300 million of annual revenue.

LabCorp will also acquire PAML's ownership stake in six hospital lab outreach ventures (see table). PAML acts as the managing partner for these JVs and provides them with billing, computer interfacing, courier logistics and reference lab services, with about 15% of each JV's test volume sent to PAML's Spokane lab.

<b>PAML Joint Ventures</b>	<b>Location</b>	<b>Hospital Partners' Decision</b>
Colorado Laboratory Services .....	Lakewood, CO .....	Agreed to sell JV interests to LabCorp
Kentucky Laboratory Services .....	Lexington, KY .....	Agreed to sell JV interests to LabCorp
PACLAB Network Laboratories .....	western Washington .....	Agreed to sell JV interests to LabCorp
MountainStar Clinical Laboratories.....	Salt Lake City, UT.....	Still evaluating options, including sale to LabCorp
Tri-Cities Laboratory .....	central Washington.....	Still evaluating options, including sale to LabCorp
Alpha Medical Laboratory .....	Coeur d'Alene, Idaho ....	Plans to acquire PAML's interest in JV, then sell full ownership to LabCorp
California Laboratory Services .....	Burbank, CA.....	Providence Southern California has purchased PAML's stake and taken full ownership of CLS
Treasure Valley Laboratory.....	Boise, ID .....	Saint Alphonsus Diversified Care will buy PAML's share and assume full ownership of TVL

Source: *Laboratory Economics* from JVs

The largest PAML JV by far is PACLAB Network Laboratories (PACLAB), which manages the lab outreach operations for 13 hospitals in western Washington. The hospital partners of PACLAB, including Providence Health and Franciscan Health, have agreed to sell their PACLAB ownership stakes to LabCorp as well.

Meanwhile, the hospital partners at two JVs (California Laboratory Services and Treasure Valley Laboratory) have chosen to buy out PAML's stake and keep 100% ownership with no plans to sell to LabCorp.

An insider tells *Laboratory Economics* that negotiation between PAML and LabCorp had been ongoing for more than two years. Finalizing a deal was complicated by the need to negotiate terms with all of the hospitals involved with PAML's JVs.



The decision by majority-owner Providence to sell PAML may have been driven by a number of factors:

1. Providence has recently struggled financially, reporting an operating loss of \$99 million on revenue of \$16.4 billion for the nine months ended Sept. 30, 2016. Providence attributed the loss to a shifting patient mix toward Medicaid patients with higher acuity levels combined with higher wage costs.
2. PAML's test volume growth had slowed recently (-3% in 2016 versus projections for 8-9% growth).
3. Anticipated cuts to the Medicare CLFS are scheduled to begin in 2018.

LabCorp says the acquisition of PAML and separate deals to acquire 100% ownership of up to six related joint ventures will take place over the next year. Test volumes at PAML and the JVs are expected to be redirected to LabCorp's regional labs, primarily its Seattle lab, after the transactions close.

### Quest Diagnostics to Acquire PeaceHealth Labs

In another major deal in the Pacific Northwest, Quest Diagnostics has announced a definitive agreement to acquire the outreach laboratory services operations of PeaceHealth Laboratories (Springfield, OR). Under a professional laboratory services agreement, Quest will also manage 11 inpatient laboratories, which PeaceHealth will continue to own. Quest expects to complete the transaction in the second quarter of 2017. PeaceHealth says about 500 lab employees will lose their jobs, although Quest is expected to rehire about half of them. PeaceHealth Labs' outreach business is estimated to generate roughly \$75 million in annual revenue.

### FTC Scrutiny Could Delay Deals

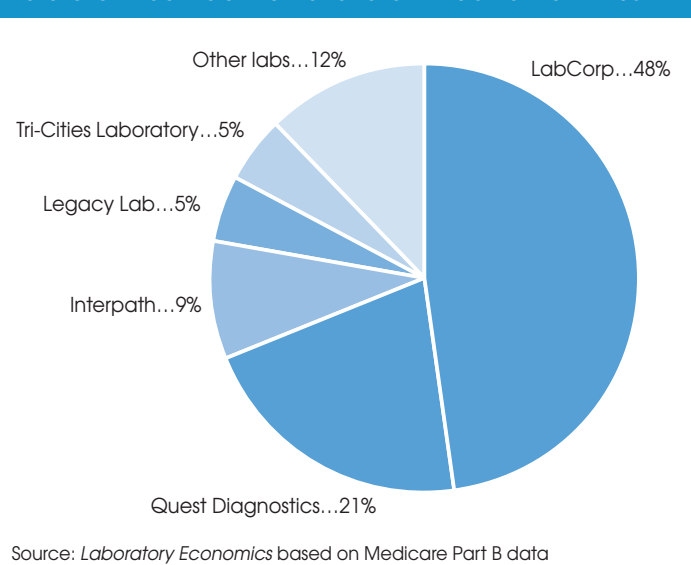
The clinical lab marketplace in the Pacific Northwest (WA, OR and ID) will become highly concentrated if LabCorp and Quest each complete their announced acquisitions. *Laboratory Economics* estimates that LabCorp will hold a 48% share of the physician office market for clinical lab services, based on Medicare Part B data from 2014 (the latest available from CMS). LabCorp's share will increase to 53% if Tri-Cities Laboratory's hospital partners (Kadlec Medical Center, Trios Health and Lourdes Health) choose to sell their stakes to LabCorp.

Quest will have an estimated 21% share following its acquisition of PeaceHealth Labs. The largest remaining independent lab in the Pacific Northwest will be Interpath Laboratory (Pendleton, OR) with an estimated 9% market share.

If the FTC does intervene, its focus would probably be on the Seattle area where LabCorp, with its Dynacare Northwest unit plus PAML and PACLAB, will easily have a 60+% share of the clinical lab market, observes *Laboratory Economics*.

The last time the FTC intervened in a lab acquisition was when Quest acquired Unilab. The deal was initially announced in April 2002 and ordinarily would have closed within three months. However, an FTC review determined the combined companies

Future Clinical Lab Market Share in Pacific Northwest



would have a 70% share in northern California and predicted it would result in higher lab prices. In order to close the deal (ultimately completed in February 2003), Quest was required to divest 46 patient service centers (PSCs), five stat labs, and several IPA contracts to LabCorp.

### Clinical Lab Marketplace Analysis for Pacific Northwest (Washington, Oregon and Idaho)

<i>Laboratory Name</i>	<i>Location</i>	<i>Part B Volume 2014</i>	<i>Part B Revenue 2014</i>	<i>Avg. Part B Rev. Per Test</i>
Pathology Associates Medical Laboratory (PAML)	Spokane, WA	1,187,750	\$14,929,075	\$12.57
LabCorp	Seattle, WA	764,231	\$10,418,174	\$13.63
PeaceHealth Laboratories	Springfield, OR	593,596	\$8,238,300	\$13.88
PACLAB Network Laboratories	Renton, WA	700,000*	\$7,000,000*	\$10.00*
Quest Diagnostics	Seattle, WA	572,322	\$6,534,294	\$11.42
Interpath Laboratory	Pendleton, OR and Boise, ID	524,268	\$6,257,181	\$11.94
Tri-Cities Laboratory LLC	Kennewick, WA	332,018	\$3,761,858	\$11.33
Legacy Laboratory Services Central Lab	Portland, OR	243,473	\$3,259,489	\$13.39
Confluence Health/Wenatchee Valley Hospital	Wenatchee, WA	247,431	\$2,515,553	\$10.17
LabCorp/Dynacare Northwest	Seattle, WA	170,722	\$2,156,077	\$12.63
Treasure Valley Lab/Southern Idaho Regional Lab	Boise, ID	119,662	\$1,501,041	\$12.54
North Bend Medical Center Lab	Coos Bay, OR	116,309	\$1,185,143	\$10.19
Memorial Physicians	Yakima, WA	75,309	\$869,121	\$11.54
Pathologists' Regional Laboratory (PRL)	Lewiston, ID	44,738	\$514,005	\$11.49
Corvallis Clinic PC	Corvallis, OR	42,958	\$463,918	\$10.80
Western Washington Medical Group	Everett, WA	38,082	\$421,294	\$11.06
Group Health Cooperative	Tukwila, WA	18,762	\$224,089	\$11.94
Other clinical labs in WA, OR and ID		100,000*	\$1,000,000*	\$10.00*
Total all clinical labs in WA, OR and ID		5,891,631	\$71,248,612	\$12.09

\*Asterisk-marked figures are estimated by *Laboratory Economics*

Source: *Laboratory Economics* and CMS

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**NORTHWELL HEALTH INVESTING \$100+ MILLION** (*cont'd from p. 1*)

Both new labs are expected to open in mid-2018 and will serve as the backbones to the Clinical Laboratory of New York Alliance, formed in 2014 by Northwell Health (then the North Shore-LIJ Health System) and NYC Health + Hospitals, the city's public hospital system.

The new core lab will replace Northwell Health's nearby existing 60,000-square-foot core lab in central Long Island. The new lab is expected to employ about 1,000 people and will initially perform some 11 million routine, anatomic pathology and esoteric tests. Volume is expected to increase to more than 40 million tests in the next several years as more testing from Northwell's 21 hospitals and NYC Health's 11 hospitals is centralized, and from outreach volume growth (currently ~9 million tests per year, growing 15-20% annually).

The new microbiology and molecular diagnostics lab in Queens (about 1 mile from the core lab) will have about 300 employees and perform about 1.5 million tests per year.

The combined system-wide lab budget at Northwell and NYC Health totals more than \$700 million per year. Economies of scale gained from outreach growth and consolidation of testing, standardized equipment and reduced reference testing expenses are expected to result in about \$30-40 million in combined annual savings to Northwell and NYC Health over time, according to Crawford.

Northwell competes for physician office clients in the crowded New York City region where all of the biggest national labs have a strong presence, including LabCorp, Quest Diagnostics, Bio-Reference Labs and Sonic's Sunrise Medical Labs. "It keeps you on your toes. You have got to be competitive," says Crawford.

**Clinical Lab Marketplace Analysis for NYC Region (New York, New Jersey and Connecticut)**

<i>Laboratory Name</i>	<i>City</i>	<i>State</i>	<i>Part B Volume 2014</i>	<i>Part B Revenue 2014</i>	<i>Avg. Part B Rev. Per Test</i>
LabCorp	Raritan	NJ	8,546,802	\$108,963,485	\$12.75
Bio-Reference Labs	Elmwood Park	NJ	4,886,986	\$96,566,732	\$19.76
Quest Diagnostics	Teterboro	NJ	6,080,692	\$81,608,184	\$13.42
Shiel Medical Lab	Brooklyn	NY	2,121,254	\$26,404,422	\$12.45
Quest Diagnostics	Wallingford	CT	1,970,810	\$22,652,673	\$11.49
Quest Diagnostics	Syosset	NY	1,701,588	\$22,349,882	\$13.13
Sonic /Sunrise Medical Labs	Hicksville	NY	1,833,903	\$22,255,561	\$12.14
Accurate Diagnostics Labs	Edison	NJ	1,216,407	\$16,557,676	\$13.61
Northwell Health Laboratories	New Hyde Park	NY	1,125,287	\$15,172,576	\$13.48
Accu Reference Medical Lab	Linden	NJ	917,244	\$12,395,528	\$13.51
Enzo Clinical Labs	Farmingdale	NY	894,132	\$12,332,354	\$13.79
Apex Laboratory	Farmingdale	NY	1,078,132	\$11,809,400	\$10.95
Quest/Clinical Lab Partners	Newington	CT	1,308,189	\$11,655,395	\$8.91
Aculabs Inc.	East Brunswick	NJ	1,558,957	\$9,201,288	\$5.90
Lenco Diagnostic Labs	Brooklyn	NY	506,233	\$7,553,093	\$14.92
Empire City Laboratories	Brooklyn	NY	411,632	\$6,447,144	\$15.66
Spectra East	Rockleigh	NJ	558,439	\$6,426,081	\$11.51
United Medical Laboratory	Rochelle Park	NJ	419,345	\$5,059,875	\$12.07
Manhattan Physicians Laboratories	Pine Brook	NJ	400,624	\$4,839,435	\$12.08
Medical Laboratory Diagnostics	West Orange	NJ	386,688	\$4,805,160	\$12.43

Source: *Laboratory Economics* and CMS



## HOSPITAL LABS AT GREATER RISK FOR PAMA CLFS CUTS

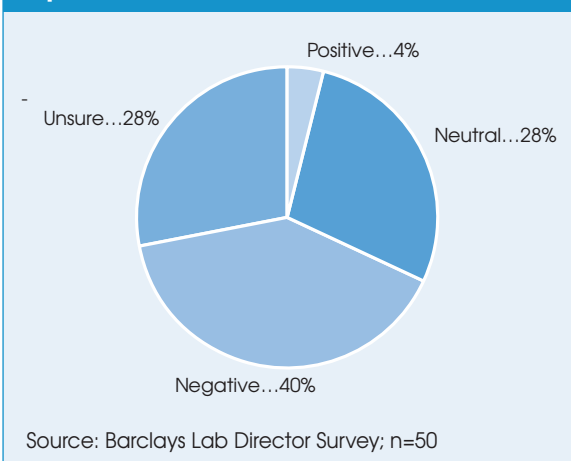
**H**ospital-based labs and other independent labs have outsized Medicare exposure, implying greater vulnerability to anticipated rate reductions resulting from the PAMA repricing of the Medicare CLFS starting in 2018, according to a survey conducted by Barclays Equity Research in February. The survey included responses from 50 lab directors, including 46 from hospitals and four from independent labs. Survey constituents reported that an average of 36.8% of their lab revenue was generated from the Medicare CLFS, compared with 12% at Quest Diagnostics and LabCorp.

Medicaid exposure at surveyed lab directors is also greater, at an average 24.1%, versus 3% at Quest and LabCorp. That's a risk because most, if not all, states benchmark their Medicaid lab rates directly to the Medicare CLFS.

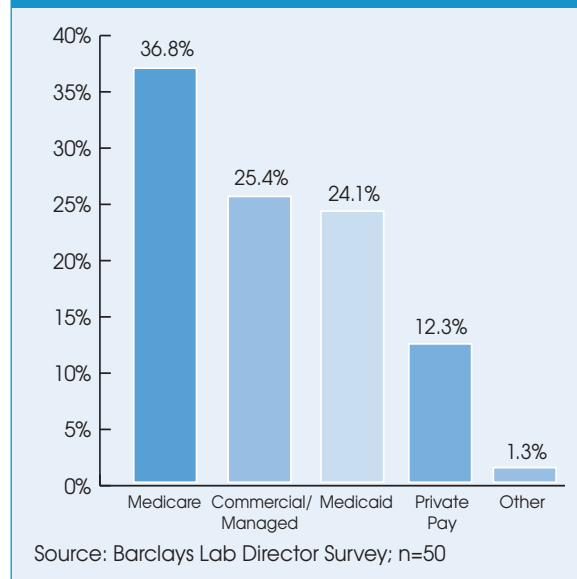
The deadline for applicable labs to submit their private-payer data to CMS is March 31. Using this data, CMS will then calculate new rates for more than 1,300 test codes on the CLFS. Rate reductions are limited to 10% per code per year for the first three years, 2018-2020, and not more than 15% per year for the subsequent three years. The initial new rates will be published by CMS this fall and will become effective January 1, 2018.

The Barclays survey showed that only 40% of lab directors expect a negative impact from the PAMA repricing. But many hospital lab directors may be underestimating the magnitude of the coming rate reductions, according to Jack Meehan, equity research analyst at Barclays. He notes that most hospital labs are not required to report their private-payer data to CMS, but their outreach businesses will be paid under the new lower CLFS rates. Meehan estimates that CLFS test codes will be cut by a blended average of approximately 6% in 2018, with many routine tests hitting the maximum 10% reduction. He thinks cumulative average cuts could range between 20% and 30% during the initial five years under the new rate setting method.

### How will PAMA impact your lab operations and reimbursement?



### Lab Director Survey: Payer Exposure



To normalize for some of the uncertainty over the magnitude of reimbursement cuts, the Barclays survey simply asked lab directors what impact a 10% Medicare cut to routine codes would have on operations. Eighty-eight percent of respondents said their lab would be forced to make operational changes in response to a 10% cut. Respondents cited various ways of doing this, including increasing automation, reducing staff and lowering test volume. Meehan believes it will also lead to more outsourcing of tests, benefiting Quest and LabCorp.

## QUEST EXECES PROVIDE DETAILS ON HOSPITAL LAB PARTNERSHIPS

Faced with increasing financial pressures, more hospitals are choosing to partner with one of the large national labs to manage their laboratory operations. Jon Cohen, M.D., Senior Vice President and Group Executive, Diagnostic Solutions, at Quest Diagnostics and Mike Lukas, General Manager, Professional Lab Services, discussed lab strategies for hospitals and health systems during a February 22 conference call hosted by Cain Brothers investment bank.

According to Cohen, inpatient hospital laboratory testing is a cost center because the testing is not reimbursed separately but falls under total DRG payment. By bringing in a national lab such as Quest to manage lab services, the hospital can save 10% to 20% of their total laboratory costs, says Cohen. Quest currently manages about 120 hospital laboratories, 38 of which are from deals made in the last three years.



Jon Cohen, MD

Quest offers three partnership models: 1) full lab management where all lab personnel are employed by Quest, 2) lab management partnership, where only the supervisors are employed by Quest, and 3) lab management “lite,” where the hospital maintains all lab employees.

During the call, Cain Brothers analysts asked Cohen and Lukas a number of questions about how the lab partnerships work. Key questions and answers are highlighted below.

### ***Who makes the decision about which tests are moved offsite?***

The ultimate decision is made by the medical staff leadership at the hospital. We will provide them with objective data to help them make the decision.

### ***How do you handle a lab with unionized employees?***

The solution usually is to take on the supervisors [as employees], as opposed to the line employees. We have found that many people are at the end of their careers and choose to take their retirement when we come in.

### ***What model works better for a large multi-site health system?***

Every single one of these agreements is customized. Some of the larger health systems have achieved efficiency with their core labs, but many have not. What we frequently will do is have the large hospital serve as the core lab, and have the smaller hospitals send their testing to one of the Quest regional labs.

### ***How does anatomic pathology fit into the models?***

This is focused on clinical only. We don't touch anatomic pathology.

### ***What is the process for getting one of these deals in place?***

It begins with a high-level desk top assessment. We enter into a non-disclosure agreement, and then we gather information related to volume, FTEs and expenses. We analyze that and come back to the leadership group with a preliminary proposal, which is intended to give an idea what the opportunity is and what some of the major choice points would be. We give a good sense of what we think test movement would be, what FTE reductions would be.

If the leadership team wants to pursue this further, we enter a more extensive data collection process, which would include due diligence. We would interview key people in the hospital and review contracts related to equipment and supplies so we can refine our numbers. At that point we would firm up which tests we recommend keeping on site and which tests we recommend sending to Quest. Based on that, we would make our final proposal. From start to finish it could take nine months to a year and a half.

## LABCORP REPORTS FULL-YEAR 2016 RESULTS

LabCorp (Burlington, NC) reported net income of \$732.1 million for the full-year 2016, up from \$437.6 million in 2015. LabCorp's overall revenue increased by 11% to \$9.437 billion in 2016. LabCorp's traditional lab testing business increased its revenue by 6.4% to \$6.594 billion in full-year 2016. The increase included organic requisition volume growth of 1.2% plus 2.7% from an increase in average revenue per requisition. In addition, lab acquisitions (including Pathology Inc., Nebraska LabLinc, Sequenom, ClearPath, and The Center for Disease Detection) added 2.5% to growth.

On February 16, LabCorp held a conference call with analysts and investors. Here are some comments on a few key topics from CEO David King.

### BeaconLBS

The BeaconLBS Labs of Choice network in Florida added 0.3% (-\$19 million) to LabCorp's diagnostics revenue growth in 2016 and is now processing more than \$60 million in annual claims. Regarding UnitedHealthcare's decision to delay the claims rejection component of BeaconLBS in Texas, King said in summary:

We had a similar situation in Florida, and this is part of the normal course of how you change healthcare and change patient and provider behavior... The decision support tool is active and we have 98% of Texas physicians registered and 89% of the Texas labs within the network are registered. So when UnitedHealthcare does implement, the market will be ready.

The need for this type of tool is great, and as you probably have seen [LE, February 2017, pp. 5-6], UnitedHealthcare has sued a toxicology lab in Texas that was charging 3 to 10 times the amount of network providers and 2 to 3 times the amount that out-of-network providers charge, which meant that it was charging United between \$1,400 and \$6,500 for toxicology panels that were available from network providers for vastly lower amounts.

So, the BeaconLBS tool is absolutely necessary if we want to change the cost of the healthcare curve and eliminate non-compliant practices [waiving patient co-pays and deductibles].

### PSC Strategy

King highlighted several new initiatives at LabCorp's patient service centers (PSCs) including the rollout of a patient responsibility estimator which gives patients an estimate of what their out-of-pocket payment responsibility will be to LabCorp. King said the service should reduce patient uncertainty making it easier to collect their credit card information at PSCs. In addition, King said that LabCorp is seeking to open PSCs within drug stores. This strategy is aimed at increasing patient convenience for traditional physician-ordered lab tests.

### LabCorp 2016 Financial Results (\$ millions)

	2016	2015	% Chg.
Total revenue	\$9,437.2	\$8,505.7	11.0%
LabCorp Diagnostics	6,593.9	6,199.3	6.4%
Covance Drug Development	2842.2	2,306.4	23.2%
Operating cash flow	1175.9	982.4	19.7%
Capital expenditures	278.9	255.8	9.0%
Free cash flow	897.0	726.6	23.5%
Net income	732.1	437.6	67.3%
Diluted EPS	7.02	4.35	61.4%
Total debt	5,849.5	6,364.2	-8.1%
Cash & securities	433.6	716.4	-39.5%
Shareholders' equity	5,505.8	4,945.1	11.3%
Est'd number of reqs.	143.7	138.6	3.7%
Est'd revenue per req.	\$45.93	\$44.72	2.7%
# Lab employees	36,500	36,100	1.1%
Avg. rev. per lab employee	\$180,655	\$171,726	5.2%

Source: LabCorp and *Laboratory Economics*' estimates for requisition volume and revenue



## SPOTLIGHT INTERVIEW WITH SENTARA LAB SERVICES' TABETHA SUNDIN

**S**entara Laboratory Services (SLS – Norfolk, VA) provides lab testing for the 13 hospitals comprising Sentara Healthcare, as well as more than 100 physician offices in Virginia and northeastern North Carolina. SLS is also a lab provider for 450,000 members of Sentara's Optima Health plans. The SLS core lab, reference lab and administrative offices are located at Sentara Norfolk General Hospital. Laboratory Economics recently spoke with Tabettha Sundin, PhD, interim Laboratory Director and Scientific Director, Molecular Diagnostics and Serology.



*Tabetha Sundin, PhD*

### ***Why are only 10 of SLS hospital labs consolidated under one operational and financial system?***

The other three hospitals are the most recent acquisitions, and they are not fully integrated with Sentara Laboratory Services. They also are further from our hub. It's possible that these three hospitals will not be part of the consolidated system because of their distance. We may need to develop a separate hub for them. However, having 10 of the hospital labs consolidated allows us to take advantage of economies of scale to get discounts on volume purchasing. It also allows us to standardize instruments and reagents across the system.

### ***What is SLS's testing volume?***

We do 9 million billable tests per year. Our volume increased by 6.6% in 2016 and we are projecting a 9.8% increase in 2017.

### ***Which testing areas are growing the fastest?***

Molecular diagnostics is growing the fastest. Our core lab testing is also increasing because we have added more members to Optima Health and we've acquired more hospitals and physician groups.

### ***Are you participating in the PAMA data reporting for the new Medicare lab payment system scheduled to go into effect in 2018?***

Since we are a hospital-based laboratory, we do not report data for PAMA.

### ***What impact do you believe the new Medicare payment system for clinical laboratory tests will have on your bottom line?***

By driving volume up through a variety of methods such as acquiring new hospitals, growing our Sentara Physician network and insourcing testing, we are able to keep our costs low. We believe our costs and therefore our prices are in line with the reference lab prices that will be used to set the new Medicare pricing. Therefore, we don't anticipate a large variance in our bottom line from the new Medicare payment system.

### ***A number of hospitals in the past couple of years have sold their lab outreach programs to Quest or LabCorp. Is it something you have considered?***

We have determined that it's profitable to keep it in-house, so we have no plans to sell.

### ***I understand that SLS supports clinical specialists in each discipline. How does that work?***

For the labs that are part of our consolidated model, we have one person for each discipline who is in charge of test menus, contract negotiation, policies and procedures, and instrument selection. By having one point person for each discipline, we are able to standardize across the system. We also have added a layer below clinical specialists to give them added support.

We are always monitoring our utilization with our reference laboratory—we look at our top 50 send-out test spend. We have brought in our fourth-generation HIV tests—the volume was such that we could achieve savings by insourcing. In our molecular department, there is also an opportunity to bring tests in-house because the cost of outsourcing is so high. We send out about 3% of our testing; our primary reference lab is LabCorp.

***Are you offering next-generation sequencing?***

Yes, this past January we went live with cystic fibrosis NGS—we're doing about 90 of those a month. We are currently validating a solid tumor hotspot panel—we expect to go live with that in June. A hem path panel will go live probably sometime in the fourth quarter. We are definitely looking to grow our NGS testing.

***Are there any other new initiatives underway at SLS?***

We're modernizing our microbiology department by investing in an automated streaker and MALDI-TOF for organism identification. We're also upgrading our automated workflow, going from three to four lines with a Roche cobas 8100.

***What are the biggest challenges for SLS going forward?***

Reimbursement is always a challenge, especially when we talk about esoteric testing and decisions about insourcing. The other challenge is the age of our staff. A lot of our staff have been here 30 or 40 years. We have a great deal of knowledge in those employees, and we are anticipating many of them will retire in the next five years. We are working on succession plans now.

## TRUMP NOMINATES GOTTLIEB TO HEAD FDA

President Trump has nominated Scott Gottlieb, MD, to become FDA Commissioner. Gottlieb is a resident fellow at the conservative American Enterprise Institute and served as an FDA deputy commissioner under George W. Bush. He is also on the Board of Directors at American Pathology Partners and is a former Director at CombiMatrix Corp. "Gottlieb's track record suggests he's a regulatory minimalist, so it's unlikely he would push for FDA oversight of laboratory-developed tests (LDTs) unless mandated by Congress," notes lab consultant Dennis Weissman.

## MEDICARE SPECIMEN COLLECTION TRAVEL ALLOWANCE INCREASES

The Medicare Part B specimen collection travel allowance is increasing to \$1.03 per mile and \$10.30 for a flat-rate trip. This is up slightly from the 2016 rate of \$0.99 per mile and \$9.90 for a flat-rate trip. The change, announced by Medicare in a Feb. 13 transmittal, is retroactive to Jan. 1.

Payment of the travel allowance is made only if a specimen collection fee is also payable. Medicare administrative contractors (MACs) have the discretion of choosing either a mileage basis or a flat rate. Many MACs have established local policy to pay based on a flat rate basis only.

Under either method, when one trip is made for multiple specimen collections (for example, at a nursing home), the travel payment component is prorated based on the number of specimens collected on that trip, for both Medicare and non-Medicare patients, either at the time the claim is submitted by the laboratory or when the flat rate is set by the MAC.

**POPLAR TO BUY BANKRUPT BOSTWICK LABS** (*cont'd from page 1*)

Bostwick Labs bankruptcy filing shows the company currently has assets of under \$10 million and liabilities of more than \$50 million.

Bostwick Labs was founded in 1999 by well-known urologist Richard Bostwick, MD. During its first 10 years, Bostwick Labs grew rapidly and became one of the biggest pathology labs in the nation. An attempted \$100 million IPO in 2008 showed the company had more than \$100 million of annual revenue and a total of 753 employees, including 30 pathologists and 100 sales reps.

However, a series of bad real estate decisions, a multi-million dollar False Claims Act settlement, insourcing by urology group clients, and reimbursement cuts resulted in declining revenue. Bostwick Labs was forced to shut down its over-expanded lab operations in Tennessee, Arizona, Florida, Virginia and London, England. Currently, Bostwick Labs operates a single laboratory in Long Island, New York (125 employees/78,000 square feet) and small administrative offices in Virginia and Florida (with a combined 65 employees).

Bostwick Labs Top 10 Creditors	
Unsecured Notes .....	\$40,000,000
Department of Justice.....	\$2,702,021
Capital One First Lien Revolver. ....	\$1,823,000
Second Lien Notes .....	\$950,000
New York State Taxes .....	\$364,361
Abbott Molecular.....	\$314,683
Ruskin, Moscou, Faltischek Law Firm .....	\$294,767
United Parcel Post .....	\$237,529
Ropes & Gray LLP .....	\$178,695
XIFIN Inc. ....	\$170,558
Source: Bostwick Labs' Chapter 11 Bankruptcy Filing, 3/15/2017	

Its bankruptcy filings show Bostwick Labs is currently collecting cash revenue of about \$675,000 per week (~\$35 million annually) but its operating expenses (payroll, lab costs, IT support, rent, utilities, et al.) total approximately \$750,000 per week (~\$39 million annually).

New owner Poplar Healthcare is likely to close Bostwick Labs' administrative offices in Florida and Virginia, but it may choose to keep the Long Island lab in operation, observes *Laboratory Economics*.

**SONIC HEALTHCARE BUYS WEST PACIFIC MEDICAL LAB**

**S**onic Healthcare USA (Austin, TX) has acquired the assets of West Pacific Medical Laboratory (WPML—Santa Fe Springs, CA) for an undisclosed sum. WPML had been owned by its Chairman Rick Nicholson and a group of private investors.

WPML operates a full-service clinical and pathology lab based in the Los Angeles area and has a total of 45 PSCs and 210 employees; annual revenue is approximately \$30 million.

Sonic says that WPML is currently losing money but expects improvement from synergies with Sonic's existing California operations, which include Physicians Automated Laboratory (Bakersfield) and Central Coast Pathology (San Luis Obispo).

Separately, Sonic reports that its U.S. lab operations recorded revenue of \$430 million in the six months ended December 31, 2016, up 3.3% from the same period a year earlier.

## LAB STOCKS UP 20% YEAR TO DATE

Sixteen lab stocks have risen by an unweighted average of 20% year to date through March 14. In comparison, the S&P 500 Index is up 6% so far this year. The top-performing lab stocks are Foundation Medicine, up 82%, CombiMatrix, up 66%, and Cancer Genetics, up 59%. At the two big commercial labs, Quest Diagnostics is up 7% and LabCorp is up 11%.

Company (ticker)	Stock Price 2/10/17	Stock Price 12/31/16	2017 Price Change	Market Capitalization (\$ millions)	P/E Ratio	Price/Sales	Price/Book
Cancer Genetics Inc. (CGIX)	2.15	1.35	59%	41	NA	1.6	1.5
CombiMatrix (CBMX)	4.40	2.65	66%	13	NA	1.0	1.8
Enzo Biochem (ENZ)	7.00	6.94	1%	324	8.3	3.1	3.7
Exact Sciences (EXAS)	21.04	13.36	57%	2,330	NA	23.4	6.9
Foundation Medicine (FMI)	32.20	17.70	82%	1,140	NA	9.8	6.9
Genomic Health (GHDX)	31.27	29.39	6%	1,050	NA	3.2	6.7
Invitae (NVTA)	10.27	7.94	29%	423	NA	16.9	3.8
LabCorp (LH)	143.09	128.38	11%	14,640	20.4	1.6	2.7
Myriad Genetics (MYGN)	19.21	16.67	15%	1,120	21.7	1.7	1.8
NeoGenomics (NEO)	7.88	8.57	-8%	619	NA	2.5	3.8
Opko Health (OPK)	8.07	9.30	-13%	5,100	NA	3.7	2.2
Psychedics (PMD)	20.55	24.99	-18%	112	16.8	2.9	7.2
Quest Diagnostics (DGX)	98.66	91.90	7%	13,570	21.9	1.8	2.9
Rosetta Genomics (ROSG)	0.44	0.42	5%	10	NA	0.9	1.0
Sonic Healthcare (SHL.AX)	21.28	21.40	-1%	8,820	19.3	1.8	2.4
Veracyte (VCYT)	8.89	7.74	15%	301	NA	4.6	5.0
Unweighted Averages			20%		18.1	5.0	3.8

Source: Capital IQ

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