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LABORATORY ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

CMS Issues Guidance On PAMA Reporting

On February 27, CMS posted a Medicare Learning Network (MLN) article and answers to Frequently Asked Questions that confirm that nearly all hospital outreach labs must collect and report their private-payer rates to CMS. Importantly, the latest guidance specifies that hospital outreach labs should only collect and report their private-payer rates for testing provided to non-hospital patients. This is bad news for the lab industry because it excludes reporting of private-payer rates for hospital outpatient lab tests, which have by far the highest reimbursement rates and had the potential to improve Medicare CLFS rates under PAMA's rate-setting calculations.

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Largest Nursing Home Lab Company Seeks Bankruptcy Reorganization

Trident Holding Company (Sparks, MD), the nation's largest nursing home lab operator, filed for Chapter 11 bankruptcy reorganization in the Southern District of New York on February 11. Trident, which employs 4,500 full-time workers and 660 people part time, provides mobile x-ray, ultrasound, and clinical lab testing services to some 12,000 nursing homes, assisted living and correctional facilities in more than 35 states. Its subsidiary lab companies include Diagnostic Laboratories and Radiology (Burbank, CA), Schryver Medical (Denver, CO) and U.S. Lab and Radiology (Brockton, MA).

Trident's bankruptcy filing showed the company and its subsidiaries had a total of $785 million of secured debt outstanding and missed a $9.2 million interest payment that had been due January 31. Trident's heavy debt burden became unsustainable due to declining occupancy rates at nursing homes, Medicare CLFS rate cuts, and a botched billing system transition.

Soon after the bankruptcy filing, Trident obtained a $50 million debtor-in-possession (DIP) financing loan from hedge fund Silver Point Capital (Greenwich, CT), which now has equity control. The loan will allow Trident and its subsidiaries to continue to operate, while it restructures both its debt and business operations.

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Largest Nursing Home Lab Company Seeks Bankruptcy Reorganization

Trident had been owned by private equity investors Formation Capital, Audax Group, and Revelstoke Capital Partners. Over the past 15 years, Trident and its predecessor companies borrowed heavily in order to acquire dozens of mobile x-ray, ultrasound and clinical lab companies focused on the nursing home market. The goal was to integrate and improve the operating results of acquired businesses and then cross-sell diagnostic and lab testing services across nursing home clients.

Labs Owned By Trident Holding Company

Kan-Di-Ki LLC/Diagnostic Laboratories and Radiology (Burbank, CA) ..... California
Main Street Clinical Laboratory (Southaven, MS) .....Mid-South Region
MetroStat Clinical Laboratory (Garland, TX) .....AZ, CA, CO, NV, TX
Schryver Medical Sales and Marketing (Denver, CO) ..... AZ, CA, CO, TX, WA
U.S. Lab and Radiology (Brockton, MA).....FL, MA, MI, PA

Overall, Trident's annual revenue is approximately $500 million. Portable x-ray testing is Trident's largest line of business by revenue, followed by clinical lab testing and bedside ultrasounds. The company's three payer types are: nursing homes and other facility customers (50% of revenue), Medicare and Medicaid (35%), and commercial payers (15%), according to its bankruptcy filing.

Contributing Factors to Trident's Bankruptcy Reorganization:

Too Much Debt

Trident and its subsidiaries had a total of $785 million of secured debt outstanding that required $25+ million in annual cash interest payments.

Declining Nursing Home Occupancy Rates

Nursing home occupancy rates have declined to a multi-year low as a result of, among other things, patient migration to home health care. The decline in nursing home occupancy rates has led to reduced demand for Trident's services.

Medicare CLFS Rate Cuts

Trident's lab business was hit with Medicare reductions of 8-10% in 2018 and 2019 as a result of PAMA. A similar decline is expected in 2020. Trident says the PAMA cuts wiped out its small profit margin for lab testing and have caused it to cut back services.

Billing System Transition Problems

In June 2016, Trident began transitioning its largest billing center in Sparks Glencoe, Maryland to a new billing system. Implementation problems, particularly with payer eligibility testing, hampered the processing of certain third-party claims. Because such claims generally become time-barred after six months to one year, many could not be manually reprocessed in time to be paid. As a result, Trident recorded $27.8 million of extraordinary bad-debt writeoffs in 2018 and $12.7 million in 2017.

Restructuring Plans

As part of its restructuring process, Trident is evaluating operating in fewer markets, based upon both profitability and strategic considerations, and expects to exit certain lines of business in several states in 2019. Meanwhile, the company plans to expand its radiology services provided to the home health market to respond to the shifting of patients from nursing homes into home care. Trident said that it currently has radiology technicians dedicated to servicing home health patients in two markets with plans to expand this business model to an additional seven markets in 2019.

CMS Issues Guidance On PAMA Reporting (*cont'd from page 1*)

The additional guidance from CMS is a bit late given that the current data collection period (January 1 - June 30, 2019) is well underway.

PAMA Reporting Cycle Schedule

Data collection period	Jan. 1, 2019 – June 30, 2019
Report data to CMS	Jan 1, 2020 – March 30, 2020
Preliminary CLFS rates announced	Sept. 2020
New CLFS rates effective	Jan. 1, 2021 – 2023

Source: CMS

Nearly All Hospital Outreach Labs Must Report PAMA Data

The MLN article stated that "Hospital outreach laboratories that bill Medicare Part B under the hospital's NPI, and therefore determine applicable laboratory status based on its Medicare revenues from the 14X TOB, will most likely meet the majority of Medicare revenues threshold." Consequently, *Laboratory Economics* notes that any hospital laboratory that receives $12,500 or more of Medicare CLFS payments during the first six months of 2019 is required by law to report its private-payer rates received during this period to CMS in the first quarter of 2020. Only the smallest hospital outreach labs (i.e., those with less than $12,500 in Medicare CLFS payments) are exempt from reporting.

High-Priced Outpatient Lab Tests Excluded from PAMA Calculations

"Only the volume of services for hospital outreach laboratory services (non-hospital patient laboratory testing) is permitted to be reported to CMS," according to the MLN article. This causes two problems:

1) It will require many hospitals to develop their own mechanism for separating private-payer nonpatient outreach and outpatient tests and reporting only their nonpatient outreach test volume and prices. This will be an expensive and time-consuming process that many hospitals may not be able to accomplish.

2) Private-payer rates paid for hospital outpatient lab testing can average 2-4x as much as the rates paid to Quest Diagnostics, LabCorp and independent labs. Exclusion of this data means that a substantial portion of high-priced test volume will not be a factor when CMS recalculates median private-payer rates for the Medicare CLFS for 2021. Meanwhile, private-payer rates for nonpatient outreach testing is similar to the rates paid to independent labs. Consequently, inclusion of nonpatient outreach testing payment data is expected to have a minimal impact on the calculations for the Medicare CLFS for 2021.

Will CMS Enforce Penalties on Non-Reporting Labs?

The PAMA law authorizes CMS to impose civil monetary penalties of up to $10,000 per day, adjusted for inflation, for each failure to report or each misrepresentation or omission in reporting applicable information. During the first PAMA collection and reporting cycle (2016-2017), CMS acknowledged that there were thousands of independent labs and POLs that should have reported, but did not. However, CMS gave non-reporting labs a free pass and did not impose penalties.

It's not clear if CMS will go after non-reporting labs in the current PAMA cycle. Despite repeated requests by *Laboratory Economics*, CMS has not stated if it plans to exercise enforcement by referring non-reporting labs to the U.S. Dept. of Health and Human Services Office of Inspector General (OIG).

HHS Says CLFS Rates Can't Be Challenged; Oral Arguments Set For April 23

On February 25, the U.S. Department of Health and Human Services (HHS) filed its response to ACLA's appeal of its lawsuit. ACLA has argued that HHS improperly implemented the Protecting Access to Medicare Act of 2014 (PAMA) by excluding private-payer data from nearly all hospital outreach labs when CMS devised new rates for the Medicare CLFS for 2018-2020.

In its appellee brief, HHS disagreed, noting that the PAMA law bars any "administrative or judicial review" to the "establishment of payment amounts" in the new private-payer-rate-based CLFS.

HHS said that ACLA's interpretation of the PAMA law "would implausibly mean that Congress precluded review of only the Secretary's basic median computation, but provided review for all determinations leading to the computation." HHS noted that a materially identical argument was considered and rejected in Florida Health Sciences Center vs. Secretary of HHS. In that case a district court found that judicial review "is unavailable where the challenged agency action is inextricably intertwined with unreviewable agency action." HHS argues that the collection of payment data is "without a doubt inextricably intertwined with the ultimate payment rates."

"In short, plaintiff seeks higher payment amounts through an attack on the Secretary's definition of 'applicable laboratory.' However framed, that challenge to the payment amounts is barred by the plain text of the statute," according to the HHS brief.

Furthermore, HHS noted that it recently amended the definition of "applicable laboratory" so that more hospital outreach laboratories are required to report data in the current PAMA data collection cycle.

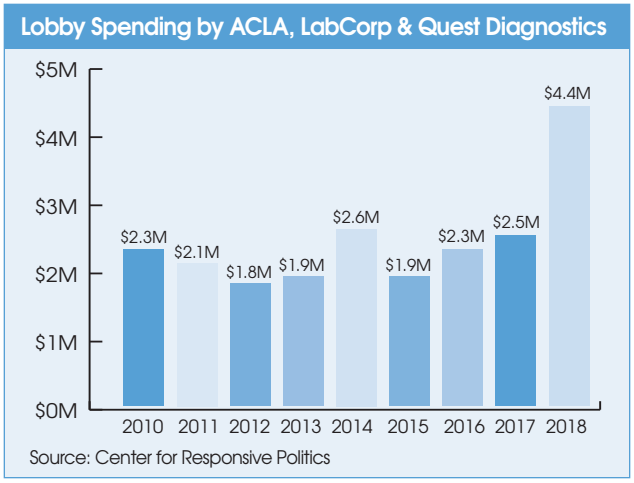
Oral arguments for the appeal are scheduled to take place on April 23, and a decision by the U.S. Court of Appeals for the District of Columbia Circuit may be issued shortly thereafter (possibly within a few weeks thereafter), observes *Laboratory Economics*.

Lab Lobby Spending Hits Record High

The American Clinical Laboratory Association (ACLA) and its two biggest members, LabCorp and Quest Diagnostics, spent a record total of $4.41 million on lobbying efforts in 2018, according to data from the Center for Responsive Politics (Washington, DC).

Individually, Quest Diagnostics had the biggest lobbying budget last year at a company record of $1.85 million. LabCorp ($1.39 million) and ACLA ($1.17 million) also spent record amounts. Lobbying efforts were mostly directed at members of the House Energy and Commerce Committee, which is in charge of the nation's healthcare laws, as well as the Department of Health & Human Services and CMS.

At the top of the lab industry's lobbying agenda, of course, was delaying and revising PAMA regulations for setting Medicare CLFS rates. Other issues included potential FDA regulation of laboratory-developed tests, removing the in-office ancillary service exception to Stark rules for anatomic pathology services, and potential regulation of prior authorization programs for lab tests, according to lobbying disclosure reports.



Quest Reports Full-Year 2018 Financial Results

Quest Diagnostics reported net income of $736 million for full-year 2018, down from $772 million in 2017. Quest's overall revenue increased by 1.7% to $7.531 billion, with acquisitions contributing more than 3% to revenue growth. Quest's average revenue per requisition decreased by 1.2% to an estimated $44 per req. A summary of key topics discussed by CEO Steve Rusckowski and CFO Mark Guinan on a February 14 conference call follows.

UnitedHealthcare's New Preferred Lab Network

Rusckowski said United and Quest will work together to drive market share gains to United's new Preferred Lab Network (PLN). This will include benefit design changes at United's self-insured/administrative-service-only employer groups aimed to encourage members to use PLN labs. Guinan added that "United, the patients and everybody who is in that Preferred Lab Network will all benefit if there's more work sent to those better value providers." United is expected to announce which labs are in its PLN in early April, with the network becoming effective on July 1.

Hospital Lab Management Deals

Rusckowski noted new lab management agreements that Quest has finalized with two small hospital systems in the southeast. Under both agreements, Quest will provide full lab management, employing technical lab staff, operational lab oversight, laboratory equipment and supplies procurement, and reference testing services. The first lab management agreement was signed with Houston Healthcare's Houston Medical Center (237 beds) and Perry Hospital (39 beds) in Georgia, and another agreement was reached with 286-bed Regional Medical Center (Orangeburg, SC).

Quest Diagnostics Financial Summary ($ millions)

Revenue by product	*2018*	*2017*	*% Chg*
Gene-based and esoteric	$2,409	$2,449	-1.6%
Anatomic pathology	578	612	-5.6%
Routine	4,217	4,006	5.3%
Drugs of abuse	NA	NA	NA
Other*	327	335	-2.4%
Total revenue	7,531	7,402	1.7%
Operating cash flow	1,200	1,175	2.1%
Capital expenditures	383	252	52.0%
Free cash flow	817	923	-11.5%
Pretax income	926	1,030	-10.1%
Net income	736	772	-4.7%
Diluted EPS	5.29	5.50	-3.8%
Est'd number of requisitions	167.9	163.8	2.5%
Est'd revenue per requisition	$44.44	$44.98	-1.2%
# Employees	46,000	45,000	2.2%
Avg. revenue per employee	$163,717	$164,489	-0.5%

*Other revenue includes clinical trials testing, info tech services and testing for life insurance companies

Source: Quest Diagnostics and *Laboratory Economics'* estimates for number of reqs and average revenue per req.

Preauthorization Requirements

Preauthorization programs and more restrictive payer policies have lowered volume and increased claim denials, according to Guinan. He cited prescription drug monitoring (tighter policies for same day of service for presumptive and definitive testing), Vitamin D testing (non-coverage for screening in the general population), allergy testing (increased denials due to an NCCI edit made last year) and cystic fibrosis screening (new payer monitoring systems designed to ensure once in a lifetime CF testing policy).

Anatomic Pathology

Quest's anatomic pathology revenue (e.g., AmeriPath) was down 5.6% to $578 million. Since acquiring AmeriPath in 2007, Quest's anatomic pathology revenue has declined at an average annual rate of 7% ($1.2B --> $578M).

CAP, AMA Urge CMS To Fix Misguided Prior Authorization Programs

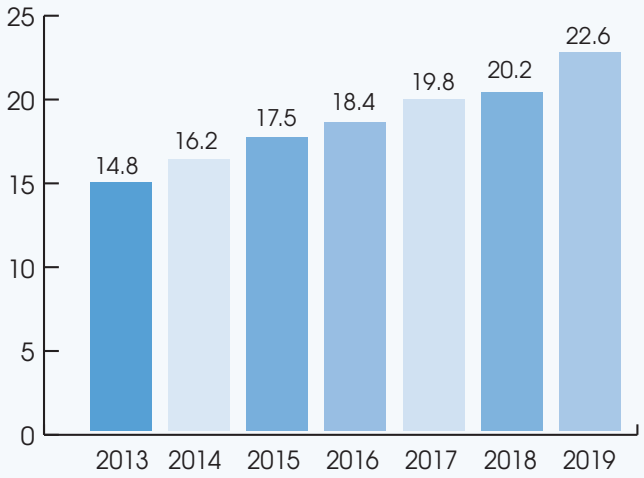
The College of American Pathologists (CAP), along with the American Medical Association (AMA) and more than 40 medical specialty groups, are urging CMS to provide guidance aimed at stopping the harmful effects that prior authorization policies can have on Part C Medicare Advantage plan members.

Specifically, CAP, AMA and others want CMS to provide specific criteria in its 2020 Call Letter that will require MA plans to selectively apply PA requirements only where they are needed most. In addition, CMS should provide guidance on the criteria that should be used to develop PA programs, including, for example, ordering/prescribing patterns that align with evidence-based guidelines and historically high PA approval rates, according to a February 28 letter to CMS signed by the groups.

Every year in early April, CMS issues a call letter outlining various requirements for commercial insurers that participate in the Medicare Part C program governing private Medicare plans, known as Medicare Advantage.

Over the past five years, enrollment in Medicare Advantage plans has grown at an average annual rate of 6.4% and reached 20.2 million at year-end 2018. And CMS projects that Medicare Advantage enrollment will increase by 11.5% to 22.6 million this year.

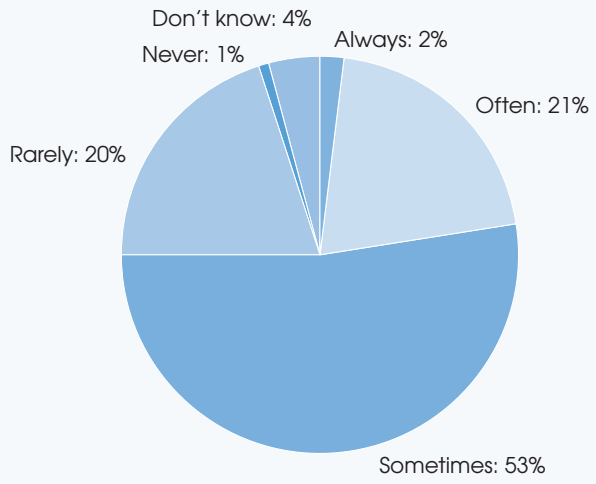
Medicare Advantage Enrollment (in millions)



Source: CMS

Meanwhile, commercial insurers offering Medicare Advantage plans are increasingly requiring preauthorization for molecular/genetic testing as well as for many high-volume routine tests like prescription drug monitoring, vitamin D and allergy testing.

How Often Does Prior Authorization Lead to Abandoned Treatment?



Note: Total does not sum to 100% due to rounding.
Source: AMA Prior Authorization Physician Survey (n=1,000; Dec. 2018)

Ideally, prior authorization deters patients from getting care that is not truly medically necessary, thereby reducing costs. However, prior authorization requirements can also create administrative hurdles for physicians and limit their ability to order necessary procedures.

A recent AMA survey of 1,000 practicing physicians—who routinely complete prior authorizations in their practice—showed that the vast majority of physicians (86%) view the administrative burden associated with prior authorization as "high or extremely high," and 88% said the burden has gone up in the last five years. In addition, 75% of surveyed physicians said that prior authorization can lead to treatment abandonment.

Spotlight Interview with Tribal Diagnostics CEO Cory Littlepage

Tribal Diagnostics, a toxicology laboratory based in Oklahoma City, is one of the few clinical lab companies in the country that is owned and operated by Native Americans. *Laboratory Economics* recently spoke with its CEO Cory Littlepage.

What is Tribal Diagnostic's mission?
To enhance health and wellness for Native Americans. Life expectancy for Native Americans is about 5½ years shorter than the rest of the U.S. population, and we're last in almost every major health category, whether it's substance abuse, alcohol, Hepatitis C, heart disease, diabetes. Needless to say, there's a tremendous need to do something about it. We were tired of sitting on sidelines, and since so many healthcare decisions are based on lab results, building a laboratory was the right place to start. With six million Native lives and poor health outcomes at stake, we want to be a part of the solution.

Where did you get the money to invest in Tribal Diagnostics?
We bootstrapped tribal. I am majority owner, and with a couple other individual investors, we self-financed. Being a minority-owned business, it was important for me to protect the integrity of the ownership structure as it gives us credibility in Indian country.

Who do you serve and in what areas?
We've been in operation for two years, and we serve both providers in Indian country and non-native providers. In these two years, we have signed up 120 clinics, 300 providers, and eight tribes. We have 25 employees, and I'm proud to say that almost half our staff are Native and 70% are women. We serve primarily Oklahoma, but we are now in eight states, including Missouri, Arkansas, Louisiana, Texas, Maine, Michigan and Washington. Strategically, it's important for us to win in our own backyard, but we are in the process of expanding both geographically with respect to our test menu.

What is your primary focus?
Right now, it's on prescription drug monitoring, as many of our staff have lost someone to substance abuse. We are expanding into a full-service lab and will be offering approximately 400 tests by September.

Who is your primary reference lab?
Sonic Healthcare's Clinical Pathology Laboratories, based in Austin, TX. We just finished our interface with CPL in February.

Are your volumes and revenues growing?
We grew 230% last year and were up 30% in January of this year. I anticipate we'll grow another couple hundred percent this year. We have a good strategic plan in terms of where we want to grow: there are 573 federally recognized tribes, so there's a lot of opportunity. We are performing extremely well outside of Indian Country too. Our specimen volume breakdown is about 65% non-native and 35% from Tribal entities. Reimbursement is about 43% Medicare and Medicaid, 46% commercial and 11% uninsured.

What is driving growth?
We have a great team that's passionate about our mission and enhancing client engagement. We have a strong value proposition and are serious about compliance. Sadly, many toxicology labs have done some atrocious things, undermining the clinical benefits of toxicology testing. We have two former CLIA inspectors on staff, and we don't contract sales reps, run volume through hospitals, or participate in management service organization (MSO) models.

As a young company, I am thrilled with our market access. We have national contracts with UHC, Aetna, Coventry, Medicare, 15 Medicaid plans, 19 BCBS plans, and many regional plans. Our partnerships with insurance carriers give us the opportunity to compete on a level playing field and is beneficial to them as well.

There's a need for us in Indian country, but we also add value to organizations looking to do business in Indian country. Our team has worked many years both in the private sector and in Indian Country so we can open doors for larger organizations who don't have Native American strategies. This creates opportunities for larger organizations to increase share, but also adds value to Indian communities who need help.

What impact has the new Medicare CLFS payment system had on Tribal Diagnostics?
Being new, we were fortunate to have the visibility into the new payment system and built our lab accordingly. The poverty level in Indian Country is 27% so we have to operate in a low-cost environment anyway.

Operational efficiency is key, so our company footprint is simple—a sales and delivery model. Our organizational structure is, and will remain flat, and other ancillary functions are outsourced. We also focus a lot on continuous improvement and automate as many processes as we can. With reductions to the Medicare fee schedule, we are seeing consolidation in the marketplace and view this as an opportunity to increase share. This year, we will be doubling down and investing in more equipment and hiring more employees. We anticipate employing between 50 and 60 people by end of the year.

Are you aware of the new EKRA law that affects sales reps who work for drug-test monitoring labs?
Yes, we are. The way the law is worded creates some exposure for all labs, so we are in constant contact with our legal team for both clarity and compliance.

ICON Buys MolecularMD

ICON Plc. (Dublin, Ireland) has acquired MolecularMD Corp. (Portland, OR) for an undisclosed amount. The acquisition expands ICON's footprint in molecular testing, including next-gen sequencing and immunohistochemistry, and extends its reach into the support of precision medicine programs.

MolecularMD provides oncology development services and companion diagnostics from its CLIA-certified labs in Portland, Oregon and Cambridge, Massachusetts. In December 2017 MolecularMD obtained FDA clearance for its MRDx BCR-ABL as a companion diagnostic to help physicians determine whether patients with chronic myeloid leukemia can stop treatment with Novartis' drug Tasigna (nilotinib). MolecularMD was formed in late 2005 as a spin-off of Oregon Health & Science University with early seed funding from BioCatalyst International and Ballast Point Ventures.

Icon is a contract research organization (CRO) that generates annual revenue of $2.6 billion by providing outsourced development services to the pharmaceutical, biotechnology and medical device industries. Icon operates CAP-accredited labs in Dublin, Ireland, Farmingdale, NY, Singapore and China.

Pathnostics Gets Water Street Investment

Pathnostics (Irvine, CA) has received an undisclosed investment amount from the private equity firm Water Street Healthcare Partners. Pathnostics operates a CAP-accredited laboratory that performs a proprietary test (Guidance UTI) used by urologists to simultaneously diagnose and guide antibiotic treatment for recurring urinary tract infections.

Dave Pauluzzi, who co-founded Pathnostics in 2014, will continue to lead the company as CEO. Pauluzzi previously worked with Water Street when he was President and CEO of Plus Diagnostics, an anatomic pathology laboratory acquired by Water Street in 2006, and then sold to Miraca Life Sciences (now named InformDx) in 2013.

LabCorp To Buy Metropolitan Medical Lab

LabCorp is buying the clinical lab business of Metropolitan Medical Laboratory (Moline, IL), an independent lab owned by pathologists, for an undisclosed amount. The deal is expected to close around April 1.

Metro bills almost three million lab tests per year, according to the company's website. Most clinical lab testing now performed at Metro's central lab in Moline is expected to be shifted to LabCorp's regional lab in Kansas City, Missouri. At least 136 Metro employees in Moline will lose their jobs, according to the Illinois Department of Commerce and Economic Opportunity.

LabCorp is expected to maintain six PSCs currently operated by Metro in the Quad Cities area (Moline and Rock Island, IL and Davenport and Bettendorf, Iowa). However, LabCorp will require patients at these PSCs to do their own check-ins using computer tablets.

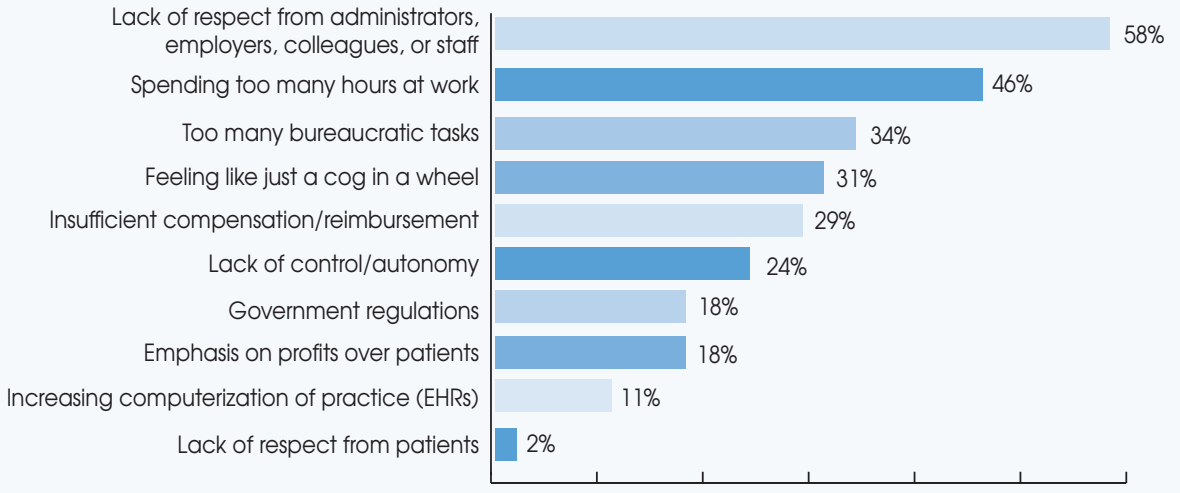
Pathologist Burnout Driven By "Lack Of Respect"

Fifty-eight percent of pathologists cite "lack of respect from administrators, employers, colleagues, or staff" as the leading factor contributing to burnout, according to the Medscape Pathologist Lifestyle, Happiness & Burnout Report for 2019. Other leading factors contributing to pathologist burnout include "spending too many hours at work," cited by 46%, and "too many bureaucratic tasks," cited by 34%. The Medscape survey was completed by approximately 450 practicing pathologists during July-October 2018.

Overall, 33% of surveyed pathologists reported actually being burned out—a relatively low level in comparison to other specialties surveyed by Medscape. The specialties with the highest levels of burnout included urologists (54%), neurologists (53%) and physical medicine and rehabilitation (52%). The lowest levels of burnout were reported by public health and preventive medicine doctors (28%) and nephrologists (32%).

In terms of practice setting, across all specialties, physicians working at office-based solo practices reported the least burnout (41%), while those working at health system organizations were most likely to report being burned out (49%).

What Contributes to Pathologist Burnout?



Source: Medscape Pathologists Lifestyle, Happiness & Burnout Report 2019

Comparing Productivity At Quest, LabCorp And BioReference For 2018

On a weighted basis, three publicly-traded lab companies collected average revenue of $45.70 per requisition in 2018. Average collected revenue per test was an estimated $15.23.

The three companies—Quest Diagnostics, LabCorp and OPKO's BioReference Labs—generated a weighted average of $170,834 in revenue per employee in 2018. The average number of requisitions processed was 3,738 per employee, while employees processed an average of 11,213 tests. These figures are based on the total number of employees at the three companies, including all administrative, couriers, sales and marketing, and lab technical staff.

In terms of billing and collection, the average bad-debt expense for the big three commercial labs is approximately 4.5% with an average days in accounts receivables of 49 days. The combined revenue mix at the three publicly-traded labs is approximately 39% from fee-for-service healthcare insurance, 30% client bill, 14% Medicare, 12% paid directly from patients (including copays and deductibles), 2% Medicaid and 2% from other payers.

Productivity Stats at Quest, LabCorp and BioReference for 2018

2017 Financials	*Quest Diagnostics*	*LabCorp Diagnostics**	*BioReference Laboratories*	*Total*
Annual Revenue 2018	$7,531,000,000	$7,030,800,000	$813,248,000	$15,375,048,000
Operating Income 2018	$1,101,000,000	$1,166,700,000	-$44,942,000	$2,222,758,000
# Employees	46,000	39,000	5,000	90,000
Employee Efficiency				
Avg. Annual Revenue per Employee	$163,717	$180,277	$162,650	$170,834
Avg. Annual Operating Income per Employee	$23,935	$29,915	-$8,988	$24,697
Requisition Stats				
Est'd Annual Requisitions 2018	167,900,000	157,500,000	11,000,000	336,400,000
Est'd Avg. Revenue per Req.	$44.44	$44.65	73.93	$45.70
Est'd Avg. Operating Income per Req.	$6.56	$7.41	-$4.09	$6.61
Est'd Avg. Reqs processed per Employee	3,650	4,038	2,200	3,738
Test Stats				
Est'd Annual Test Volume 2018**	503,700,000	472,500,000	33,000,000	1,009,200,000
Est'd Avg. Revenue per Test	$14.81	$14.88	$24.64	$15.23
Est'd Avg. Operating Income per Test	$2.19	$2.47	-$1.36	$2.20
Est'd Avg. Tests processed per Employee	10,950	12,115	6,600	11,213
Billing Stats				
Bad-Debt %	4% - 4.5%	4% - 4.5%	5% - 10%	4.5%
Days in AR	45-50	45-50	55-60	49
Revenue by Payer Mix				
Private Patients	13.0%	12.9%	2.6%	12.4%
Medicare	14.0%	13.6%	15.0%	13.9%
Medicaid	3.0%	1.0%	3.5%	2.1%
Client Payers (physicians, hospitals, et al.)	32.0%	29.0%	18.5%	30.0%
Healthcare Insurers	35.0%	43.5%	45.5%	39.4%
Other	3.0%	NA	15.0%	2.3%

*Data is for LabCorp's lab testing business only. **Test volume stats assume an average of 3 tests per requisition.
Source: Company reports and *Laboratory Economics'* estimates

UnitedHealthcare's New Policy Targets Out-Of-Network Labs

UnitedHealthcare and its Oxford plans are instituting a new policy that will punish in-network physicians in Connecticut and Maryland who order lab tests from out-of-network labs without first getting the consent of the patient. The policy was outlined in UnitedHealthcare's Network Bulletin for March 2019 and covers all clinical lab tests and pathology services effective June 1.

The policy requires physicians to have their patients sign a consent form whenever a clinical lab or pathology service is ordered from an out-of-network provider. The consent form notifies the patient that the out-of-network laboratory/pathology claim may require higher out-of-pocket expense.

Physicians that do not send UnitedHealthcare/Oxford a signed copy of the consent form (within 15 days of signature) will be denied payment for the evaluation & management (E&M) service from the office visit that generated the out-of-network lab or pathology test.

The new policy is currently being implemented only in Connecticut and Maryland where United's in-network labs include Quest Diagnostics, LabCorp, Sonic's Sunrise Medical Labs, BioReference Labs, Enzo Clinical Labs, local hospitals, and other labs.

Laboratory Economics notes that the limited rollout of this new policy is likely to be expanded to other states, assuming that United does not encounter strong blowback from its network physicians in Maryland and Connecticut.

Former Texas Hospital CEO Pleads Guilty To Pass-Through Billing Scheme

Harris Brooks, the former CEO of 42-bed Palo Pinto General Hospital (PPGH-Mineral Wells, TX) has pleaded guilty to defrauding BlueCross BlueShield of Texas, Cigna and UnitedHealthcare out of millions of dollars, according to the Department of Justice (DOJ).

According to the DOJ, Brooks was engaged in a pass-through billing scheme that used the hospital's name to bill for allergy and DNA lab testing services not performed at the hospital. None of the billing was sent by PPGH, but rather through third-party companies, mainly HealthReconn Connect LLC (Lewisville, TX). Testing was performed by a variety of outside labs, including Dunwoody Labs Inc. (Dunwoody, GA), Synergene Laboratory LLC (New Waverly, TX), X-Gene (Frederick, MD), Principle Genetics LLC (Houston, TX), Aeon Global Health (Gainesville, GA) and Maplewood Laboratories (Dallas, TX).

Using PPGH's in-network insurance contracts, Brooks and his co-conspirators were able to receive higher reimbursement rates. In reality however, PPGH did not have the equipment on-site to perform the tests for which it submitted claims, and the patients for whom claims were submitted were receiving treatment at various spas and clinics throughout Texas and elsewhere, not at PPGH.

The pass-through billing scheme lasted from September 2017 through June 2018. During that time, Brooks and his co-conspirators submitted more than $55 million in claims, most of which were fraudulent, to insurers for lab testing. The insurers paid the hospital more than $9 million for the claims, according to DOJ.

According to his plea agreement, Brooks faces up to five years in prison and will be required to pay restitution to those he defrauded.

Lab Stocks Up 30% Year To Date

Seventeen lab stocks have risen by an unweighted average of 30% year to date through March 12. In comparison, the S&P 500 Index is up 11% so far this year. One of the top-performing lab stock thus far in 2019 is Guardant Health, which has jumped 97% and now trades at an astonishing 66 times its annual revenue. Shares of LabCorp are up 20%, while Quest Diagnostics is up 4%.

Company (ticker)	Stock Price 3/12/19	Stock Price 12/31/18	2019 Price Change	Enterprise Value ($ millions)	Annual Revenue ($ millions)	Enterp Value/ Annual Revenue
LabCorp (LH)	$151.41	$126.36	20%	$20,580	$11,333.4	1.8
Quest Diagnostics (DGX)	86.81	83.27	4%	15,730	7,531.0	2.1
Sonic Healthcare (SHL.AX)	24.37	22.11	10%	13,220	5,770.0	2.3
Exact Sciences (EXAS)	93.64	63.10	48%	10,300	454.5	22.7
Guardant Health (GH)	74.00	37.59	97%	6,000	90.6	66.2
Genomic Health (GHDX)	74.88	64.41	16%	2,560	394.1	6.5
Myriad Genetics (MYGN)	31.89	29.07	10%	2,440	825.0	3.0
NeoGenomics (NEO)	19.44	12.61	54%	1,900	276.7	6.9
Invitae (NVTA)	22.77	11.06	106%	1,700	147.7	11.5
Opko Health (OPK)	2.54	3.01	-16%	1,680	990.3	1.7
CareDx (CDNA)	36.15	25.14	44%	1,360	76.6	17.8
Natera (NTRA)	16.66	13.96	19%	921	257.7	3.6
Veracyte (VCYT)	20.69	12.58	64%	770	92.0	8.4
Enzo Biochem (ENZ)	2.82	2.78	1%	81	90.7	0.9
Psychemedics (PMD)	15.20	15.87	-4%	77	42.7	1.8
Interpace Diagnostics (IDXG)	0.96	0.80	20%	20	20.4	1.0
Cancer Genetics Inc. (CGIX)	0.26	0.24	10%	19	28.2	0.7
Unweighted Averages			30%	$79,357	$28,421	2.8

Source: *Laboratory Economics* and Capital IQ

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