

LabCorp

First Look: 4Q'23 in-line; FY24 adj. EPS guidance 3% above Street at midpoint

Reiterate Rating: BUY | PO: 240.00 USD | Price: 228.11 USD

4Q sales & Adj EPS roughly in line

LabCorp's (LH) 4Q'23 total revenues of \$3.03bn were roughly in line with expectations, as the Lab segment (LCD) came in ~1.5% ahead of Street, while Biopharma Laboratory Services were ~2% below consensus. COVID-19 testing revenues negatively impacted consolidated sales by -3.5%, implying ~\$37mn contribution (versus BofAe \$18mn), M&A contributed +1.4%, and FX contributed +0.7%, and so the business grew organically +1.5% y/y in 4Q (base business organically grew +5% y/y). Within LCD sales of \$2.35bn, organic volume was up +0.3% (versus BofAe -0.4%), with a -2.6% impact from COVID-19 testing, while base volume was up +3.0%. Biopharma sales were \$695mn, with the ending backlog up +5%. Adj EPS were \$3.30 vs. BofAe/Street \$3.28/3.26.

Exhibit 1: Overview of LH's 4Q23 performance

Better-than-expected LCD performance offset lower Biopharma sales

	Actual	BofA est	Street est
Revenues (\$mn)	\$3,033	\$3,032	\$3,017
Labcorp Diagnostics (LCD)	\$2,347	\$2,326	\$2,313
Biopharma Laboratory Services	\$695	\$713	\$710
Gross Margin	27.1%	28.7%	27.5%
Adj. operating margin	13.0%	13.6%	13.7%
Adj. EPS	\$3.30	\$3.28	\$3.26

Source: Company filings, BofA Global Research, Bloomberg, Visible Alpha

BofA GLOBAL RESEARCH

Solid FY'24 guide on good LCD base growth of 4%

FY'24 guidance calls for total sales in the range of \$12.73-12.95bn (\$12.84bn at midpt) vs. BofAe/Street of \$12.60/12.50bn. This assumes LCD sales of \$9.72-9.87bn (or \$9.79bn, +4.0% at midpt) vs BofAe \$9.70/9.62bn (+3.2/2.7%) and Biopharma sales of \$2.93-2.98bn (or \$2.96bn, +6.5% at midpt, with a +2.2% benefit from favorable F/X) vs. BofAe/Street of \$2.92/2.93bn (+4.7/5.2%). This flows down to an adj EPS range of \$14.30-15.40 (\$14.85 at midpt) versus BofAe/Street of \$14.55/14.41.

Conference call at 9:00am ET

Overall, LH delivered a solid quarter. LH is due to hold a 9:00am ET conference call, where our focus will be on the underlying assumptions for 2024 (especially margins), LCD trends, updates on roll-off of COVID-19 testing, and various Biopharma headwinds (e.g., non-human primate supply constraints). We maintain our Buy rating as we believe that the Fortrea spin-off helps clarify the LH story, lab trends are positive, and the company's business is less impacted by macro trends than much of our coverage universe.

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Stock Data

Price	228.11 USD
Price Objective	240.00 USD
Date Established	12-Dec-2023
Investment Opinion	B-1-7
52-Week Range	179.58 USD - 234.09 USD
Mrkt Val (mn) / Shares Out (mn)	19,367 USD / 84.9
Free Float	99.7%
Average Daily Value (mn)	147.79 USD
BofA Ticker / Exchange	LH / NYS
Bloomberg / Reuters	LH US / LH.N
ROE (2023E)	11.8%
Net Dbt to Eqty (Dec-2022A)	51.3%
ESGMeter™	High

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CRO: Clinical Research Organization

LCD: LabCorp Diagnostics

Price objective basis & risk

LabCorp (LH)

Our \$240 PO is based on a multiple of about 11x 2024E EBITDA for the overall business. This multiple is in-line with that of its closest US clinical lab peer which we think is fair given similar growth prospects.

Downside risks to our PO are greater-than-expected pricing headwinds, lower-than-expected test volume growth, market challenges related to COVID-19, headwinds from higher US unemployment, higher corporate tax rates, slower-than-expected rebound in clinical trials, competition, integration risk, data privacy risk, and regulatory risk.

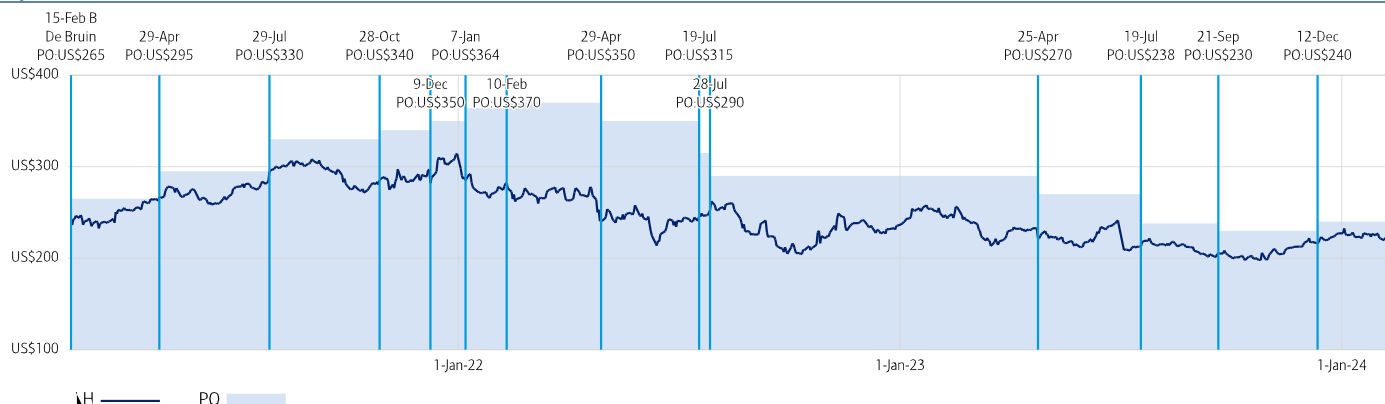
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LabCorp (LH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Underperform	N/A	≥ 20%

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