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Laboratory Corporation of America Holdings (LH) CEO David King on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $2.9 beats by $0.05 | Revenue of $2.93B (3.43% Y/Y) beats by $21.24M

Earning Call Audio

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Laboratory Corporation of America Holdings (NYSE:LH) Q3 2019 Results Earnings Conference Call October 24, 2019 9:00 AM ET

Company Participants

Clarissa Willett - Vice President, Investor Relations

David King - Chairman & Chief Executive Officer

Glenn Eisenberg - Executive Vice President & Chief Financial Officer

John Ratliff - CEO, Covance Drug Development

Conference Call Participants

Lisa Gill - JPMorgan

Jack Meehan - Barclays

Kevin Caliendo - UBS

Kevin Ellich - Craig-Hallum

Ralph Giacobbe - Citi

Bill Quirk - Piper Jaffray

Erin Wright - Credit Suisse

Eric Coldwell - Baird

Donald Hooker - KeyBanc

Mark Massaro - Canaccord

Matt Larew - William Blair

Derik De Bruin - Bank of America

Ricky Goldwasser - Morgan Stanley

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Q3 2019 LabCorp Holdings Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers presentation there will be a question-and-answer session [Operator Instructions]

I would now like to hand the conference over to our speaker, Clarissa Willett, VP of Investor Relations. Please go ahead.

Clarissa Willett

Good morning. And welcome to LabCorp's third quarter 2019 conference call. As detailed in today's press release, there will be a replay of this conference call available via telephone and Internet.

With me today are Dave King, Chairman and Chief Executive Officer; Glenn Eisenberg, Executive Vice President and Chief Financial Officer; and John Ratliff, CEO of Covance Drug Development.

This morning in the Investor Relations section of our website at labcorp.com we posted both our press release and an investor relations presentation with additional information on our business and operation, which include a reconciliation of the non-GAAP financial measures to the GAAP financial measures discussed during today's call.

Additionally, we are making forward-looking statements. These forward-looking statements include, but are not limited to, statements with respect to estimated 2019 guidance and the related assumptions, the impact of various factors on operating and financial results, expected savings and synergies and the opportunities for future growth.

Each of the forward-looking statements is based upon current expectations and is subject to change, based upon various factors that could affect our financial results. Some of these factors are set forth in details in our 2018 Form 10-K and subsequent Forms 10-Q, and in the company's other filings with the SEC. We have no obligation to provide any updates to these forward-looking statements, even if our expectations change.

Now, I'll turn the call over to Dave King.

David King

Thank you, Clarissa. And good morning, everyone. LabCorp delivered another excellent quarter again demonstrating the power of our combined capabilities. We saw strong market demand across both businesses which with the benefit of strategic acquisitions delivered solid topline growth.

We also continue to manage expenses aggressively and execute our launch pad initiatives. As a result, revenue grew 3.4%, in spite of a year-over-year headwind of 1.3% due to divestitures. Adjusted earnings per share grew 6% despite the impact of at PAMA and the opening of managed care contracts and diagnostics and we generated $363 million in free cash flow.

We continued our disciplined capital allocation program repurchasing $100 million of shares and successfully executing several tuck-in acquisitions. We have a robust acquisition pipeline and remain focused on strategic value creating acquisitions in both our business units.

Covance excelled across all measures. Constant currency revenue growth increased by more than 9%, we realized 270 basis points of margin expansion, backlog increased by over $400 billion sequentially to $10.7 billion and our trailing 12 month book-to-bill stands at an impressive 1.28.

Despite the market headwinds we are experiencing, Diagnostics turned in another strong something. Normalizing the performance for the impact of PAMA and managed care changes, we grew revenue excluding divestitures by 4%, increasing revenue per acquisition by 2.3%, and volume by 1.7%, solidly within our performance expectations for this business.

At the enterprise level, we are successfully weaving diagnostics and drug development together into a unified fold, creating value by focusing on consistent execution of our strategy to deliver world class diagnostics, free innovative medicines to patients faster and use technology to improve the delivery of care.

Among the recent examples of the power of the combined, health systems continue to express interest in our ability to both reduced their lab testing costs and bring them meaningful clinical research opportunities. Today we have 16 Covance side partnerships with US based health systems and have offered this health system some 200 meaningful trial enrollment opportunities. This two pronged value proposition continues to gain traction with health system partners.

We continue to win in the marketplace by using data as a differentiator. In the quarter and year-to-date we achieved broad based customer success. For example, by combining LabCorp patient population data with Covance's unique site location tools and protocol design insights, we deliver a truly integrated patient-centric approach to recruitment. This approach enabled us to win 9 studies, principally focus on oncology from a single sizable customer, doubling our win rate and our program value.

Companion diagnostics also continue to show strong growth. Revenue from all aspects of companion diagnostics grew nearly 20% year-over-year. As we sharpen the focus on excelling on oncology in both of our businesses, the ability to develop, support approval for and commercialize, companion diagnostics will prove a sustainable competitive advantage.

Now, I will discuss this quarter's diagnostics highlights. Our managed care portfolio continued to perform well, a testament to our teams in the fields who have done an exceptional job retaining our customers.

The opening of the managed care contracts led to a net reduction in volume of 1%, stable since the last quarter and we continue to see volume and revenue growth across the rest of the of the managed care business.

We finalized several new partnerships with health systems in the quarter. We acquired the clinical diagnosis businesses, South Bend Medical Foundation, enhancing the scope of services that LabCorp offers to hospitals, physicians and patients across the region, concurrently partnering with the health system to offer extended pathology services.

We also partner with the New Jersey Primary Care Association, which represents 23 community health centers. By using our care intelligent platform we and NJPCA will provide physicians with accessible comprehensive and secure integrated lab and clinical data, focusing on improving outcomes for patients with chronic conditions. This partnership will help NJPCA achieve key value base care objectives.

As we have stated we are proud to be included in UnitedHealthcare's Preferred Lab Network. Concurrently with the PLN in 2019, UnitedHealthcare made the decision not to renew the BeaconLBS pilot and floor.

Nonetheless, UnitedHealthcare continues with BeaconLBS for their national molecular contract beginning in September. This reflects UnitedHealthcare's approach to offer programs and networks including the PLN to consumers on a national basis.

Although the non-renewal of the Florida pilot will have near-term negative impact on revenue and margin in the fourth quarter and next year, we are optimistic about growth opportunities with the PLN; and in addition to the UnitedHealthcare national molecular contract BeaconLBS has multiple other opportunities for revenue growth.

On the consumer front, we continue to expand accessibility, transparency and convenience so the consumers may engage LabCorp when and where they want to. Through our LabCorp-Walgreens partnership we continue to expand patient access in the retail health care. We now have 58 locations open in nine states and more than 75 other locations in progress toward our rebuild of 600 by the end of rebuild 2022.

In addition, we are pursuing other collaboration opportunities focused on our share goals of enhancing tools available for clinical research supporting the ship-to-value based year and expand and health and health related services available to consumers in the in the retail environment.

We significantly expanded our Pixel by LabCorp platform to include sample collection by Covance in our patient service centers. Pixel LabCorp enables consumers to shop and pay online for many Lab tests directly.

The menu now includes 28 test packages comprised of more than 100 analytes. We've been pleased with the initial response and continue to add offerings to the platform each month, including Measles sand MMR immunity testing.

Our relentless customer focus drives our LaunchPad II initiatives which are designed to digitize the business, automate processes, improve productivity and create an exceptional experience for all of our customers and our employees. We remain on track to deliver a total of $200 billion of net savings by the end of 2021.

Now, I will discuss this quarter's Covance. Covance highlights. Covance's strong performance is a result of building on our unique capabilities with strategic acquisitions the creation of highly-targeted offerings enhanced therapeutic expertise and focused geographic expansion. The result is added value across multiple dimensions of the Covance business resulting in strong growth across all lines of business and customer segments.

One of our key strengths is the Covance is the only zero to offer comprehensive R&D services from early development through commercial solutions around the globe. Our strength across the spectrum allows us to fully support our partnership portfolios.

The best evidence of success in the market is the market is our solid track record of moving molecules from early development into clinical services which continues development into clinical services, which continues to gain momentum with our customers.

Our newly opened R&D center in Shanghai establishes Covance as the only CRO to offer comprehensive R&D services from early development through commercial solutions in China. This expanded presence as well as our more than 1,000 colleagues in China was a critical factor in winning a large oncology study with a China based biotech.

Covance also continues to strengthen its capabilities and the exciting area of cell and gene therapy supporting sponsors focused on developing treatments for debilitating and life-threatening diseases.

Covance offers superior capabilities superior capabilities across early development, early clinical, central labs and late-stage clinical to deliver unique solutions in these complex therapeutic areas. We've already seen significant opportunities in growth across the enterprise from pre-clinical to clinical development. Those opportunities spend our entire geographic footprint including China where adopted TCL therapies are a major focus for oncology.

We also continue to execute the key priorities in the key priorities in our Covance LaunchPad initiative and are on track to deliver $150 million of net savings through these initiatives by the end of 2020.

We are also on track to deliver $10 million of net to deliver $10 million of net costs in synergies from the integration and Envigo by the end of 2021. In short, Covance continues to deliver results and validate our decision to become a global life sciences player.

In closing, I am grateful to our terrific leadership team and our 61,000 colleagues around the globe for their consistently outstanding efforts and support of our mission to improve health and improve lives. Those efforts are reflected once again and still in our strong third quarter performance and will continue to be reflected in LabCorp's performance in the years ahead.

Now I'll turn the call over to Glenn.

Glenn Eisenberg

Thank you, Dave. Going to start my comments with a review of our third quarter results followed by discussion of our performance in each segment and conclude with an update on our 2019 guidance.

Revenue for the quarter was $2.9 billion, an increase of 3.4% over last year. The increase was primarily due to acquisitions of 2.8% and organic revenue growth of 2.2%, partially offset by divestitures of 1.3% and foreign currency translation of 30 basis points.

Excluding the negative impact from PAMA of 90 basis points, organic revenue grew 3.2%. Operating income for the quarter was $340 million or 11.6% of revenue compared to $343 million or 12.1% last year.

During the quarter we had $29 million of restructuring charges and special items, primarily related to LaunchPad initiatives, acquisition integration and the previously announced vendor data breach, partially offset by the release of the contingent consideration accrual for our prior acquisition.

Adjusted operating income which excludes amortization of $62 million as well as restructuring charges and special items was $431 million $ or 14.7% of revenue compared to $429 million or 15.2% last year.

Adjusted operating income benefited from organic growth, acquisitions and LaunchPad savings that were essentially offset by the impact from PAMA of $27 million and higher personnel costs.

Excluding the 80-basis-point reduction from PAMA, margins would have increased 40 basis points. The tax rate for the quarter was 24.1% compared to 36.2% last year. The adjusted tax rate excluding special charges and amortization was 23.9% compared to 25% last year.

The lower adjusted tax rate was primarily due to a favorable change in the Swiss tax rate. We expect the company's adjusted tax rate for the full year to be approximately 25%, implying a fourth quarter tax rate of approximately 24%.

Net earnings for the quarter were $221 million or $2.25 per diluted share. Adjusted EPS, which exclude amortization, restructuring charges and other special items were $2.90 in the quarter, up 6% compared to last year.

Adjusted earnings in the quarter benefited by $0.02 from three unusual items, a $0.06 benefit from the favorable change in the Swiss tax rate, a $0.02 unfavorable impact from Hurricane Dorian and $0.02 reduction due to the non-renewal of the BeaconLBS, UnitedHealthcare contract pertaining to the Florida market.

Operating cash flow was $456 million in the quarter compared to $252 million a year ago. The increase in operating cash flow was due to higher cash earnings and favorable working capital. Capital expenditures totaled $93 million or 3.2% of revenue compared to $98 million or 3.5% last year.

As a result free cash flow was $363 million in the quarter compared to a $154 million last year. We remained active throughout the quarter in terms of capital allocation.

During the quarter we invested $149 million in acquisitions and repurchased $100 million of the stock. As of September 30, we had $950 million of authorization remaining under our share repurchase program.

At quarter end, our cash balance was $361 million, up from $265 million at the end of the second quarter. Total debt at the quarter end was $6.6 billion and our leverage was 3.3 times gross debt to last 12-month EBITDA.

Now I'll review our segment performance beginning with LabCorp Diagnostics. Revenue for the quarter was $1.8 billion, an increase of 0.4% compared to last year due to organic growth of 0.9% and acquisitions of 0.8%, partially offset by divestitures of 1.3%. Excluding the negative impact from PAMA of 1.5%, organic revenue increased 2.5%.

Total volume excluding divestitures increased by 0.7% over last year, of which acquisition volume was 0.5% and organic volume was 0.3%. Organic volume was reduced by approximately 1% from the managed care contract changes. Excluding managed care contract changes, organic volume was up 1.3%.

As a reminder, we do not include hospital lab management agreements in our volume, which would have added approximately 1.9% to our volume growth. Revenue per requisition, excluding the impact from divestitures increased by 1% due to favorable mix and acquisitions, revenue per requisition was negatively impacted by 150 basis points from PAMA and 50 basis points from the non-renewal of the BeaconLBS UnitedHealthcare contract.

Given the nature of the BeaconLBS business, the unfavorable impact from the non-renewal of the contract is entirely reflected in revenue per requisition. As such, we expect an unfavorable impact from BeaconLBS revenue per requisition of approximately 150 basis points in the fourth quarter due to the full quarter impact.

LabCorp Diagnostics' adjusted operating income for the quarter was $296 million or 16.8% of revenue compared to $332 million or 18.9% last year. The $35 million decline in adjusted operating income and 210 basis point decline in margin were primarily due to the negative impact of PAMA of $27 million and one additional payroll day in the quarter, which was an offset from the payroll day benefit that we discussed in the first quarter.

In addition, organic growth and LaunchPad savings were partially offset by higher personnel costs, primarily consisting of the annual merit increase. We remain on track to deliver $200 million of net savings by the end of 2021 from our Diagnostics LaunchPad initiatives.

Now I will review the performance of Covance Drug Development. Revenue for the quarter was $1.2 million, an increase of 8.7% compared to last year, due to organic growth of 4.7% and acquisitions of 6%, partially offset by a 1.2% reduction due to the divestiture of our research products business as part of the Envigo transaction and foreign currency translation of 80 basis points.

Excluding lower cash flows, organic revenue continue to grow in the mid-to high single digits. Adjusted operating income for the segment was $175 million or 14.9% of revenue, compared to $131 million or 12.1% last year.

The $44 million increase in adjusted operating income and 270 basis point improvement in margins were primarily due to organic demand, acquisitions LaunchPad savings, partially offset by higher personnel costs to support growth.

We remain on track to deliver $150 million of net savings by the end of 2020 from Covance's LaunchPad initiative. For the trailing 12 months, net orders and net book-to-bill remained strong at $5.7 billion and 1.28, respectively; backlog at the end of the quarter was $10.7 million, an increase of approximately $400 million from last quarter. We expect approximately $4.2 billion of this backlog to convert into revenue over the next 12 months.

Now I'll discuss our 2019 guidance, which assumes foreign exchange rates as of September 30th for the remainder of the year and includes the impact from currently anticipated capital allocation towards acquisitions, share repurchases and debt repayment.

We expect revenue growth of 1.5% to 2% over 2018 revenue of $11.3 billion. This is an increase over our prior guidance of 1% to 2%. This guidance includes the negative impact from divestitures of approximately 1.5% and foreign currency translation of 60 basis points.

We expect LabCorp Diagnostic's revenue to decline 1.5% to down 25% as compared to 2018 revenue of $7 billion. This is an increase over our prior guidance of down 3% to down 2%, primarily due to acquisitions and organic growth, partially offset by the non-renewal of the BeaconLBS UnitedHealthcare contract. This guidance includes the negative impact from divestitures of approximately 2% and foreign currency translation of 10 basis points.

We expect Covance Drug Development revenue growth of 5.5% to 7.5% over 2018 revenue of $4.3 billion, a reduction from our prior guidance of 5.5% to 8.5%. The reduction of the midpoint of guidance is due to the 40 basis point unfavorable change in currency translation, bringing the full year negative impact from foreign currency translation to 130 basis points. Organic revenue growth excluding cash thoroughs is also expected to be 5.5% to 7.5% over 2018.

Our adjusted EPS guidance is $11.20 to $11.30, which is an increase of 2% to 3% over 2018 adjusted EPS of $11.02; and a narrowing of the range as $11.02; and a narrowing of the range as compared to prior guidance of $11 - $10 to $11.40. We are holding to the midpoint of our guidance as the benefit from acquisitions and organic growth is being offset by the previously mentioned unusual items.

For clarity, although we do not provide quarterly guidance with only one quarter left guidance with only one quarter left in 2019, our narrowed guidance implies the fourth quarter adjusted EPS range of $2.75 to $2.85 that includes the negative impact from the non-renewal of the BeaconLBS contract. Free cash flow was expected to be $950 million to $1.05 billion, which is an increase of 3% to 13% over 2018 and unchanged from our prior guidance.

This concludes our formal remarks and we'll now take questions. Operator?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Lisa Gill with JPMorgan.

Lisa Gill

Good morning. I just really wanted to follow-up on what's going on in the margin side. Glenn, you gave a good amount of detail. But, as we think about BeaconLBS and tightening in the fourth quarter and then probably having some impact on 2020. How do we start to think about margins going into 2020? Any framework you can give us around thinking about the puts and takes on the margin side?

Can you expand margins? Hold margins study as we think about 2020 and then anything else that you can give us this kind of just an early framework around 2020 would be fairly helpful?

Glenn Eisenberg

Sure, Lisa. First of all, we're obviously say, we're going to provide our guidance just in general on 2020, when we report our fourth quarter results, as we do it a normal course. But to your question, with the BeaconLBS, non-renewal the contract obviously, as a headwind, that will have going into next year. We've given kind of impact if you will on the fourth quarter.

So obviously you can annualize that, you have the sense of the headwinds that will work to overcome to either addition of business as Dave commented earlier, within Beacon as well as just the growth, in our overall business.

But as a general rule, directionally, and I think we've shared this with you and the others as a preliminary review of 2020, that overall for the diagnostics business with another year of PAMA ahead, the good news is we now have the managed care impact essentially in the numbers. Obviously it just started with the in the first couple of months, but essentially, relatively flat year-on-year.

And now, with Beacon non-renewal, we would expect that diagnostics plus or minus would be flat to down margins, as we look into 2020, but again, having Covance's expectation in Drug Development to see improved margins next year as well.

David King

Lisa, its Dave. I would just flat to slightly down. I want to be clear on that. Flat to slightly down in diagnostics.

Lisa Gill

And so as we think about that commentary of flat to slightly down. I think, also you talked about some acquisitions this quarter. Do we start to see some of the accretion coming for 2020? Is it cost cutting?

Like what are some of the drivers that we still think about to offset whether it's BeaconLBS or PAMA or some of the other headwinds that you have in the Diagnostics business?

David King

Lisa, its Dave. I think you're correct; obviously the acquisitions come in at a lower margin. And so as the synergies are realize that, that will improve margins. We also have the continued impact both carried over and then the additional initiatives within the LaunchPad II, program.

And so those will offset some of the margin pressure that we're experiencing. And as Glenn said, we annualize the managed care contract changes, basically in January, February. So, there are puts and takes, but at the end of the day, we feel confident that, flat to slightly down is a very realistic view of 2020 in diagnostics.

Lisa Gill

That's very helpful. Thank you.

Glenn Eisenberg

And Lisa just to add to that. To end of that while we have the annualization of acquisitions in diagnostics which do mix of the margins. We continue to see a good pipeline for diagnostics. So as we look to redeploy capital in 2020 with the strong cash flow that we expect, an opportunity to see additional benefits from that.

Lisa Gill

Okay. Thank you.

Operator

Thank you. And our next question comes from Jack Meehan with Barclays. Your line is open.

Jack Meehan

Thank you. Good morning. So I wanted to continue on the diagnostics side, I was hoping you could walk us through some of the moving parts for the fourth quarter. So you've reached the full year outlook for diagnostics.

But that also includes the headwind from BeaconLBS, but just versus the model what's going better? Is there any other headwinds or tailwinds we should be thinking about for the fourth quarter?

Glenn Eisenberg

Yes, Jack this is Glenn, I'll take the first cut. But as you see with the implied guidance first on the revenue side, we're looking at a positive quarter in the fourth quarter. So we're benefiting if you will from the acquisitions that we've done that will have a full quarter's worth if you will.

We've also as you know been experiencing the headwind from the divestitures that we've had that essentially annualized in the third quarter, so we'll get the benefit of that. And then just normal call it organic demand growth within the business, as we commented earlier, in the fourth quarter, we'll actually get the benefit of revenue day that would've been the offset for the headwind from a revenue day that we experienced in the first half of the year.

And then again to your point, we do have the headwind in Beacon, but as we look across the spectrum, in the fourth quarter, we do expect to see some good topline growth. And while we do expect margins to be down in the first quarter year on year, we expect it to be down the least amount that we would experience throughout any quarter this year, based upon that topline growth, but also based upon the continuation of Diagnostics LaunchPad Initiative.

Jack Meehan

Great. That's all helpful. And then can't help it asking a couple of questions on 2020 as well. Just curious as we sit here today, how meaningful you think the PLN could be to growth and then also in terms of some of the recent contracting on the managed care side how you're feeling about just unit pricing for the lab business?

David King

Jack, its Dave. So, in terms of the PLN. Obviously, you know, being included in it. One of the small number of laboratories is a terrific opportunity. United is -- United Healthcare is undertaking some initiatives that we are very supportive of, such as zero dollar copays for some of their offerings. And they're selling the PLN to ASL employers.

You know right now in this selling season, so we will know a lot more about the long term opportunity when we see what the uptake is among employers, but we feel very optimistic that the PLN is an opportunity to move share away from the higher cost providers to us as a high quality and lower cost provider.

I also want to point out, just reiterate that in entering the PLN, there was no downward pricing adjustment with United so our price remains what we had previously agreed to when we were selected to be part of the PLN network.

In terms of unit price, what we always say is, unit price is basically, as it is everywhere and healthcare services, a flat to slightly down proposition. So I think in a typical year, you would expect to see unit price at zero to negative 50 basis points.

The positive that we report in revenue per requisition as you know are driven by test mix and utilization. So, as we see growth in higher value testing as we see growth in esoteric testing that improves the reported revenue per requisition.

But it doesn't change the basic nature ex-PAMA, which is a singular event of unit price being sort of flat to 50 basis points down. And that's how we think about unit price year in and year out 2020 not been any different?

Jack Meehan

Great. Thank you, Dave.

Operator

Thank you. And our following question comes from the line of Kevin Caliendo with UBS. Your line is open.

Kevin Caliendo

Hey, guys. I just wanted to go through this beacon thing a little bit more. I want to make sure the math that we're doing here is right. Because if I'm looking at your guidance for the fourth quarter, it assumes that the diagnostic margin would fall to about 13% and that's for the full quarter of beacon.

And our math at 150 basis points in a revenue per requisition is around $25 million impact. Is that all falling -- should we just assumed it all falls to the EBIT line? And that's maybe how will want to think about it for the first three quarters of 2020?

David King

Yeah. No.

Glenn Eisenberg

I'm sorry. That's diagnostic - I might add that's Covance at 13%, Diagnostics is higher than that, I apologize.

David King

Yes, no. The beacon part using what the 1.5% impact on rev rec would give you to call it the $25 million in revenue that you're speaking to. But obviously, there's a margin associated with that and then that would fall to the operating income.

And as we talk about beacon was an attractive business with margins that were higher than the diagnostics overall, but that's a shortfall to earnings that again we'll have to make up.

So annualizing that is a fair proxy to start. And again, we'll look to make up some of that through additional business through the business and again launch-pad savings in the growth overall is the business, but your margin decline at least the margin that you are saying in the fourth quarter as we said earlier, while margins will be down in the fourth quarter, again, in part because of the impact of beacon, that will be down less than it's been down all year.

So we actually do see some favorable this coming in. And when you look at our margin a year ago, I think we were 16.5m so you can kind of factor in that the margin will we better than what you expected.

Kevin Caliendo

Got it. Okay. That is helpful. And just one, quick one on Covance. The M&A contribution was bigger than we've thought. You talked about some pass-through revenue weakness.

I just - question, excluding the pass through what was Covance organic revenue growth? And at what point should we cycle pass the faster weakness we've seen in the Covance segment?

David King

Yeah. I think that as we said in the press release and then Glenn just stated that pass throughs - without excluding the pass-throughs, we expect to grow mid to high single-digit. And from the standpoint, variety of factors include influence the pass-throughs and study lifecycle, geographic mix, business mix.

And right now I think once we get through 2019, you'll see as we see the early development, the labs, the content of FSP mix versus programmatic, you will see a little bit of the volatility but 2020 will be a more natural year so I will call it.

Kevin Caliendo

Great. That's very helpful. Thanks guys.

Operator

Thank you. And our next question comes from the line of Kevin Ellich with Craig-Hallum. Your line is open.

Kevin Ellich

Good morning. Thanks for taking the questions. I guess, Dave, wanted to go back to your comment in the prepared remarks about the nine studies that won from a single customer in oncology.

Can you give us a little bit more color as to what's driving that? Who the customer was, and if you have other opportunities like that?

John Ratliff

Yeah. Kevin, this is John. We don’t provide specific customers, but clearly with this large pharma customer, they've seen the value of the data. They’ve seen the value of the patient recruitment strategy through the voice of the customer and the specific inclusion and exclusion criteria that they can manage, trials in a much quicker manner and more efficiently and effectively.

And so, that has then upped our win rate significantly, doubling it as well as then magnitude of dollars then from that, principally in the oncology area, but also in the NASH area, respiratory.

But we’ve seen our strategies, our data capabilities work and work very effectively and, obviously, broadening that out to the entire oncology therapeutic areas as well as our other therapeutic areas that we support.

Kevin Ellich

Great. Thanks John. So, Dave, I don’t know if this is your last call, but just wanted to say happy retirement and it's been great working with you.

David King

Thank you, Kevin. Appreciate it.

Operator

Thank you. And our next question comes from the line of Ralph Giacobbe with Citi. Your line is open.

Ralph Giacobbe

Thanks. Good morning. Dave, I did want to go back to your comments on sort of the unit price commentary being sort of flat to slightly down. I think you made a comment that, like it is in healthcare.

I just want to clarify that because I think as we look across, sort of, the healthcare spectrum Medicare's even specifically has pointed to unit price being sort of the overly significant driver of, call it, 6% type trends.

So I guess, I'm still unclear and don't understand how you can't get at least a CPI, if not more, increase from commercial, especially given sort of the value proposition that you present, which obviously has been evident by the open network and open contracting?

David King

Yeah, we could spent a lot of time on this Ralph. But I think, at a high level, I would summarize by saying that, first of all, just realized that from a structural perspective, the market, particularly with hospital acquisition of physicians and their ability to direct work into the hospital laboratory creates a competitive disadvantage for us, that does affect pricing, right? Because they get paid more, they have, in many markets, a dominant market position, and now they can dictate to the physicians that the lab work has to be sent there. So that’s one sort of structural impediment to this idea that we should be able to get sort of market rate increases every year.

The second thing is, I think, your 6% unit price statistic is distorted when you think about the laboratory business because when you think of that for example, pharma, where you make get a 10% price increase on a drug that costs 50 time a typical lap encounter, that's going to heavily skew your overall assessment of price.

If I look at healthcare services broadly, think about distributors, think about pharmacies, think about laboratories, think about home health, think about durable medical equipment, you're not seeing price increases, you're seeing price being flat to down and you are seeing contract negotiations leading to down pricing in a typical case. So, I'm actually very proud of what we've accomplished in unit pricing over this year and over the last several years, particularly this year with the contracts opening.

And then the last comment I would make for better or worse is when you're seeing as offering a service that is readily replaceable by somebody else, it's just difficult to go in and say we should get a price increase when others can be switched in.

All that said, I will say, we negotiating our contracts for cost-of-living increases, call it type increases, we don't get them every year, but they are part of our contracting strategy. And that's part of the reason that we are able to keep price -- unit price relatively flat over time.

So, I hope that’s helpful and obviously, it's a very complicated topic. But those are some of the market dynamics that I think explain why. It's not just a simple proposition of we get a price increase.

Ralph Giacobbe

Okay. All right. Yes, fair enough. I guess as my quick follow up here the other income line, I noted in anyone's question, but it did have a fairly sizable swing in the quarter. What was that related to?

And can you help us sort of the annual run rate of that line item and may be moving forward? Thanks.

David King

Ralph, were you at other income, is that what you said?

Ralph Giacobbe

Yes, the other income, the other net, I think went from negative $10 million in expense to couple of million dollars favorable or positive?

David King

Yes. No, the - when you look at the - call it a year ago period, the $209 million and you will see this kind of in the reconciliation of our GAAP versus adjusted that was essentially the gain on the divestiture of our Food Solutions business.

And that even in the third quarter of this year, we had - again in that reconciliation charge, you'll see the same, there was a net impact of around $2.7 million gain due to the benefit of primarily gain from our venture fund. That $2.7 million as well as the -- call it the $209 million are both excluded from our as-adjusted results. So, other income/net is plus or minus relatively flat.

Ralph Giacobbe

Okay. Maybe we can follow-up offline, because I thought I saw sequentially that change, but we can follow-up on that offline. Thank you.

David King

Okay. Thank you.

Operator

Thank you. And our following question comes from Bill Quirk with Piper Jaffray. Your line is open.

Bill Quirk

Great. Thanks. Good morning everybody. So, I guess -- certainly appreciate the comments around the ongoing revenue synergies for Covance that are being helped or augmented by the LabCorp Diagnostics business.

Dave I was wondering - thinking about revenue synergies going the other direction, i.e. leveraging Covance's access to clinical trials in terms of directing that to win diagnostics business, any thoughts there?

David King

Yes, good morning. As I mentioned in the prepared comments, the Covance site partnerships provide benefits in both directions. So, the opportunity to offer clinical trials to health systems is seen as a positive because it gives us more than just - we can help you manage your lab cost, we can help you reduce you lab cost.

We can help you introduce your lab costs and manage like this we can also bring you revenue opportunities. And so I think the Covance business supports the diagnostics business in very clear way and that instance..

Glenn Eisenberg

And also say and it is strong when you get into the capabilities of the hybrid virtual trials, the diagnostics capabilities with patient service centers coupled with the Covance central lab analytics, the market access areas of clinical side, as well as the CRO side allow you to do those hybrid virtual trials in a much more efficient manner. And so that's another way of utilization of multiple parts of the enterprise.

Bill Quirk

Understood. And I guess is as a follow-up, I guess, is there any way to -- historically you've quantified periodically, the Covance impact from LabCorp, could we - maybe talk little bit about again to LabCorp benefit from Covance?

And then secondly just on the PLNs and broadly speaking, there is a lot of chatter around others beyond United following suite, any update there? Thanks guys.

David King

Well, yes. I think that was the best way to quantify the benefits to the businesses is topline growth and Covance grown to 9% this quarter in constant currency and the enterprise, when you adjust for the divestitures grows to grew almost 5%.

So I think it's pretty that the top line growth is strong as a result of the combination of the businesses. On the P&L we continue to have conversations with other payers. Nobody has rolled out something similar. I think there is great interest in what United is doing and if it successful, we'll see followers.

Operator

Thank you. And our next question comes from the line of Erin Wright with Credit Suisse. Your line is now open.

Erin Wright

Thanks. I had a broader question just on underlying demand trends across the CRO segment and Covance. And where are you seeing better demand trends in foodservice or FSP or large pharma versus smaller biopharma?

And have there been sort of any meaningful changes in outsourcing demand trends in your view? Or any sort of changes that you've seen in the nature of changes new business wins that you have in the quarter? Thanks.

David King

Had a great quarter in terms of business wins and they were broad-based. And so, it was broad based in terms of early development labs as well as clinical. With respect to segmenting that, the significance of biotech sector with the NR wins has been increasing and that's where the vast majority of portfolio development is, in terms of pharma, and so we see that within our order rates.

And then with respect to the FSP versus the programmatic, we do see strengths trends on both sides. We do see strength in terms of the programmatic wins as well as the FSP. I think if you look at market data, the FSP might be slightly higher.

But from the standpoint of in terms of the way we look at the business and the way that is flowing, the early development business of course is a quicker burn business. But in the central labs and the clinical business or seeing broad-based positive and our penetration in that obviously with a 1.28, last 12 is very good results.

Erin Wright

Okay. Great. Thanks. And then can you give us an update on relationship with Wallgreens or in terms of both the lab side of business as well from a CRO perspective too? Thanks.

David King

Erin. It's Dave. As we mentioned in the prepared remarks from a diagnostic side, the Walgreens, we continue to roll out the Walgreens. We continue to get very positive commentary around the patient experience from the kind of integrated side of integrating patient data, recruitment, virtual trials, where we continue to discuss the rollout of what we call the beyond PSC aspects of the Wallgreens relationship and we expect to have an update on that as we move into 2020.

Erin Wright

Okay. Thank you.

David King

So we are at 10 minutes before the hour. So we have six questioners in the queue. We'd like to get to everybody. So let's please one question and one follow-up and also if your questions has been asked, please don't ask it again. Thank you.

Operator

Thank you. Our next question comes from Eric Coldwell with Baird. Your line is open.

Eric Coldwell

Thanks, David. You made it easy for me because there in actually hit on my topic, so I'll leave it to the next questioner. Just wanted to say good luck in your future endeavors. Thanks so much.

David King

Thank you, Eric. It's been a pleasure.

Operator

Thank you. Our next question comes from Donald Hooker with KeyBanc. Your line is open.

Donald Hooker

Good morning. So you guys have talked a couple this quarter and last quarter about increasing pass-through from pre-clinic to clinical trial work at Covance. I guess you have those two businesses for Covance for many years.

Is there some reason why I guess you are seeing more pass through now versus in prior years? Is there something going on in there in the science or in what you are doing?

John Ratliff

Yes, Donald. This is John. And so we are – whenever you have a large content of biotech within the early development then that movement in terms of the later stage or early late stage then moves in a much greater penetration.

I'd also say that there is a level of science and organization that we put within the early development to enhance that capabilities as we bring across the bridge whether that's on the pure clinical side or on the regulatory side whether that moves to our bio areas or whether that moves into the first demand within the Phase 1 area. So clearly the first forward up the latter is tremendous. We have over a 100 opportunities there right now.

David King

And I have to say, Don, its Dave that historically I think prior to John coming, Covance was a much more silent organization who were only development, kind of, thought about early development and why thought about lab. And under John and Paul’s leadership we've really expanded the scope of the organization. In my mind worked through some of the silos. The Covance organization is much more integrated and thinking about and attracting these opportunities to pull them across and that's part of the reason for success.

Donald Hooker

Thank you.

Operator

Thank you. And our next question comes from the line of Mark Massaro with Canaccord. Your line is open.

Mark Massaro

Hey, guys. Thank you for the question. I might be splitting hairs here, but the managed care impact from volumes was about 100 basis points. First couple of quarters was about 70 basis points. Recognizing that that's a small difference, I'm more asking about your expectations on seeing a trend potentially getting better or maybe becoming a little more challenge as we think about 2020, because your large competitor talked about its confidence and continuing to add lives from United. So any feedback there would be helpful?

David King

Yeah, Mark it's Dave. I think it was - I think it's basically 70, 90, 90, 100, which in my mind is flat. I mean, we know 70 in the first quarter because the change over actually look like it’s started more in February than January and then it's been 90, 90, 100. So I definitely can say the trend is a stable. We are not losing care. Our participation rates for United and Horizon have been quite steady.

And in terms of the future, we have the same growth opportunities. We are in the same networks that our competitors talk about. And so it’s one of the reasons I feel very optimistic that there are number of markets for us is the demographics, the aging population, the greater utilization of lab tests as people age, the introduction of new tests and technologies.

All of those things support long-term growth as well as the things like the Preferred Lab Network that are innovating in favor of the highest quality, lowest cost providers. So we feel great about what we've done this year in the managed care contracting. The team in the ground and the field has done a terrific job and we're really proud of it.

Operator

Thank you. And our next question comes from Matt Larew with William Blair. Your line is open.

Matt Larew

Hi, good morning and thanks for taking my question. Dave you just mention some of the broader dynamic constraining on the laboratory in the next several years. Just wanted to know whether you are early enough with Walgreens in terms of whether you're reshaping up your footprint to more of a retail setting, it could be a long-term driver or share that something with the providers of scale that can't be replicated by some of your hospital or competitors?

And then second, if you think this is sort of in the second year PAMA, whether you're starting to see a sort of step change and the willingness or interest of hospital and average labs to partner with you? Thanks.

David King

Sure. So second question first. Yes I think the dynamics of PAMA are being – becoming much more well recognizing the marketplace. It is affecting the industry and we've talked about some of the - of the ways with the challenges the smaller providers or smaller labs are facing.

I am going to say, again as I've said, along it's not a good thing for patients. Patient access is being limited nursing home patients are left without range of services it's very unfortunate situation and we continue to work very hard through to lay back and to the lawsuit to reverse the misguided way in which this has been implemented by CMS.

In terms of the Walgreens opportunity and thinking about offerings more opportunity in the retail setting, I think if Walgreens is being more complementary to our footprint then replacing a lot a lot of the existing footprint. Patients just don't want to come to patient service centers in the doctor's office or new the doctor's offices.

At the same time, there are a lot of patients who are not - who are not fasting or whom want to come in the afternoon, we are going to able to make use of Walgreens that have to make to the drug store.

Mostly people leave the doctor's office with the prescription to pick-up and lap slip we provide them the opportunity to fill the prescription and get their labs done there. So I think I also think as Walgreens and other retailers start monitoring more broadly in offering broader health care services.

So urgent care is in the retail in the retail, clinics retailer, we work for CBS and in many clinic and all of these things are going to lead to further growth opportunities for us and that's why we had so much focus on the consumer and on being the patient where they want to be met.

Matt Larew

Thank you.

Operator

Thank you. And our following question comes from the line of Derik De Bruin with Bank of America. Your line is open.

Derik De Bruin

Hi. Good morning and thanks for the question. So, just a – just going back to think about fourth quarter the last year, there was obviously a number of headwind from the DTC volumes and potentially in-sourcing from other hospitals and probably such a contract shipped weather.

I'm just trying to infect – I am just trying to understand - I am just trying to understand the impact when you start to think about normalizing the outlook for 4Q this time and then compared it last year? So what better what's worse when you look at this? And I am just trying – I am just trying to figure out where we are at the various headwinds and where – what's going to get annualized in this?

And I mean, obviously – something is gotten better? And I mean, obviously something's got a better and now it got the full impact of United contract switch, but just sort of compare and contrast on – from the quarters it would be great? Thanks. That's my only question.

Glenn Eisenberg

Yeah, Derik. This is Glen. I'll take the first one. To you point, we did have a softness in the fourth quarter last year. But when you really think about from this year's standpoint, we have good organic volume growth again, with the offset being opening up in the managed care contract. We have a full year impact of our LaunchPad initiative.

We will have a benefit of a revenue day. The acquisitions that we've done are additive to – call it the annualization of our divesture that would have been there in the fourth quarter of last year, that's not going to be in the fourth quarter of this year.

So as you – you know, fair amount of pluses and minuses but from our perspective we expect to see good growth, good margins, albeit still down, even a year ago, but that's all driven off of PAMA. But again, the least of margin decline that we would've seen year-on-year for this year setting us up well as we move into the next year.

David King

Derik. Its Dave. I think two major factors that we spoke about the last year in the fourth quarter were the hospital volumes and then direct-to-consumer genetic testing. And we haven’t seen any impact or unusual change in hospital volumes this year so far, at any point the way that did last year in the fourth quarter.

And as we've said and - continue to say that we modeled the direct-to-consumer businesses basically flat to down. So those are the status if you will of the items that we call out last year in 4Q is being the headwinds.

Operator

Thank you. And our next question comes from the line of Ricky Goldwasser with Morgan Stanley. Your line is open.

Ricky Goldwasser

Yeah, hi. Good morning. And so Dave going back to some of your prepared comments when you talked about BeaconLBS, you highlighted that there are multiple opportunities for growth with other payers. So maybe you can share with us what type of discussions you are involved with?

And also from a payer perspective, what's the value-add? But also when - if payers need to kind of decide we want to do -- do we want to adopt BeaconLBS versus a Preferred Lab Network. What you think is easier from a payer perspective?

And then just follow-up question that I have is, your comments around margin for next year for diagnostic being flat to slightly down -- in line with what you said when we last met back in September in our conference and we view them as very, very bullish.

So my question - my follow-up question on that is back in September did you factoring that the exit of Beacon already into your comments or r have other things transpired since that help off that in help you maintain that kind of that positive outlook into next year?

Dave King

Good morning, Ricky. I'll start. First of all, in the prepared comments I said BeaconLBS has multiple other opportunities for revenue growth. I didn't specifically talk about payers.

There are some opportunities with payers, but there are multiple other opportunities with ACO's - with health systems that want to manage utilization internally --with large multi-disciplinary physicians, specialty practices that want to adhere to clinical guidelines for testing.

So the value proposition is and - by the way I will say from my perspective BeaconLBS was huge success in Florida. Certainly there was some market push-back about utilization management. But there were significant savings realized. There was a much higher level of network adherence from physician so it certainly works.

And in my view the decision that United made was as I said in the prepared comments, it was a strategic decision on their part to offer programs and networks including the PLN and BeaconLBS to consumers on a national basis.

So I think of the opportunity for any payer or provider or health systems looking at BeaconLBS as it's an opportunity to enhance testing utilization, pursuant to evidence based guidelines. It's an opportunity to manage – the use of high cost testing particularly by non-network providers.

And it's an opportunity to engage directly with the physician about test selection at the point service to educate them about when they are choosing the right test and what it's going to cost the patient to have the test performed.

So that's - I think why we are optimistic about the revenue opportunities for BeaconLBS despite the non-renewal in Florida. In terms of the margin Glenn, you want to comment on that one.

Glenn Eisenberg

Yeah. Ricky, obviously when we were together in September, and we did talk kind of the flat to slightly down, you know, our margin outlet for next year, which again will provide more color as we go into 2020.

There is just obviously a wide range of outcomes, obviously at that time we knew the potential for the non-renewal of the contract is one of the factors that come in, which is why we're giving you a little bit of bandwidth relative to our margin expectations.

Operator

Thank you. And I'm not showing any further questions at this time. I will now turn the call back over to your speakers for any further remarks.

Glenn Eisenberg

Thank you.

David King

Well, I guess we have to do a little valedictory here, so what I want to talk about is that on October 6, we celebrated the 50th anniversary of LabCorp as a Company, which is pretty amazing when you think about it. In 50 years of history here, one thing we've learned is that when we begin an amazing journey and pursue it with preparation and passion, there's no telling where it could end.

And I am at the end of an amazing journey; I've been enormously privileged to play a part in an incredible process of growth and transformation at this company. And I want to thank all of you for your encouragement and your support along the way.

I am leaving the company in great hands. We have outstanding leaders succeeding in terms of Adam Schechter and John, Paul, and Glenn and the entire LabCorp and Covance leadership team, and of course, our 61,000 dedicated colleagues around the world. I couldn't feel better about the long term opportunities for this business, and the long term validity and proven success of our strategy.

So I know that the LabCorp flame will burn brightly while the torch isn't keeping of our next generation of leaders. I wish every one of you good luck and Godspeed. Thank you and good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.