

# LABORATORY INDUSTRY REPORT®

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## Lakewood Pathology Enters \$1 Billion GI Testing Market, Renamed PLUS Diagnostics



*Doug Berg, CEO,  
PLUS Diagnostics*

Only two years after receiving \$50 million in equity financing from Water Street Healthcare Partners in May 2006, Lakewood Pathology Associates has refined its platform business—genitourinary (GU) pathology—and is now entering the gastrointestinal (GI) pathology market, currently valued at between \$1 billion and \$1.5 billion in the United States. The company is also undergoing a re-branding—as of August 4, the Lakewood, New Jersey-based pathology group will be renamed PLUS Diagnostics.

As a result of stepping into the lucrative GI market, company CEO Doug Berg expects PLUS Diagnostics to double in revenue and profitability in 2008. While declining to share specific revenue and volume projections, he said that in 2009, PLUS expects to grow the GI service two to three times the estimated annual market growth rate of 10 percent, while increasing revenue by \$15 million to \$20 million.

Over the past year, the company's leaders have been carefully analyzing the GI market in preparation for the May launch of the GI business line. "We had been opportunistic in GI, but we didn't have a value proposition," said Berg. "We spent the last year studying what is the value proposition in GI that will allow us to come to market in a compelling way right from the start."

In preparing for the GI launch, PLUS Diagnostics also talked to various pod labs, which were effectively made financially irrelevant by CMS's Anti-Markup Rule implemented this past January. Berg estimates there are about 50 of these pods in the United States, represent-

ing about \$100 million in annual revenue. Due to the current CMS rule, these labs are now forced to revamp their business models. But PLUS Diagnostics has approached these pod labs with their business model that means they can customize the billing system based on their needs, which Berg believes will give PLUS Diagnostics a competitive edge. "While it's too early to know where the dust is going to settle everywhere, early indications are that we'll get more than our fair share of some of this business," he added.

### PLUS Diagnostics (Formerly Lakewood Pathology Associates) at a Glance

- ❑ Base: Lakewood, New Jersey
- ❑ Executive team: CEO, Doug Berg; president and COO, Dave Pauluzzi (formerly with Quest); executive vice president, CFO, laboratory general manager, Tim Kennedy
- ❑ 100 FTEs: 20 sales representatives, 15 pathologists
- ❑ Specialties: Include genitourinary and gastrointestinal pathology, dermatopathology, cytopathology, and hematopathology
- ❑ Growth: Expects to double in revenue and profitability in 2008 over 2007, 20 percent to 30 percent growth between 2008 and 2009



## Selling the Value Proposition

One foundation of PLUS's value proposition had to be rapid turn around times, according to Berg. "In the GI market, this was critically important because at some of these larger endoscopy centers, the close-out procedure is often held up because they are waiting for a pathology report—sometimes four, five, or even seven days," he explained. "When we give 24-hour turn-around, this helps with their DSO [days sales outstanding] and cash flow, which is critically important at these larger centers." Another important strategic element was establishing the proper connectivity for electronic medical reporting (EMR) and procedure writing software. Today, PLUS Diagnostics is fully launched in a wide variety of EMR and procedure writing options.

Looking ahead, PLUS Diagnostics plans on moving into hematology and oncology, modeling the move after the launch of the GI business line. In addition, Berg and his team are currently looking at where to build new laboratories to expand their geographic reach beyond their northeast base. Most likely, these new labs would be in the southeastern and western areas of the United States. "When we look at expanding GU, GI, as well as hematology and oncology nationally, we believe it's important to have additional labs that are close to the customer, so I think it's fair to say that we'll make investments in lab space in strategic areas of the country in the future," he added.

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