

LABORATORY CORP OF AMERICA HOLDINGS

Form 8-K

October 23, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934

October 23, 2003

-----  
(Date of earliest event reported)

LABORATORY CORPORATION OF AMERICA HOLDINGS

-----  
(Exact name of registrant as specified in its charter)

|  |                             |  |
|--|-----------------------------|--|
| DELAWARE   | 1-11353                     | 13-3757370                                 |
| -----  | -----                       | -----                                      |
| (State or Other<br>Jurisdiction of<br>Incorporation) | (Commission<br>File Number) | (IRS Employer<br>Identification<br>Number) |

358 SOUTH MAIN STREET, BURLINGTON, NORTH CAROLINA 27215

-----  
(Address of principal executive offices)

336-229-1127

-----  
(Registrant's telephone number, including area code)

ITEM 12. Regulation FD Disclosure.

Summary information of the Company dated October 23, 2003.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange  
Act of 1934, the registrant has duly caused this report to  
be signed on its behalf by the undersigned hereunto duly  
authorized.

LABORATORY CORPORATION OF AMERICA HOLDINGS

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(Registrant)

By: /s/ BRADFORD T. SMITH

-----  
Bradford T. Smith

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Executive Vice President  
and Secretary

Date: October 23, 2003

This information contains forward-looking statements which are subject to change based on various important factors, including without limitation, competitive actions in the marketplace and adverse actions of governmental and other third-party payors. Actual results could differ materially from those suggested by these forward-looking statements. Further information on potential factors that could affect the Company's financial results is included in the Company's Form 10-K for the year ended December 31, 2002 and subsequent filings.

## LabCorp's Investment and Performance Fundamentals

- Significant Cash Generator
- EBITDA Percentage of Sales: 24.3% through September 30, 2003
- Strong Balance Sheet
- Investment Grade Credit Ratings

## The Clinical Laboratory Testing Market

US Clinical Laboratory testing market is \$34-\$36 billion

- Represents 3% - 4% of all health care spending
- Grew at a CAGR of 5.5% from 1998-2001
- Influences/directs approximately 80% of health care spending
- Role and importance of testing are increasing
- Rapidly evolving technology, emphasis on preventative medicine and aging of population are all driving growth

## CLINICAL LABORATORY TESTING

|                           |     |
|---------------------------|-----|
| Hospitals                 | 49% |
| Independent Clinical Labs | 39% |
| Physician Offices         | 12% |

## INDEPENDENT CLINICAL LABORATORIES

|            |     |
|------------|-----|
| All others | 82% |
| LabCorp    | 18% |

Source: Company estimates, industry reports & 2002 revenue for LabCorp and Dynacare

## Profile of LabCorp

- Second-largest clinical laboratory company in North America and the leader in the specialty testing market
- Offers more than 4,000 routine and specialty tests and conducts testing on more than 340,000 specimens daily
- Serves more than 200,000 physicians and other health care providers
- Approximately 24,000 employees nationwide

## MAP OF PRIMARY TESTING LOCATIONS & PSC's

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### LabCorp's Strategy

Be a national core laboratory servicing all geographic areas, and the leading esoteric, genomic testing laboratory in North America

### Strategic Approach

- 1) CORE TESTING
  - Managed Care
  - Selected Internal Expansion
  - Acquisitions (Dynacare)
  
- 2) GENOMIC/ESOTERIC
  - Internal Development
  - Acquisitions (DIANON)
  - Licensing

### Demonstrated Genomic and Esoteric Strategy Execution

| INTERNAL  | ACQUISITION  | LICENSE/PARTNER   |
|---|--|---|
| CMBP<br>- Cancer<br>- Genetics (Cystic Fibrosis)<br>- Infectious Disease (GENOSURE) | NGI<br>- Infectious Disease: Hepatitis C<br>- PCR Plasma                     | MYRIAD GENETICS<br>Predictive Tests:<br>- Breast/Ovarian and Colon Cancer<br>- Melanoma<br>- Hypertension                 |
| CLINICAL TRIALS<br>- Drug Metabolism  | VIROMED<br>- Infectious Disease: HIV, Hepatitis West Nile<br>- Real-time PCR | CORRELOGIC SYSTEMS<br>- Ovarian Cancer<br><br>CELERA DIAGNOSTICS<br>- Breast and Prostate Cancer<br>- Alzheimer's Disease |
|   | PATH LABS<br>- Hospital Esoteric   | EXACT SCIENCES<br>- Colorectal Cancer   |
|   | DIANON<br>- Cancer/Anatomic Pathology  | ATHEROTECH<br>- VAP Cholesterol   |
|   |  | BIOPREDICTIVE<br>- Liver Fibrosis   |

### Third Quarter Operating Results (\$ in millions)

|                   | 9/30/02 | 9/30/03 |
|-------------------|---------|---------|
| Revenue           | 655.2   | 752.0   |
| Operating Expense | 541.5   | 613.3   |
| Operating Income  | 113.7   | 138.7   |
| Margin            | 17.4%   | 18.4%   |
| EBITDA            | 145.9   | 183.9   |

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|                       | -----<br>22.3% | -----<br>24.5% |
|-----------------------|----------------|----------------|
| Margin                |                |                |
| Bad Debt % to revenue | 8.4%           | 7.0%           |
| DSO                   | 56             | 53             |

- 1) Q3 '03 and '02 results above exclude restructuring and other one-time charges relating to the Company's integration of its DIANON and Dynacare acquisitions.
  
- 2) For definition of EBITDA and a reconciliation to the most comparable measure under Generally Accepted Accounting Principles, see Company's 3rd Quarter 2003 earnings release furnished on Form 8-K on October 23, 2003.

### 2003 Third Quarter Financial Achievements

- Increased revenues 14.8% (volume approximately 9.3%; price approximately 5.5%)
- EBITDA margins of 24.5%
- Diluted EPS of \$0.59\*
- Operating cash flow of \$161.9 million
- Repurchased approximately \$63 million of LabCorp stock
- Paid down \$60 million in debt

\* Before restructuring and other one-time charges

### Key Third Quarter Highlights

- Genomic testing revenues increased approx. 40% period-over-period, driven primarily by strong volume growth
- Overall pricing continues to increase, driven by both increased PPA in core and esoteric areas and by continuing mix shift to higher-priced esoteric tests

### Nine-Month Operating Results (\$ in millions)

|                       | YTD<br>9/30/02<br>----- | YTD<br>9/30/03<br>----- |
|-----------------------|-------------------------|-------------------------|
| Revenue               | 1,857.6                 | 2,207.9                 |
| Operating Expense     | 1,493.4                 | 1,801.6                 |
| Operating Income      | 364.2                   | 406.3                   |
| Margin                | 19.6%                   | 18.4%                   |
| EBITDA                | 439.9                   | 537.0                   |
| Margin                | 23.7%                   | 24.3%                   |
| Bad Debt % to revenue | 8.6%                    | 7.5%                    |
| DSO                   | 56                      | 53                      |

- 1) YTD '03 and '02 results above exclude restructuring and other one-time charges relating to the Company's integration of its DIANON and Dynacare acquisitions.

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- 2) For definition of EBITDA and a reconciliation to the most comparable measure under Generally Accepted Accounting Principles, see Company's 3rd Quarter 2003 earnings release furnished on Form 8-K on October 23, 2003.

### 2003 Nine-Month Financial Achievements

- Increased revenues 18.9% (volume approximately 13.2%; price approximately 5.7%)
- EBITDA margin of 24.3%
- Diluted EPS of \$1.69\*
- Operating cash flow of \$420.1 million
- Repurchased approximately \$150 million of LabCorp stock
- Paid down \$225 million in debt

\* Before restructuring and other special charges

### Financial Performance

Price & Volumes: Trends by Payor Type

|                     | 2001    |            | 2002    |            | YTD SEPT 2003 |            |
|---------------------|---------|------------|---------|------------|---------------|------------|
|                     | PPA     | Accessions | PPA     | Accessions | PPA           | Accessions |
|                     | \$      | millions   | \$      | millions   | \$            | millions   |
| Client (Physicians) | 24.46   | 27.9       | 26.27   | 29.6       | 27.22         | 24.1       |
| Patient             | 111.28  | 2.5        | 119.93  | 2.3        | 116.53        | 1.9        |
| Third Party         | 31.59   | 12.2       | 31.87   | 14.8       | 34.62         | 13.5       |
| (MC/MD/Insurance)   |         |            |         |            |               |            |
| Managed Care        |         |            |         |            |               |            |
| - Capitated         | 8.90    | 11.9       | 9.28    | 13.1       | 9.82          | 9.8        |
| - Fee for service   | 43.45   | 17.2       | 44.79   | 19.3       | 45.67         | 16.7       |
| Total               | 29.27   | 29.1       | 30.45   | 32.4       | 32.48         | 26.5       |
| LabCorp Total       | \$30.69 | 71.7       | \$31.71 | 79.1       | \$33.43       | 66.0       |

### Financial Performance

Revenue Analysis by Business Area

|                          | YTD SEPT 2002        |              |                    |           |
|--------------------------|----------------------|--------------|--------------------|-----------|
|                          | Revenue<br>\$Million | Accns<br>000 | %Accns<br>to total | PPA<br>\$ |
| Genomic                  | 148.8                | 1,304.0      | 2.2%               | 114.13    |
| Identity/Gene<br>Probes  | 96.4                 | 2,389.3      | 4.1%               | 40.36     |
| All Genomic              | 245.2                | 3,693.3      | 6.3%               | 66.40     |
| Other Esoteric           | 183.2                | 4,434.1      | 7.6%               | 41.32     |
| Histology                | 71.4                 | 1,114.3      | 1.9%               | 64.04     |
| All Genomic/<br>Esoteric | 499.8                | 9,241.7      | 15.8%              | 54.08     |

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|        |         |          |        |       |
|--------|---------|----------|--------|-------|
| Core   | 1,357.8 | 49,337.2 | 84.2%  | 27.52 |
| Total: | 1,857.6 | 58,578.9 | 100.0% | 31.71 |

|                          | YTD SEPT 2003        |              |                    |           | 03 vs 02               |
|--------------------------|----------------------|--------------|--------------------|-----------|------------------------|
|                          | Revenue<br>\$Million | Accns<br>000 | %Accns<br>to total | PPA<br>\$ | PPA<br>Incr/<br>(Decr) |
| Genomic                  | 213.6                | 1,733.8      | 2.6%               | 123.21    | 8.0%                   |
| Identity/Gene<br>Probes  | 114.4                | 2,628.0      | 4.0%               | 43.52     | 7.8%                   |
| All Genomic              | 328.0                | 4,361.8      | 6.6%               | 75.20     | 13.2%                  |
| Other Esoteric           | 188.4                | 4,615.7      | 7.0%               | 40.81     | (1.2)%                 |
| Histology                | 148.4                | 1,619.0      | 2.4%               | 91.67     | 43.1%                  |
| All Genomic/<br>Esoteric | 664.8                | 10,596.5     | 16.0%              | 62.74     | 16.0%                  |
| Core                     | 1,543.1              | 55,451.4     | 84.0%              | 27.83     | 1.1%                   |
| Total:                   | 2,207.9              | 66,047.9     | 100.0%             | 33.43     | 5.4%                   |

Cash Investment Strategy

- Investment Strategy Should Match Strategic Plan
- Priority #1 - Strengthen Core Business
  - Standardize lab/billing IT systems
  - State-of-the-art analyzers (chemistry, hematology, sequencers)
  - Pursue selected acquisitions (i.e. Dynacare)
- Priority #2 - Invest in Appropriate Acquisitions as well as Genomic/Esoteric and Anatomic Pathology Growth
  - NGI, ViroMed, DIANON
  - EXACT, Myriad, Correlomics
  - DIANIZING LabCorp
- Priority #3 - Share Repurchases
  - Consider Dividends

Financial Guidance for 2003

- Revenue growth of approximately 18 to 19% compared to 2002
- EBITDA margins of approximately 24% of sales
- EPS in the range of \$2.20 to \$2.25
- Free cash flow of approximately \$400 to \$420 million (net of Cap Ex of approximately \$90 million)
- Bad debt rate of 7.0% for the second half of 2003
- Net interest expense of approximately \$35 million

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### Preliminary Financial Guidance for 2004

- Revenue growth of approximately 4% to 7% compared to 2003
- EPS growth in the range of 11% to 15%\*

\* Compared to the current First Call 2003 consensus EPS estimate of \$2.22 as reported by Thomson Financial

### Opportunity for Investors

- Long-term industry trends appear favorable
- Visible growth drivers
- Low P/E relative to market valuations
- Significant free cash flow - multiple opportunities to increase shareholder value
- Strong balance sheet - Investment Grade ratings (S&P, Moody's)
- Solid growth potential driven by genomic strategy

### Other Financial Information

September 30, 2003

(\$ in millions)

|  | Q1 03       | Q2 03       | Q3 03       |
|--|-------------|-------------|-------------|
|  | -----       | -----       | -----       |
| Depreciation   | \$ 21,873.0 | \$ 22,778.0 | \$ 23,464.0 |
| Amortization   | \$ 8,464.0  | \$ 9,512.0  | \$ 9,552.0  |
| Capital expenditures   | \$ 16,164.0 | \$ 21,250.0 | \$ 23,055.0 |
| Cash flows from operations                                   | \$135,017.0 | \$123,169.0 | \$161,894.0 |
| Bad debt as a percentage of sales                            | 8.00%       | 7.44%       | 7.01%       |
| Effective interest rate on debt:                             |             |             |             |
| Zero coupon-subordinated notes                               | 2.00%       | 2.00%       | 2.00%       |
| 5 1/2% Senior Notes (including effect of interest rate swap) | 3.98%       | 4.07%       | 5.38%       |
| Revolving credit facility                                    | 2.14%       | 1.86%       | 1.95%       |
| Days sales outstanding                                       | 55          | 54          | 53          |

|  | YTD         |
|--|-------------|
|  | Sept 03     |
|  | -----       |
| Depreciation   | \$ 68,115.0 |
| Amortization   | \$ 27,528.0 |
| Capital expenditures   | \$ 60,469.0 |
| Cash flows from operations                                   | \$420,080.0 |
| Bad debt as a percentage of sales                            | 7.46%       |
| Effective interest rate on debt:                             |             |
| Zero coupon-subordinated notes                               | 2.00%       |
| 5 1/2% Senior Notes (including effect of interest rate swap) | 5.38%       |
| Revolving credit facility                                    | 1.95%       |
| Days sales outstanding                                       | 53          |

