Bio-Reference Laboratories Management Discusses Q1 2014 Results - Earnings Call Transcript

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Executives

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Bio-Reference Laboratories (BRLI) Q1 2014 Earnings Call March 4, 2014 10:30 AM ET

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2014 Bio-Reference Laboratories Incorporated Earnings Conference Call. My name is Gwen, and I'll be your operator for today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes. I would now like to turn the call over to Ms. Tara Mackay, Investor Relations Coordinator. Please proceed.

Tara Mackay

Thank you. Good morning, and welcome to Bio-Reference Laboratories' first quarter fiscal year 2014 earnings conference call. Bio-Reference Laboratories is one of the largest independent full -- regional full-service laboratories in the country with focused marketing capabilities in the areas of genomics, oncology, women's health, correctional health and physician office pathology. Leading us on the call today will be Dr. Marc Grodman, President and Chief Executive Officer; and Sam Singer, Chief Financial Officer.

Some of the commentary made in this presentation may relate to future results and events. Statements regarding the company's revenue and earnings guidance are based on the company's current expectations. Actual results in future periods may differ materially from those currently expected or desired because of a number of risks and uncertainties, including general economic and business conditions; future regulatory requirements and mandated pricing reimbursement; the service, customer and geographic market mix of any particular period; the company's ability to effectively manage its operating cost and collect its receivables in a timely fashion; on the level of demand for the company's products and services; and on the company's ability to manage its supply and delivery logistics in such an environment. Additional discussion of these and other factors affecting the company's business and perspective is contained in the company's periodic filings with the Securities and Exchange Commission.

I will now turn the call over to Dr. Marc Grodman, President and Chief Executive Officer.

Marc D. Grodman

Tara, thank you very much. This has been a tumultuous time in the laboratory sector. Actually, this had been a tumultuous time for all of health care as we see reimbursement pressures on health care providers in every ilk and kind. Yet, despite these changes, despite the weather that's been unprecedented in terms of its severity, Bio-Reference has demonstrated growth, organic growth that continues to differentiate us. We'll ask Sam Singer to give some financial details in the quarter and then I have some comments to be able to go provide, I think, some insights into what we've learned and gauged from our first quarter results. Sam?

Sam Singer

Thank you, Marc. During the first quarter of fiscal year 2014 which ended on January 31, Bio-Reference recorded net revenues of $181,270,000 compared to $161,256,000 in the first quarter of the prior year, an increase of 12%. Gross profit on net revenue for the current quarter was $72,154,000, representing a 40% gross profit margin. In the first quarter of the prior year, gross profit on net revenues was $70,922,000, representing a 44% gross profit margin.

On January 31, 2014, operating income was $5,880,000 as compared to $15,759,000 in the same quarter of last year, a decrease of 63%.

Earnings per share on net income was $0.11 per share in the current quarter as compared to $0.31 per share in the prior year quarter.

Patient count for the current quarter increased to 2,206,000 from 1,973,000 for the prior year quarter, an increase of 12%. Our net revenue per patient for the first quarter just ended was $81.17 compared to $81.13 per patient in the same quarter in the prior fiscal year, virtually flat.

On January 31, working capital was $163,113,000 compared to $161,116,000 that we reported on our October 31, 2013.

Our day sales outstanding on January 31, 2014, was 111 days.

Thank you, and I'll return the call to Dr. Marc Grodman.

Marc D. Grodman

Sam, thank you very much. As I mentioned earlier, this had been a tumultuous time in the laboratory sector. However, through this period, we take pride in the fact that we have continued to show organic growth. The weather, reimbursement changes, payment policies, payor behavior and the net effect of investment on infrastructure have all taken their toll on our operating performance and metrics. We've grown 12% in revenues, 12% in patient count, higher than we anticipated when we gave guidance at the end of last year.

First, let me address our operating performance. On our fiscal year 2013 conference call, commenting on changes in reimbursement and payor behavior, we said this would be a transition year and that our first quarter would be about half of the $0.31 we showed in the first quarter of fiscal year 2013. This year, we earned $0.11 for the quarter, and we estimate that the weather cost us about another $0.05 per share. In other words, our results are where we thought they would be if it hadn't been for the unexpectedly severe weather.

There are some reasons we didn't demonstrate full leverage based on our changes during the first quarter. Some expense reductions we've implemented for fiscal year 2014 did not really start to take effect in the first quarter but will have greater impact during the remainder of the year. We've stepped up all efforts to feed the growth at GeneDx in order to meet the demand we had at services, and this has increased our cost of services without necessarily reflecting the same growth in revenue. Finally, there is the impact of the reimbursement environment where our company-wide average revenue per patient was nearly flat on a year-over-year basis. Our overall patient count increase of 12% included an increase of 70% per patients seeking genetic testing. Even if the revenue per patient for these services are substantially higher than the rest of our business, revenue per patient is a measurement that growth can be misleading. We indicated in our comments at the end of last year that we have seen decline in our nongenetic testing reimbursements of about 4%. We believe that that decline is closer to 5% in retrospect. But that's not based on more reimbursement. It's -- that is based on more reimbursement experience since our last discussion. Rather, we think of further erosion. This kind of baseline change affects all parts of our business and all the financial metrics of our operating performance.

I can't recall a time when there's been a similar consensus regarding changes in the reimbursement environment by all providers in this sector. At this time, we don't anticipate additional significant adverse changes to reimbursements. But needless to say, no assurances can be given especially since confusing messages are coming out of Washington with regard to uncertainty with regard an SGR of FITs. However, we know the bar we need to meet going forward. We believe that it is critical to understand that this issue is a pervasive industry issue. It extends far beyond Bio-Reference and far beyond laboratory services. It is a macro issue that encompasses all of health care.

Secondly, we need to talk about the weather. It's been horrible. Not only have we had many devastating storms over the past 3 months, they've also come at the worst possible times. More often than not, the storms that hit early on the busiest days of the week, closing roads, offices, leaving massive snow and ice have slowed things down. I don't think I really need to go into a lot more detail about this. I can't recall a time when not only snow but brutal cold has affected our business to this degree. And as I've said before, snow -- the weather affects us, and there's no real makeup that we see from this. Even yesterday, serious weather affected volumes in the mid-Atlantic region. But just the threat of a storm has its impact in the New York metropolitan area that really was by and large [indiscernible].

We believe that the Q1 effect of adverse weather was over $4 million of net revenue and about $0.05 earnings per share. Unfortunately, this weather was not limited to December and January and, as everyone clearly knows, has continued probably with greater intensity into February and obviously even into March. We believe adverse weather will also impact second quarter results. We'll have more to say about this later in the call.

Third, I want to discuss GeneDx. Over a decade ago, I remember when a public company CEO claimed that they were the first laboratory to embrace genomics. In retrospect, there wasn't even a peck on the cheek. GeneDx offers true genetics. Its growth and maturation from being a center of rare diseases to being a higher throughput, full-service genetics laboratory is both a testament to the vision and commitment as well as the greater relevance of genetic testing in critical practice. We believe this when we joined forces with GeneDx almost 8 years ago, and the volume of GeneDx's work has more than fulfilled our vision. This is not a laboratory dedicated to one test. We're not dedicated to 1 platform or 1 specific clinical area. It's a laboratory that seeks to stay true to its exacting clinical roots while fulfilling the needs mandated by technological and scientific progress.

I mentioned that patient count for GeneDx testing services or genetic testing services rose 70% on a year-over-year basis, and we believe we have only scratched the service of its potential. This increase in patient count has resulted in a substantial expansion at the Gaithersburg facility, expanded space, the acquisition of equipment and additional staff.

We remain committed to testing areas introduced this year as well as those scheduled for introduction later in 2014. Moreover, we believe our commitment to Inherited Cancers, an area that I had mentioned in the past, will be an important driver of our growth.

At a time of shrinking reimbursements, we need to balance growth and cost controls. We believe the opportunity is great in genetic testing. The operations and support between our New Jersey and Maryland facilities have never been -- have become increasingly intertwined. We have moved much of the support and service up to New Jersey to take advantage of the mature components that we have developed at our primary facility, which can allow the team in Maryland to focus on their core side of the function and expertise. We expect that we'll nearly double the number of employees dedicated to genetic testing by the end of the current fiscal year from what we employed earlier in 2013 in order to meet the demand of our services.

Genetic tests are nothing like routine blood chemistries. And the exacting procedural standards we demand will not diminish. Of the new hires, well over 20% will have been or will be at Ph.D. or M.D. levels. We expect to continue to see the growth in this area.

The fourth point I want to discuss is something I mentioned on our year-end 2013 call and that is that traditional quarter-to-quarter comparisons are not particularly informative at this time because we're really a different company than we were 1 year ago. The old metrics give little insight to the new metrics.

We invested in Florida and California to better position ourselves for long-term national growth in all elements of our business. We didn't buy profitable businesses or customer lists [ph] to put in existing facilities and closed up local laboratories. These are not accretive acquisitions. We bought them for the infrastructure, and we invested in them so that a sample to Bio-Reference or a sample to GenPath Women's Health or a sample to GenPath Oncology anywhere in the country can be received, processed and reported in a seamless manner to our physician clients throughout the country.

When we look at the increase in most of the personnel on a year-over-year comparison, the overwhelming increase has been either due to the investment to the infrastructures in Florida and California acquisitions or to feed the growth at GeneDx. We believe in those investments.

I think it's important to note that we invested in the infrastructure in areas of routine clinical testing that in reality has been subject to a decrease in revenue per patient by about 5%. That's a reality that's going to affect margins. If we still believe that the investment in growth was essential to continue our future expansion, as we look at the year ahead, I believe from this point we can expect to leverage the investment based on this expanded and improved infrastructure. We can look to focus on expense control now that we've built a bulk of our expansion and then in light of the new reimbursement environment. We've done this before. We've been through this before. And now [indiscernible] product of fiction. We have been focused on and will continue to address this new level of reimbursement to increase efficiencies and operational improvement. Along with our expected need to feed the growth at GeneDx, this is going to be our focus.

So with regard to margins, we're dealing with a reset. We believe most of the improvement during -- that's -- or for the rest of the year will be needed to be demonstrated on the gross margin line. But we anticipate there'll be improvement throughout the year in our SG&A expenses. We've started to see this effect in many of the expenses between this first quarter and the immediately preceding fourth quarter of the prior fiscal year. We see some positive bright spots on other SG&A expenses rose pretty much in line with revenues, as did marketing expenses. This is a positive, given the lower revenue per patient for the non-GeneDx testing.

We believe we've already seen substantial reduction to some elements through our total cost testing operations as we seek to improve efficiencies. We're not going to address this fee based reinvestment by cutting services. By cutting growth, we're going to support, and innovate with support, we're going to continue to support an innovation that have enabled us to achieve 20 years of 20% compound annual growth in revenue. We've been addressing and we'll continue to addresses this new level of reimbursement through increased efficiencies and operational improvements.

The [indiscernible] for the quarter was just a shade over 8.5%, consistent with the previous quarters, which again given the lower revenue per patient for non-GeneDx testing would seem to indicate that it will at least be steady in the coming year.

We need to address our DSOs at 111 days. This has been one of the most frustrating elements of the year. The effects of the reimbursement pressure impacts more than just revenue per patient, it affects day sales outstanding as payors string up payments it otherwise disrupt payment cycles. In our experience, it is about the most granular level of selectivity on what payors are willing to pay, and a portion of it is patient responsibility. In order to deal with this new baseline for reimbursement, we're becoming familiar with the new criteria for payment where there is no consistency among payors. This is true, especially true with regards to the most esoteric testing. As we develop these rules and tools to deal with this new payment modalities, we expect to become more efficient in owning our business model for this new paradigm.

During the past 20 years when we have recorded 20% growth, we've had to deal with such global shifts many times, and we have both the experience and insight to deal with the current change. On our year end earnings call in December, I said I expected -- that except for this fact that historically our DSOs rise in the first quarter, we were at a base line from which we could improve. The first quarter increase is associated with the way revenues and reimbursements come in during the month of November, December and January. Typically this is a very predictable pattern. There's usually an increase in the first 2 months of the quarter and a relative decrease in the DSOs in January. The fact that sales were low in the first quarter certainly adds to this result, and certainly possible of the increased volume associated with lower reimbursement patient exaggerated spec.

This quarter did not follow the traditional pattern. November, December saw the usual increase in DSOs, but most years we normally see an increase. And usually in most years, historically we see an increase in the quarter of about 6 or 7 days. Unlike prior years, we see an improvement in January. While cash collections were strong in December, they fell off dramatically in January.

Now we've seen a return to normalcy so far towards the end of February. There's some reasons for this anomalous behavior. Medicare payments were down. Payments for Medicare were down overall in January, and I think part of this is explained by the institution of something called the PECO system, which stands for provider enrollment chain and ownership system, which is in essence an identifier number that one needs to be consistent with a national provider identifier number, 2 separate identifying systems, but both have to be consistent in order to be paid. As you can well imagine, that's also not the case, and it's an ongoing process to go in and get this resolved in the beginning of the year.

Another factor is the increase in the portion of our business performed at GeneDx. You know what? These complex and highly reimburse test by comparisons are routine and often require documentation and time to collect. Not just a matter of being in network, the owners are ensuring that the test applies to the medical policies of the multiple plans even within the same insurer and providing the documentation if that's the case. We're making great strides in this area, but it is a long collection cycle.

But beyond these factors and perhaps even more significantly, what we noted was that many commercial payors still have [ph] payment down, especially in contrast to December. We believe we're not alone in seeing this phenomenon, but perhaps with a quarter that ends with January, it is more apparent with us. We've seen improvement toward the end of February in all of these areas. Given what we know now, we expect improvement throughout the year.

This clearly has been a big turn for us. We've reported there are many interim issues associated with new contracting that we had to negotiate last year as a result of the termination of the Blue Card program, our geographic expansion into other commercial contracts, the molecular diagnostics reimbursement issues with CMS, as well as the pile on of many commercial payors and the effective determination of the grandfather clause. While we've dealt with these issues and have moved forward, the effects of these transitions over the past year are still challenges. We're working diligently to address all of the addressable issues.

Cash flow for the quarter was a negative $2.7 million. Quite frankly, given all the circumstances of the first quarter, this was hardly surprising. And this is going to be a focus where we proceed [ph] throughout the year. It's not easy balancing the forces of growth with the pressures of the administrative reimbursement. We are pleased with what we have been able to accomplish, but we're fully cognizant of how the forces of nature may well obscure some of the strides that we have been able to make. We are already through the first month of our second quarter of the fiscal year, and we've already seen continued major impact in the weather.

February has been the worst month so far, but we've seen several days with -- we've seen several days with substantial reduction. Two weeks ago, we had 15 inches of snow in New York -- the New York area that brought the area to a standstill. And while our business had continued to show growth and expansion on good days, there have been too many bad days to take any real comfort. But yet, on those days, when we've had good weeks, we've been very encouraged by the volumes that we've been able to go in and experience.

On earnings call in December, we guided that our first quarter earnings would be about 1/2 of those in the prior fiscal year, which was about $0.31. If it had not been for the weather, there was a solid assessment of where we would be: around $0.16, but a $0.05 per share impact of adverse weather was taken into consideration. At the same time, we indicated that our second quarter earnings would start to approach, not equal, but approach our prior fiscal year second quarter earnings. Based on the weather in February and the predictions for March, we believe that weather will have an estimated $0.05 to $0.07 impact on the second quarter earnings this year. It is clearly not because we're concerned about our ability to grow the business, it is simply because the weather is something that could have a huge effect on our business, and we simply cannot not control that factor.

As we said in our call in December, we believe that we can improve upon our existing third quarter performance this year, and that will show significant improvement over our fourth quarter comparison. The combination of our belief and our growth, the combination of both the institute of expense control and the combination of the year with a balance too gives us a reason to be able to go away and give the guidance.

Our prior guidance that we gave in December was that we expect to grow in net revenues, patient count and net income each by 10% in fiscal year 2014. I think we have a better sense of the year today. And you know what? Our guidance is not terribly different, except for the fact that our growth may in fact be stronger than anticipated and that we should grow better than 10% in both patient count and revenues. What we said we should be able to grow 10% and net income for the year, when we had said that, if we exclude the weather impact that we estimate for the first and second quarters of $0.10 to $0.12, we believe that our earlier guidance would probably -- still remains accurate. I realize that this is -- that this places a lot of pressure on the second half of the year, but our vision is not obscured by the vagaries of weather, and we're fully cognizant of the reimbursement landscape ahead. We're going to balance growth with expense controls given the opportunities before us.

As I said earlier, this has been a tumultuous year in clinical laboratory market. I can't recall a time when there were so many challenges which have collectively had such a wide range of effect in all players. But we're going to come through this process and continue organic growth, continue innovation and continue to build the various franchises that constitutes BioReference Laboratories. I want to thank all of you for being on the call. I'm happy to go in and take questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Amanda Murphy from William Blair.

Amanda Murphy - William Blair & Company L.L.C., Research Division

Just had a quick question on the DSO comment in cash flow. So I appreciate all the detail on that. I'm just curious, it sounds, though -- it sounds like things may be getting better on that metric. So I guess how are you thinking about DSO trends for the year and then just cash flow generation through the year? Obviously Q1 was the biggest goal but...

Marc D. Grodman

Sure. I mean I have to tell you that I feel better. At this point, I feel better about that. I was feeling better about that at the end of December, then we're in January. I can't quite explain the differences in January that occurred. But I think that we can be able to go back in my expectation, no assurance, but my expectation that this has been an area of challenge that we will go in and go through our usual pattern of being able to show ongoing improvement throughout the rest of the year. I still feel that way, and I certainly feel that way vis-à-vis in terms of cash flow.

Amanda Murphy - William Blair & Company L.L.C., Research Division

And how much of that was no path? I think a number of labs have talked about issues getting paid with a NEMO [ph] path code.

Marc D. Grodman

You know what, Amanda? It's such a combination of different factors. I mean the [indiscernible] is there, the MOPath [ph] effect on private payors were certainly there. The effect of taking longer for Medicaid to pay for services even though there is no more payment in the grandfather clause is close, but even making payment in document into these are hospital-related expenses, there has just been -- and I think that as we've learned over the last year, a wide range of issues that we have continued to go in and deal with for the entire sector just to go in and make sure and get sure payment. And it's not just Medicare, it's in all different insurers. With the advance of molecular codes, it's more than just saying, "I'm not going to pay this." It's they not tell us why they are doing this and what documentation it will require. So I think the reach of this is not -- is in some ways a broader effect on the market that affects the industry. It was not necessarily predicable back a year ago.

Amanda Murphy - William Blair & Company L.L.C., Research Division

Got it. Okay. And then just a couple on guidance. So you obviously had a nice [indiscernible] in the quarter and you've talked about growth being a bit higher than you expected, but it doesn't seem like that's flowing through on the net incomes side. Putting weather aside for a second, so is there something -- just trying to figure out what change. I mean is there something from a margin perspective that's changed relative to your prior expectations?

Marc D. Grodman

Good. I think that's a great question. I mean I think that there is -- there are a few factors that are at work here. Number one, we understand where we are. We've been here before where we had to go in and -- be able to go in and get operational efficiencies and really focus on expense controls. We realize this is going to be by the fourth quarter, and we started to institute issues that we've had over the course of the remaining quarters of the year. We didn't have full impact. But even when we looked at some fixed cost structures before to Q1, we have already seen some light [ph] where we were able to keep costs either decrease them or keep them very steady where they were with the poor events for the year. That's part of it. I think part of it is the fact that reimbursements are a tick lower than we thought they'd be. We thought they would be 4%, probably closer to 5%. It's going to have an effect. I think part of it is where there's an area where there has been growth in the first quarter, it has been gearing up for the growth of GeneDx, it has been substantial. It's not a small business anymore. Quite frankly, it's quite the opposite, and we continue to go in and do that because we need to be able to go and see the growth. So I think the combination of the fact that we have not been able to go fully impact all the expense controls that we wanted to do, this whole impact we've had over with GeneDx, there was still some minor increase in infrastructure. We had to go do to California and Florida, quite frankly we looked at our additions in the cost of infrastructure, added the New Jersey operation, it's been remarkably tight. Now we spent the money and now we have to be able to go in and kind of pull that back in and be able to see where we invest. So I mentioned this early in the call, and I think the combination of that and the combination of the feeding GeneDx, as well as a little tick down of reimbursements, didn't allow us to go leverage it more than we would. But I think that as we are able to grow, as we should throughout the rest of the year, we are going to be in a better position to do that.

Amanda Murphy - William Blair & Company L.L.C., Research Division

Got it. And just last one on reimbursement, wondering if you had any comment on kind of upcoming changes, so obviously there is a clinical lab fee schedule review and ahead [ph] of the industry working to propose trademark around that. And also curious about -- I think there were some changes to some anatomic pathology or pathology codes specifically, IHC and FES [ph]. So I'm wondering if you can talk to that on your...

Marc D. Grodman

Sure. Let me do the second part first. I mean I know there were some changes over there. We've looked at the effect of those changes that they've had and I don't think they're going to have a significant impact on our operation. I just don't think they're going to be that way. And certainly vis-à-vis where they were with the projected OPPS code, I mean, [indiscernible] after that threat. So I don't think it's going to have a big impact this year on the business. Medicare is problematic. I mean I think we all know that we're going to have an effect on the Medicare P [ph] schedule. We know that we're going to be cut somewhere as part of the SGR. How much of this goes with or beyond the President's projected budget of 1.75% over the next 8 years or whether it's going to be a lesser amount, I don't think anyone really knows right now. We have spent a lot of time in the associate -- not just the clinical laboratory, all element of clinical laboratory association. They have never been more -- I have done this for a long time, there's never been a union entity. It's been big labs, small labs, medium-sized labs, diagnostic manufacturers, all of them realized the diagnostics simply cannot be cut without any concern. Everyone is beginning to get the message is that there is a landscape here, and there are people who need to be serviced. We don't really know. I mean, I think that we still see cuts around the President's budget. The CLFS [ph], still Medicare at this point they have not scored the savings that Medicaid would have as they make further cuts. So we have a window to try to do something. We've been active, the industry has been active with it. It's just for this time very hard to predict. My guess, and it's only a guess, is that I think the question that you're going to have to have, you may have some cuts that they simply have to go in and be done in a manner so they're not going to have a direct effect. I think [indiscernible]. It just makes all the sense in the world. So I'm -- you know we're going to have an effect, but I'm somewhat hopeful and I doubt them.

Operator

Your next question comes from the line of Raymond Myers with Alere Financial Partners.

Raymond Myers

Could you maybe give a little more granularity to the cost control measures that you initiated and that you said didn't have an effect yet in fiscal Q1? How much effect do you expect and when?

Marc D. Grodman

Well, I think that we've already started to be able to go do that. I mean, you could imagine on -- for competitive reasons, we can't go on to too much specifics, but there are reasons where we have to go in and do. Clearly, personnel was an important part of it and using people efficiently. Using -- getting more productivity on an hourly basis, including reagents, savings across [indiscernible] savings were a very, very big part of it. We are moving more and more toward areas in growth, certainly even in the genetic testing where we can deal with robotics, is going to be more appropriate. First you get the test, then you've got to go and make it efficient. We really have been able to go in and see some improvement in logistics . We've seen -- in just like getting specimens in. What we've done is that we've taken virtually every area into [ph] an area that comes up, to a quant item and have put it out to bid, if you will, and have seek to get better savings. Ideally you do it all the time. In reality, there are times when you bring in a focus to go get it done. And the one thing about the last year, things have focused so much on the growth, but being aware of the reimbursement environments, we started this process, like I said, toward the end of last year, looking at environment and where we were, and having gotten it safe [ph] for the infrastructure. So which is why what we mentioned before is that if we see the improvements, we really do need to see them probably more in gross margin and we were over in other SG&A, but historically SG&A

has scaled. So I think what we do normally with that and I think what we have to do more with gross margin is what we're going to go see at looking for.

Raymond Myers

Could you maybe touch upon the timing? Do we expect that in the current quarter? Or how do you expect that to effect?

Marc D. Grodman

I think the things that we're doing now, we're going to go in and see it absolutely throughout the year. I mean the things that we're planning are going to have an effect.

[Audio Gap]

present [ph] itself, upfront it's up [ph] time till we [ph] appreciate it. I think that we'll see it during the course of the year. I think we'll see more of an impact over in the third and fourth quarter when we will see the continued growth in the company.

Raymond Myers

Okay. Good. And one aspect that we've been very keen on here at the Alere is the timing of your release of the BRCA test that's a very exciting test capability. Could you give us more color on how that's rolling out?

Marc D. Grodman

Sure. I mean, look, we continue to do well with this. I mean, it is our -- we've been building capacity to do this, to meet the demand which we're feeling. We have been very hesitant to go in and talk about how much we're going to do. Obviously we are doing BRCA testing now. We are doing panels right now of various sizes and shape. We have a great deal of experience in doing NextGen panels that we have done for years, so doing it all for inherited cancer is in many ways in our sweet spot, but the volume potential is significant and we are loathed to go in and give specific numbers about that, expect for the fact that our goal is to be able to be on full cylinders, high -- toward the end of the year, toward the middle of the end of this year we can just go in and start to deal with the capacity. A lot of what we're doing, as I say now, is where have we spent money? We built money on infrastructure in Florida and California. Reimbursement rates went down, tough leverage, but we had to go do to ensure growth, and we're feeding the growth at GeneDx and that's absolutely all part of what we do. And I would have to say something. We really can't say it a GeneDx anymore, because it really is a combined operation with New Jersey and Maryland. So our hope is that we'll continue to go in and see the impact and really be able to go see a great deal of this, we hope, in middle and the end of the year. This has not been a biggie. A lot of times, there are changes in people and you're going to see things immediately. Practice patterns don't change that much. Long-term success really involves about the underlying capabilities in the marketplace, the sales structure, the payor contracts, the relationship with accounts. These are long-term things that don't change on a dime. And we believe in this market, it's a continuation of our market you begin to go see even with the kind of report that we're -- even with the result that we're generating now, kind of see what the accept -- the opportunities in the apartment [ph] in this area. We're excited by this. There are some reasons why -- and this is not a prediction for the next quarter. It's not a prediction for next week. Bottom line is that we are the only -- as a well -- as a respected genetics laboratory, we're the only one that has significant marketing and sales capabilities in both the OB/GYN and oncology markets. That's not meant to go change things next week, but the long-term debt that we've placed on it, combining the experience with the genetics with that market position is why we're being very careful and working very hard, and quite frankly investing heavily to make that whole initiative a long-range success.

Raymond Myers

That's great, Marc. If I could just one final question. I think you've alluded to several factors in our discussion, but I want to actually see if there is other factors in addition to your expectation of a very strong fourth quarter. You touched on the geographic expansion, the cost controls, the BRCA testing being on all cylinders by then. Are there any other factors that drive your expectation of a very strong fourth quarter?

Marc D. Grodman

Yes, just that I think that we know what we're doing here in a multiple local market. We're now a local laboratory around the country in a number of very important markets, so I think that's a great advantage for us. I think that we'll have new initiatives and new product will come out. We're going to expansion at our testing and new products that go beyond just inherited cancer. We've done that every year since GeneDx has been part of BioReference, so we look forward to that as well. We're getting more and more comfortable as we hire people in those different areas to go do more. Our region is expanding. One of the challenges last year was this incredible expansion and getting comfortable with able to go in and move into new regional areas where there's particularly [ph] good business that both stand on their own as well as treat specialty areas, and it takes time to go build out in those areas and we think that we're seeing that effect in more than -- clearly in more region than just the Northeast. Yesterday surprised me, right? Because we had -- turned out there wasn't bad weather in the New York area. We were impacted by what happened in the mid-Atlantic States. This shows you where the growth of BioReference is going. So I think there are a lot of reasons why we feel pretty good about where we're going at the end, toward this year and why the volume itself is not -- is something that we're relatively comfortable with. And I think it is also important, we don't buy business. We bought infrastructure. A very different idea of buying a customer versus buying the infrastructure. We do it because this company is still built on growth. And I think that in the laboratory business where growth is a challenge for many, that it's still something that we're able to go do and we need to do it carefully, judiciously, watch expenses, but we have to continue to do it.

Operator

Your next question comes from the line of Mitra Ramgopal with Sidoti.

L. Mitra Ramgopal - Sidoti & Company, LLC

Marc, just a couple of questions. As it relates to the reimbursement shakeout facing the industry, are you seeing any impact in terms of the weaker players, et cetera? And is that -- I see [ph] you're going to provide some opportunities for you as you look to expand the network?

Marc D. Grodman

Yes, I mean you mentioned there's other laboratories?

L. Mitra Ramgopal - Sidoti & Company, LLC

Yes.

Marc D. Grodman

I really hate talking about that. There's something very cannibalistic about that kind of thing. I think the laboratory industry clearly is shaking out, I think it had an effect on all those areas. It doesn't happen all of a sudden, but it does have an effect, and I think it's important, certainly in our discussions as we talk in Medicare and know what happens there. We do well over 100 nursing homes. But by and large, nursing homes is an important component of Medicare testing. And you know what? Those laboratories don't do nursing homes, and these are people that need to be serviced. I don't know if I really see it as an effect of saying, "Gee, this is great. I can go do nursing home in Ohio." Because that may not fit exactly into our business strategy. But it does make me wonder, and this is part of the argument with Medicare as to who will, and who will service all rural areas. So yes, there are instances that where people not being able to compete are going to go in and provide opportunity for us. And yes, it is and we are in a position. It's kind of hard for me, because I was associated with being an underdog with the entire time of life of BioReference, so I kind of cringe the idea of being the bigger one to take advantage of that process. But clearly there are going to be episodes of where people are getting harder to survive in this environment, but I really look at it more that this is not a good situation for health care in this country, per se. So yes, we're starting to see it, but it doesn't ever make me feel very, very happy.

L. Mitra Ramgopal - Sidoti & Company, LLC

No, I totally understand. On a separate issue, I know you mentioned earlier that it's a very different company today. It's just tough to rely heavily on past metrics. But if you just looked at a couple in this quarter, esoteric is 66%. I believe that's the highest it's ever been, and also the patient count, as it relates to genetic testing, improving significantly. As you look out over the next 12, 24 months, what should we expect in terms of that esoteric number moving up in, more specifically, genetic testing?

Marc D. Grodman

I think that's a very good question. For years, as we started to do this, GeneDx was a very small laboratory and when people looked for esoteric testing, when they started to go in and look at women's health or oncology as being drivers of that growth and as we started to go proceed, we realized that -- and I think we talked about this, that the increase esoteric testing, as it relates to oncology women's health, was being accompanied by a lot of routine business that came along with it, that we offered a specialty physician a one-stop shopping. Look, I have to tell you, the opportunity in genetic testing is tremendous. I think it's important. We'll go through changes in the coming years, but if I'm going to be in this business, I'd rather be in a current position of, one, full-service; two, growth. And I think that we all know this. Think about that 5, 6 years ago, it's when I made the reference to I remember a presentation done well over 10 years ago, that embracing genomics, I mean we're getting close, and we're only scratching the surface for it. And we still need -- and there's still obstacles, you still have payors they question some of the value that we are moving toward. That time -- I am leaving on a Tuesday here, to give a talk about what the values of the tumor sequencing and going to be in care and the reconciliation of the value versus the reimbursement and how you have to do with it. I do believe that this is a long-range goal. It's going to becomes greater, but we have to do with that which is harder and we have to do it cost-effectively and efficiently. So without getting specific numbers yes, I think this is where the growth is going to be.

L. Mitra Ramgopal - Sidoti & Company, LLC

Right. And then finally, I know you mentioned that you expect to double the number for GeneDx employees, et cetera, by the end of fiscal '14. In terms of the investments you're making, I know you're always investing, but specifically to that and also the infrastructure spending in California and Florida, is that pretty much going to be done by the end of fiscal '14? Or do you see that continuing?

Marc D. Grodman

No, I think that the infrastructure that we're spending both in California and Florida has been done. I think we have done that. I think we made the investment throughout the year. Clearly, as I said before, it effected -- we effected it in areas, but -- that has suffered reimbursement changes. But we've done that, we did that. Now our role in all the parts of non-genetic testing is to control expenses. It doesn't mean we're not going to go look for opportunities, but now we're in a position where we're going to try and control the cost in the infrastructure we laid out. That is what I believe is done, and by and large what we've already accomplished. That -- for genetics, we're going to feed the growth. So let me be clear, we're looking to try to control where we are, control on a quarter-over-quarter comparisons wherever we can, but we need to be able to feed the growth in genetics. These opportunities don't come along very often. Clinical laboratory testing, we've different areas that we're going to go in -- we've made changes. We've done things. We started things in oncology and women's health that changed the market. And when you have those opportunities, you just need to lay the tracks to feed the growth. And that's where we're now with genetics, so that's not going to stop. The other infrastructure issues have. We're not going to go beyond where we are right now.

Listen, thank you, all, very, very much. I appreciate all of your questions and comments, and I wish you all a great day and a good year, and hopefully, the weather will break somehow for all of us. Thank you. Take care. Bye-bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes our presentation. You may now disconnect. Have a wonderful day.

« Previous | page 2 / 6| Next »

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