

COMMENTARY & OPINION by...

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PAML's "Magic Touch" with Hospital Lab JVs

IMAGINE FOR A MOMENT THAT ONE OF THE TWO BLOOD BROTHERS inked a deal: 1) to set up a series of hospital laboratory joint ventures with a multi-billion health system that operated 50 to 100 hospitals in 15 to 20 states; and, 2) to be a primary source of esoteric and reference testing to all those hospitals. Wouldn't that be a major event among Wall Street analysts and investors?

I'll bet it would. We would see a flood of commentary praising the shrewd strategy of the blood brother executives to partner up with hospitals. There would be rosy projections about increased specimens and revenue that would accrue from sequentially establishing commercial lab/hospital lab joint ventures in different markets—each done with the full support of the parent health system.

Armed with that thought, consider the lead story in this issue of THE DARK REPORT. **Pathology Associates Medical Laboratories** (PAML, owned by **Providence Health & Services** of Seattle, Washington) now has \$6.8 billion **Catholic Health Initiatives** (CHI) as an equity owner and an agreement with CHI—which operates 78 hospitals in 20 states—to: 1) set up a series of hospital laboratory joint ventures with CHI hospitals; and, 2) be a primary source of esoteric and reference testing to all those hospitals.

This is a remarkable accomplishment for any lab organization in the United States. It validates the investment PAML has devoted to creating its "better mousetrap" of a high-service laboratory joint venture business template. With six successful, long-running, and ongoing hospital lab joint ventures under its belt (*see page 5*), PAML is poised to enter new regions of the United States and help its hospital partners build profitable laboratory outreach programs.

Lest anyone think this is a unique or one-off business deal between PAML and Catholic Health Initiatives, I would remind our clients and long-time readers of **MountainStar Clinical Laboratories** in Salt Lake City. This is a laboratory joint venture between PAML and three hospitals owned by **HCA, Inc.**, the \$24.4 billion, for-profit hospital company. Started in early 2008, it is another example of a large hospital operator that sees opportunity in PAML's laboratory joint venture business model.

Not since the days of **International Clinical Laboratories** (ICL) in the 1980s has a lab company in the United States been as effective as PAML in developing laboratory joint ventures with hospitals. It seems that PAML has a "magic touch" in offering hospitals the right value proposition for JVs. **TDR**