

From the Desk of R. Lewis Dark...

THE **RD**ARK **REPORT**

**RELIABLE BUSINESS INTELLIGENCE, EXCLUSIVELY
FOR MEDICAL LAB CEOs/COOs/CFOs/PATHOLOGISTS**

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R. Lewis Dark

Founder & Publisher



A Tale of Two Hospitals

DURING THE PAST TWO WEEKS, we've watched as the nation's 35th largest city—New Orleans—and a metropolitan area encompassing more than 1 million people has literally ceased to exist. Today this region is effectively a ghost town and former residents are scattered throughout the United States.

This event is unparalleled in American history. The closest natural disaster I can relate to this event is the San Francisco earthquake of April 1906. The earthquake, and the fires which followed, destroyed three-quarters of the city and left 300,000 people homeless. Thus, the impact of Hurricane Katrina on Louisiana, Mississippi, and Alabama is without precedent. It also is a warning for all laboratories and pathology group practices. Emergency planning and disaster response scenarios should receive more attention and resources.

I offer, as an example of good emergency planning, the experience of **Tulane University Hospital and Clinic (TUHC)**, owned by for-profit **HCA Inc.** Last fall, HCA had a "hurricane lessons learned" meeting in Orlando, Florida. This was to develop emergency plans using the experience of the three hurricanes which hit Florida that year. With Hurricane Katrina approaching, HCA executives created a crisis-management team at corporate offices in Nashville to identify needs, model scenarios, and provide resources to its hospital, located not far from the New Orleans Superdome.

When the hospital began to flood, "we were unable to get any governmental help in evacuating," declared Norman McSwain, M.D, who is a Professor of Surgery at Tulane and Trauma Director at **Charity Hospital**, located across the street from Tulane and operated by the state of Louisiana. HCA's response was to charter 20 helicopters from various sources. Knowing that communications would be a problem, they flew ham-radio operators into New Orleans to coordinate the airlift! In the next few days, HCA airlifted 200 patients and 1,200 staff and family members from TUHC. HCA also used the helicopters to evacuate patients and staff from Charity Hospital.

I make two observations about the tale of these two hospitals. First, it is a heartwarming example of American initiative and ingenuity at its best. Second, it's a sad comment about the failings of bureaucratic government agencies. Despite access to immense resources, these agencies cannot make bold decisions and act expeditiously, as did HCA in this disaster.

Houston Lab Fills Gap For Katrina Evacuees

With evacuees pouring into Houston, area hospitals responded with lab services

CEO SUMMARY: Literally overnight, Houston found itself dealing with tens of thousands of evacuees fleeing the destruction in New Orleans and surrounding areas. Many evacuees arrived in poor health. The Harris County Hospital District laboratorians of Houston pitched in to create an emergency laboratory support system that was surprisingly sophisticated. Here's how labs in Houston met the challenge.

HURRICANE KATRINA and its aftermath put the labs at Houston's **Ben Taub General Hospital, Community Health Labs, and Lyndon B. Johnson General Hospital**, as well as other healthcare providers, to the test in unprecedented ways when tens of thousands of New Orleans evacuees poured into the Houston Astrodome.

Even two weeks later, it is still chaotic in all the communities surrounding the area affected by Hurricane Katrina, which made landfall on Monday, August 29. THE DARK REPORT offers this intelligence briefing about how the Harris County Hospital District (HCHD) labs in Houston responded to the emergency. This lab's story is representative of the many hospital laborato-

ries which have taken extraordinary actions to respond to an unprecedented crisis in this nation's history.

As Hurricane Katrina approached the Gulf Coast, the hospitals of HCHD and others were responding proactively and with remarkable foresight. To set up emergency laboratory facilities, these providers, in turn, relied heavily on the initiatives of a number of IVD vendors, including **Abbott Diagnostics, Cardinal Healthcare, Dade-Behring, and Biostar**.

One major project was to establish the physical laboratory facilities needed to serve the exploding number of evacuees arriving from New Orleans. At the same time, even as "emergency labs" were created, it was necessary to also establish workflow processes and procedures to assess, diagnose and treat the

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THE DARK REPORT Intelligence Briefings for Laboratory CEOs, COOs, CFOs, and Pathologists are sent 17 times per year by The Dark Group, Inc., 21806 Briarcliff Drive, Spicewood, Texas, 78669, Voice 1.800.560.6363, Fax 512.264.0969. (ISSN 1097-2919.)

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SUBSCRIPTION TO THE DARK REPORT INTELLIGENCE SERVICE, which includes THE DARK REPORT plus timely briefings and private teleconferences, is \$11.90 per week in the US, \$12.50 per week in Canada, \$13.65 per week elsewhere (billed semi-annually).

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evacuee population. The situation is best explained by looking, first, at the preparations of labs and vendors to respond to the consequences of Hurricane Katrina, then, second, at the actual implementation of the disaster response plan for laboratory services.

HCHD's laboratory staff were in the early stages of disaster planning when lab vendors began to call with offers of help. "In particular, Abbott employees were angels in this operation," stated Sylvia Waller, Administrative Director of Pathology at Ben Taub General Hospital. "We cannot say enough about what they have done to help.

An Unexpected Offer

"Cedrick LaFleur, one of Abbott's delivery managers here in the Houston area, called on the Tuesday [August 30] when the levee broke in New Orleans," she recalled. "He told us he was calling at the request of his boss to see what they could do to help. They offered to deploy one of their Architour 18-wheeler "lab on wheels" for us to use as a clinical testing facility.

"They also offered us i-STATs and a Cell-Dyn 1800. I was on the phone with Cedrick at 11:00 p.m. on Wednesday night about this equipment. The Abbott shipment arrived at 4:00 a.m. on Thursday [September 1]!" marveled Waller.

"Based on our emergency planning, we selected the cartridges we anticipated we would need. Those arrived Friday morning," she said. "One of our forward-thinking staff anticipated that we would need lots of hand sanitizer. Abbott sent 1,000 bottles. This equipment and supplies played a critical role in allowing us to provide desperately-needed care to the evacuees.

"Employees at Cardinal Healthcare and Biostar were also instrumental. They provided vacutainer tubes and kits

of every description. Leigh with **Premier** sent 1,000 bottles of hand sanitizers. **Dade-Behring** provided Micro-Scan products, which were useful in diagnosis of the many children with diarrheal diseases," observed Waller.

Even as laboratory vendors were rushing to support the emergency response laboratory effort, Waller and her colleagues were already dealing with a variety of situations, some expected and some unexpected.

"We had many patients with diabetes to treat," she continued. "Abbott shipped 1,000 meters, plus strips, lancets and other supplies.

"Two labs were established to accommodate the evacuees," said Waller. "One was at the George R. Brown Convention Center. Shirley Hall, Director of HCHD Community Health Program Labs and other lab employees were instrumental in setting up the lab in Reliant Arena, at the Astrodome Complex.

"The first two days were very intense for us," Waller stated. "There were more than 20,000 evacuees at the Astrodome. Nearby, in the Reliant Arena, were another 2,300 evacuees," she noted. "About half the evacuees at the arena had medical issues. This is the site where I have been working.

"All these patients needed urinalysis and CBCs. The first day we did over 1,000 tests," she recalled. "We were doing CBCs, differentials, blood gases, troponin, PT, and INR. In addition to the i-STATs that Abbott provided, we have an i-STAT at the hospital, reserved for emergencies. This certainly qualified as an emergency.

Testing By Many Methods

"We are doing the CBCs in the Abbott Architour laboratory. About half of the patients required lab glucose—quick glucose. We did testing by urine dipstick, wet mounts, KOH, i-STAT PT and INR, troponin, flu kit, rapid strep, and more.

“There were many sore throats and earaches,” she added. “Many children had cried for so long lying in their cots that the tears had flowed back, causing inner ear infections. Also, many children were suffering from diarrhea.

“Just seven days later, on Thursday, September 8, the evacuee population was down to about 8,500. All patients who were in the Reliant Arena clinic have been moved out. Since the Thursday following the storm (September 1), our labs have been running 24/7. Ten days after the storm, we were triaging about 700 patients per day,” stated Waller.

Troponins In Two Minutes

“Our pathologists and staff have been wonderful. Eugene Banez, M.D., Chief of Pathology Services at Ben Taub General Hospital, has even helped to perform testing. It has been a *team* effort to accomplish this job,” she added.

Banez told a *Wall Street Journal* reporter “I’ve never seen an operation like this in my entire career. It’s mind-boggling.” Using on-site diagnostics, colleagues ruled out a heart attack in an elderly man with chest pain, and detected a worrisome blood abnormality in a young woman.

“Physicians at the Astrodome were elated with the laboratory services that we had marshaled together for them. They were thrilled we could do troponins for the cardiac situations. We were able to test with the i-STATs and get results to the physicians within two minutes.

“In Reliant Arena, we set up a lab with roving phlebotomists,” explained Waller. “If patients were too ill, we sent our phlebotomists to the bedside and did a glucose, if needed. Pediatric patients we drew ourselves.

“Medical technologists, medical laboratory technicians, and lab staff from

other hospitals—including **Memorial Hermann Hospital, MD Anderson Cancer Center, Columbia Rosewood Medical Center**, to name a few—came to help. We had lots of volunteers. Our pathologists have been running tests themselves. The entire laboratory teams from Baylor and UTMB [**University of Texas Medical Branch at Galveston**] have all pitched in with significant help and resources,” added Waller.

Emergency planning for laboratory services included a patient identification system, created “on the fly.” “Our IT department set up computers for us,” she explained. “Patients were admitted, given medical ID numbers, and accessioned. Once they were in our hospital system, when they came to the lab, we put them into our MiSys LIS. During this whole operation, we’ve managed to maintain our quality control and documentation procedures.

Working With Red Cross

“A second priority has been working with various government and relief organizations—**Red Cross, FEMA**, and others,” Waller noted. “The Medicaid DHHS Chief was here on Labor Day. He made rounds of all three of our clinics. FEMA and Red Cross are working out of our building. Social Security is here to cut checks. All of the New Orleans mail is being forwarded to the Astrodome. Tomorrow our congressional delegation will be here.”

Emergency Planning

THE DARK REPORT believes the bar is being raised for all laboratories and pathology groups when it comes to both emergency planning and disaster relief response. On the following pages, THE DARK REPORT looks at how lab industry vendors responded to the Hurricane Katrina emergency. **TDR**

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—By Pamela Scherer McLeod

Lab Suppliers Step Up In Katrina's Aftermath

Industry firms were often first to get supplies and relief to laboratories affected by the storm

CEO SUMMARY: *It's a story that escapes media coverage. As Hurricane Katrina advanced northward, often the first source of fresh supplies and disaster relief for laboratories affected by the storm was their instrument vendor or other supplier. Many of these companies were prepositioning needed laboratory supplies and relief items even while Hurricane Katrina was still offshore.*

ONE REASON clinical laboratory testing services could be delivered in the immediate aftermath of Hurricane Katrina is because many laboratory vendors took proactive steps to help laboratories throughout the affected region.

The stories which follow are just a small sample of the extraordinary actions taken across the laboratory industry. They illustrate how emergency planning and disaster response in the private sector is helping individual laboratories maintain their clinical services, even when they find themselves, literally, in the eye of the hurricane.

Swinging Into Action

Abbott Diagnostics recognized that, not only would Hurricane Katrina affect a wide swath of the Gulf Coast, but it was going to create significant destruction inland as it moved north into the heartland. "As we identified the scale and scope of this catastrophe, we assembled a response team and began contacting our customers and employees," stated Christy Wistar, Divisional Vice President, U.S. Marketing and Commercial

Operations at Abbott Diagnostics. "Some hospitals had not gotten any help at the time we contacted them. Our goal was to understand their problems and identify the types of diagnostic supplies they needed. As we delivered products, many customers told us we were the first relief of any kind to reach them at their site."

Many pathologists and lab directors are familiar with Abbott's fleet of three semi-tractor rigs, used in their Architour activities. These are mobile labs and instrument showrooms which travel to the front door of laboratory customers. (*See TDR, September 20th, 2004.*) The company put these three trucks to effective use in the days following Hurricane Katrina.

"We retrofitted one of Architour lab-on-wheels with high-volume chemistry/immunoassay analyzers and sent it to **Ochsner Clinic Foundation** in New Orleans," noted Wistar. "Another Architour rig was fully outfitted with mobile devices and crammed with reagents, glucose meters and strips—the things we knew would be needed—and

sent to the Astrodome and Reliant Arena in Houston. We got hematology onboard and added i-STAT. Any space that was left, we packed with Pedialyte, Ensure, Similac, and similar products. (See pages 2-4.) The third Architour truck transported supplies throughout the affected areas.”

Sending Food & Supplies

Symex Corporation was also proactive as the hurricane approached. “We were preparing a shipment to go to the Ochsner Clinic Foundation,” stated Ron Walczak, Symex’s Marketing Communications Director. “As the scale of the disaster grew, our COO, John Kershaw, sent a couple of our senior staff members out shopping. They bought \$25,000 worth of food and toiletries. These were loaded on the truck, along with additional stockpiles of reagents, that was about to depart with a regularly-scheduled shipment. Our truck left Friday and arrived at Ochsner on Sunday.”

Ochsner Clinic Foundation has been operational before, during, and after Hurricane Katrina. It sits on high ground in New Orleans and never flooded. Generator power kept it going. But the Ochsner laboratory had all sorts of needs in the days following the hurricane. “The Ochsner lab emailed us to say that they appreciated the support of our technical assistance center in helping them get their BCS’s up and running so they could run coagulation tests,” said Pattie Overstreet-Miller, **Dade-Behring’s** Vice President of Corporate Communication.

“We’ve worked with all the courier services going into the affected area,” observed Connie DuBois, Director of Customer Communications and Public Relations at Dade-Behring. “It takes police and FEMA escorts to get supplies delivered. We’re sending shipments of reagent-grade water and topping off

those shipments with drinking water. We’re helping labs to stockpile supplies.”

“Our customer support distribution center in Atlanta worked around the clock throughout the Labor Day holidays to keep urgently-needed supplies moving,” she continued. “We’ve been canvassing laboratories throughout the affected areas in Alabama, Mississippi, and Louisiana to identify their needs and get supplies into their hands.”

“Logistics are a big issue,” stated Brad M. Ditmar, Director of Marketing, Instrument Systems at **Bayer Diagnostics**. “After the storm hit, we mapped the areas for which transportation would be affected. We reached out to all hospitals and laboratories in the affected area and continue to do so. We’ve maintained contact with the three hospitals still functioning in New Orleans—Ochsner Clinic Foundation, **East Jefferson General Hospital**, and **West Jefferson Medical Center**.

Logistics Is A Challenge

“Across the affected area, we’ve had to assess the situation, lab by lab,” he continued. “Hospitals that are still open are working out logistics for getting supplies shipped in from nearby cities. One big concern for these folks is their ability to find staging locations. It’s almost like a M.A.S.H. (Mobile Army Surgical Hospital) situation.”

The value—and effectiveness—of these private sector efforts by lab industry suppliers should not be underestimated. Quotes in a September 8, 2005, *Wall Street Journal* article capture the dramatic tension of the first days following the flooding disaster in New Orleans. Ochsner Clinic Foundation’s emergency chief Joseph Guarisco stated, “A lot of hospitals feel they could be more effective working directly with the vendor. It may be counter to what FEMA is trying to do, but it’s certainly faster.” **TDR**

—By Pamela Scherer McLeod

Molecular IVD Rankings

Molecular Diagnostic Companies

Ranking By 2004 Annual Revenue
(\$s in millions)

Rank	Laboratory	2004 Revenue
1.	Roche Diagnostics, Basel, Switzerland	697
2.	Chiron Corp., Emeryville, CA, USA	308
3.	Gen-Probe Inc., San Diego, USA	289
4.	Bayer Diagnostics, Tarrytown, NY	133
5.	BD (Becton, Dickinson & Co.), Franklin Lakes, NJ	66
6.	Innogenetics, Ghent, Belgium	65
7.	Digene Corp., Gaithersburg, MD	63
8.	bioMerieux SA, Marcy l'Etoile, France	45
9.	Qiagen NV, Venlo, The Netherlands	41
10.	Eurogentec SA, Seraing, Belgium	36
TOTAL:		1,743

Source: Kalorama Information, New York, NY

Assessing Growth in Molecular Diagnostics

HERE ARE THE TOP TEN MOLECULAR DIAGNOSTICS COMPANIES, ranked by revenues from international sales of clinical molecular products during 2004.

Collectively, these ten firms generated total revenues of \$1.74 billion. By itself, Roche Diagnostics represents 40% of this market. One reason for this large number is the revenues generated by the PCR patents the company owns.

As can be seen, six of the companies on this list are selling less than \$100 million per year in the clinical molecular diagnostics market. This demonstrates the relatively small volumes of clinical testing conducted using molecular technologies.

However, growth rates in this market segment are in double digits. Because of the compound effects of such growth rates, the ratio of clinical molecular testing performed will increase steadily.

Further, the research and development pipeline is full of new markers and new molecular technologies. Each year, the laboratory industry can expect to see more molecular assays enter the clinical marketplace. This ranking for 2004 will provide pathologists and laboratory directors with a baseline from which to evaluate future growth in clinical molecular testing.

Sonic Healthcare Buys Clinical Pathology Labs

Nation's largest private commercial lab firm will be acquired by Australia's largest lab

CEO SUMMARY: *It's one of the most interesting lab acquisitions to take place in the past decade. Pathologist-owners of Austin, Texas-based Clinical Pathology Laboratories, Inc. are selling up to 85% of their lab company to Sonic Healthcare, Ltd, Australia's largest laboratory firm. The acquisition brings a new lab competitor into the U.S. market and is likely to trigger significant changes to the status quo.*

IN A TRANSACTION SURE TO ROIL the competitive lab testing marketplace, Australia-based **Sonic Healthcare Ltd.** will acquire a majority interest in **Clinical Pathology Laboratories, Inc.** of Austin, Texas.

The announcement was made on August 23, 2005 and capped a lengthy bidding process for Clinical Pathology Labs (CPL). The sale of CPL is a significant event for two related reasons. First, it means that local pathologists will no longer fully own and operate the nation's largest, private lab company providing laboratory testing services to office-based physicians. This continues a trend of local pathologists selling their lab company to bigger firms.

Second, the sale of CPL brings a new and credible competitor into the U.S. laboratory testing market. Sonic Healthcare is the largest laboratory services company in Australia. It also owns and operates laboratories in New Zealand, Germany and the United Kingdom.

Sonic Health will pay approximately US\$300 million to acquire

between 80% and 85% ownership of CPL. Under the terms of the deal, between 2009 and 2012, Sonic Healthcare will purchase the remaining equity from CPL management and pathologists.

CPL Management To Stay

CPL, with annual revenues approaching \$190 million, was paid "a prospective EBITDA [Earnings Before Interest, Taxes, Depreciation, and Amortization] multiple of approximately 9.5." The deal is expected to close by September 30, 2005 and Sonic Healthcare wants CPL's management team to remain and continue to play an active role following the sale.

In fact, both CPL's corporate culture and its management talent were major motivations for Sonic Healthcare to pursue this acquisition. "I'm particularly excited about the Sonic-CPL partnership," stated Colin S. Goldschmidt, M.D., CEO and Managing Director of Sonic. "Both our companies have very similar values and philosophies.

“Sonic’s success over the past decade has been predicated on our steadfast commitment to a concept of ‘Medical Leadership,’” he explained. “Unlike some of our major competitors, we have institutionalized a model that has pathologists directly involved in the management of our businesses.

Physician-Centric Model

“This higher level of personalized service we deliver resonates much more effectively with our number one customer—the referring physician,” observed Goldschmidt. “I was thrilled to discover that CPL has the exact same model and has used this model effectively to compete in the United States.

“We consider the ‘pathologist and physician-centric model’ (Medical Leadership) as the only way to achieve excellence in pathology,” emphasized Goldschmidt. “Under the leadership of Robert Connor, M.D., his team of pathologists and COO David Schultz, CPL has created the exact same model in the United States.”

Sonic Healthcare’s business strategy also differs significantly from that of **Quest Diagnostics Incorporated and Laboratory Corporation of America**, in at least one dimension. “Sonic Healthcare operates a ‘federation’ model for its subsidiary practices, whereby each member of the group enjoys management autonomy,” stated Goldschmidt.

In contrast, the business strategy of the two blood brothers has been different. Each company has worked to develop a unique and unified national brand. As part of this strategy, regional lab facilities tend to take their direction from corporate headquarters. Autonomy in these regional business units is relatively limited as their parent companies pursue consolidation, integration, and uniform policies and procedures throughout their business.

“Under the Sonic business model, CPL will retain its current manage-

ment structure, its local flavor, and its name,” observed Goldschmidt. “Sonic provides the central resource whereby group synergies and other improvements may be achieved—these include financial and operational benchmarking, pathologist interaction between entities, group-wide purchasing, sharing of sales and marketing information, IT and e-health synergies, expert systems, and lab design.

“Our pathologists, managers and staff are quite comfortable with this model—and it works to lift performance and service levels to the highest common denominator,” he said.

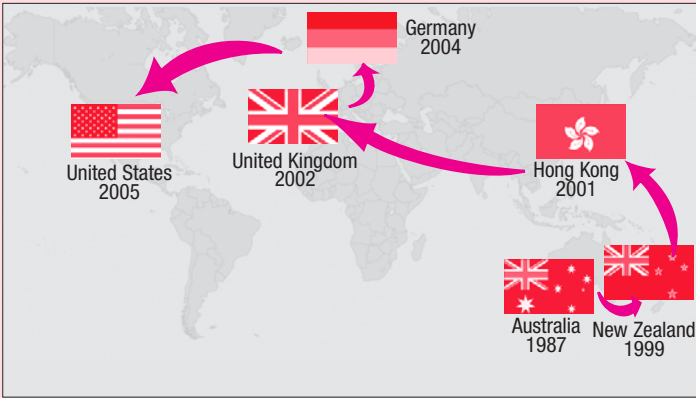
Goldschmidt, himself a pathologist, believes that new technologies in laboratory medicine reinforce the value of pathologists to referring clinicians. “The style of pathology service that CPL delivers—in particular its ‘pathologist-centric’ model of personalized service to physicians—not only fits perfectly with the style of pathology that Sonic delivers but also provides differentiation in the U.S. independent pathology sector.

Supporting The Clinician

“The interpretation of pathology tests has become much more complex, particularly with the broad array of new tests that are now available. More than ever before, physicians deserve to have the benefit of clinico-pathological consultation with a pathologist, whenever appropriate. This is the essence of Sonic’s style of pathology service and, indeed, that of CPL.”

Another unique perspective that Sonic Healthcare will bring to the laboratory services marketplace in the United States is its experience in other healthcare systems, including Australia, New Zealand, Hong Kong, United Kingdom, and Germany. “There are many areas where CPL and Sonic’s Australian, U.K., and German practices will share practice information. This

Sonic Healthcare is Active Buyer Of Laboratories in Different Countries



SONIC HEALTHCARE

THERE'S ANOTHER BILLION-DOLLAR LAB COMPANY soon to compete against the two blood brothers in the United States.

Australia-based Sonic Healthcare, Ltd., with revenues of US\$1.07 billion per year, is acquiring Clinical Pathology Laboratories, Inc. of Austin, Texas. The deal is expected to close by September 30, 2005.

The map above shows how Sonic Healthcare has grown into a major international player in clinical diagnostics. It was founded in Australia in 1987 and used acquisitions to grow into the largest pathology company in that country.

In 1999, it acquired a group of laboratories in New Zealand. This was followed, in 2001, by an acquisition of a radiology practice in Hong Kong. Lab acquisitions in the United Kingdom (2002) and Germany (2004) gave the company its first foothold in Europe.

SONIC HEALTHCARE, LTD *At-A-Glance*

- **Founded**1987
- **Headquarters** Sydney, NSW, Australia
- **2004/2005 Revenues** ... US\$1.07 billion
- **Annual Net Profit** US\$60.0 million
- **Core business** Provide pathology and radiology testing to physicians and hospitals.
- **Employees** 10,000+
- **CEO** Colin S. Goldschmidt, M.D.
- **Clinical Labs in:** Australia, New Zealand, United Kingdom, Germany, United States
- A "Top 100 "company on the Australian Stock Exchange
- Supplier of specialist radiology and pathology services to medical practitioners
- Currently holds a 14% share of the Australian radiology market
- Currently holds a 40% share of the Australian pathology/lab market
- Proprietary "Cache" Software allows consolidation of radiology and pathology systems on a single server with one administration team

Clinical Pathology Labs Becomes Sonic's Foothold in the United States

Clinical Pathology Laboratories, Inc. *At-A-Glance*

- **Founded**.....1989
- **Headquarters**Austin, Texas
- **2005 Revenues**\$190 million est.
- **Central Laboratories**Austin, TX;
Toledo, OH;
Chantilly, VA
- **Rapid Response Labs**25
- **Patient Service Centers**150
- **Employees**1,500
- **Pathologists**.....22
- **Chairman & CEO**.....Robert Connor, M.D.
- **President & COO**David Schulz
- **Services Offered In:**..TX, OK, AR, LA, OH, VA

CPL TimeLine

- 1948-1989:** Forerunner of CPL, part of pathologist group
- 1990:** CPL splits into a professional pathology group and a lab-testing business. Begins expansion across Texas.
- 1999:** CPL acquires Seguin Labs and Waco Medical Group Lab.
- 2000:** CPL acquires labs in Houston, Dallas, Denton, and Victoria.
- 2001:** Summit Partners invests in CPL.
- 2002:** CPL moves into Oklahoma, Arkansas, Louisiana.
- 2003:** CPL acquires labs in Ohio and Virginia.
- 2005:** Sonic Healthcare buys 80% of CPL for \$300 million.

will be a bilateral process, with interchange of know-how moving in both directions,” stated Goldschmidt.

More Lab Acquisitions

Independent laboratories will be interested to learn that Sonic Healthcare does want to pursue other acquisitions in the United States. “Yes. Sonic and CPL are very similar in culture, in particular their common commitment to a ‘medical leadership’ philosophy. As I mentioned earlier, this is where pathologists and other experienced health-care personnel are directly involved in the operation and management of our practices. Close, efficient, and personalised service to physicians is a fundamental part of our existence. If we identify like-minded practices with this commitment, we would be delighted to partner with such groups.”

Once this transaction closes, pathologists and laboratory managers

can expect to see Sonic Healthcare move with deliberate speed to execute its growth strategy. This Australian-based company has a reputation for delivering high-quality laboratory testing services. This reputation is based on a solid track record of accomplishment.

Radiology In The U.S.A?

Because Sonic Healthcare is a major player in radiology in Australia and other countries, it will be interesting to see whether or not the company will acquire radiology assets in the United States. It has an existing core competency in both laboratory medicine and radiology. Were Sonic Healthcare to expand into radiology in this country, it would represent the first significant example of a single large company offering both radiology and laboratory testing services in the United States.

Sonic HealthCare In US: How Will Market Change?

In the same month, LabOne sells to Quest and Sonic Healthcare buys CPL in Austin

CEO SUMMARY: *LabOne, Inc.'s acquisition by Quest Diagnostics Incorporated, announced in early August, removes, as a competitor, a lab company that was growing and beginning to credibly challenge the two blood brothers. Just weeks later, Sonic Healthcare Ltd.'s purchase of Clinical Pathology Laboratories, Inc. of Austin, Texas brings a brand-new competitor into the national lab market.*

By Robert L. Michel

IT APPEARS TO BE A CASE of lose one—gain one. Within the space of a single month, the laboratory industry lost one dynamic national lab company while welcoming a brand-new entrant into the competitive market for laboratory testing services provided to office-based physicians.

Of course, I am referring to the separate acquisitions where **LabOne, Inc.** was purchased by **Quest Diagnostics Incorporated** and **Clinical Pathology Laboratories, Inc.** was sold to **Sonic Healthcare Ltd.** These deals were announced to the public on August 9 and August 23, respectively.

Individually and collectively, change of ownership at LabOne and CPL will definitely alter the existing competitive landscape in specific regions across the United States. But what lab directors and pathologists may find even more interesting is how specific healthcare trends may work in ways that magnify the impact on the competitive balance expected from each of these lab acquisitions.

First, a look at how the LabOne sale may impact the competitive landscape. At over \$500 million in annual revenues, LabOne was steadily expanding its business in providing lab tests to office-based physicians. It was doing this in at least three primary ways.

Steady Growth at LabOne

One, it was competing aggressively in its home market of Kansas City. During the past decade, its share of this regional market has grown steadily. Two, it was using acquisitions to selectively expand into other regional markets. LabOne's purchase of the **HealthAlliance Laboratories** in Cincinnati was an important milestone for this business strategy. (*See TDR, February 23, 2004.*)

Third, LabOne's LabCard program was opening doors with TPAs (third party administrators) and payers in various regions throughout the United States. (*See TDR, March 18, 1996.*) The LabCard program was designed to utilize LabOne's unique ability to provide lab tests from its national testing center in Lenexa, Kansas, for office-

based physicians in most areas of the United States.

In recent years, the cumulative growth from these three business lines was positioning LabOne to become a credible competitor at the national level. That was evident when LabOne outbid the two blood brothers and other interested parties during the Health Alliance Laboratories' sales process.

National Lab Oligopoly

Now that LabOne is soon to become part of Quest Diagnostics Incorporated, it will no longer be a "third option" in the national lab services marketplace. In the weeks following the acquisition announcement, it appeared that the national oligopoly enjoyed by the two blood brothers in providing lab testing to office-based physicians had tightened its grip.

That is why the news of CPL's sale to Sonic Healthcare is a particularly interesting development. Sonic Healthcare is well-managed and has access to capital. It has a demonstrated track record for profitable growth. Its entry into the U.S. lab services marketplace via CPL immediately makes it a credible new competitive force.

Two Strong Companies

That's because the Sonic-CPL combination is a marriage of two strong companies. Over the past 15 years, CPL has successfully expanded its lab testing business in Texas. This large state is highly competitive. Both Quest Diagnostics and LabCorp have a significant presence in the state, anchored by labs in cities like Dallas and Houston.

CPL has grown tough because Texas is a tough healthcare market. Like California and Florida, managed care was a disruptive factor in the state during the 1990s. At the same time, the competition among labs for the lab testing business of office-based physicians

in Texas has always been intense. To survive and thrive, it has been necessary for the executive team at CPL to execute with precision, operate at maximum productivity, and maintain a professional sales and marketing program.

It is precisely these corporate strengths that promise to make the Sonic-CPL combination an important factor in the national lab testing marketplace. CPL will continue to be led by Chairman and CEO Robert Connor, M.D., and President and COO David Schultz. Under the sales agreement, both men have equity in CPL and plenty of motivation to expand CPL's business in the United States.

Aggressive Growth At CPL

This is evidence that, after the close of the sale, at least two things can be expected. First, Clinical Pathology Laboratories will continue to be a tough, intense competitor as it pursues increased market share. Second, CPL can be expected to expand into new regions of the country. Sonic Healthcare is aggressively managed to produce sustained growth in clients, specimens, revenues, and net profits. It can be expected to provide the capital and manpower needed to support double digit rates of growth at CPL.

What will be of greatest interest, however, to pathologists and lab directors watching how CPL is handled after the sale, is one dimension of Sonic Healthcare's core business strategy. That is its belief that regional laboratories should keep their original identity and management should be allowed a fair degree of local flexibility and initiative.

As noted in the preceding story, Sonic Healthcare's CEO, Colin Goldschmidt, M.D., calls this a "federation model...whereby each member of the [Sonic] group enjoys management autonomy." This management philoso-

phy contrasts rather starkly with that of most publicly-traded labs in the United States since the mid-1980s.

The norm in the U.S. is for the acquiring laboratory to move quickly to put its brand on the newly-acquired laboratory, thus losing the often-considerable goodwill of the acquired lab's name and reputation. Speedy consolidation, often involving the closure of labs and patient service centers, gives the acquiring lab immediate economic benefits, but often alienates patients and long-time physician-clients of the acquired lab.

Sonic Healthcare is saying that it will do the opposite with CPL. CPL will keep its name, its identity, its people, and its existing service infrastructure. CPL's executive team will have a wide degree of autonomy to craft the most appropriate business strategies to meet their growth objectives.

Think Local, Act Local

Since Sonic Healthcare is interested in other lab acquisitions in the United States, its "federation" business model means that each lab company acquired is likely to continue under its existing identity, with its management team empowered to do serve its physician-clients, and its local healthcare community, in whatever unique ways are best.

This is why Sonic Healthcare has the potential to roil the status quo in the lab testing marketplace. If it does acquisitions and allows each local lab to keep its identity, while providing capital and management acumen to support growth, a number of independent lab companies that refuse to sell to the two blood brothers may be acquisition candidates for Sonic. Over time, this could challenge the existing hegemony that the two blood brothers hold over many regional markets in the United States. **TDR**

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Sonic's Appearance At the Exec. War College

THERE ARE SOME PATHOLOGISTS and lab executives who already know quite a bit about Sonic Healthcare, Ltd., Australia's largest laboratory company.

At the *Executive War College* of 2000, conducted at the Fairmont Roosevelt Hotel in New Orleans, Managing Director and CEO Colin Goldschmidt, M.D., presented a strategic case study of Sonic Healthcare to an audience of more than 450 pathologists and lab industry leaders.

Goldschmidt captured the full attention of the audience as he described the market dynamics in Australia which were fueling laboratory consolidation in the commercial sector. It was an uncannily parallel story to the commercial lab consolidation experienced in the United States since the mid-1980s.

In 2000, Sonic Healthcare was already the largest laboratory company in Australia. But one part of Sonic's business performance caught the attention of careful listeners. Not only was Sonic growing by the acquisition of smaller laboratories, but it was consistent at taking these acquired laboratories and generating double-digit growth in revenues and profits.

This was contrary to the experience of most lab acquisitions in the United States. Too often in this country, when a smaller lab was acquired by a bigger lab, the bigger lab was challenged to retain the business it had just bought. Acquiring labs in the United States were seldom able to generate substantial increases in clients, specimens, and revenues in the months following the sale.

In fact, in the years following that *2000 War College*, executives from Sonic Healthcare traveled from Australia several times to participate in later *War Colleges*. They did their homework on the U.S. market for lab services and developed personal contacts with other laboratory executives at each *War College*.

HCA Buys IRL From MDS, Makes Plans for Future

South Florida laboratory operation supports 13 HCA hospitals and has outreach program

CEO SUMMARY: *When HCA purchased the MDS partner share in Integrated Regional Laboratory of Ft. Lauderdale, Florida, it marked the end of MDS Laboratories' ten-year "United States Adventure." It also put HCA in full ownership of an automated core laboratory and a laboratory outreach testing program full of promise. Efforts are underway at IRL-FLA to build specimen volume and revenues.*

IN A MOVE TO CONSOLIDATE its regional presence in Southeast Florida, **Health Corporation of America (HCA)** recently acquired **Integrated Regional Laboratory (IRL-FLA)** from **MDS Laboratories, Inc.**, its original partner in the IRL laboratory joint venture.

As sole owner, HCA is supporting efforts at IRL-FLA to expand its share of the lab testing market in South Florida. "HCA decided to buy out MDS and bring IRL-FLA 100% in-house for two reasons," stated Joanne Trout, Chief Operating Officer at IRL-FLA. "One, the shared service market model for hospital laboratory services works extremely well. Two, HCA wants to expand existing outpatient laboratory services. IRL-FLA will retain its name to build on brand-name recognition.

"It's been a smooth transition to full HCA ownership," Trout stated. "Our non-management staff was already on the HCA payroll and benefits platform. Managers have moved from MDS to HCA's platform."

IRL-FLA—with its 28,000 square foot lab—is the largest independent provider of hospital laboratory services and reference testing in South Florida. It serves 13 South Florida hospitals, eighteen acute/tertiary care facilities, and operates 14 patient service centers. "We provide 100% of the microbiology testing for these hospitals and 28% to 30% of the total billable test volumes," noted Trout.

Expectations for IRL-FLA

HCA has several expectations for IRL-FLA. It believes a market-based laboratory serving both hospital inpatient/outpatient needs and office-based physicians has a number of competitive advantages. "We are well-positioned to compete in the South Florida market for several reasons," observed Trout. "First, HCA understands the managed care, service, and infrastructure requirements to compete in both the hospital and commercial laboratory markets. It is committed to growing outpatient services.

"Second, fewer commercial laboratory options exist for physicians as

a result of laboratory consolidation,” she added. “Physicians are looking for choices. They want access for their patients, responsive services, and high quality.

“We can meet those expectations. Our laboratory has the opportunity to serve physicians in both their office-based practice and with their hospital patients. That is why we have strong regional relationships,” noted Trout.

Opportunity For Growth

“It is not uncommon for patients in this community to wait as long as two hours to have their specimens drawn at other laboratories,” she added, “This motivates both physicians and patients to look for alternative sources of laboratory testing. Our network of patient service centers in this nine-county area gives us a strong competitive position.

“Also, the Florida Medicaid program has been looking to cut costs and reduce spending. There have been calls for consolidation and fewer laboratory providers,” Trout said. “Our laboratory is well-positioned to balance operational efficiencies with service to customers. We think geography works in our favor in South Florida.”

Simple Business Strategy

HCA’s business strategy for IRL-FLA is simple and familiar. It wants to create cost savings through the consolidation of appropriate types of testing and it wants to generate profitable revenues from outreach activities.

“HCA’s investment in this laboratory is part of its growth strategy,” noted Trout. “IRL-FLA is pursuing two major goals. One is to further reduce costs by better utilizing our automated core laboratory. The second goal is to expand our commercial outreach program.

“To meet the first goal, we built the core lab, using MDS’ proprietary laboratory automation, in Ft. Lauderdale,” she explained. “This is a 45-minute drive from approximately 40% of our hospitals.

IRL-FLA’s History As Lab Joint Venture

WHEN HCA PURCHASED MDS LABORATORIES’ interest in Integrated Regional Laboratory (IRL-FLA), it marked the end of MDS’ laboratory presence in the United States.

IRL-FLA was a laboratory joint venture between HCA, the largest for-profit hospital company in the United States, and MDS, a Canadian health and life sciences company. The 50-50% partnership was formed in 1998 to develop two regional laboratories with HCA: one in Georgia and one in Ft. Lauderdale, Florida. The objective was to provide lab testing support for HCA’s hospitals in both regions and develop a laboratory outreach program.

By 2000, IRL-FLA’s 28,000-square foot laboratory was in full operation. HCA’s goal was to bring enhanced service levels, cost efficiencies, and consistency to its Florida Division. HCA’s hospitals in the South Florida market provided critical mass in laboratory testing volumes, as well as efficiencies and compliance experience. MDS brought expertise in automation, laboratory integration, marketing, management, and information technology.

In recent years, MDS reassessed its U.S.-based lab operations and decided to exit the market. The sale of its partnership interest in IRL-FLA ended the last laboratory business operation MDS had in the United States.

“Moreover, five hospitals are located within a 30-minute drive from the core lab,” added Trout. “Consolidation of microbiology testing from our HCA hospitals allowed us to improve the turnaround time for microbiology testing by 15% to 40%.” This generated significant efficiencies and demonstrated the value of our geographical strategy.

“We have continued to enhance our service infrastructure,” she said. “We utilize our hospital laboratories to support stat testing needs. To assure patient convenience and accessibility, we located several patient services centers on hospital campuses and in outpatient centers.

Expanded Test Menu

“Once our consolidated core laboratory was up and running, we leveraged the specimen volume to expand the scope of our test menu and our services,” added Trout. “This gives us a broader menu of services and allows us to offer faster turnaround times for more tests.”

A subject of much interest to pathologists and lab administrators is how HCA, a for-profit hospital operator, views laboratory consolidation and hospital laboratory outreach programs. According to Trout, its views on these two subjects are evolving.

“HCA has hospital laboratories all over the United States, some of which have lab testing outreach programs,” she explained. “Lab consolidation has occurred in some regions, but HCA has never formally developed the type of comprehensive infrastructure needed to support an integrated outreach program.

“IRL-FLA’s regional core lab model provides that infrastructure,” Trout noted. “Since we’ve only recently formalized the sale, we are only now beginning to further explore this business strategy. We are extremely excited about the new opportunities in the areas of outpatient services and outreach within our new business model.

“We are approaching our growth strategy now by asking two questions. First, what do physicians want from their lab? Second, can we meet that need better than the existing pro-

vider?” she asked. “We think we can with a regional model. We believe it is the business model that offers the optimum balance between cost efficiencies and responsive service.

“Additionally, HCA has a distinctive competency that differentiates us from the national labs—laboratory management. We believe our ability to integrate hospital work and commercial testing within our geographical market gives us a competitive edge and is a viable strategy for a regional, market-driven laboratory. We now function as a unified single lab with 14 sites—the core lab and our 13 hospital labs. We work closely with the patient service centers. This was a major change for our laboratory staff and they are up to the challenge.

“Our laboratory has identified two critical success factors for this business model,” offered Trout. “One is connectivity. IT solutions must be user-friendly and accessible from the very beginning. After all, the product our laboratory provides is information. At IRL our goal is full electronic exchange of laboratory information, not just the exchange of files. The other critical success factor is contract access to managed care patients.”

Future Plans For Lab Model

Will IRL-FLA become a consolidated lab template for other HCA hospital regions? “It’s too soon to say,” answered Trout. “HCA may look at IRL-FLA as a model for regional laboratories to support hospital and commercial lab services in other HCA markets, or for building internal referral testing capabilities. The better IRL-FLA performs, the more likely it is that this business model might be adopted in other HCA hospital markets.” **TDR**

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—By Pamela Scherer McLeod

INTELLIGENCE

LATE & LATENT
 Items too late to print,
 too early to report



Integration of healthcare information is attracting major investments. On August 29, 2005, **Per Se Technologies, Inc.** and **Wolters Kluwer NV** announced that they would acquire **NDCHealth Corp.** They will pay \$700 million and assume \$270 million in debt. Per Se provides billing services to physicians throughout the country. **AmeriPath, Inc.** is one of its customers. NDC Health provides electronic health claims processing and prescription data services.

CLARIFICATION

THE DARK REPORT recently heard from Ken Flowers, CEO of **Uropath, LLC** in Arlington, Texas. In the *TDR* of August 22, 2005, we had reported that his resume was posted on the **American College of Healthcare Executives'** (ACHE) Web site. Flowers acknowledged that, indeed, his resume was posted there. But it belonged in the ACHE's "resource" section, not in the "looking" section and has been moved. Flowers indicates much positive progress at Uropath and stated that "things are not anything but great at Uropath!"

HOSPITAL ON WHEELS TRAVELS TO GULF COAST FROM NORTH CAROLINA

Providing healthcare services in the wake of a disaster is the goal of "Carolinas MED-1," a fully-equipped, mobile hospital. It was set up in the parking lot of a **KMart** in Waveland, Mississippi just four days after Hurricane Katrina passed through the city. The core of the mobile hospital is built around two 53-foot tractor trailers. One has slide-out walls and creates a 14-bed hospital complete with operating facilities, a full pharmacy, telecommunications for off-site consulting, and diagnostic capabilities in laboratory, radiology and ultrasound. The support truck carries an awning and tent system that can accommodate up to an additional 85 beds.

ADD TO: *Mobile Hospital* MED-1 was developed in North Carolina from its experience in post-hurricane disaster relief. Federal grants helped fund the project. MED-1 is based in Charlotte and is managed by **Carolinas Medical Center**

(CMC). It takes just 30 minutes to set up and is staffed by approximately 40 physicians, nurses and other staff from CMC and other medical facilities throughout North Carolina. MED-1 is a great example of how new health technologies and the miniaturization of equipment allow health services to move ever closer to patients.

TRANSITIONS

- Bob Copeland, Vice President and Chief Information Officer at **AmeriPath, Inc.** in Palm Beach Gardens, left the company in August.
- Chuck Locke, Vice President of Development and Administration at **American Esoteric Laboratories, Inc.** in Nashville, Tennessee, left the company this summer.
- Frederick L. Kiechle, M.D., Ph.D., Chairman of the Department of Clinical Pathology at **William Beaumont Hospital** and Medical Director of **Beaumont Reference Laboratory** in Royal Oak, Michigan, left the organization in August.

*That's all the insider intelligence for this report.
 Look for the next briefing on Monday, October 3, 2005.*



UPCOMING...

- ***Long-Distance Med Tech Learning: Why Labs Are Using It to Fill Vacant Slots.***
- ***Pariahs in Pathology: Client-Bill Arrangements for AP Get “Creative.”***
- ***Managed Care’s Next Market Cycle: What Labs Need to Know To Maximize Revenue.***

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