

LabCorp

LCD and Central Lab progressing, but still waiting for ED to turnaround

Reiterate Rating: BUY | PO: 240.00 USD | Price: 222.13 USD

In-line 4Q23 & solid initial FY24 guide

LabCorp (LH) posted largely in-line 4Q results, with sales of \$3.03bn and Adj EPS of \$3.30. LH initiated FY24 guidance which topped expectations, including sales of \$12.84bn at midpoint vs BofAe/Street at \$12.6/12.5bn, and Adj EPS of \$14.85 at midpoint vs BofAe/Street at \$14.55/14.41. See our earlier [First Link](#) note for detail.

Both LCD and Biopharma expected to grow in FY24

Diagnostics segment (LCD) sees favorable pricing environment with flat unit prices in FY24. As such, much of the volume comes from base business growth, more than offsetting \$130mn drop-off in COVID-related sales (vs prior \$120mn) as well as a bad January weather hit of \$25mn to sales. In Biopharma, Central Lab is expected to sequentially grow throughout FY24, while Early Development (ED) is expected to ramp in 2H after cancellations normalize.

Segment margins expand, but ED business still challenged

Much of the call focused on recovery of the Biopharma segment and margin progression in FY24. Mgmt. continues to target acquiring medium-sized clients with more stability for ED business. In the meantime, cancellations remain elevated, as smaller biotech clients face a challenging funding environment and higher non-human primate (NHP) prices. For LH, NHP prices are largely a pass-through, and so a decline in pricing should not significantly impact the segment margins. Mgmt. noted that win rates and request for proposals are solid, pointing to cancellations as the main factor to watch out for. Quarterly book-to-bill (B2B) was 1.26x, trailing-twelve-month B2B was 1.04x. In LCD, hospital partnership deals announced in FY23 and incremental \$100-125mn cost reduction (e.g. LaunchPad initiative) as well as volume growth are expected to more than offset January weather impact (10-15c adj. EPS impact), labor inflation of 3-4%, and reduced COVID sales. Also, Medicare reimbursement cuts (Protecting Access to Medicare Act/PAMA) are delayed at least till FY25. As such, each LCD and Biopharma segment is each expected to see margin expansion, as well as at the enterprise level.

Update estimates, reiterate Buy, PO remains \$240

We update our estimates on solid 4Q results and FY24 guidance. Overall, the core lab business is improving, valuation is not challenging and the Fortrea spin-off simplifies the story, but Biopharma still needs work. We reiterate our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	19.89	13.55	14.80	16.27	17.77
EPS Change (YoY)	-30.2%	-31.9%	9.2%	9.9%	9.2%
Consensus EPS (Bloomberg)			14.63	15.90	17.50
DPS	2.16	2.88	2.99	3.14	3.29
Valuation (Dec)					
P/E	11.2x	16.4x	15.0x	13.7x	12.5x
Dividend Yield	1.0%	1.3%	1.3%	1.4%	1.5%
EV / EBITDA*	9.1x	12.8x	11.9x	11.0x	10.2x
Free Cash Flow Yield*	7.8%	4.6%	6.1%	6.3%	7.0%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 16 February 2024 01:18AM EST

16 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	12,595.3	12,760.0
2025E Rev (m)	13,180.0	13,360.0
2026E Rev (m)	NA	13,980.0
2024E EPS	14.55	14.80
2025E EPS	15.85	16.27
2026E EPS	NA	17.77
2024E DPS	3.02	2.99

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Stock Data

Price	222.13 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)	18,859 USD / 84.9
Free Float	99.7%
Average Daily Value (mn)	146.07 USD
BofA Ticker / Exchange	LH / NYS
Bloomberg / Reuters	LH US / LH.N
ROE (2024E)	15.0%
Net Dbt to Eqty (Dec-2023A)	60.4%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM LabCorp

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.1%	8.2%	9.3%	9.3%	9.2%
Return on Equity	18.0%	13.2%	15.0%	14.7%	14.3%
Operating Margin	17.1%	14.1%	14.5%	15.2%	15.8%
Free Cash Flow	1,474	861	1,144	1,197	1,321

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.1x	1.3x	1.2x	1.2x
Asset Replacement Ratio	0.8x	0.8x	0.7x	0.7x	0.7x
Tax Rate	23.2%	22.4%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	51.3%	60.4%	50.0%	41.1%	32.8%
Interest Cover	14.1x	8.6x	8.8x	9.2x	10.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	14,877	12,162	12,760	13,360	13,980
% Change	-7.7%	-18.3%	4.9%	4.7%	4.6%
Gross Profit	4,385	3,484	3,557	3,788	4,021
% Change	-22.0%	-20.5%	2.1%	6.5%	6.1%
EBITDA	2,933	2,086	2,230	2,432	2,622
% Change	-30.8%	-28.9%	6.9%	9.1%	7.8%
Net Interest & Other Income	(170)	(182)	(210)	(220)	(215)
Net Income (Adjusted)	1,821	1,187	1,262	1,394	1,530
% Change	-34.5%	-34.8%	6.3%	10.5%	9.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,826	1,188	1,262	1,395	1,531
Depreciation & Amortization	634	601	638	668	699
Change in Working Capital	(603)	(347)	(453)	(561)	(590)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	99	(113)	143	150	157
Capital Expenditure	(482)	(467)	(447)	(454)	(475)
Free Cash Flow	1,474	861	1,144	1,197	1,321
% Change	-44.4%	-41.6%	32.8%	4.7%	10.4%
Share / Issue Repurchase	(1,049)	(946)	(91)	(100)	(100)
Cost of Dividends Paid	(195)	(254)	(255)	(280)	(308)
Change in Debt	0	(300)	(300)	(300)	(300)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	430	537	535	551	664
Trade Receivables	2,222	1,913	1,788	1,872	1,959
Other Current Assets	1,973	1,315	1,715	1,999	2,300
Property, Plant & Equipment	2,956	2,912	3,358	3,813	4,288
Other Non-Current Assets	12,574	10,048	10,548	11,048	11,548
Total Assets	20,155	16,725	17,944	19,283	20,759
Short-Term Debt	493	1,172	1,172	1,172	1,172
Other Current Liabilities	2,586	2,053	1,875	1,681	1,479
Long-Term Debt	5,122	4,133	3,833	3,533	3,233
Other Non-Current Liabilities	1,839	1,476	2,114	2,782	3,481
Total Liabilities	10,040	8,835	8,994	9,169	9,365
Total Equity	10,116	7,891	8,950	10,114	11,394
Total Equity & Liabilities	20,155	16,725	17,944	19,283	20,759

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Healthcare Technology & Distribution

Company Description

LH is the second-largest clinical laboratory in the U.S. Through internal investments and acquisitions, the company has expanded its clinical diagnostic and technology offerings to better insulate it from external challenges, facilitating above-market growth rates. LH also expanded into the contract research organization industry through the acquisitions of Covance and Chiltern, accounting for about 10% market share globally.

Investment Rationale

We are positive on prolonged COVID-19 testing tailwinds and LH's key positioning in the US clinical testing market and potential upside from CRO synergies. While still facing limited visibility, we see upside potential from elevated lab consolidation catalyzed by Medicare reimbursement cuts (PAMA), retail clinic opportunities, monetization of lab data, and higher growth from the company's CRO (contract research organization) business.

Stock Data

Average Daily Volume 657,610

Quarterly Earnings Estimates

	2023	2024
Q1	3.46A	3.41E
Q2	3.42A	3.75E
Q3	3.38A	3.83E
Q4	3.30A	3.81E

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.

Analyst Certification

I, Derik de Bruin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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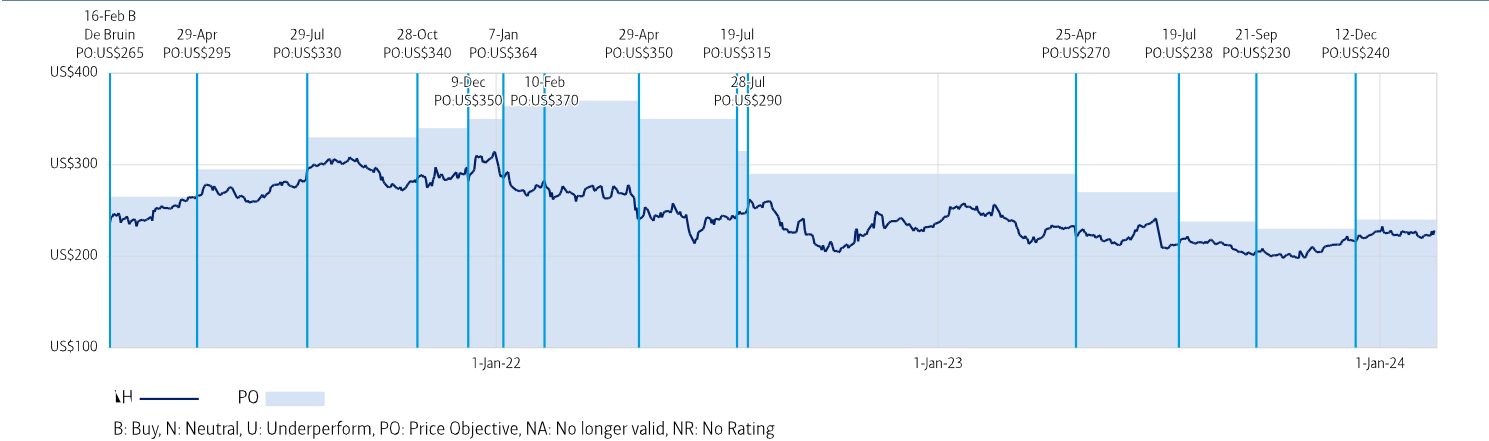
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LabCorp (LH) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

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%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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