

IMPATh Gives Doctors Crucial Information

by Jerry Jakubovics

Science has learned a great deal about cancer, but even so physicians often are uncertain about the best way to treat patients.

IMPATh (IMPH, NASDAQ) provides them with solutions to that problem. The company's unique technologies and services can determine the origin of the disease, ascertain whether it's malignant, and provide other data necessary for deciding on the best treatment.

Local community hospitals usually don't have the expertise and/or resources to make these determinations. As a result, more than 4,500 physicians at over 1,740 hospitals and more than 290 oncology practices specializing in the treatment of cancer use the company's information to make medical decisions.

IMPATh is enjoying rapid growth in both revenues and profits. The quarter ended June 30, 1999 showed record results, and was the 22nd consecutive quarter of record growth in revenues and case volume.

Greater Expertise, Abilities

A pathology department at a hospital can determine whether or not a patient has cancer, and provide preliminary information. But their abilities are limited beyond that.

That's where IMPATh comes into the picture. The most important work the company does is through their Physician Services division, which uses a broad range of technologies to establish profiles for individual cancer patients, and helps physicians make diagnoses and prescribe therapies.

For example, a physician would send them a patient's specimen (whether that be a tissue biopsy, blood specimen, bone marrow or lymph node). IMPATh's medical staff would conduct a series of analyses and then send a report back to the referring physician, enabling him or her to make a precise diagnosis and decide on the best treatment.

"What we're doing is helping to change the way in which cancer is managed, to move it away from population-based decision making to more individualized decision making," explains Dr. Anu Saad, President and CEO.

The company works with oncologists, pathologists and surgeons all around the country. Around 130,000 cancer cases came to them in 1998, all with questions regarding diagnosis, prognosis or treatment of the disease. To put that in better perspective, those cases represented around ten percent of all the new cancer cases diagnosed in the U.S. last year!

IMPATh also has two other divisions: Information Services and BioPharmaceutical Services.

Information Services maintains a database of information compiled at IMPATh since its inception 11 years ago. The company has been following up many of those patients so they also have outcomes data; as a result, they can provide physicians and pharma companies with data about various kinds of cancer patients.

And their third division, BioPharmaceutical Services, helps pharmaceutical and biotechnology companies to accelerate the drug development process in cancer by using a combination of IMPATh's database, technologies and, increasingly important, access to patients.

Linking Technologies

There are a number of companies that do commercial work in the cancer area, "But none of them has the broad range of technologies that we do, nor the ability to link those technologies and data with outcomes on the patients," says Dr. Saad.

Those strengths are reflected in financial results. In the quarter ended June 30, 1999, revenues topped \$20.8 million, up 55% from the \$13.4 million in the year earlier period. And net income came in at approximately \$2.3 million, 28% better than the \$1.8 million the year before.

These results extend the streak of up-quarters. Revenues have grown on average some 52% per year for the last five years.

The Street projects that rapid growth will continue in the coming years, with Physician Services, which represents around 95% of revenues, expected to increase the case volume of their products. And the upside potential (as a percentage of revenue growth) for the other two divisions, BioPharmaceutical Services and Information Services, is even greater.

There are several other sources of potential growth. "One of our strategies is to expand internationally, and we're currently doing due diligence on that," says COO and CFO John Gandolfo. That probably would be somewhere in Europe and probably with a strategic partner.

Also, the Internet presents opportunities for growth, and the company is well positioned to take advantage of that in the future.

And they'll grow via acquisitions. Over the past year a number of important acquisitions have been completed, and there are many potential acquisition candidates, not only in their core business but in the other two areas as well. IMPATh's strong cash position could be used to finance those.

"We're very well capitalized, and don't have any debt to speak of on our balance sheet," says Gandolfo. The cash value per share is \$6 - \$7; and adding accounts receivable brings that number up to \$10 - \$11 per share. IMPATh's stock was recently trading in the low 20s.

In December 1998 (when the stock fell to 22) the Board authorized a stock buyback for up to \$25 million. Through the end of June, 646,450 shares were repurchased at a cost of about \$16.5 million. That leaves more than \$8 million for additional stock repurchases. And the Board could authorize more stock repurchases if conditions warrant that. Shares repurchased could be used as currency for making acquisitions.

Keeping Busy

IMPATh announced a number of important de-

velopments in the last two quarters. One of those is a new technology called DRA, a drug resistance assay that helps oncologists to better hone in on the kind of chemotherapy a patient will respond to. "That's a very significant advance," says Dr. Saad.

The company also announced a joint venture with Affiliated Physicians Network (APN), a large group of oncologists in the Northeast, to participate in a pilot project with the National Cancer Institute (NCI). The entity they formed, APN IMPATh Research, will provide cancer patients with greater access to clinical trials in various types of cancers.

And they've also expanded the work they're doing with pharmaceutical companies. This year, in particular, those companies focused their drug development dollars on targeted therapies; in other words, there's a move away from "generic" chemicals that kill cancer cells into identifying specific targets with specific mechanisms and developing drugs against those. The first drug of this type, approved late last year, is made by Genentech and called Herceptin™, and IMPATh has played an important role in its development.

Although IMPATh is a company focused exclusively on cancer, they are not concerned by the possibility of a cure for the disease impacting their business. "We could have worse problems than a cure for cancer," says Dr. Saad. "Cancer is actually a catchall word for uncontrolled cell growth, not a single disease but rather a whole range of diseases. A "cure" for one cancer is unlikely to work for another cancer."

IMPATh was founded by several doctors at Memorial Sloan Kettering Hospital, who wanted to apply the best technology available in academia to medicine practiced in community hospital settings where most cancers are diagnosed and treated. They initially focused on the use of immuno (antibody based) and molecular technologies, and combined those with classical pathologies. The "I" in the company's name refers to immunohistochemistry, the "M" for molecular, and "PATH" for pathology.

The company is optimistic about the future. "The market for our core services is expanding," says Gandolfo, in part because of the aging population.

The company's reputation helps them draw top quality employees, and their medical staff is made up largely from the top academic environment. In fact, doctors being trained in significant fellowship positions around the country apply for positions with them.

Some 15% of the stock is owned by management and other insiders. Most of the remaining 85% is owned by institutions. There are no plans for a cash dividend.

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