

# Laboratory Corporation of America Holdings (NYSE: LH)

## Sector: Agriculture and Forestry (NAICS: 11)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$117.00	\$92.15	\$108.00	\$87.01	.59	15.15	\$8.09B (Mid Cap)	0%

### Industry Trends

There are a series of long term trends that will work in LH's favor for the foreseeable future. One of the most significant trends in the healthcare industry in the U.S. is its aging population and the associated costs for providing healthcare services to this growing segment of the population, which is expected to grow at 3% per year through 2030 to represent 19% of the total US population. Also, the implementation of Healthcare Reform will herald a series of changes to the healthcare system. Healthcare Reform aims to provide health insurance coverage to 47 million uninsured Americans. It also requires insurance companies to cover basic preventative care for all of their plans at little or no copay. An ongoing process in healthcare reform is in efforts to reduce the overall cost of healthcare by reducing inefficiencies and increasing quality to create a healthier population.

Within the laboratory space, the industry is currently in the process of consolidating smaller, local and regional labs under LH and its competitor Quest Diagnostics.

### Investment Thesis

The aforementioned industry trends all work in LH's favor. An aging population with better health insurance coverage, with a greater focus on preventative care, means that more testing will have to be done to monitor and ensure that the population remains healthy. LH will be a critical component in reducing the overall costs of healthcare, and thus its services will be in high demand from governments, hospitals, and insurance companies.

### Business Summary

Laboratory Corporation of America Holdings is a clinical laboratory company in the United States that provides a wide range of testing services to hospitals, pharmaceutical companies, Managed and Accountable Care Organizations, and individual patients. LH provides both routine and niche testing for patients' diagnosis, as well as performing clinical trial research for pharmaceutical companies. LH is also branching out into related IT services for the purposes of patient medical data management and decision support systems for healthcare professionals.

### LH 5-year stock performance vs. S&P 500:



(Google Finance)

### Corporate Social Responsibility:

ESG Disclosure Rating	14.05 (Ind. Avg.: 16.66)
Environmental Disclosure Score	N/A (Ind. Avg.: 12.56)
Carbon Disclosure Score	N/A (Ind. Avg.: 39.00)
Social Disclosure Score	8.77 (Ind. Avg.: 18.22)
Governance Disclosure Score	51.79 (Ind. Avg.: 51.69)
Equal Opportunity Policy	No (Ind. Avg.: Yes)
Community Spending	N/A (Ind. Avg.: 36.62)
Total Energy Consumption	N/A (Ind. Avg.: .66)

Source: Bloomberg Terminal. Value Line Investment Survey. Google Finance

### Competition:

- LH's primary competitor is Quest Diagnostics (DGX) with a market cap of \$7.60B, which is the next largest national laboratory company. The only other labs are smaller, local and regional labs that are too small to be considered.

### Pros:

- Management focuses on creating shareholder value. LH returns half of its free cash flow to shareholders through share buybacks.
- Management also allocates capital well. The other half of its free cash flow is spent on acquisitions, which expand its capabilities, improve its scale, and geographic reach
- Won contract with United Healthgroup away from its competitor Quest. Provides lab testing services to much of United's network.
- Is innovating through IT developments to create new services that will reduce costs of healthcare while improving quality.

### Cons:

- Revenues come from governments, hospitals, and health insurance companies. Because they are so large, they have the power to negotiate pricing, which could erode some of LH's profits.
- If governments decide to decrease the amount of money to pay LH or LH's payers, then LH's revenues will be negatively impacted.

### Value Estimate:

**\$125 - \$155**

(2016-2018)

**Estimated Real Annual Return:**

**6%-12%**

### Overall Rating:

Overall Rating:	Four Stars
Expected inflation	3%
Current EPS	6.32
Forecasted EPS Growth	5%
Credit Quality	BBB
ROE	22.08%
ROA	8.35%
Price/Book	3.23
Debt/Equity	103.03
Debt/Capital	50.75
Current Ratio	.4
Price/Cash Flow	10.11
10 yr. Risk Free Rate	2.8%
WACC	5.49%

### Report Prepared By:

**Robert Bailey**

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