

LABORATORY CORP OF AMERICA HOLDINGS

Form 8-K

October 22, 2001

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 22, 2001

(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 jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification 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 9. Regulation FD Disclosure.

Summary information of the Company dated October 22, 2001.

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

(Registrant)

By /s/ BRADFORD T. SMITH

Bradford T. Smith
Executive Vice President,
General Counsel, Secretary
and Compliance Officer

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Date: October 22, 2001

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, 2000 and subsequent filings.

Profile of LabCorp

- Nationwide network of 24 primary testing locations and 900 patient service centers
- Conducts tests on 280,000 specimens daily
- Offers more than 4,000 test procedures
- Serves over 200,000 physicians and other health care providers
- More than 19,000 employees nationwide

The Clinical Laboratory Testing Market

US market is approximately \$32-34 billion

| CLINICAL LABORATORY TESTING | | INDEPENDENT CLINICAL LABORATORIES | |
|-----------------------------|-----|-----------------------------------|-----|
| Hospitals | 49% | All others | 85% |
| Independent Clinical Labs | 39% | LabCorp(\$1.919b) | 15% |
| Physician Offices | 12% | | |

Source: Company estimates, industry reports & 2000YE revenue for LabCorp

2001 Strategic Goals

- Maintain national coverage for all key customers
- Expand upon leading position in genomic testing
- Evaluate appropriate acquisition candidates
- Continue to move to single billing system

Genomic Strategy

Utilize DNA testing leadership to execute genomic leadership strategy

- Targeted introduction of new tests
- Acquire innovative technology
- License/Partner to expand menu

Genomic Strategy (Update)

| INTERNAL | ACQUISITION | LICENSE/PARTNER |
|------------|----------------------|--------------------|
| ----- | ----- | ----- |
| CMBP: | NGI: | VIRCO: |
| - Cancer | - Infectious Disease | - HIV Genotyping & |
| - Genetics | Hepatitis C | Phenotyping |

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| | | |
|--|---|--|
| - Infectious Disease (GENOSURE) | - Cancer: Melanoma Breast | VIROLOGICS: - HIV Phenotyping |
| CLINICAL TRIALS: - Drug metabolism | VIRO-MED: - Infectious Disease HIV Hepatitis | EXACT SCIENCES: - Colorectal Cancer |
| POSITIVE OUTCOMES: (being tested) | - Extra Capacity - Real-time PCR | ALPHA: - PCR Plasma |
| CENTER FOR GENETIC SERVICES: - Expanded Genetics Capabilities in Southwest | | |

Financial Performance

Price & Volumes: Trends by Payor Type

| | 1999 | | 2000 | | YTD SEPT 2001 | |
|----------------------------------|----------------|------------------------|----------------|------------------------|------------------|------------------------|
| | PPA \$ | Accessions millions | PPA \$ | Accessions millions | PPA \$ | Accessions millions |
| Client (Physicians) | 21.67 | 27.0 | 22.70 | 27.1 | 23.90 | 21.1 |
| Patient | 92.56 | 2.3 | 102.87 | 2.2 | 111.57 | 1.9 |
| Third Party (MC/MD/Insurance) | 27.75 | 11.7 | 29.80 | 10.3 | 32.37 | 8.8 |
| Managed Care | | | | | | |
| - Capitated | 9.37 | 8.4 | 8.89 | 10.6 | 8.90 | 8.9 |
| - Fee for service | 39.28 | 12.7 | 42.32 | 16.0 | 43.24 | 12.8 |
| Total | 27.41 | 21.1 | 28.97 | 26.6 | 29.15 | 21.7 |
| LabCorp Total | \$27.35 | 62.1 | \$28.98 | 66.2 | \$30.56 | 53.5 |

Financial Performance

Revenue Analysis by Business Area

| | YTD SEPT 2000 | | | |
|--------------------------------|----------------------|-----------------|--------------------|--------------|
| | Revenue \$Million | Accns 000 | %Accns to total | PPA \$ |
| Esoteric: | | | | |
| Genomic (CMBP/NGI) | 94.6 | 858.5 | 1.7% | 110.24 |
| Other Esoteric (Powell CET) | 134.9 | 3,000.4 | 6.0% | 44.98 |
| Core: | 1,203.8 | 46,181.4 | 92.3% | 26.06 |
| Total: | 1,433.3 | 50,040.3 | 100.0% | 28.64 |

Financial Performance

Revenue Analysis by Business Area

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| | YTD SEPT 2001 | | | 00 vs 01 | |
|--------------------------------|---------------|----------|----------|----------|-----------------|
| | Revenue | Accns | %Accns | PPA | PPA |
| | \$Million | 000 | to total | \$ | Incr/ (Decr) |
| | ----- | ----- | ----- | ----- | ----- |
| Esoteric: | | | | | |
| Genomic (CMBP/NGI) | 123.3 | 1,029.9 | 1.9% | 119.71 | 8.6% |
| Other Esoteric (Powell CET) | 146.9 | 3,470.1 | 6.5% | 42.34 | (5.9)% |
| Core: | 1,365.8 | 49,036.3 | 91.6% | 27.85 | 6.9% |
| | ----- | ----- | ----- | ----- | ----- |
| Total: | 1,636.0 | 53,536.3 | 100.0% | 30.56 | 6.7% |
| | ===== | ===== | ===== | ===== | ===== |

Third Quarter Operating Results

| | 09/30/00 | 09/30/01 |
|-----------------------|----------|----------|
| | ----- | ----- |
| Revenue | 488.1 | 560.9 |
| Operating Expense | 418.8 | 460.6 |
| | ----- | ----- |
| Operating Income | 69.3 | 100.3 |
| | ===== | ===== |
| Margin | 14.2% | 17.9% |
| EBITDA | 92.1 | 125.4 |
| | ===== | ===== |
| Margin | 18.9% | 22.3% |
| Bad Debt % to revenue | 10.2% | 9.0% |
| DSO | 70 | 62 |

2001 Third Quarter Financial Achievements

- Increased revenues 14.9% (volume 8.6%; price 6.3%)
- Increased EBITDA 36.1%
- Increased diluted EPS 55.3%*
- Repaid \$412.5 million in outstanding bank debt with proceeds from the issuance of zero coupon convertible subordinated notes

* Before extraordinary item and one-time charge for early extinguishment of debt

Nine Month Operating Results

| | YTD 9/00 | YTD 9/01 |
|-------------------|----------|----------|
| | ----- | ----- |
| Revenue | 1,433.3 | 1,636.0 |
| Operating Expense | 1,235.4 | 1,345.8 |
| | ----- | ----- |
| Operating Income | 198.0 | 290.2 |
| | ===== | ===== |
| Margin | 13.8% | 17.7% |
| EBITDA | 263.5 | 363.8 |
| | ===== | ===== |
| Margin | 18.4% | 22.2% |

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| | | |
|-----------------------|-------|------|
| Bad Debt % to revenue | 10.2% | 9.4% |
| DSO | 70 | 62 |

2001 YTD Accomplishments

- Acquired Path Lab in New England
- Acquired Viro-Med in Minneapolis
- Completed two-for-one stock split
- Successful offering of 12.0 million Roche-owned shares
- New managed care agreement with MAMSI
- Entered strategic partnership with EXACT Sciences
- Entered strategic partnership with Alpa Therapeutic Corporation for plasma testing
- First FDA approved HIV and Hepatitis C molecular tests for Plasma Screening ("virtual kits")

2001 Nine Month Financial Achievements

- Increased revenues 14.2% (volume 7.2%; price 7.0%)
- Increased EBITDA 38.1%
- Increased diluted EPS 57.1%*
- DSO decline of 6 days from December 2000
- Repaid all outstanding bank debt with \$500 million raised by issuance of convertible subordinated notes

* Before extraordinary item and one-time charge for early extinguishment of debt

Quarterly DSO Trend

DSO Trend December '97 through September '01

| | | | |
|----------------|-----------|----------------|-----------|
| December 1997 | - 79 days | June 2000 | - 70 days |
| December 1998 | - 83 days | September 2000 | - 70 days |
| March 1999 | - 83 days | December 2000 | - 68 days |
| June 1999 | - 79 days | March 2001 | - 67 days |
| September 1999 | - 76 days | June 2001 | - 64 days |
| December 1999 | - 74 days | September 2001 | - 62 days |
| March 2000 | - 72 days | | |

Financial Goals for 2001

- Increase overall revenues by approximately 13.5% compared to 2000
- Bad debt rate of 9.0% of sales in fourth quarter
- EBITDA margins of approximately 21% of sales
- EPS growth of approximately 55% compared to 2000
- Lower DSO to the mid 60's range

Financial Goals for 2002

- Increase overall revenues by approximately 12% compared to 2001
- Bad debt rate of 9.0% of sales
- EPS growth of approximately 33% compared to 2001 under existing accounting rules
- Lower DSO to the 60 day range
- Nonamortization of goodwill impact of \$26 million, with increase in diluted EPS of approximately \$0.36

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Opportunity for Investors

- A proven strategy for growth
- LabCorp is a pioneer in identifying and commercializing innovative technologies-the first to fully embrace molecular diagnostics
- LabCorp's national infrastructure connects large scale proficiency with wide scale technological expertise
- New advances in scientific research will generate growth and demand for molecular testing
- Strong balance sheet

Other Financial Information

September 30, 2001

(\$ in millions, except per share amounts)

| | Q1 01 | Q2 01 | Q3 01 |
|--|---------|---------|---------|
| | ----- | ----- | ----- |
| Depreciation | \$13.8 | \$14.6 | \$ 15.3 |
| Amortization | \$ 9.2 | \$10.9 | \$ 9.1 |
| Goodwill amortization | \$ 6.0 | \$ 7.8 | \$ 6.6 |
| Diluted EPS before goodwill amortization | \$ 0.70 | \$ 0.84 | \$ 0.82 |
| Capital expenditures | \$12.7 | \$20.9 | \$ 25.4 |
| Cash flows from operations | \$64.5 | \$74.2 | \$113.7 |
| Bad debt as a percentage of sales | 9.70% | 9.40% | 9.00% |
| Effective interest rate on debt | 5.77% | 5.67% | 2.00% |
| Days sales outstanding | 67 | 64 | 62 |

Other Financial Information

September 30, 2001

(\$ in millions, except per share amounts)

| | YTD |
|--|---------|
| | Sept 01 |
| | ----- |
| Depreciation | \$ 43.7 |
| Amortization | \$ 29.9 |
| Goodwill amortization | \$ 20.4 |
| Diluted EPS before goodwill amortization | \$ 2.36 |
| Capital expenditures | \$ 59.0 |
| Cash flows from operations | \$252.4 |
| Bad debt as a percentage of sales | 9.36% |
| Effective interest rate on debt | N/A |
| Days sales outstanding | 62 |