

Health Care Diagnostic Solutions



Dr. Francisco Velázquez
President & CEO

CEOCFO: Dr. Velazquez, what is PAML?

Dr. Velazquez: PAML is best described as a health care solutions company with a focus in diagnostics. We started 57 years ago as a diagnostic company in the laboratory business.

CEOCFO: What do you understand about diagnostics that others may not?

Dr. Velazquez: PAML has a unique business model. We are a national esoteric reference laboratory, similar to the model that other reference laboratories may have where tests are referred from a variety of locations. Beyond that, we are best known for our two different skill sets. One is the ability to develop, implement and execute business relationships that go from testing partnerships to joint ventures in a community-centric model. Within this skill set, our goal is to perform as much as possible of the commercial volume that is being generated in the community, as opposed to referring all tests to our reference laboratory. This is the reverse of what all the other entities typically do. Most other reference laboratories' goal is to get the most volume sent to their reference laboratory as possible. We are the reverse, and that allows us to do a number of things which benefits our partners and the communities that we participate in. For example, our model helps our partners maximize their assets and capital investments in the diagnostic infrastructure by providing volume that was not there before, which increases the efficiency and effectiveness of their processes and decreases the unit cost. Second, by providing volume that was not there before, we are also generating a revenue stream for our partners because they are reimbursed for performing the test for the joint venture. That is very different than what other reference laboratories have done. We become a local employer and local participant in the community, and very importantly, we brand all of our joint ventures locally. You may not see PAML, other than in the background, and the reason for that is because we truly believe that healthcare, regardless of all the changes we have experienced at the national level, is still a very local activity. That is our second strategic imperative. It is also one of the areas that we are best known for – the ability to work with local providers and hospitals. The second set of skills that we are also very well known for, and happens to be our third strategic imperative, is our complimentary skills. In business for over half a century, PAML has developed skills in a variety of areas that help support diagnostic efforts in all of the communities that we serve. For example, billing. We are a billing company too, and we do the billing for a large number of clients. We provide billing services for all of our partners and joint ventures, so we have incredible expertise in that area. We also have well developed supply chain, logistics and IT services. We are very well known for our IT infrastructure, and we have licensed some of our IT products to IT vendors. Last but not least, because of our interest in the total health of our community, we have launched a consumer-based product line called Cinch™ (GoCinch.com), which helps bridge the gap between consumers and patients. We are always a consumer, and we are only a patient episodically.

CEOCFO: When you are partnering with people locally, do they then perform tests that others cannot?

Dr. Velazquez: Most of our partners are hospitals, and the reason for that is hospitals carry a high-fixed cost in their diagnostic laboratories, as well as excess capacity. The reason is they need to be fully staffed, and running 24/7, regardless of what the volumes are because you never know when an emergency may occur or a surgery may go bad. I have spent many years in hospitals, and I know hospitals very well. That is an investment they must make regardless of

what their bottom line may look like. Most hospitals look at their laboratory as a cost center, not as a revenue center. It becomes a high-priced asset. When PAML approaches one of these enterprises, it could be one or many hospitals, as we have ventures that have multiple partners. We typically perform a market assessment which helps us understand the potential amount of business in the area right now that is currently being sent somewhere outside of the community. PAML can come in to a hospital and provide the hospital with all the pre and post analytical tools, all the turnkey processes that convert the hospital laboratory into an operation that can handle more volume. More volume means that there will be testing that is typically referred out to a reference laboratory because it is too expensive, too labor intensive, the technology costs too much, or the professional resources needed to do it are too costly. When you aggregate higher volumes, then you can actually justify that. Going back to the statement that I made earlier that our goal is to perform as much of the testing as possible in the communities, the higher the volume, the better the bottom line, the more likely we are to be able to increase the test menu and the capacity in the local community instead of sending it to the PAML reference laboratory in Washington.

“We have the ‘ability to develop, implement and execute on business relationships that go from testing partnerships to joint ventures in a community-centric model.”- Dr. Francisco Velázquez

CEOFO: Do many of the hospitals take advantage of a majority of your services or is it more pick and choose?

Dr. Velazquez: We have eight different joint ventures in a variety of locations throughout the country, and all of the joint ventures are taking full advantage of the skills that PAML brings to the table. The rationale for that is, compared to other clinical disciplines, the revenue per square foot in commercial laboratories is much lower, so laboratories and hospitals have to compete for capital, IT resources and pretty much everything. When you look at billing, reference laboratories usually have a large number of small bills. We do not bill for \$24,000 at a time like a hospital may do for something like open heart surgery, for example. It requires a significant expertise to handle a large volume of small bills, so it makes sense for hospitals to utilize PAML for their billing and IT services, because they do not have the capacity or capability to do it themselves. When you go into a community, just the connectivity that you require for independent physicians, clinics and practitioners, it is worth millions of dollars. At PAML, we have developed the complex expertise, and tools, so we can become a conduit. We can become the infrastructure very quickly, so as a general rule, we do all the pre and post analytical work, and the post analytical work will include the billing. We are also the managing partner by contract, and the reason for that is because we have developed all the benchmarks, quality metrics and financial metrics. It is very important to us that we can manage the joint ventures to the same standards, because that is where a lot of the efficiency and savings come in for the facility. As an example, when we go into a new area, one of the things we will do is look at the current performance and compare it to the metrics and benchmarks that we have. Our goal in working with the partners will be to improve the efficiency and effectiveness so they can start to meet the same high standards, which means we sell them a better product and a better service at a lower cost. Typically, our joint ventures utilize every single one of our services, including compliance advice, contracting, HR support, etc.

CEOFO: Do you work with labs and hospitals on the customer relations and a higher caliber of technicians?

Dr. Velazquez: We have well defined standards, and we are highly focused on customer service. Part of the skill set, knowledge and expertise that we bring is how to elevate the level of customer service. Our goal is to be the highest quality, best service and most cost effective and all of our joint ventures must aim at that goal. We do help with recruitment in key areas where there is technical management or support, such as in customer service, logistics or wherever it may be. We will work with our partners to achieve those, and occasionally employ many of the individuals. For example, at our joint venture, in Colorado, we employ the majority of the phlebotomists, over 100 or more that are deployed to work in the various locations we have. We do have a high bar for customer service, and the quality of the testing in our mind must be a given. It must be something that no one should ever worry about, so we do have a medical and scientific staff that also reviews and works with partners to ensure that we have the best methodologies, outcomes and testing. We provide advice and consulting to our partners in terms of platforms, technology, testing, methodologies and interpretations. We also speak to many clients of our joint ventures –physicians and patients when it is appropriate, although we try to never get in the way of the relationship between a patient and a physician. In my mind, I am a physician, and that is a sacred relationship. We spend a lot of time doing that from a quality, continuing education, and management perspective. We tackle all of that, and all of our ventures have quality, service and technical financial score cards. The goal is to be green. If you are constantly improving, you are going to find something that you need to improve. That is going to be red, but the goal is to be green or blue, which is outstanding. Through work with our partners, we have developed a lot of standardization in all of our joint ventures. I have spent more time in hospitals than I have on anything else in my career, and what happens is there is always strong competition for resources. Many hospitals are not investing as much in the technology needed to stay competitive and to be comparable to what others are offering. That is number

one. Number two, they tend to have information technology limitations. Many times it is not just the result and interpretation. It is how you get them to the people so they are there in a useful fashion. That takes a lot of effort and money, and in many places the personnel employed are all wonderful people that may not have the background that is required in terms of the expertise, although everybody is trying to do a very good job. That is becoming more of an issue recently for a couple of reasons. The first reason is that we have seen technology boom over the last 5 to 10 years, so we have technology available to us where, when I went to medical school, we did not even think about it. There are highly sophisticated technological devices and technological tools that provide massive amounts of information. Therefore, you need to understand the technology and also understand the information. I think that number two is we have seen a decrease in the number of people pursuing professional careers in laboratory medicine over the last several years. Many of the medical technology programs across the country have closed, so it can be hard to get that education. Hospitals have to recruit and train the available labor pool regardless of what the qualifications might be, although they do have to follow some very specific requirements. There is a competition for those highly talented individuals. In places like our reference laboratory, we do a lot of different testing, with high volume and technology, so we can attract highly qualified personnel because they enjoy working in an environment that is very challenging.

CEOCFO: Would you tell us more about Cinch™?

Dr. Velazquez: To put things in perspective, as a pathologist and a physician, I am also a very strong consumer advocate. We are all consumers 100% of our time, and we are only patients episodically. Traditionally, health care has been geared more towards the intervention side, where you are a patient, as opposed to when no intervention is necessary, where you are a consumer. Most of us spend our time on the consumer side, which is one of the reasons why the consumer healthcare market has grown so much, from tools and supplies to everything else in between. Our goal with Cinch™ was to provide those consumers with the tools, knowledge and information that will allow them to manage their health from a wellness perspective. We are very focused on wellness, and we have shied away from highly interventional areas. For example, if a consumer is going to try to diagnose cancer they will probably need to have a provider guide them through the process. That is a complicated issue to address. In terms of wellness, I think most of us have enough understanding, and information on our website to manage our health in between visits or between our annual physicals. The Cinch™ goal was to develop a product line that does not look as much like traditional health care, because then it will not meet the goal of being consumer-oriented. We have a strong digital presence and an ecommerce capability, and we have three different levels of product that you can get. There are over 30 states in which I, as a consumer, can order tests directly from a laboratory. It is legal for me to do so. In those states, a consumer can go on our website and figure out where the nearest collection station is, so they can go and get their blood drawn. We have a network of collection stations available throughout the country that our consumers can access. That is very applicable for people like me, who are baby boomers, because we are more used to that. Cinch™ allows the consumer to generate the order from the website, take the order to the collection station, and then get the results electronically, encrypted and secure. We hire our cyber security people from the banking industry because they tend to have better security than health care does, so we are very good at finding the best from any industry. We also ask the consumer if they want us to share that information with their primary care provider. Although we are focused on wellness, if a test result is not normal, it is reviewed by one of our medical scientific staff. We will contact the consumer, and say we found something with an abnormal value. Although we cannot provide them with clinical direction, we can tell them, based on our experience and literature, this type of value tends to be associated with a higher instance of some disease or medical condition. We will ask if they have a primary care provider they would like us to share the information with, because they have to give us permission to do so. If not, since we have relationships with many institutions across the country and that is one of the ways you can close the gap, we can say we have a partner in your area, and would you like us to provide you some contact information or try to connect you with that entity. We feel it is our responsibility to do that. There are some things that could be abnormal that would require some follow up. That is the first difference for that traditional product, and other direct access labs probably do something similar. The second difference between what we do in that space and others is we use the same high quality technology that we use for our clinical purposes. We do not dilute it out with some other methodology that is cheaper. For example, if you get our testosterone test, we use the same method that is used for clinical diagnosis. The gold standard for the industry tends to be mass spectrometry, and each one spectrometer costs half a million dollars. Anything that comes from the consumer gets performed and reviewed by the same PhDs running the same mass spectrometers for our commercial testing. We provide them the same high quality that we are providing for clinical purposes at consumer pricing, because those tend to be between 20 and 30 percent lower than the traditional interaction with traditional health care. The second thing the consumer can do with Cinch™, which is more amenable to Xers and millennials, is request an at home collection device that looks like a credit card. With this collection kit, the consumer can do a finger stick, squeeze a small amount of blood on the card in the kit and the blood gets absorbed in that matrix. Once the droplets have dried, the card is inserted into a custom designed pouch and mailed to PAML. Once it is tested, the results are provided to the consumer electronically. The reason for the kit is because many Xers and most millennials do not like the way health care interacts.

They find it inconvenient to make appointments and go get their blood drawn. Some of us boomers think the same way as well. Xers and millennials in particular live in the digital world a lot more than other age groups, and that is very consistent. The third one, soon to be available, is a gift card format. Cinch™ can provide gift cards either electronically or in person. For that, we are working with a couple of potential retail outlets. The consumer will be able to give the gift of health to someone. Cinch™ has a trademark CinchView™ that allows you to move virtual tiles to look or expand their laboratory results. If the consumer does not know what it is, they click on it and it tells them exactly what it is and what it does. That is what Cinch™ is, and we have been featured on the Lifetime network and Daytime show. I think a lot of people are looking for alternatives to traditional health care, particularly in wellness. That is where our Cinch™ product comes in. We also have an age management product that is called AION Laboratories®, which is a PAML trademark product. That is because age management is the other end of wellness. It is focused more on baby boomers aged 45 to 75, who are interested in physiologic wellbeing. Therefore, we have targeted the wellness continuum from beginning to end, which is the ideal way to look at it.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine



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