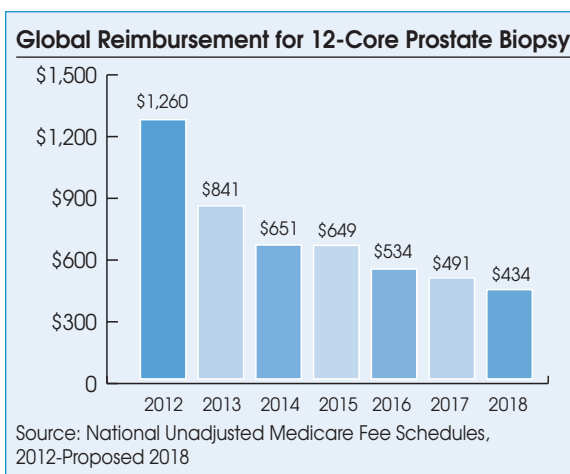


Competitive Market Analysis For Laboratory Management Decision Makers

**PROSTATE BIOPSIES SLAMMED AGAIN IN MEDICARE PROPOSED FEES FOR 2018**

The Proposed Medicare Physician Fee Schedule (MPFS) for 2018 includes a 19% cut to the technical component for prostate biopsies (G0416), while professional fees will be essentially unchanged. If finalized, global reimbursement will decline by 11.5% to \$434. Global reimbursement for the typical 12-core prostate biopsy has been slashed by a whopping 66% over the past six years. The good news is that the proposed MPFS includes a small increase for CPT 88305. *Continued on page 6.*



**ANTHEM STARTS PRE-AUTHORIZATION PROGRAM FOR GENETIC TESTS**

Anthem Inc. (Indianapolis, IN) has begun requiring in-network physicians to obtain pre-authorization for certain genetic tests effective July 1. The program is being managed by AIM Specialty Health (Chicago, IL), a benefit management company owned by Anthem. The program initially applies to roughly 4.5 million of Anthem's fully-insured members in 12 states (Virginia and California are excluded). Among the tests requiring pre-authorization are prenatal genetic testing, pharmacogenomic tests linked with cancer drugs, genetic tests for hereditary cancer risk and genotyping for drug-metabolizer status. *Continued on page 3.*

**KONICA TO BUY AMBRY GENETICS FOR \$1 BILLION**

Tokyo-based Konica Minolta is buying Ambry Genetics (Aliso Viejo, CA) in a deal valued at up to \$1 billion. The deal is the largest-ever for the photocopier maker, which is seeking to diversify away from its sagging office equipment business. Ambry operates a 65,000-square-foot CAP-accredited laboratory focused on genetic testing. The company had been fast-growing with revenue increasing by 78% to \$288 million in the fiscal year ended June 30, 2016. But Ambry's business has slowed this year and the company recently laid off 99 workers, leaving it with approximately 700 employees. *Continued on page 2.*

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**KONICA TO BUY AMBRY GENETICS FOR \$1 BILLION** (*cont'd from page 1*)

The latest available financial data shows Ambry recorded \$162.5 million of revenue for the nine months ended March 31, 2017. That's the equivalent of \$217 million on an annualized basis, which would represent a decline of 25% from fiscal year 2016 results. The decline may be the result of the increasing adoption by payers of pre-authorization requirements for genetic tests, observes *Laboratory Economics*.

Konica has agreed to pay \$800 million cash for Ambry upon close of the deal (expected in October 2017). Konica could pay up to another \$200 million over the next two years depending on Ambry's financial performance.

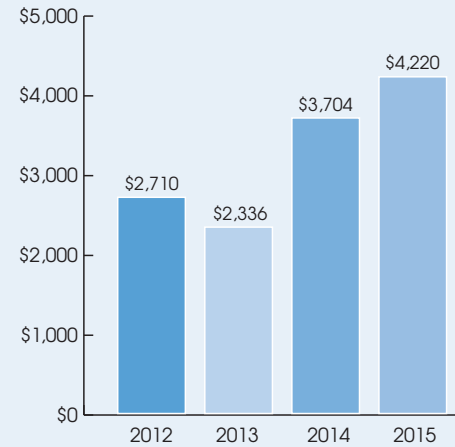
The transaction will be partially funded by a Japanese government-backed fund, the Innovation Network Corp of Japan (INCJ), which was set up to help struggling Japanese companies. Konica is paying for 60% of the purchase price for Ambry, with INCJ accounting for the remaining 40%.

Ambry was founded by its Chairman and President Charles Dunlop in 1999. He owns 44% of Ambry and will receive between \$350 million and \$440 million from the sale, depending on Ambry's future performance. More than 150 other individuals own the remaining 56%.

Konica says the acquisition of Ambry is the first in what will be a series of strategic initiatives aimed at securing a leading position in personalized medicine. Ambry will remain headquartered in Aliso Viejo and will continue to operate under its own name.

Ambry markets genetic test panels aimed at identifying inherited risks for cancer or guiding more personalized treatment. For example, its "CancerNext" is a 34-gene panel that identifies inherited risks for at least eight types of cancer. Its "TumorNextLynch" is an eight-gene panel that helps determine if patients with colorectal or endometrial cancer can start PD-L1 or PD-1 immunotherapy. And its "BRCAplus-Expanded" analyzes eight genes to determine a woman's risk for breast cancer.

Ambry provided testing to 8,909 Medicare beneficiaries and collected \$37.6 million of allowed Medicare payments in 2015, according to the latest Medicare Provider Utilization and Payment Data from CMS. That equates to an average allowed payment of \$4,220 per Medicare beneficiary (\$37.6 million/8,909 Medicare beneficiaries), notes *Laboratory Economics*. Its most frequently billed CPT code was CPT 81479 (unlisted molecular pathology procedure), which accounted for \$32 million of Medicare payments to Ambry in 2015.

**Ambry's Average Medicare Payment per Beneficiary Served**

Source: *Laboratory Economics* from CMS

**Ambry Genetics Financial Summary (\$ thousands)**

	9 mos. Ended March 31, 2017	Fiscal Year 6/30/2016	Fiscal Year 6/30/2015	Fiscal Year 6/30/2014
Revenue	\$162,525	\$287,943	\$161,872	\$96,777
Adjusted EBITDA	50,084	159,468	73,619	46,570
Net income	5,119	86,389	39,671	26,423
Total assets	115,402	132,734	100,289	48,463
Shareholders' equity	75,624	84,730	53,686	30,179

Source: Konica Minolta

**ANTHEM STARTS PRE-AUTHORIZATION FOR GENETIC TESTS** (*cont'd from p. 1*)

The pre-authorization program does not apply to Anthem's BlueCard, Medicare Advantage or Medicaid plans. Also excluded are Anthem BCBS in Virginia and the company's California HMO plans.

However, the program is being expanded to include Anthem-administered self-funded health plans that choose to buy the AIM-managed genetic test program, effective as soon as January 1, 2018. The program is also being expanded to Anthem's six million Medicaid members in the fall. Ultimately, the program could be used to manage genetic test utilization for more than half of Anthem's total 41 million health plan members.

The program requires in-network physicians to use an online AIM portal when ordering some 45 different types of genetic tests. Physicians will also have the option of phoning for request approval. AIM will review each genetic test request against Anthem's medical policy criteria to determine coverage and/or if genetic counseling is necessary prior to completing the prior-authorization. AIM has contracted with InformedDNA (St. Petersburg, FL) to review genetic test requests and provide genetic counseling. AIM owns a stake in InformedDNA, whose other investors include MPM Capital Partners and Zaffre Investments, a wholly-owned subsidiary of Blue Cross Blue Shield of Massachusetts.

Anthem hopes that the AIM Genetic Testing Solution will:

1. Reduce use of inappropriate genetic tests.
2. Increase use of in-network labs.
3. Streamline the clinical review process so labs and members have reimbursement assurance.
4. Increase transparency for coverage.

In addition to Anthem's health plans, the AIM Genetic Testing Solution is being marketed to other payers as well. AIM says that another health plan in the Northeast will begin using its program in the fall.

*Laboratory Economics* asked AIM Specialty Health a few key questions. Here are their responses:

***What happens if a lab performs a genetic test ordered by a physician that did not use the prior-authorization programs? Will the lab still get paid by Anthem if it was an uncovered test?***

All testing is evaluated against medical policy. If a test is run without meeting the clinical criteria as outlined in the medical policy, the test will be denied either via the prior-authorization (PA) program or retrospectively if run without a PA. By utilizing the PA program, the non-coverage of tests already completed will be eliminated as the determination is made prior to the running of the test.

Currently, there are more than 7,000 unique genetic tests commercially available that range in price from a few hundred dollars to tens of thousands of dollars. Many of these tests meet the medical necessity criteria, but unfortunately many do not. It is important to know which tests are medically necessary not just from a patient care perspective but also from a fiscal responsibility perspective to keep benefits affordable for members.

***Can the lab still bill the patient for an uncovered test?***

The lab would not be able to charge Anthem health plan members unless it has obtained a waiver from the member for the specific test being performed in advance of the test being performed.

***Will the list of tests in the program be expanded?***

The program will expand as genetic tests expand and are added to medical policies.

## QUEST TO OPEN PSCs AT WALMART STORES

Quest Diagnostics has signed a deal with Walmart Stores, Inc. to open approximately 15 patient service centers (PSCs) in Walmart stores in Florida and Texas by the end of 2017. These co-branded sites will initially provide laboratory testing services. Over time, Walmart is expected to add other basic healthcare services.

The deal with Walmart follows a similar arrangement between Quest and Safeway Inc. Since late-2015, Quest has opened PSCs at more than 100 Safeway pharmacy locations, including California (12 stores), Colorado (27), Delaware (1), Maryland (9), Montana (3), Oregon (10), Texas (26), Virginia (7) and Washington (10). Quest is aiming to have 200 PSCs at Safeway stores by the end of this year.

Quest's store-based PSCs serve patients with doctor-ordered lab tests and are aimed at increasing access and convenience. They are replacing standalone PSCs and helping Quest lower its real estate costs.

### LabCorp to Open PSCs at Walgreens Store

LabCorp has announced an agreement to operate PSCs at seven Walgreens locations. The sites, which will be co-branded "LabCorp at Walgreens," will include PSCs at five stores in Denver and one in Morrisville, North Carolina, and are expected to open by the end of the summer. A Deerfield, Illinois location is planned to open by the end of the year.

Walgreens had partnered with Theranos in 2013 to provide direct-to-consumer testing services in about 40 stores, mostly in Arizona. But the sites never attracted much patient volume and last year Walgreens terminated the deal amid concern over the accuracy of Theranos' fingerstick testing technology and questionable lab practices.

### Will the Second Time Around be the Charm?

This is not the first time that Quest and LabCorp have tried a drug store strategy. More than 12 years ago, Quest Diagnostics opened PSCs at CVS Stores in Florida and Ohio, Giant Food Supermarkets in Maryland and Virginia, and Stop & Shop Pharmacies throughout Connecticut. And in 2006, LabCorp partnered with Duane Reade, a big drug store chain in New York City, and opened 20 PSCs at retail locations throughout the city.

Back then, the strategy was focused on marketing lab tests directly to cash-paying consumers without a physician's order. But a lack of demand led the big labs to give up on the direct-to-consumer market and shut down their drug-store-based PSCs.

This time around, Quest and LabCorp are opening drug-store-based PSCs primarily to serve patients with traditional doctor-ordered lab tests. The goal is to make it easier for people to get tested to reduce the number of unfilled test orders, which Quest has suggested could be as high as 30%.

### Theranos Puts Headquarters Up for Rent

According to a listing by real estate company CBRE, there are four spaces available for lease at Theranos' 116,000-square-foot facility. "Theranos continues to focus on effectively managing our resources as we progress towards the commercialization of the miniLab platform. Accordingly, the company has retained CBRE to explore subleasing options for all or portions of our Palo Alto facility," the company said in a statement. "Manufacturing will continue to be located in the Newark, CA facility." At its peak, Theranos had 900 employees. It now has 220. As *Laboratory Economics* predicted back in 2015 (*LE*, February 2015, p. 1), it may just be a matter of time before the company runs out of cash.

## SPOTLIGHT INTERVIEW WITH CELLNETIX'S CHIEF EXECUTIVE KATHLEEN FONDREN

CellNetix Pathology & Laboratories, a private pathology company headquartered in Seattle, merged with Puget Sound Institute of Pathology earlier this year. The company now has about 350 employees and 65 physicians and serves parts of Washington, Oregon, Idaho and Alaska. *Laboratory Economics* recently spoke with CEO Kathleen Fondren, who took over in February 2016, about plans going forward.



Kathleen Fondren

### ***How has CellNetix's strategy changed since you took over the company?***

Our strategy has always been to grow by a combination of organic growth, and M&A. We have a model that is very scalable. We wanted to be an alternative for the small independent pathology groups not wanting to be employed by their hospitals or merge with large commercial labs. We had visionary leaders in the beginning, but I have changed our strategy slightly. We are now shifting towards growth in targeted markets and to achieve diversification in our revenue stream.

### ***CellNetix and Puget Sound Institute of Pathology recently merged. Why did the two groups decide to merge, and what are your strategic goals?***

We wanted to achieve economies of scale by being a larger organization. We had been competing with PSIP for many years, which was driving down our value. Rather than race each other to the bottom, we decided to come together. This rounded out our I-5 corridor in Western Washington. We are currently in the process of integrating our technical labs. We also are strengthening our internal systems so we can handle much larger mergers.

### ***What is anticipated test volume for 2017? How does that compare to 2016?***

We're looking at about 230,000 surgical cases and 175,000 Pap smears. It's an increase of about 30%, largely because of the merger.

### ***What are anticipated revenues for 2017? What kind of growth have you experienced?***

We are now about a \$200 million company. CellNetix has grown in a stair-step manner. A new exclusive contract can bring about 8% to 10% per year. Overall organic growth has been around 5%.

### ***What areas of testing are growing the fastest?***

Flow cytometry is growing rapidly. We have good growth in IHC [immunohistochemistry] and molecular infectious disease. Pap smears are pretty steady, but HPV is growing since some physicians are choosing to screen for HPV. About 65% of our Pap tests now also have HPV testing ordered.

### ***Any significant new test introductions in the past few months or coming soon?***

We're continuing our investment in the oncologic molecular arena. It's challenging because reimbursement is not where we want it to be. We continue to invest in next-generation sequencing. We have the next version of our solid tumor panel coming out soon. We also will be offering tumor-specific panels to round out our offerings. And we are looking into companion diagnostics, such as for PD-L1.

### ***What are your plans to grow the organization?***

Now that we're in the process of digesting our most recent merger, we're looking beyond the Pacific Northwest. We want to have smart growth, not just growth for the sake of growth. We designed a platform with our IT systems and even our company design that can be put into any market as sort of a franchise. It's a scalable system. We also want to grow as our health systems grow. The two larg-

est health systems we serve are Providence St. Joseph Health and Catholic Health Initiatives. We also work with Rockwood Health System in Spokane, which just merged with MultiCare in Tacoma.

***Are you looking to become a national lab?***

I think the West Coast is our first opportunity, but we are open to anything that makes sense for us, including being a full-scale national laboratory. We are looking at California and Oregon right now.

***What impact do you think the revised Medicare payment system for clinical laboratory tests, scheduled to take effect in January 2018, will have on your bottom line?***

It won't affect us as much as clinical laboratories, although we do have some tests paid on the Clinical Laboratory Fee Schedule. We think the impact on revenues will be less than 10%.

***What do you see as your biggest challenges?***

Declining reimbursement, of course, is a major concern. Large payers are shifting their payment models for anatomic pathology. They're going to their hospitals and trying to achieve savings wherever they can. Additional pressure comes from the health systems themselves as they are looking to reduce costs. We have to make sure we are on the top of our game as we compete with other pathology groups. We're challenged by the large independent laboratories. They can produce outreach pathology at a lower cost, but we are a high-quality, high-service provider that provides in-patient as well as out-patient and out-reach anatomic pathology services. We are always bumping up against commoditized laboratories.

***How do you fit into the value over volume equation?***

I believe whether it's utilization control or having pathologists be more integral in the care of patients, we can help drive down costs. It's an opportunity for us to be front and center in saving money and reducing hospital inpatient stays.

**PROSTATE BIOPSIES SLAMMED AGAIN IN PROPOSED MPFS** (*cont'd from p. 1*)

Overall, CMS estimates that the proposed changes for 2018 will decrease pathologists' Medicare fees by 1%, while independent technical lab rates will be reduced by 2%. CMS is accepting comments on the Proposed MPFS through September 11, 2017. Final rates are expected to be announced in October and become effective January 1, 2018.

**CPT 88305**

The Proposed Medicare Physician Fee Schedule for 2018 includes a 1.2% hike to the professional interpretation for CPT 88305, which, if finalized, would raise it to \$40.31. The rate for the technical component is being raised by a proposed 0.3% to \$29.87. Overall, the global rate for CPT 88305 will increase by a proposed 0.8% to \$70.18.

**Immunohistochemistry**

The global rate for CPT 88342 (IHC, first stain procedure) is proposed to be unchanged at \$108.33; professional interpretation down 0.7% to \$37.07; technical component up 0.3% to \$71.26.

The global rate for CPT 88341 (IHC, additional slide) is proposed to increase 1.1% to \$93.21; professional interpretation up 0.3% to \$29.87; technical component up 1.4% to \$63.34.

**Flow Cytometry**

Following significant cuts made in 2017, another round of cuts for key flow cytometry codes is proposed for 2018. CPT 88185 (flow cytometry, TC, add on) is proposed to drop by 18.8% to \$30.59. And CPT 88189 (flow cytometry, interpretation, 16 or more markers) is proposed to decrease by 4.4% to \$88.54.

**Proposed Medicare Rate Changes for Key Pathology Codes for 2018**

<i>CPT/ HCPCS</i>	<i>Mod</i>	<i>Short Description</i>	<i>Proposed 2018<sup>2</sup></i>	<i>Actual 2017<sup>3</sup></i>	<i>% Chg</i>
88112	Global	Cytopath cell enhance tech	\$69.82	\$68.91	1.3%
88112	TC	Cytopath cell enhance tech	40.31	39.84	1.2%
88112	26	Cytopath cell enhance tech	29.51	29.07	1.5%
88120	Global	Cytp urine 3-5 probes each spec	642.43	640.97	0.2%
88120	TC	Cytp urine 3-5 probes each spec	581.96	580.32	0.3%
88120	26	Cytp urine 3-5 probes each spec	60.46	60.65	-0.3%
88121	Global	Cytp urine 3-5 probes cmpr	536.26	553.76	-3.2%
88121	TC	Cytp urine 3-5 probes cmpr	484.07	501.72	-3.5%
88121	26	Cytp urine 3-5 probes cmpr	52.19	52.04	0.3%
88184	TC	Flowcytometry/ tech 1 marker	61.18	61.73	-0.9%
88185	TC	Flowcytometry/tech add-on	30.59	37.68	-18.8%
88189	26	Flowcytometry/read 16 & >	88.54	92.59	-4.4%
88304	Global	Tissue exam by pathologist	41.75	41.63	0.3%
88304	TC	Tissue exam by pathologist	29.51	29.43	0.3%
88304	26	Tissue exam by pathologist	12.24	12.20	0.3%
88305	Global	Tissue exam by pathologist	70.18	69.62	0.8%
88305	TC	Tissue exam by pathologist	29.87	29.79	0.3%
88305	26	Tissue exam by pathologist	40.31	39.84	1.2%
88307	Global	Tissue exam by pathologist	268.49	269.88	-0.5%
88307	TC	Tissue exam by pathologist	180.67	181.96	-0.7%
88307	26	Tissue exam by pathologist	87.82	87.93	-0.1%
88309	Global	Tissue exam by pathologist	407.41	413.80	-1.5%
88309	TC	Tissue exam by pathologist	251.57	258.40	-2.6%
88309	26	Tissue exam by pathologist	155.84	155.40	0.3%
88311	Global	Decalcify tissue	22.67	22.61	0.3%
88311	TC	Decalcify tissue	9.36	9.33	0.3%
88311	26	Decalcify tissue	13.32	13.28	0.3%
88312	Global	Special stains group 1	98.61	99.97	-1.4%
88312	TC	Special stains group 1	70.18	71.42	-1.7%
88312	26	Special stains group 1	28.43	28.35	0.3%
88313	Global	Special stains group 2	71.62	70.70	1.3%
88313	TC	Special stains group 2	58.66	58.14	0.9%
88313	26	Special stains group 2	12.96	12.56	3.2%

88331	Global	Path consult intraop 1 bloc	98.61	98.69	-0.1%
88331	TC	Path consult intraop 1 bloc	32.75	32.66	0.3%
88331	26	Path consult intraop 1 bloc	65.86	66.04	-0.3%
88341	Global	Immunohisto anttb addl slide	93.21	92.23	1.1%
88341	TC	Immunohisto antibody slide	63.34	62.45	1.4%
88341	26	Immunohisto antibody slide	29.87	29.79	0.3%
88342	Global	Immunohisto anttb 1st stain	108.33	108.38	0.0%
88342	TC	Immunohisto antibody 1st stain	71.26	71.06	0.3%
88342	26	Immunohisto antibody 1st stain	37.07	37.32	-0.7%
88367	Global	Insitu hybridization auto	108.33	107.31	1.0%
88367	TC	Insitu hybridization auto	71.98	71.06	1.3%
88367	26	Insitu hybridization auto	36.35	36.25	0.3%
88368	Global	Insitu hybridization manual	122.73	118.43	3.6%
88368	TC	Insitu hybridization manual	79.54	76.08	4.5%
88368	26	Insitu hybridization manual	43.19	42.35	2.0%
G0416	Global	Prostate biopsy, any mthd	434.40	490.96	-11.5%
G0416	TC	Prostate biopsy, any mthd	247.61	304.70	-18.7%
G0416	26	Prostate biopsy, any mthd	186.79	186.26	0.3%

<sup>1</sup>CPT Codes and descriptors are copyright 2017 American Medical Association.

<sup>2</sup>Payments based on the 2018 conversion factor of 35.9903

<sup>3</sup>Payments based on the 2017 conversion factor of 35.8887

Source: Proposed Medicare Physician Fee Schedule for 2018

## WHO GETS HURT BY PROPOSED CUT FOR PROSTATE BIOPSIES?

**B**ostwick Laboratories (Uniondale, NY), now owned by Poplar Healthcare (Memphis, TN), is the lab that will get hit the hardest by the proposed Medicare rate cut to G0416. Bostwick was paid for 6,678 units of G0416 for a total of \$3.2 million of Part B payments in 2015, according to the latest available data from CMS. Other large uropathology labs that will be hurt by the proposed cut include LabCorp's Dianon (Oklahoma City, OK), Miraca's Lakewood Pathology (Union, NJ) and 21st Century Oncology (Fort Myers, FL).

### Top 10 Prostate Biopsy Pathology Labs, 2015

Laboratory Name	Location	G0416 Number of Services	Avg. Medicare Payment Amount	Total Part B Payments, 2015
Bostwick Laboratories	Uniondale, NY	6,678	\$483	\$3,226,199
LabCorp/Dianon	Oklahoma City, OK	4,140	377	1,560,273
Miraca/Lakewood Pathology	Union, NJ	3,376	435	1,468,736
21st Century Oncology	Fort Myers, FL	2,074	517	1,070,887
Metamark Laboratories	Augusta, GA	2,285	422	963,766
Avero Diagnostics	Irving, TX	1,752	456	798,507
Opko Lab	Nashville, TN	1,585	429	679,302
Healthtronics Laboratory	Collegeville, PA	1,216	453	550,953
LabCorp/Dianon	Shelton, CT	1,189	470	559,248
Advanced Urology Institute	Oxford, FL	962	486	467,172

Source: Medicare Provider Utilization and Payment Data from CMS for 2015



## CMS PROPOSES MORE FLEXIBILITY UNDER MIPS IN 2018

Pathologists and other physicians in 2018 may find it easier to comply with Medicare's requirements under its Quality Payment Program (QPP) changes proposed June 30. The Centers for Medicare and Medicaid Services (CMS) is proposing more exemptions for small practices and greater clarity regarding who is required to report quality measures.

Under the proposal, physician practices with less than \$90,000 in Medicare part B revenue or fewer than 200 unique Medicare patients per year would be exempt from submitting quality measures to CMS. The threshold for 2017 was \$30,000 or fewer than 100 patients. According to CMS, the move will exclude about 134,000 more clinicians from having to comply with the QPP, which was enacted under the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).



Jonathan  
Myles, MD

While it's not clear just how many pathology practices will be excluded from reporting under the exemption, it is likely that some groups with just one or two pathologists or those with a pediatric specialty could qualify, says Jonathan Myles, MD, FCAP, Chair of the Economic Affairs Committee for the College of American Pathologists (CAP).

"CMS has been responsive to concerns that small practices have in complying with the requirements," he tells *Laboratory Economics*. "Several of the proposals are designed to help smaller groups."

Pathologists who do not meet the requirements for exemption will still be required to participate in Medicare's Merit-based Incentive Payment System (MIPS) or Alternative Model Payment Track, which will affect their Medicare payments in 2019 and 2020. CAP estimates that the MIPS program will have a potential \$1.5 billion impact on the pathology specialty beginning in 2019.

Under MIPS, Medicare payments adjustments to physicians range from +/-4% starting in 2019 to +/-9% in 2022 and beyond. Pathologists can avoid any payment reductions in 2019 by reporting at least one quality measure to Medicare in 2017 and may actually get a bonus if they report more. Those who report on six applicable measures in 2017 and participate in a high-impact clinical improvement activity will be eligible for a bonus of up to 4% in 2019. Those who report for just 90 days may receive a partial bonus.

CMS estimates that about 37% of 1,548,022 Medicare clinicians billing to Part B (representing 65% of allowed Medicare Part B charges) will be included in MIPS in FY2018, including about 7,900 pathologists.

### Proposed Changes for 2018

In addition to providing exemptions for small practices, CMS is also proposing some clarity in who must report. Pathologists who are part of an independent lab and bill under an individual National Provider Identifier (NPI) must report quality measures under MIPS. However, pathologists who bill under the lab's NPI do not have to report. Previously, this was unclear.

The proposed rule is available at <https://s3.amazonaws.com/public-inspection.federalregister.gov/2017-13010.pdf>. Comments are due by Aug. 21, 2017.

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## QUEST TO BUY CAPE COD HEALTHCARE OUTREACH LAB BUSINESS

Quest Diagnostics has signed a letter of intent to acquire the outreach lab business of Cape Cod Healthcare (CCHC-Hyannis, MA). The agreement covers outreach lab services currently collected by CCHC through 14 freestanding and medical-office-based patient service centers (PSCs) and performed at a core lab at Cape Cod Hospital (Hyannis, MA). This testing will be transitioned to Quest's regional lab in Marlborough, Massachusetts (located approximately 100 miles north). Roughly 55 CCHC lab employees will lose their jobs, but have the opportunity to apply for other positions within CCHC.

CCHC will maintain ownership and management of the inpatient, outpatient and pathology services provided at its two hospitals: Cape Cod Hospital and Falmouth Hospital. Approximately 250 lab employees will remain with CCHC after the transition.

Cape Cod Hospital (259 beds) had a total lab department budget of \$35.5 million, which represented 7.5% of its total operating expenses of \$472.1 million in the 12 months ended Sept. 30, 2016, according to the latest Medicare Cost Report data from the American Hospital Directory.

Falmouth Hospital (95 beds) had a total lab department budget of \$8.9 million, which represented 6% of its total operating expenses of \$149.3 million in fiscal year 2016.

"Our cost of providing these services is higher than those of other competitors in the marketplace; insurers and government payers have demanded that we lower costs and made it clear that they do not expect to continue reimbursing us for the full cost of our testing in the long term," said Michael Lauf, President of CCHC.

### Premier Health Buys Out Quest's Stake in CompuNet

Premier Health (Dayton, OH) has purchased Quest Diagnostics' 33% ownership stake in CompuNet Clinical Laboratories (Moraine, OH) effective June 1. Premier Health now owns 84% of CompuNet, while Valley Pathologists (Dayton, OH) owns the remaining 16%.

"This transaction will help Premier Health achieve its vision of a more system-based approach to clinical laboratory testing," according to Mary Boosalis, President and CEO of Premier Health. "It enables us to build upon our existing laboratory capabilities, achieve greater economies of scale, and control the costs of laboratory services." Premier Health is a four-hospital system; its flagship hospital is the 900-bed Miami Valley Hospital (Dayton, OH).

CompuNet is a joint venture independent laboratory originally formed in 1986. Quest obtained its 33% stake as part of its acquisition of SmithKline Beecham Clinical Labs in 1999.

CompuNet has nearly 600 employees and performs approximately six million tests per year. It has about 20 PSCs in southwest Ohio and estimated annual revenue of more than \$60 million. Medical directorship and professional pathology services are provided by Valley Pathologists, which includes seven pathologists. Valley Pathologists' Atef Shrit, MD, is Chairman, Board of Directors at CompuNet.

Neither Quest nor Premier Health would provide details behind the decision to part ways. However, *Laboratory Economics* thinks there may have been some friction between Quest managers and the pathologists at Valley Pathologists.

## HOSPITAL-OWNED LABS POST GROWTH SIMILAR TO COMMERCIAL LABS

Overall, the nation's 30 largest hospital-owned independent labs grew their Medicare Part B collected revenue by a combined 1.6% to reach \$272 million in 2015, according to a *Laboratory Economics* analysis of newly released Medicare Part B provider utilization and payment data. That growth rate is very similar to the revenue growth (excluding acquisitions) of 1% for Quest Diagnostics and 4% for LabCorp in the same year.

The fastest growing hospital-owned lab was **Northwell Health Laboratories** (Long Island, NY) which grew its Part B collected revenue by 9.6% to \$16.6 million in 2015. Other fast growers included **Mid America Clinical Laboratories** (Indianapolis, IN), up 8.6% to \$8.1 million, and **Sonora Quest Laboratories** in Arizona, up 7% to \$53.1 million.

The slowest growing was **Wisconsin Diagnostic Laboratories** (Milwaukee, WI), down 19.6% to \$4.3 million. WDL had been a 50-50 joint venture between Froedtert Health and LabCorp. Froedtert bought out LabCorp's interest in the JV for \$12.5 million effective June 30, 2015.

**Clinical Laboratory Partners** in Connecticut saw its Part B revenue fall by 4.6% to \$11.1 million in 2015. Hartford Healthcare sold CLP to Quest Diagnostics for \$135 million in early 2016.

Part B revenue for **Pathology Associates Medical Labs** (PAML-Spokane, WA) fell by 1% to \$14.8 million. Providence Health & Services and Catholic Health sold PAML to LabCorp earlier this year.

### Large Hospital-Owned Labs and Joint Ventures

Laboratory Name	Owner	Location	Total Medicare Payments, 2015	1-Year % Change
Sonora Quest Laboratories	Banner Health and Quest Diagnostics	Tempe, AZ	\$53,054,083	7.0%
ACL Services, LLC	Aurora and Advocate	West Allis, WI	21,795,363	-0.9%
Northwell Health Laboratories	Northwell Health	New Hyde Park, NY	16,629,220	9.6%
Pathology Associates Medical Labs (PAML)	LabCorp	Spokane, WA	14,786,632	-1.0%
Diagnostics Laboratory of Oklahoma	Integrus Health and Quest Diagnostics	Oklahoma City, OK	13,001,448	6.6%
Regional Medical Laboratory	St. John Health System	Tulsa, OK	12,517,382	1.2%
Health Network Laboratories	Lehigh Valley Health Network	Allentown, PA	11,419,897	4.9%
Clinical Laboratory Partners	Quest Diagnostics	Newington, CT	11,115,144	-4.6%
Marshfield Clinic	Marshfield Clinic	Marshfield, WI	9,575,667	-2.6%
PeaceHealth Labs*	PeaceHealth	Springfield, OR	8,927,236	8.4%
Mid America Clinical Laboratories	Local Hospitals and Quest Diagnostics	Indianapolis IN	8,146,200	8.6%
Sutter Valley Medical Foundation	Sutter Valley Medical Foundation	Sacramento, CA	7,587,429	6.8%
CompuNet Clinical Laboratories	Premier Health and Valley Pathologists	Moraine, OH	7,276,212	-8.1%
Scripps Health	Scripps Health	San Diego, CA	7,246,293	4.0%
Tricare Reference Laboratories	UNM Health and Presbyterian Hlthcr	Albuquerque, NM	6,430,806	3.3%
Mayo Clinic Jacksonville	Mayo Clinic	Jacksonville, FL	5,605,663	-2.0%
Texas Health Physicians Group	Texas Health	Dallas, TX	5,299,650	-7.8%
Associated Clinical Laboratories	Local hospitals and Quest Diagnostics	Erie, PA	5,083,824	-0.8%
University Hospitals Laboratory	University Hospitals of Cleveland	Cleveland, OH	4,806,069	3.8%
Saint Francis Outreach Services	Saint Francis Health System	Tulsa, OK	4,665,409	6.6%
Covenant Healthcare Lab	Covenant Healthcare	Lake City, FL	4,383,225	-12.8%
DMC University Laboratories	Detroit Medical Center	Detroit, MI	4,319,389	-8.5%
Wisconsin Diagnostic Laboratories	Froedtert Health	Milwaukee, WI	4,273,240	-19.6%
Watson Clinic	Watson Clinic	Lakeland, FL	3,979,710	2.2%
Laboratory Alliance of Central New York	Local Hospitals	Liverpool, NY	3,807,335	-2.4%
NorDx	MaineHealth	Scarborough, ME	3,742,895	-2.8%
Sutter Gould Medical Foundation	Sutter Gould Medical Foundation	Modesto, CA	3,716,093	7.8%
Mayo Collaborative Services	Mayo Clinic	Rochester, MN	3,479,906	-5.2%
Mayo Clinic Arizona	Mayo Clinic	Scottsdale, AZ	3,231,965	-13.2%
IHC Health Services	IHC Health Services	Murray, UT	2,285,066	-0.3%
Total			\$272,188,450	1.6%

\*PeaceHealth Labs is being acquired by Quest Diagnostics Source: Medicare Provider Utilization and Payment Data from CMS for 2014-2015

## LAB STOCKS UP 47% YTD

Sixteen lab stocks have risen by an unweighted average of 47% year to date through July 16. In comparison, the S&P 500 Index is up 9%. The top-performing lab stocks so far this year are Cancer Genetics, up 189%; Exact Sciences, also up 189%; and CombiMatrix, up 119%. At the two largest public labs, LabCorp is up 20% and Quest Diagnostics is up 19%.

Company (ticker)	Stock Price 7/16/17	Stock Price 12/31/16	2017 Price Change	Market Capitalization (\$ millions)	P/E Ratio	Price/ Sales	Price/ Book
Cancer Genetics Inc. (CGIX)	\$3.90	\$1.35	189%	\$77	NA	2.8	3.7
CombiMatrix (CBMX)	5.80	2.65	119%	17	NA	1.2	2.7
Enzo Biochem (ENZ)	11.73	6.94	69%	544	16.5	5.1	6.2
Exact Sciences (EXAS)	38.64	13.36	189%	4,570	NA	34.4	13.9
Foundation Medicine (FMI)	38.80	17.70	119%	1,380	NA	12.3	10.9
Genomic Health (GHDX)	33.05	29.39	12%	1,140	NA	3.4	7.0
Invitae (NVTA)	10.05	7.94	27%	432	NA	13.7	5.2
LabCorp (LH)	153.68	128.38	20%	15,720	21.1	1.7	2.8
Myriad Genetics (MYGN)	24.70	16.67	48%	1,680	52.8	2.2	2.3
NeoGenomics (NEO)	9.24	8.57	8%	732	NA	3.0	4.3
Opko Health (OPK)	6.05	9.30	-35%	3,380	NA	2.8	1.6
Psychedics (PMD)	26.54	24.99	6%	145	17.8	3.4	8.8
Quest Diagnostics (DGX)	109.66	91.90	19%	15,000	22.1	2.0	3.2
Rosetta Genomics (ROSG)	2.45	5.04	-51%	6	NA	0.6	1.0
Sonic Healthcare (SHL.AX)	22.60	21.40	6%	9,470	21.8	1.9	2.6
Veracyte (VCYT)	8.03	7.74	4%	272	NA	4.0	5.1
Unweighted Averages			47%		25.4	5.9	5.1

Source: Capital IQ

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