

## Special Report - MDS Inc.

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[A must read on MDS: “MDS Inc., Canada’s Home-Grown Behemoth” from Chapter 13 of the book [Caring for Profit: How Corporations are Taking Over Canada’s Health Care System](#), Colleen Fuller, New Star Books (Canadian Centre for Policy Alternatives), 1998. The book is available at many local libraries and it can be purchased at numerous local bookstores or [through the CCPA](#)]

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### 1. Organizational Profile

MDS is a Canadian healthcare company which is involved in both private healthcare services (which this profile concentrates on) and ‘life sciences’ research and services, as well as funding each of these areas through the venture capital funds of MDS Capital. It has grown enormously over the past 30 years, and much of this growth has come from MDS receiving direct government Medicare payments for its private laboratory services. It is arguably Canada’s most ‘successful’ private healthcare company, and it is a company which has been integral to the piece by piece erosion of the Canadian public healthcare system. Through their joint ventures and strong ties to U.S. health corporations, many see MDS playing a role as a means for U.S. corporations to gain an understanding of, and eventually a foothold in, the Canadian private healthcare market.

#### Three main business segments of MDS Inc:

##### A. Health Services – diagnostics and distribution of medical supplies

(This report concentrates on the health services segment of MDS’ business) Operates Canada’s largest network of clinical laboratories and physician services. The main business of the company is “the provision of technology-based products, information and analytical services for health care and associated markets.” They have stakes in many lab operations, including part ownership of Calgary Lab Services (the other owners are the Calgary Regional Health Authority and Kaspar Medical Laboratories. MDS is also big on building joint ventures with U.S. hospitals for lab services, including a new venture with Duke University Hospital.

#### Health services is made up of three core businesses:

1. [MDS Diagnostics](#) – currently controls 30% of the Canadian laboratory market, especially in Ontario, British Columbia, and Alberta.

2. [Source Medical](#) – controls 55% of the distribution of medical supplies in Canada.

3. **MDS Proteomics** – understanding how proteins interact with each other and with disease. They have facilities in Toronto and Denmark

**B. Life Sciences (Pharmaceuticals /Biotechnology) Segment – made up of three core businesses:**

1. **MDS Sciex** – drug discovery through a process known as mass spectrometry, they control 60% of the high end market. They create design and manufacture machines for this process.

2. **MDS Pharma Services** – early stage drug discovery and development. A leading global provider of research services to speed discovery and development of drugs.

3. **MDS Nordion** – over 2/3 of the world's nuclear reactor based isotopes. Nordion includes imaging for cancer scans and treatment software for cancer care. Also includes sterilization systems for medical and consumer products

**C. Venture Capital through MDS Capital Corporation**

7 venture capital funds, 47% owned by MDS. MDS receives management fees for operating the funds

**MDS Capital Corp** – (from their website) “focused exclusively on health care and life sciences companies, primarily in the areas of e-health, health care information technology, pharmaceuticals, biotechnology, medical devices and medical services. We provide a continuum of capital from early stage through to late stage, with value-added financing in public retail funds and private institutional limited partnerships.”

MDS Capital Corp is a major shareholder in more than 120 health care companies with revenues over \$250m. This gives MDS a stranglehold on much of Canada's health sector, including increased power to help shape its future course. In fact, Gary Goertz, MDS' Executive Vice President and Chief Financial officer, said that MDS and its 70 partner companies “see every deal in Canada and just about every deal in the U.S.” (speech at health conference FEB 5, 2002) They are the #1 investor in life sciences venture capital in Canada.

According to Colleen Fuller, MDS's venture capital investment decisions were based on the export potential of health products and services, rather than on health care needs identified by Canadians.

The MDS Capital Scientific Advisory Board “evaluates the merits and uniqueness of potential life sciences investment opportunities for the Canadian Medical Discoveries Fund (CMDf) and other funds managed or advised by MDS Capital.”

**MDS Capital Corp includes:**

- **Canadian Medical Discoveries Fund (CMDf)** - [www.cmdf.com](http://www.cmdf.com) – government run, MDS managed venture capital firm it has aided numerous companies with hundreds of millions in capital, often to subsidiaries of MDS.

*From the CMDf website:* “Canadian Medical Discoveries Fund Inc. (CMDf or the Fund) is a labour sponsored investment fund (LSIF), established in 1994, with venture capital investments in approximately 40 companies in the life sciences sector (mostly biotechnology, along with medical devices and health services companies). The Fund has \$345 million under management as of

December 31, 2001. The Fund is registered as a labour-sponsored investment fund corporation, sponsored by the Professional Institute of the Public Service of Canada, a national union representing scientific and professional employees in the federal, New Brunswick and Manitoba public services.”

“The Fund's primary objective is to achieve long-term capital appreciation through investment in eligible Canadian businesses engaged in the health sciences sector, with emphasis on those businesses involved in early stage commercialization of research or product development.”

In 2001, two new Ontario investment funds became part of the CMDF. One is the CMDF Early Stage Fund for investment in health science businesses in their early stages of development, and the other is the CMDF Venture Fund for health service companies in the later stages of development. (See: Two New Funds join the CMDF Family: New Health Sciences Funds Create New Choices for Investors, Canada News Wire, December 4th, 2001

- **Health Care and Biotechnology Venture Fund**

- **Plus five other private venture capital funds:** MDS LIFE SCIENCES TECHNOLOGY FUND (LSTF), MDS HEALTH VENTURES INC. (HV), BC LIFE SCIENCES FUND (BCLSF), NEUROSCIENCE PARTNERS LIMITED PARTNERSHIP (NSP), SC BIOTECHNOLOGY DEVELOPMENT FUND (SCBDF)

MDS has 8,500 employees worldwide

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**Key personnel:**

Wilfred G. Lewitt Chair of the Board  
 John A. Rogers, President and Chief Executive Officer of MDS  
 Edward Rygeil, Executive Vice-President of MDS, President and Chief Executive Officer, MDS Capital Corp.

## 2. Economic Profile

Financial Data	2001	2000	%Change
Revenue	\$1.64b	\$1.44m	13.89%
Net Income	\$73m	\$110m	-33.64%
Earnings per Share	1.01	0.83	21.69%

MDS was having some tough times in 2000 and 2001 year due to the integration and restructuring of their Biotechnology areas.

<b>Health Segment Financials for the quarter ended January 2002 and January 2001</b>			
<b>Financial Data</b>	<b>Jan 2002</b>	<b>Jan 2001</b>	<b>%Change</b>
Revenue	\$240m	\$225m	6.67%
Operating Income	\$11m	\$18m	-38.89%

MDS Labs are Canada's market leader. They produce one-third of MDS's revenue and over 40% of its profits. This comes mostly from Medicare dollars – a direct payment from taxpayers to the company.

MDS' health segment had a 12% increase in revenues in 2001 and a 50% increase in operating income.

Each year in Canada, MDS has more than 13 million patients and provides information for more than 16,000 clinicians through more than 260 patient service centres.

**Key Transactions and activities of Recent Years, especially those relating to health services and MDS Capital:**

**December 2001** - MDS signed a multi-year agreement to manage the Duke University Health System clinical laboratories including those at Duke University Hospital. The labs perform 3.8 million tests annually.

**June 2001** - creating a national specialty diagnostic service as a part of MDS Laboratory Services. This makes MDS the first laboratory to provide national access to specialty diagnostic tests in Canada

March 2001 - MDS Proteomics (global biotechnology) expanded its Denmark and Toronto facilities to meet the high demand for proteomics research; its Boston and Charlottesville facilities are to be expanded later.

**January 2001** – Created a Canadian e-Health Platform for Physicians through the Acquisition of GenerationMD – which provides web-based medical education for physicians that are fully accredited through McMaster University

**September 2000** - MDS Inc. Announces The Formation Of MDS Pharma Services, the third largest contract research organization in the world

**June 2000** - \$15m investment in Inphact, a provider of web based medical imaging services and software.

**June 2000** - ehealth Park – MDS Capital Corporation put up \$2.5m in a joint venture capital fund for ehealth Park, which will focus on internet startups in the health services and life sciences sector.

**April 2000** - Took over Phoenix Life Sciences – a drug research company. There was much dissent as investors in Phoenix thought the sale price (\$500 million) was too low and because some felt things were just getting going with Phoenix when along came MDS to scoop it up.

**July 1999** – partnership between MDS and MHCG to create MDS Health Research, Inc., which will provide complete health care related market research services (this includes gauging public

acceptance levels for their increasing privatization initiatives)

### **Key Future Strategic Aims for MDS Diagnostics:**

Had its Initial Public Offering (IPO) on the New York Stock Exchange on April 7th, 2001. It was planning it for the previous year, but market conditions and a poor economic showing late in 2000 caused them to delay it.

*From their website, key initiatives for the MDS Health Services segment in 2001 and beyond:*

- Maintain leadership position in laboratory testing in Canada
- Sign new laboratory service joint ventures with US hospital groups
- Leverage laboratory operations to respond to customer needs for specialty testing services and web-based services
- Improve margins in the medical distribution businesses by using value-added services to replace traditional distribution services

### **Major Competitors in Laboratory Services:**

- [Gamma Dynacare](#)
- [Canadian Medical Labs](#)

With MDS, these four control over 90% of the Ontario lab industry. This is something that has infuriated numerous small medical labs; as the Ontario Government imposes a quota system which critics say help the large companies at the expense of the small.

Joseph Kurian, CEO, Alpha Labs: "Competition is impossible, because no matter how well you do, no matter how your services improve, you are not allowed to increase your market share and be paid for it... The big companies like the rules because they guarantee their market share." "The main purpose of the regulation is to eliminate small labs so there will be a monopoly. That's its sole purpose. It's the most undemocratic regulation you can think of." (See "[The great Canadian pig-out: Some of Canada's biggest and most profitable corporations are also our biggest welfare bums](#)", Bruce Livesey, Eye Weekly, November 11th, 1999)

In late 2001, the Ontario Fee Agreement was renegotiated and MDS received a two year agreement increasing their overall level of funding from the Ontario government.

## **3. Political Profile**

**Member of the [Ontario Association of Medical Laboratories](#)** – John Rogers, a top MDS executive is the chair and MDS was one of the original organizers of this group which is a lobby group for the labs which "represents the interests of its members to government, other professions and the public."

**Public-Private Partnerships (P3s)** – public money invested in private companies for discovery funds, biotechnology and biomedical production facilities. This is seen as the future for MDS and the key to future prosperity. One commentator called it 'sharing the losses and keeping the profits.' According to Canadian Business Magazine as reported by Colleen Fuller, 40% of MDS' income in 1997 came from the public purse, much of this through either public/private partnerships or through direct payments for laboratory work. ([Click here for Fuller's article](#)) It is because of this corporate welfare from government that MDS has been able to be one of only two

companies to achieve an average 15%+ compounded growth rate over the past 30 years.

**Alberta Premier's Advisory Council on Health** - This is the advisory council headed by Canada's former Deputy Prime Minister Don Mazankowski (under Brian Mulroney from 1986 to 1993). The January 2002 "Mazankowski report" from the Advisory council pushes for further health care privatization as the means to deal with the currently "unsustainable" health care system. It is reasonable to argue that Mazankowski was chosen by Klein because of his predisposition to private healthcare initiatives. For example, at a meeting with the editorial board of the Edmonton Journal, he had this to say on private ownership of hospitals: "You go into a doctor's clinic, do you ask who owns it? You go for radiology or into a laboratory, do you ask who operates the facility? As long as the standards of service are the same in the public and private, it should make no difference."

**The MDS Connection to the Alberta Premier's Advisory Council** - MDS board member John Evans is on the Advisory Council. Evans is the former World Bank director of Population Health and Nutrition and was President of the University of Toronto. Also on the Advisory council is Dr. Eldon Smith, who is on the Advisory Committee of the Canadian Medical Discovery Fund, the government backed and MDS managed fund that backs private sector health care ventures. (See: "Health Panel Loaded with Like Minds", Ray Martin, Edmonton Sun, August 30th, 2000; as well as the Premier's Advisory Council Website at [www.premiersadvisory.com](http://www.premiersadvisory.com))

**MDS and the Health Resource Group (HRG) – private hospitals in Alberta** - The Health Resource Group (HRG) is the group in Alberta that is most behind the push for private hospitals in Alberta through Bill 11. HRG already operates a private hospital in Calgary and is "poised to cash in on Klein's surgical services privatization plan" according to the Health Employees Union of B.C. MDS owns 37% of the HRG including an investment of \$3 million in the start up costs for the hospital in Calgary. Richard Lockie, a senior VP of MDS Capital, is an HRG board member, as are 2 other MDS executives. ("Health Bill Draws Feverish Debate" Robert Walker, Calgary Herald, March 19th, 2000; "MDS link to private Calgary Hospital will have big Repercussions for the Company in B.C., Health Employees Union, Canada Newswire, December 15th, 1999)

### **Campaign Contributions of MDS to federal and provincial parties**

#### **2000 Federal Election:**

\$12,537 to the Liberals

\$11,950 to the Canadian Alliance

\$4,711 to the Progressive Conservatives

#### **Alberta Progressive Conservatives 1994-1999**

MDS gave \$11,700

Individuals and corporations affiliated with the Health Research Group (HRG) gave \$42,617

*(Campaign contribution information from: Chief Electoral Officers Public records of political campaign contributions; and Briarpatch Magazine, March 2000)*

### **MDS Board Member Donald Rix was appointed to the B.C. PREMIER'S TECHNOLOGY COUNCIL**

Dr. Donald Rix, M.D., is one of the owners and founders and currently the Chairman of the Board of Directors of MDS Metro Laboratory Services, the largest independent community laboratory in BC. (See [PREMIER'S TECHNOLOGY COUNCIL APPOINTED](#), [100MileNews.com](http://100MileNews.com))

**Brian Harling is the Chair of the Canadian government's Medical and Healthcare products and services SAGIT (Sectoral Advisory Group on International Trade)** and also the Vice President corporate Affairs and Government Relations of MDS. The SAGITS were established in 1986 to provide direct, confidential advice from the private sector to the Minister for International

Trade on federal government policy pertaining to trade. There are 13 SAGITS and their memberships are mostly comprised of senior business executives who are appointed to the SAGITS by the minister for International Trade. They meet 3 or 4 times per year for a full or half day session where they provide advice to the government from a private sector perspective and sometimes they are even given confidential material. SAGITS are a clear example of the direct access that big business receives from government, especially on issues of trade policy. [Click here for more information on SAGITS from the Canadian Department of Foreign Affairs and International Trade \(DFAIT\).](#)

## 4. Social Profile

### Labour Relations

#### **AutoLab's effect on labour at MDS and how it was MDS' ticket to getting public money -**

Starting in early 90s, MDS began mass layoff and radical restructuring, including creating an automated lab system (Auto Lab) which was centralized in a few locations.

**Colleen Fuller points out in "Caring for Profit":** "The automated lab system was the companies ticket into, not out of, Canada's tightened public purse. Developed by MDS laboratory employees, the system used equipment manufactured by the AutoMed Corporation, another MDS subsidiary based in Richmond, B.C., and a specimen transportation system provided by Automated Tooling Systems, Inc. (ATS), of Cambridge, Ontario....AutoLab's robotic, computerized lab testing technology had its first trial run at the MDS Lab in Etobicoke, where approximately half the laboratory technologists were laid off, victims of a 300% increase in productivity – an increase of questionable necessity in a market considered to be operating in overdrive...The opening of a new Toronto Medical Laboratory in a 50-50 joint venture with the Toronto Hospital fit nicely with the company's global strategy and was announced with great fanfare despite the sad news that many TTH lab employees would lose their jobs" (from Caring For Profit: How Corporations are Taking Over Canada's Health Care System, Colleen Fuller, New Star Books, 1998)

From 1996, MDS preached the value of greater labour-management flexibility.

For some years, unionized laboratory technologists [in BC, Saskatchewan, and Ontario] ... have been quite concerned about the encroachment of the for profit sector, in particular, MDS, into laboratory testing."

"As a rule, the private labs deal with more routine testing of outpatients leaving the more labour intensive technically demanding [and thus, more costly] work in the hospitals." (From Undoing the Health Care System")

By 1993, 200 laboratory jobs had been cut in Ontario and 200 people were reassigned. Because of this, they created a new department called Organizational Effectiveness which focused on "change" as necessary and positive, designed to make employees feel that the decision to downsize was a company wide decision, including those downsized.

According to Fuller, replacement of trained laboratory technologists with less skilled technicians was commonplace.

Private labs strongly anti-union, and MDS is no exception. They try to split union relations from staff relations through setting up 'teamwork' groups such as the Laboratory Operations Team, which act as a 'buffer' and feign staff participation. Big decisions are made in advance of consultation in many cases, such as decisions to have huge staff layoffs. (from Caring For Profit: How Corporations are Taking Over Canada's Health Care System, Colleen Fuller, New Star

Books, 1998)

**MDS' Victoria privatization plans halted** - The privatization campaign for labs in Victoria, B.C. was stopped by a campaign of Hospital Employees Union (HEU) members in the region. The plan was for a joint venture between Victoria's Capital Health region and MDS. ("Lab giant thwarted in Victoria", Stephen Howard, February 2000, [HEU website](#).)

**1998** - MDS Nordion, a company in MDS' Life Sciences division, has been given the right to import 30 kilograms of highly enriched uranium from the US for use in radio pharmaceutical isotopes for detecting cancer and other medical problems. MDS has about 70% of this global market. Two nuclear reactors have been built to accommodate the shipment.

## 5. Stakeholders Profile

**Ontario Teachers Pension Board** - Has a large share of its pension funds in MDS. They targeted MDS (and others, such as Nortel Networks) to adopt stock option plans that are based on how well a company performs and to not allow dilution of total shares through way over the top options to managers.

### Major Partners in the lab business:

- MDS to manage the Duke University Health System clinical laboratories including those at Duke University Hospital (as noted in 'Transactions' above.)
- First Hospital Venture 1996: Joint venture with to non-profit hospitals in New York's Hudson River Valley.
- Partnership with Columbia/HCA (now The Healthcare Company) to install their Auto Lab system into in 14 Columbia hospitals in Georgia and 12 hospitals in Florida.
- 50-50 Partnership with The Toronto Hospital to build a Lab.
- Agreement with the Calgary Regional Health Authority to manage all hospital and private sector lab services in the region.

**To get a sense of why MDS is building so many joint ventures with US Hospitals and how they see this helping their Canadian privatization efforts, here is MDS Vice President Robert Brecken on MDS' expansion into the Hudson Valley (New York):** "...we see the United States...as a leading indicator of some of the changes to health care in Canada, particularly in laboratory and hospital operations. Thus, working within the United States provides us with the experience and knowledge on new developments that we can carry into Canada." (from *Caring For Profit: How Corporations are Taking Over Canada's Health Care System*, Colleen Fuller, New Star Books, 1998)

## Quotations

**From a March 2000 letter from MDS' Brian Harling to Canada's International Trade Minister Pierre Pettigrew:** "The SAGIT is supportive of any opportunities for Canadians to increase their ability to offer their services internationally. Members cautioned that there would be a price to pay, i.e., granting similar opportunities to foreigners."

*N.B. - Harling is the Chair of the Canadian government's Medical and Healthcare products and*

*services SAGIT (Sectoral Advisory Group on International Trade) and Vice President corporate Affairs and Government Relations of MDS. (This quote is found in the book Reckless Abandon: Canada, the GATS, and the Future of Health Care, Matthew Sanger, Canadian Centre for Policy Alternatives, 2001)*

**An unnamed analyst, on health care privatization:** “Swift growth of companies such as DC Diagnosticare, Med-Chem Health Care and MDS is indicative of the broadening acceptance [of for-profit health care] I think with the emphasis on containment, governments will be looking for the biggest bang for their buck. (Financial Post, June 9th, 2000)

**Alan Torrie, president of the laboratory services division of MDS, on ‘public-private partnerships’:** “We need to develop mutual trust between governments, the private sector, and the public... The public’s mistrust is helping to preserve barriers (between the two sectors) Some of that is well founded, some is ideologically based, and some continues because of a lack of evidence and data.” (Medical Post June 16, 1998)

**From Canadian Business Magazine, on MDS’s push into supporting pharmaceutical companies create new products:** This includes “the earliest chemical analysis stages through to final after market research and specialized testing—a multi-billion dollar process full of staggering waste and rich possibilities”

**Ron Mullahey, President of Vassar Brothers Hospital, a US private for profit partner of MDS’s:** “You cannot really run a tax-exempt [non-profit] company in a for-profit environment” (Colleen Fuller writes that this is ‘a fair warning to those in Canada who supported an expansion of private sector involvement in health-care delivery as a way to ease the burden on the country’s single-payer, non-profit system)

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