

LABORATORY CORP OF AMERICA HOLDINGS

Form 8-K

October 30, 2002

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 30, 2002,

(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 30, 2002.

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

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Executive Vice President
and Secretary

Date: October 30, 2002

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, 2001 and subsequent filings.

Laboratory Testing Overview

- 3-4% of health care spending
- Influences/directs 80% of health care spending
- Growing market
- Role and importance of testing are increasing

LabCorp's Industry-leading Financial Indicators

- EBITDA Percentage of Sales: 22.3% in Q3
- Strong Balance Sheet
- Investment Grade Credit Rating

The Clinical Laboratory Testing Market
US market is approximately \$34-36 billion

| CLINICAL LABORATORY TESTING | | INDEPENDENT CLINICAL LABORATORIES | |
|-----------------------------|-----|-----------------------------------|-----|
| Hospitals | 49% | All others | 82% |
| Independent Clinical Labs | 39% | LabCorp(\$2.44b) | 18% |
| Physician Offices | 12% | | |

Source: Company estimates, industry reports & 2001YE revenue for LabCorp and Dynacare

MAP OF COMBINED TESTING LOCATIONS & PSC's (Includes Dynacare)

LabCorp's Strategy

Expand leadership position in genomic testing by utilizing our national infrastructure (anchored by core testing) to offer a broad menu of genomic tests

Strategic Approach

- 1) Develop/Be First to Offer New Tests (Internal/External)

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- HER2/neu
- HPV
- HIV/HCV
- Cystic fibrosis

2) License New Tests and Methods

- Celera (breast and prostate cancer, Alzheimer's)
- EXACT Sciences (colon cancer)
- Myriad Genetics (breast, ovarian cancer)
- VIRCO (HIV phenotyping)

3) Acquisitions

- National Genetics Institute (plasma testing, clinical studies)
- ViroMed (lyme disease, West Nile virus)

Expectations from Strategy

- Ensure long-term growth
- Shift toward higher priced tests and services
- Volumes are lower, profitability higher
- Must understand volume versus price relationship (balance)

Financial Performance

Price & Volumes: Trends by Payor Type

| | 2000 | | 2001 | | YTD SEPT 2002 | |
|---------------------|---------|------------|---------|------------|---------------|------------|
| | PPA | Accessions | PPA | Accessions | PPA | Accessions |
| | \$ | millions | \$ | millions | \$ | millions |
| Client (Physicians) | 22.70 | 27.1 | 24.46 | 27.9 | 25.99 | 22.2 |
| Patient | 102.87 | 2.2 | 111.28 | 2.5 | 119.00 | 1.7 |
| Third Party | 29.80 | 10.3 | 31.59 | 12.2 | 32.49 | 10.7 |
| (MC/MD/Insurance) | | | | | | |
| Managed Care | | | | | | |
| - Capitated | 8.89 | 10.6 | 8.90 | 11.9 | 9.28 | 9.6 |
| - Fee for service | 42.32 | 16.0 | 43.45 | 17.2 | 44.72 | 14.4 |
| Total | 28.97 | 26.6 | 29.27 | 29.1 | 30.52 | 24.0 |
| LabCorp Total | \$28.98 | 66.2 | \$30.69 | 71.7 | \$31.71 | 58.6 |

Financial Performance

Revenue Analysis by Business Area

| | YTD SEPT 2001 | | | |
|----------------|----------------------|--------------|--------------------|-----------|
| | Revenue \$Million | Accns 000 | %Accns to total | PPA \$ |
| Prior Genomic | 123.9 | 1,029.6 | 1.9% | 120.38 |
| Add'l Genomic* | 83.6 | 2,009.5 | 3.8% | 41.63 |
| Other Esoteric | 166.5 | 4,158.0 | 7.8% | 40.04 |
| All Esoteric: | 374.0 | 7,197.1 | 13.5% | 51.98 |

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| | | | | |
|--------|---------|----------|--------|-------|
| Core: | 1,262.0 | 46,336.3 | 86.5% | 27.23 |
| Total: | 1,636.0 | 53,533.4 | 100.0% | 30.56 |

| | YTD SEPT 2002 | | | | 02 vs 01 |
|----------------|----------------------|--------------|--------------------|-----------|------------------------|
| | Revenue \$Million | Accns 000 | %Accns to total | PPA \$ | PPA Incr/ (Decr) |
| Prior Genomic | 148.8 | 1,304.0 | 2.2% | 114.13 | (5.2)% |
| Add'l Genomic* | 96.4 | 2,389.3 | 4.1% | 40.36 | (3.0)% |
| Other Esoteric | 183.3 | 4,434.1 | 7.6% | 41.32 | 3.2% |
| All Esoteric: | 428.5 | 8,127.4 | 13.9% | 52.72 | 1.4% |
| Core: | 1,429.1 | 50,451.5 | 86.1% | 28.33 | 4.0% |
| Total: | 1,857.6 | 58,578.9 | 100.0% | 31.71 | 3.8% |

* Includes identity testing and gene probes (chlamydia and gonorrhea)

Third Quarter Operating Results
(\$ in millions)

| | 9/30/01 | 9/30/02 |
|-----------------------|---------|---------|
| Revenue | 560.9 | 655.2 |
| Operating Expense | 460.6 | 541.5 |
| Operating Income | 100.3 | 113.7 |
| Margin | 17.9% | 17.4% |
| EBITDA | 125.3 | 145.9 |
| Margin | 22.3% | 22.3% |
| Bad Debt % to revenue | 9.00% | 8.40% |
| DSO | 62 | 56 |

1) Q3 02 results above exclude restructuring and other one-time charges relating to the Dynacare transaction.

2002 Third Quarter Financial Achievements

- Increased revenues per day 15.0% (volume 11.4%; price 3.6%)
- EBITDA margins of 22.3%
- Increased diluted EPS 12.2%*
- Operating cash flow of \$121.1 million

*Before special charges, compared to pro forma prior year EPS, after the required change in goodwill accounting and special items.

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Nine Month Operating Results

(\$ in millions)

| | YTD 9/01 | YTD 9/02 |
|-----------------------|----------|----------|
| Revenue | 1,636.0 | 1,857.6 |
| Operating Expense | 1,345.8 | 1,493.4 |
| Operating Income | 290.2 | 364.2 |
| Margin | 17.7% | 19.6% |
| EBITDA | 363.8 | 439.9 |
| Margin | 22.2% | 23.7% |
| Bad Debt % to revenue | 9.0% | 8.4% |
| DSO | 62 | 56 |

1) YTD 02 results above exclude restructuring and other one-time charges relating to the Dynacare transaction.

2002 Nine Month Financial Achievements

- Increased revenues 13.5% (volume 9.5%; price 4.0%)
- EBITDA margins of 23.7%
- Increased diluted EPS 24.6%*
- Operating cash flow of \$326.4 million
- DSO decline of 6 days from Sept 2001

*Before special charges, compared to pro forma prior year EPS, after the required change in goodwill accounting and special items.

Quarterly DSO Trend

DSO Trend December '97 through September '02

| | |
|--------------------------|--------------------------|
| December 1997 - 79 days | September 2000 - 70 days |
| December 1998 - 83 days | December 2000 - 68 days |
| March 1999 - 83 days | March 2001 - 67 days |
| June 1999 - 79 days | June 2001 - 64 days |
| September 1999 - 76 days | September 2001 - 62 days |
| December 1999 - 74 days | December 2001 - 58 days |
| March 2000 - 72 days | March 2002 - 60 days |
| June 2000 - 70 days | June 2002 - 58 days |
| | September 2002 - 56 days |

Recent Accomplishments

- Preferred provider contract with Premier
- Completed acquisition of Dynacare and Immunodiagnostic Laboratories (N. California)
- Established \$150 million stock repurchase program

Financial Guidance for 2002*

- Revenue growth of approximately 14% compared to 2001 (approximately 10.5% volume and 3.5% price)
- Adjusted EBITDA margins of approximately 22.5% of sales (including EBITDA from Dynacare equity investments)
- EPS of approximately \$1.83

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- Bad debt rate of approximately 8.4% of sales in the fourth quarter
- Free cash flow of approximately \$350 million (net of Cap Ex of approximately \$85 million)
- Net interest expense of \$15.5 million
- A tax rate of approximately 41.5% in the fourth quarter

*Including the impact of Dynacare, but not including restructuring charges related to that acquisition

Preliminary Financial Guidance for 2003

- Increase overall revenues by approximately 13% to 14% compared to 2002
- EPS growth of approximately 20% compared to 2002

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
- Solid growth potential driven by genomic strategy

Other Financial Information

September 30, 2002

(\$ in millions)

| | Q1 02 | Q2 02 | Q3 02 | YTD Sept-02 |
|-----------------------------------|---------|---------|---------|----------------|
| | ----- | ----- | ----- | ----- |
| Depreciation | \$ 16.1 | \$ 17.1 | \$ 19.2 | \$ 52.4 |
| Amortization | \$ 5.1 | \$ 5.2 | \$ 6.1 | \$ 16.4 |
| Capital expenditures | \$ 18.4 | \$ 19.5 | \$ 17.0 | \$ 54.9 |
| Cash flows from operations | \$112.2 | \$ 93.1 | \$121.1 | \$326.4 |
| Bad debt as a percentage of sales | 8.75% | 8.75% | 8.40% | 8.63% |
| Effective interest rate on debt | 2.00% | 2.00% | 2.00% | N/A |
| Days sales outstanding | 60 | 58 | 56 | 56 |