

LABORATORY CORP OF AMERICA HOLDINGS  
Form 8-K  
October 21, 2004

**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 21, 2004  
(Date of earliest event reported)

**LABORATORY CORPORATION OF  
AMERICA HOLDINGS**

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(Exact Name of Registrant as Specified in its Charter)

**DELAWARE**

**1-11353**

**13-3757370**

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(State or other jurisdiction  
of Incorporation)

(Commission  
File Number)

(I.R.S.  
Employer  
Identification  
No.)

**358 SOUTH MAIN STREET,  
BURLINGTON, NORTH CAROLINA**

**27215**

**336-229-1127**

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(Address of principal executive offices)

(Zip  
Code)

(Registrant's telephone number including area  
code)

ITEM 7.01. Regulation FD Disclosure

Summary information of the Company dated October 21, 2004.

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**SIGNATURES**

Pursuant to the requirements of the Securities 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)

Date: October 21, 2004

By: /s/Bradford T. Smith  
Bradford T. Smith, Executive Vice  
President  
and Secretary

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**8-K Filed October 21, 2004**

*This slide presentation 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, 2003, and subsequent filings.*

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**LabCorp's Investment and  
Performance Fundamentals**

Significant Cash Generator

EBITDA Percentage of Sales -

26.0% YTD through September  
30, 2004

Strong Balance Sheet

Investment Grade Credit Ratings

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**The Clinical Laboratory Testing Market**

*U.S. 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**

**Independent Clinical Laboratories**

**Source: Company estimates, industry reports and 2003 revenue for LabCorp.**

**Profile of LabCorp**

A leader in the specialty (esoteric/genomic) testing market and second-largest clinical laboratory company in North America

Conducts testing on more than 350,000 specimens daily and offers more than 4,400 routine and esoteric/genomic tests

Provides quality lab services to more than 220,000 physicians and other health care providers

More than 23,000 employees nationwide

5

**Primary Testing Locations & PSCs**

Primary LabCorp Testing Locations

Patient Service Centers

**PR**

**AK**

Corporate Headquarters

Burlington, NC

Map current as of January 2004

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To **lead** the industry in achieving long-term **growth and profitability** by strengthening our **nationwide core testing** business and expanding our **higher-growth, higher-value esoteric and genomic businesses**.

**LabCorp's Strategy**

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**Strategic Approach Connects  
Two Key Business Areas**

***STRENGTHEN CORE TESTING***

New and Expanded Managed Care Relationships

Selected Internal Expansion

Customer Retention

Acquire Core Testing Labs

***EXPAND GENOMIC AND ESOTERIC TESTING***

Internal Development of New, Medically Necessary  
Tests

Acquire High-Growth, High-Value Genomic/Esoteric  
Labs

License and Partner for New Tests and Technology

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**Demonstrated Genomic and  
Esoteric Strategy Execution**

**CMBP**

Cancer

Genetics (Cystic Fibrosis)

Infectious Disease  
(GENOSURE)

**Clinical Trials**

Drug Metabolism

**Internal**

**NGI**

Infectious Disease:  
Hepatitis C

PCR Plasma

**ViroMed**

Infectious Disease:

HIV, Hepatitis, West Nile

Real-time PCR

**Path Labs**

Hospital Esoteric

**DIANON**

Cancer/Anatomic Pathology

**Acquisition**

**Myriad Genetics**

Predictive Tests:

Breast / Ovarian and Colon  
Cancer

Melanoma

Hypertension

**Correlogic Systems**

Ovarian Cancer

**Celera Diagnostics**

Breast and Prostate Cancer

Alzheimer's Disease

**EXACT Sciences**

Colorectal Cancer

**Atherotech**

VAP Cholesterol

**BioPredictive**

Liver Fibrosis

**License / Partner**

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**9/30/03**

**9/30/04**

**Revenue**

**\$752.0**

**Operating Expense**

**\$613.3**

**Operating Income**

**\$138.7**

**Margin**

**18.4**

**%**

**EBITDA**

**\***

**\$183.9**

**Margin**

**24.5**

**%**

**Bad Debt % to revenue**

**7.0**

**%**

**DSO**

**53**

**\$781.5**

**\$628.7**

**19.6**

**%**

**\$200.8**

**25.7**

**%**

**6.25**

**%**

**52**

### **Third Quarter Operating Results**

**(\$ in millions)**

(1) For definition of EBITDA and a reconciliation to the most comparable measure under Generally Accepted Accounting Principles, see Company's 3rd quarter 2004 earnings release furnished on Form 8-K on October 21, 2004.

(2) Q3 '03 results above exclude restructuring and other one-time charges relating to the Company's integration of its DIANON and Dynacare acquisitions.

**\$152.8**

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**2004 Third Quarter Financial  
Achievements**

Diluted EPS of \$0.66

EBITDA margin of 25.7% of sales

Operating cash flow of \$137.2 million

Increased revenues approx. 4% (2% volume;  
2% price)

Estimated 1% volume impact due to severe  
weather, \$0.02 impact on EPS

Repurchased approximately \$68 million of  
LabCorp stock

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**YTD 9/30/03**

**Revenue**

**\$2,207.9**

**Operating Expense**

**\$1,801.6**

**Operating Income**

**\$406.3**

**Margin**

**18.4 %**

**EBITDA**

**\$537.0**

**Margin**

**24.3**

**%**

**Bad Debt % to revenue**

**7.5**

**%**

**DSO**

**53**

**\$2,318.3**

**\$1,857.0**

**\$461.3**

**19.9**

**%**

**\$602.8**



**26.0**

*%*

**6.4**

*%*

**52**

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

**YTD 9/30/04**

(1) For definition of EBITDA and a reconciliation to the most comparable measure under Generally Accepted Accounting Principles, see Company's 3rd quarter 2004 earnings release furnished on Form 8-K on October 21, 2004.

(2) YTD 03 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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**2004 Nine-Month Financial  
Achievements**

Increased revenues 5% (approx. 4%  
volume; 1% price)

EBITDA margin of 26% of sales

Diluted EPS of \$1.97

Operating cash flow of \$431.5 million

Completed our \$250 million share  
repurchase program

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**Financial Performance**

*Price & Volumes: Trends by Payor Type*

**Client (Physicians)**

**Patient**

**Third Party**

**(MC/MD/Insurance)**

**Managed Care**

**Capitated**

**Fee for service**

**Total**

**LabCorp Total**

**2002**

**PPA**

**\$**

**Accessions**

**millions**

**26.27**

**119.93**

**31.87**

**9.28**

**44.79**

**30.45**

**\$31.71**

**29.6**

**2.3**

**14.8**

13.1

19.3

32.4

79.1

2003

PPA

\$

millions

27.07

118.48

34.25

9.95

45.68

32.74

\$33.43

31.7

2.5

18.1

12.9

22.7

35.6

87.9

Accessions

YTD 2004

PPA

\$

**millions**

**26.54**

**122.91**

**34.63**

**10.17**

**45.74**

**33.28**

**\$33.69**

**24.8**

**1.9**

**14.1**

**9.8**

**18.2**

**28.0**

**68.8**

**Accessions**

**14**

***Financial Performance***

**Revenue Analysis by Business Area**

**YTD SEPT 2003**

**Revenue**

**% Accns**

**Accns**

**PPA**

**\$Million**

**to total**

**000**

**\$**

**Genomic**

**Identity/Gene  
Probes**

**All Genomic**

**Other Esoteric**

**Histology**

**All Genomic/  
Esoteric**

**Core**

**Total**

**213.6**

**1,733.8**

**2.6%**

**123.21**

**114.4**

**328.0**

**188.4**

**148.4**

**664.8**

**1,543.1**

**2,207.9**

**2,628.0**

**4,631.8**

**4,615.7**

**1,619.0**

**10,596.5**

**55,451.4**

**66,047.9**

**4.0%**

**6.6%**

**7.0%**

**2.4%**

**16.0%**

**84.0%**

**100.0%**

**43.52**

**75.20**

**40.81**

**91.67**

**62.74**

**27.83**

**33.43**

**YTD SEPT 2004**

**Revenue**

*% Accns*

**Accns**

**\$Million**

**to total**

**000**

221.7

1,888.4

2.8%

117.40

125.0

346.7

221.8

146.0

714.5

1,603.8

2,318.3

2,843.3

4,731.7

5,360.1

1,587.8

11,679.6

57,141.7

68,821.3

4.1%



**6.9%**

**7.8%**

**2.3%**

**17.0%**

**83.0%**

**100.0%**

**43.96**

**73.27**

**41.38**

**91.96**

**61.17**

**28.07**

**33.69**

**PPA**

**\$**

**(4.7%)**

**1.0%**

**(2.6%)**

**1.4%**

**0.3%**

**(2.5%)**

**0.9%**

**0.9%**

**04 vs 03**

**PPA**

**Incr/(Decr)**



**Cash Investment Strategy**

\$90 million in capital expenditures

\$50 to \$60 million for selected acquisitions (core, esoteric or anatomic pathology labs)

Share repurchases - approx. \$250 million completed year-to-date, new \$250 million stock repurchase program recently approved

Retain flexibility in utilizing remaining cash

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**New Accounting - EPS**

In September, the EITF reached consensus on EITF Issue No. 04-8, which changes the accounting for contingently issuable shares.

Using the if converted method as if the company's zero coupon-subordinated notes had been converted as of January 1, 2004, diluted EPS would have been reduced by approximately \$0.03, to \$0.63 and by \$0.10 to \$1.87; for the three and nine months ended September 30, 2004, respectively.

We are required to adopt the provision at the end of 2004, including retroactive restatement of all diluted EPS calculations presented.

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**Financial Guidance for 2004**

Revenue growth of approximately 5% to 6% compared to 2003, including small acquisitions and/or new contracts

EBITDA margins of approximately 25.5% of sales

EPS in the range of \$2.55 to \$2.60

Free cash flow\* of approximately \$475 to \$500 million

*\* Free cash flow is defined as operating cash flow, minus capital expenditures.*

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**Financial Guidance for 2004 (*cont d.*)**

Bad debt rate of 6.25% for the 3rd and 4th quarters of 2004

Net interest expense of approximately \$36 million

Tax rate of 41%

Guidance does not include additional share repurchases after September 30, or the effect of adoption of EITF No. 04-8

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**Preliminary Financial Guidance  
for 2005**

Revenue growth of approximately 4% to 6% compared to 2004

EPS growth in the range of 8% to 10% as compared to the current First Call 2004 mean estimate EPS of \$2.58 as reported by Thomson Financial

Guidance does not include possible significant contributions from new tests, additional share repurchases after September 30, or the effect of adoption of EITF No. 04-8

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**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

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*Other Financial Information*

*For the Quarter Ended September 30, 2004*

**Depreciation**

**Amortization**

**Capital expenditures**

**Bad debt as a percentage of sales**

**Q1**

**Q2**

**23.0**

**Q3**

**Zero coupon-subordinated notes**

**Revolving credit facility  
(weighted average)**

**Cash flows from operations**

**Effective interest rate on debt:**

**5 1/2% Senior Notes (including  
effect of interest rate swap)**

**Days sales outstanding**

**YTD  
2004**

**\$**

**23.3**

**\$**

**23.5**

**\$**

**69.8**

**\$**

**10.3**  
**10.5**  
**10.9**  
**31.7**  
**20.2**  
**22.4**  
**16.5**  
**59.1**  
**147.6**  
**146.7**  
**137.2**  
**431.5**  
**6.75%**  
**6.25%**  
**6.25%**  
**6.49%**  
**2.00%**  
**2.00%**  
**2.00%**  
**2.00%**  
**5.38%**  
**5.38%**  
**5.38%**  
**5.38%**  
**1.95%**  
**2.21%**

2.62%

2.21%

54

52

52

52

\$

\$

\$

\$

\$

\$

\$

\$

\$

\$

\$

\$

(\$ in millions)

22

