LabCorp

Laboratory Corporation of America

# 8-K Filed July 24, 2008

# Introduction

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, 2007, and subsequent SEC filings.



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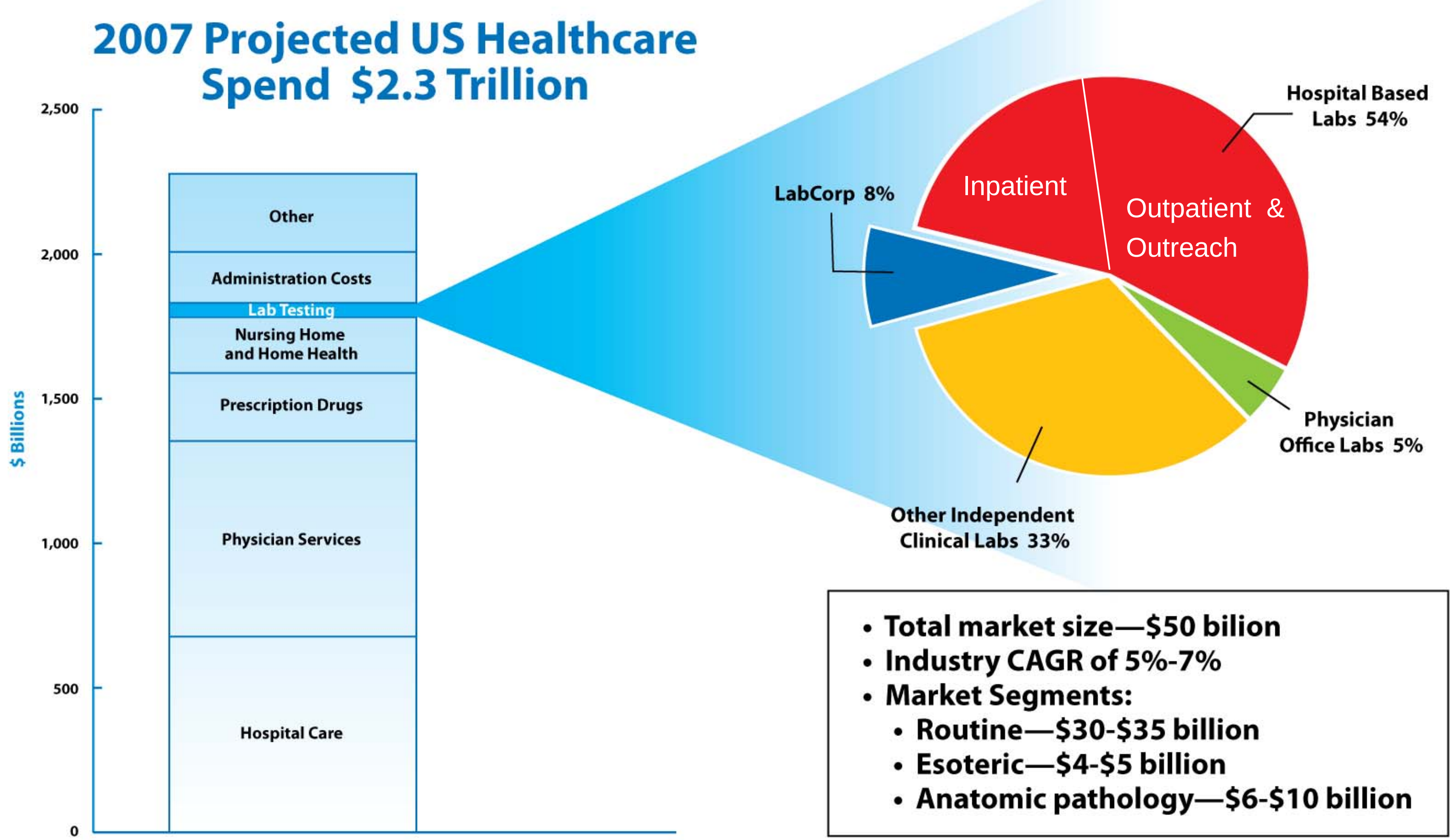
# The US Healthcare & Clinical Laboratory Testing Market




- Total market size—$50 bilion
- Industry CAGR of 5%-7%
- Market Segments:
  - Routine—$30-$35 billion
  - Esoteric—$4-$5 billion
  - Anatomic pathology—$6-$10 billion

Source: CMS, Office of the Actuary, G-2, and Company Estimates

# The Value of Lab Testing

***In the past, lab testing was primarily used to diagnose disease. Now, lab testing plays an increasingly large role in the full continuum of healthcare delivery***

Evaluate risk(s) of developing a disease / condition

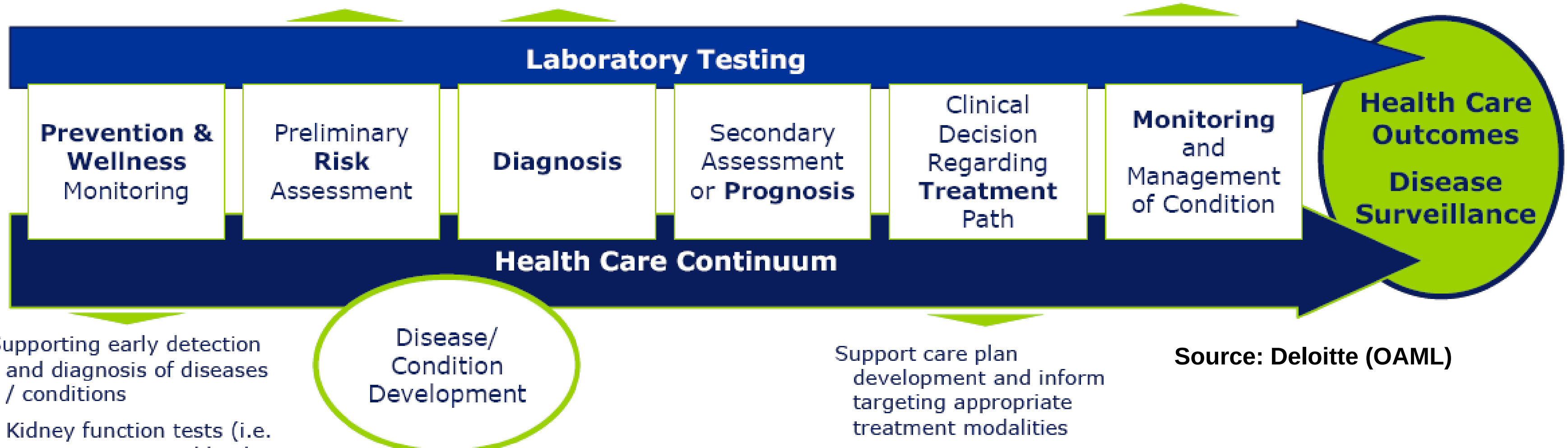
- Lipid testing to assess cardiovascular disease risk and reduce complications (i.e. heart attack, stroke) by 20-50%

Determining the existence of a disease / condition

- Liquid-based cytology for early detection of cervical cancer – where test / treatment costs are 15 to 28 times less expensive than early / late stage cervical cancer

Monitor / responding to patient progress, treatment effectiveness, and comorbid conditions (i.e. hypertension, eye disease, nerve disease)

- Hemoglobin A1c test for diabetes management and patient treatment compliance




Supporting early detection and diagnosis of diseases / conditions

- Kidney function tests (i.e. serum creatinine, blood urea nitrogen, eGFR) to help reduce the risk of kidney disease (by up to 24%) and prevent end-stage renal failure

Support care plan development and inform targeting appropriate treatment modalities

**Source: Deloitte (OAML)**

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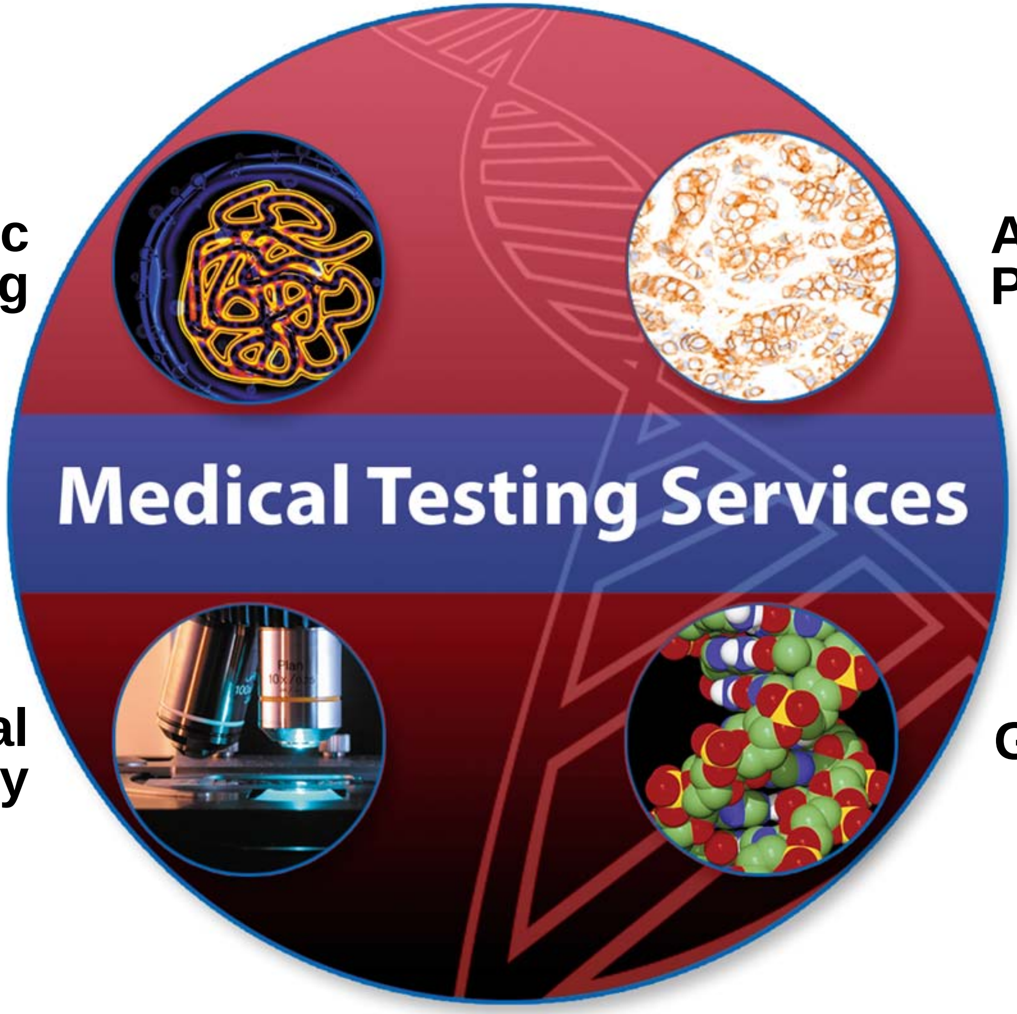
# What is LabCorp

Esoteric Testing

Anatomic Pathology




Clinical Pathology

Genomics



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# Our Infrastructure

70% of tests ordered electronically

90% of results delivered electronically

Lab Information System

Conduct >270 million tests annually


- 1600+ conveniently located PSCs
- 700 MDs & PhDs
- 6500+ phlebotomists

- 2600 couriers
- 1000 sales reps
- 7 airplanes


- Primary testing labs
- Esoteric Labs
- STAT Labs
- *Standardized Platforms*



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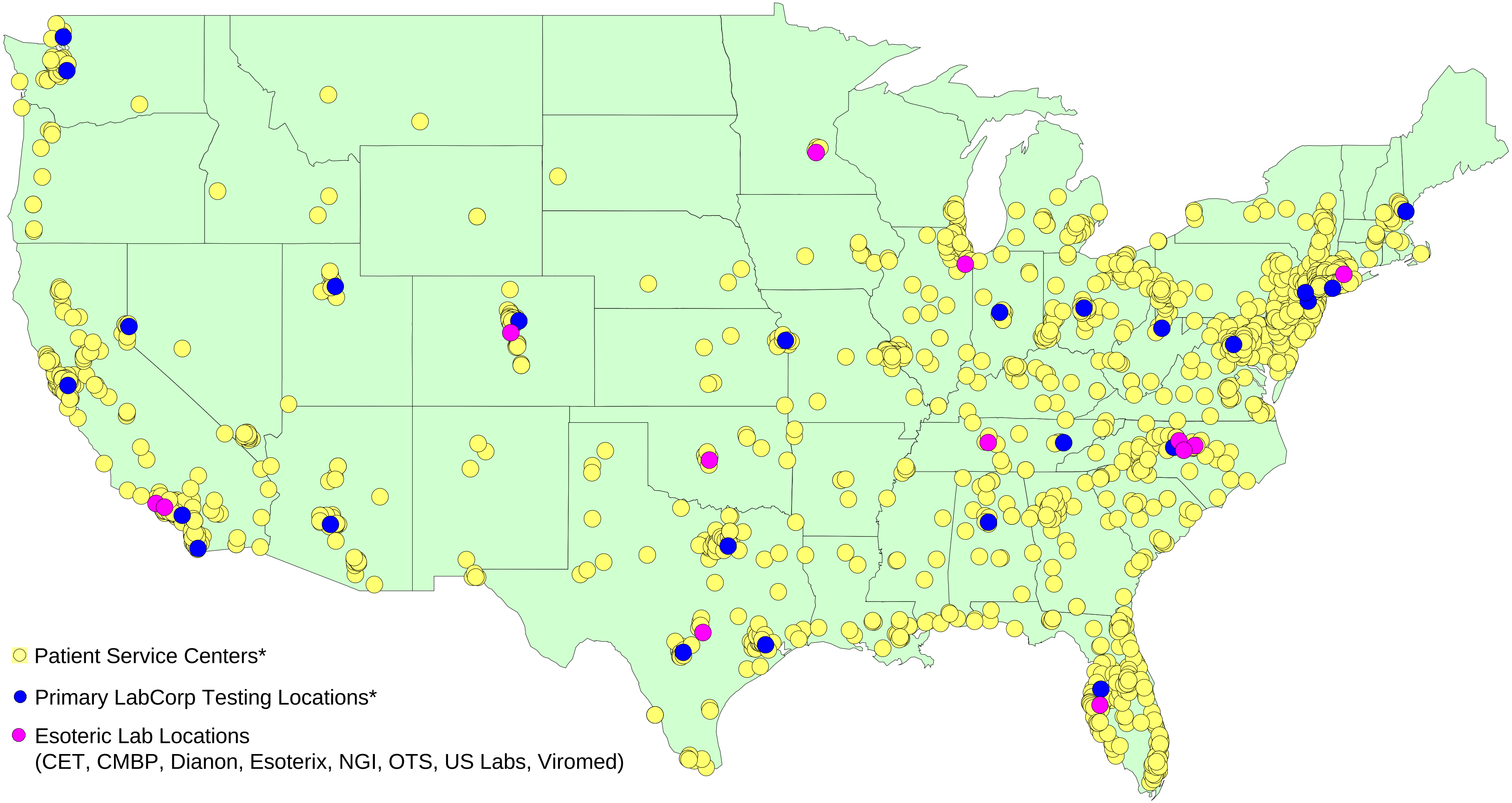
# Our Locations



# Strategic Focus Areas

## Scientific Leadership

- Cancer diagnostics and monitoring
- Advanced cardiovascular disease testing
- Advancement through acquisitions and licensing

## Managed Care

- Lab data enables better treatment and outcomes
- Partner to control high cost leakage
- Recognize value of lab services through appropriate pricing

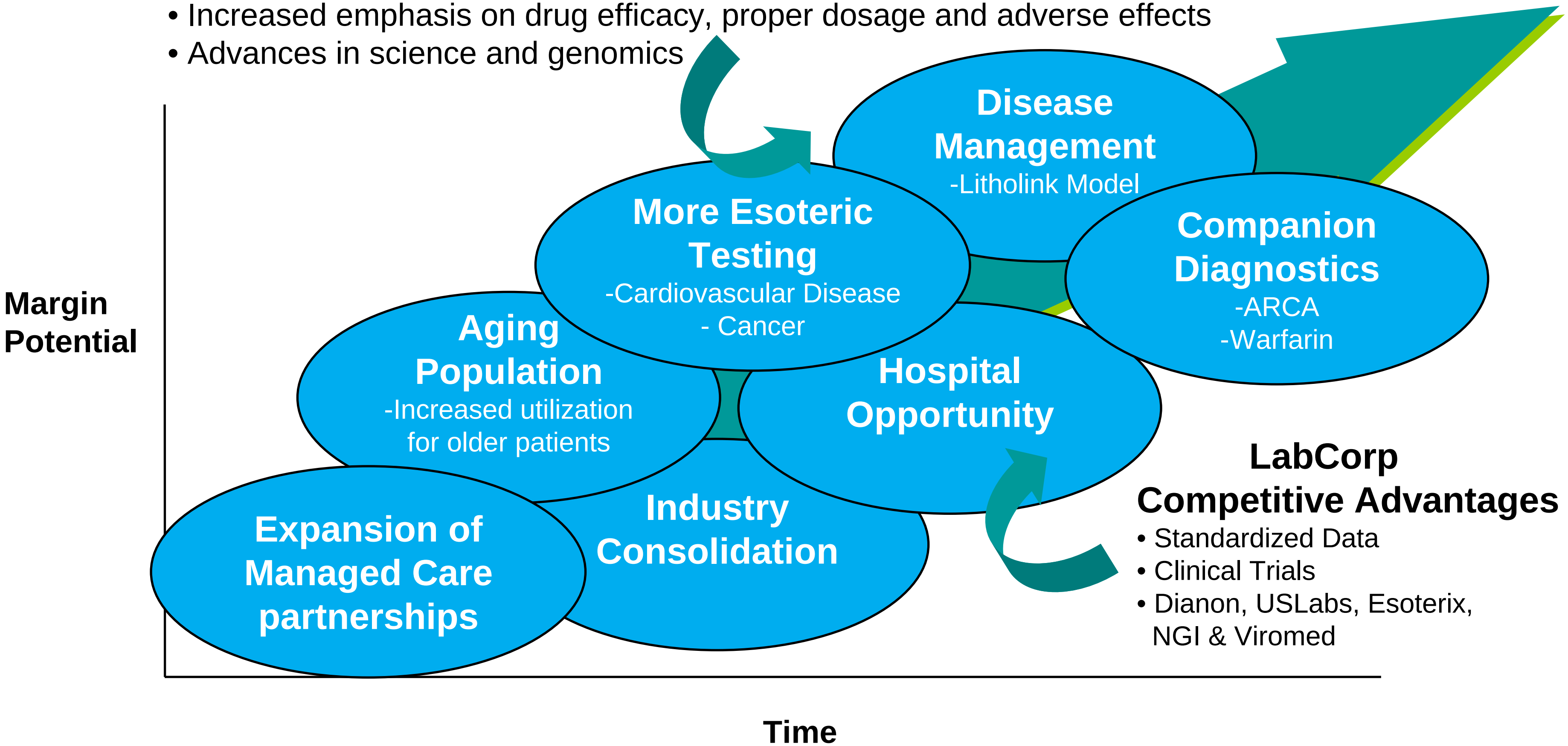
## Customer Focus

- Quality and service driven culture
- First-time problem resolution
- Continuous enhancements in customer connectivity

# Revenue Growth Drivers

## Industry Forces

- Focus on Outcomes and Cost Containment (Medical & Drug)
- Increased emphasis on drug efficacy, proper dosage and adverse effects
- Advances in science and genomics



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# EBITDA Margin Growth Drivers

1. **Increased volumes through fixed-cost infrastructure**
2. **Larger number of esoteric tests offered, more esoteric tests ordered**


3. **Further operational efficiencies**
   - Increase automation in pre-analytic processes
   - Logistics / route structure optimization
   - Supply chain management

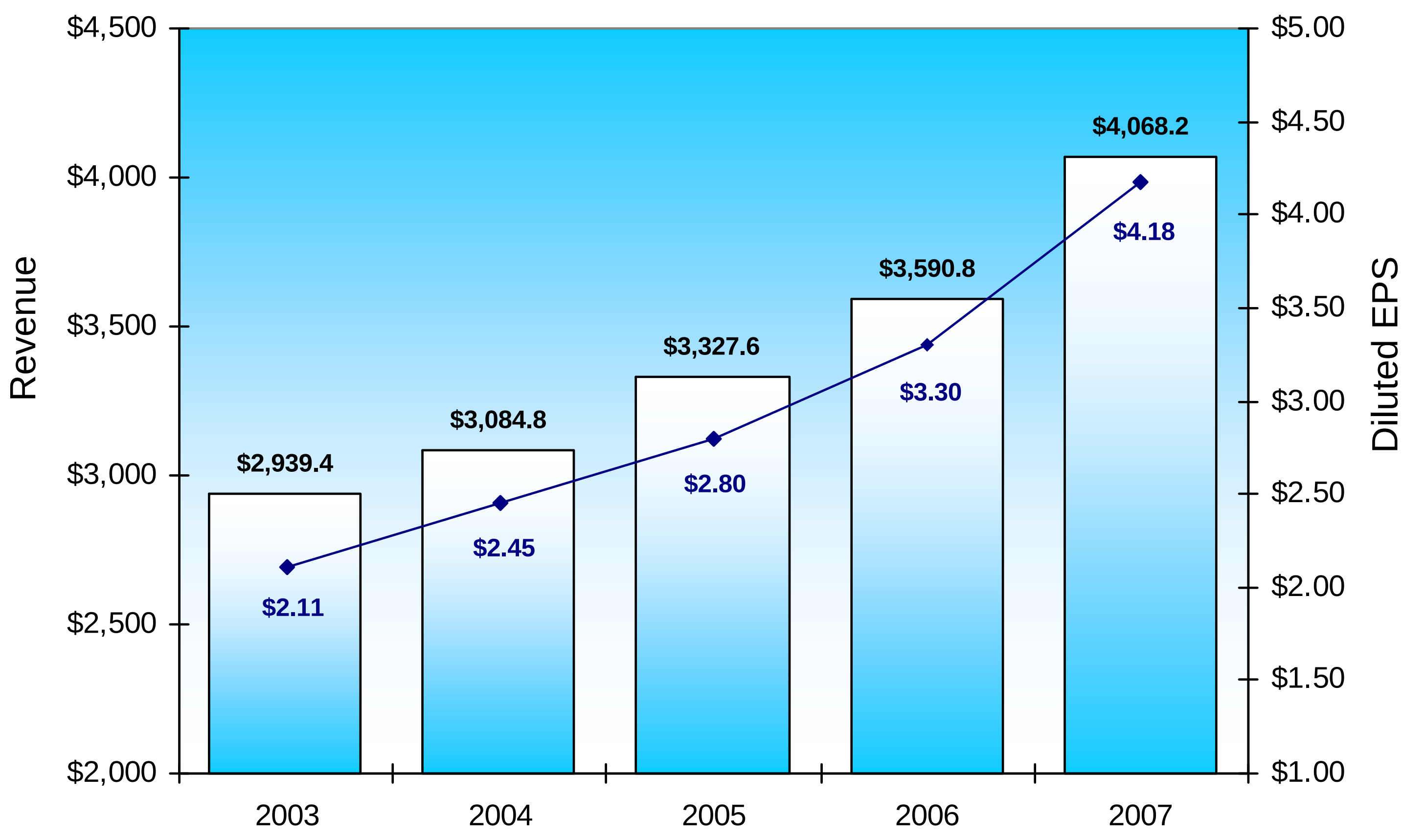
- Improved patient experience and data capture

# LabCorp's Investment and Performance Fundamentals

- **Industry-leading EBITDA margins**
- **Significant free cash flow**
- **Focus on providing value to shareholders**
  - Strategic acquisitions
  - Organic growth opportunities
  - Share repurchase
    - $359.3 Million available as of 6/30/08
- **Flexibility for future growth opportunities**

# Five-Year Revenue and EPS Trend

## Revenue CAGR of 8.5% – Diluted EPS CAGR of 18.6%




1. Excluding the $0.09 per diluted share impact in 2005 of restructuring and other special charges, and a non-recurring investment loss.
2. Excluding the $0.06 per diluted share impact in 2006 of restructuring and other special charges.
3. Excluding the $0.25 per diluted share impact in 2007 of restructuring and other special charges.



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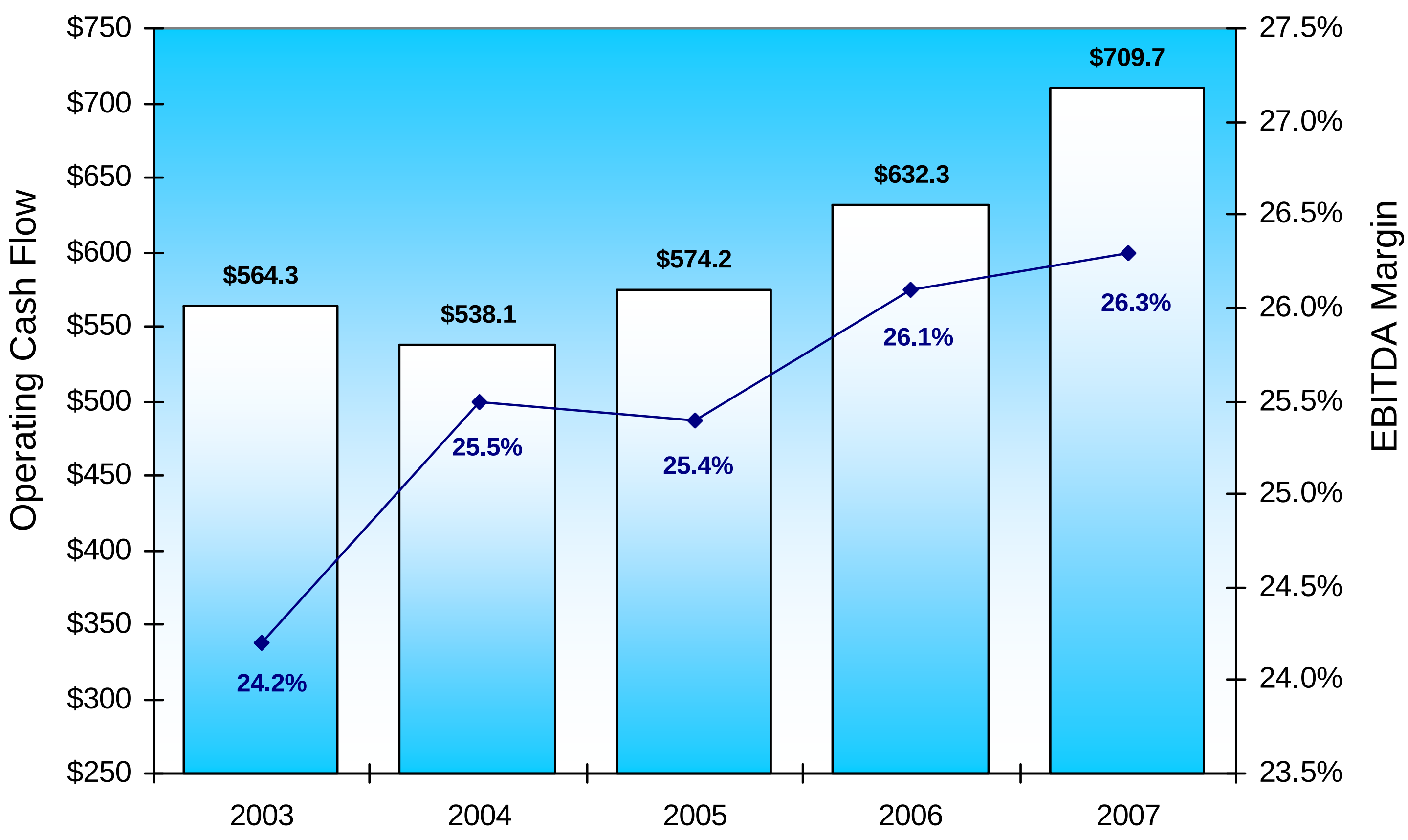
# Five-Year OCF and EBIDTA Margin Trend

## OCF CAGR of 6% – EBITDA Margin Growth of 210 bps




1. Includes approximately $50 million of benefit from one-time tax credits recorded in 2003.
2. Excluding the impact in 2005 of restructuring and other special charges and a non-recurring investment loss.
3. Excluding the impact in 2006 and 2007 of restructuring and other special charges
4. As a result of adopting FASB 123(R) in 2006, the Company recorded incremental stock compensation expense of $23.3 and $26.7 in 2006 and 2007, respectively.



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# Second Quarter Results

**(In millions, except per share data)**

| | 6/30/2007 | 6/30/2008 | +/(-) |
|---|---|---|---|
| **Revenue** | $ 1,043.1 | $ 1,147.8 | 10.0% |
| **EBITDA** (1) | $ 279.6 | $ 301.1 | 7.7% |
| **EBITDA Margin** | 26.8% | 26.2% | (60) bp |
| **Diluted EPS** (2) | $ 1.09 | $ 1.24 | 13.8% |

(1) Excludes restructuring and other special charges of $4.1 and $61.0 million recorded by the Company in the second quarter of 2007 and 2008, respectively.

(2) Excludes the $0.04 and $0.32 per diluted share impact of the restructuring and other special charges recorded in the second quarter of 2007 and 2008, respectively.



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# YTD Second Quarter Results

**(In millions, except per share data)**

| | 6/30/2007 | 6/30/2008 | +/(-) |
|---|---|---|---|
| **Revenue** | $ 2,041.8 | $ 2,251.0 | 10.2% |
| **EBITDA** [(1)] | $ 540.1 | $ 586.6 | 8.6% |
| **EBITDA Margin** | 26.5% | 26.1% | (40) bp |
| **Diluted EPS** [(2)] | $ 2.06 | $ 2.38 | 15.5% |

(1) Excludes restructuring and other special charges of $4.1 and $61.0 million recorded by the Company through the second quarter of 2007 and 2008, respectively.

(2) Excludes the $0.03 and $0.32 per diluted share impact of the restructuring and other special charges recorded through the second quarter of 2007 and 2008, respectively.



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# 2008 Second Quarter Financial Achievements

- **Diluted EPS of $1.24 (1)**
- **EBITDA margin of 26.2% of net sales(2)**
- **Operating cash flow of $194.7 million**
- **Increased revenues**
  - **10.0% (9.0% volume; 1.0% price)**
  - **Excl. Canada 3.6% (1.3% volume, 2.3% price)**
- **Repurchased approximately $10.8 million of LabCorp stock**

(1) Excludes the $0.32 per diluted share impact of the restructuring and other special charges record in the second quarter of 2008

(2) Excludes restructuring and other special charges of $61.0 million recorded by the Company in the second quarter of 2008

# 2008 YTD Second Quarter Financial Achievements

- **Diluted EPS of $2.38 (1)**
- **EBITDA margin of 26.1% of net sales(2)**
- **Operating cash flow of $371.2 million**
- **Increased revenues**
  - **10.2% (8.8% volume; 1.4% price)**
  - **Excl. Canada 3.8% (1.4% volume, 2.4% price)**
- **Repurchased approximately $66.5 million of LabCorp stock**

(1) Excludes the $0.32 per diluted share impact of the restructuring and other special charges record through the second quarter of 2008

(2) Excludes restructuring and other special charges of $61.0 million recorded by the Company through the second quarter of 2008



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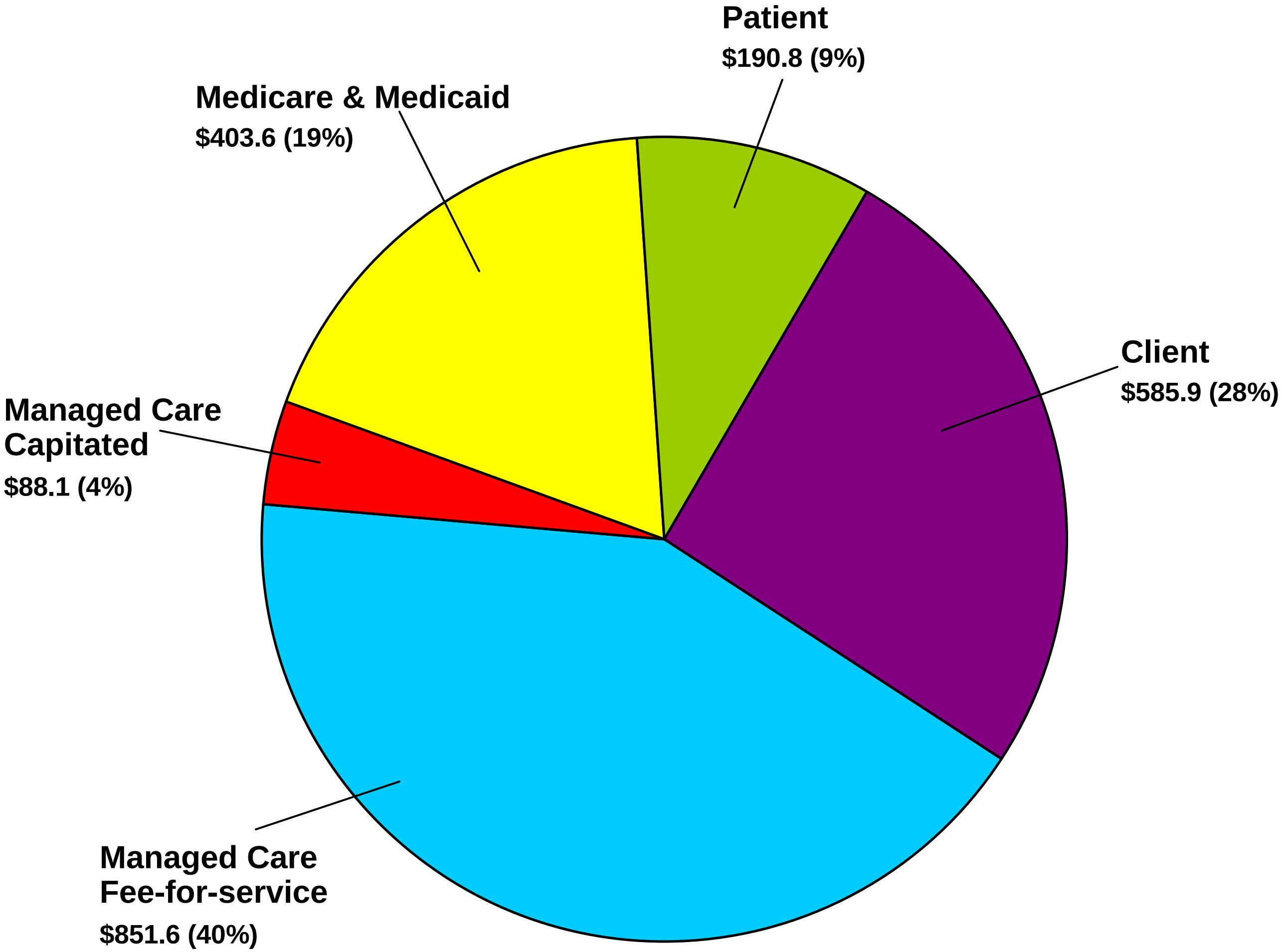
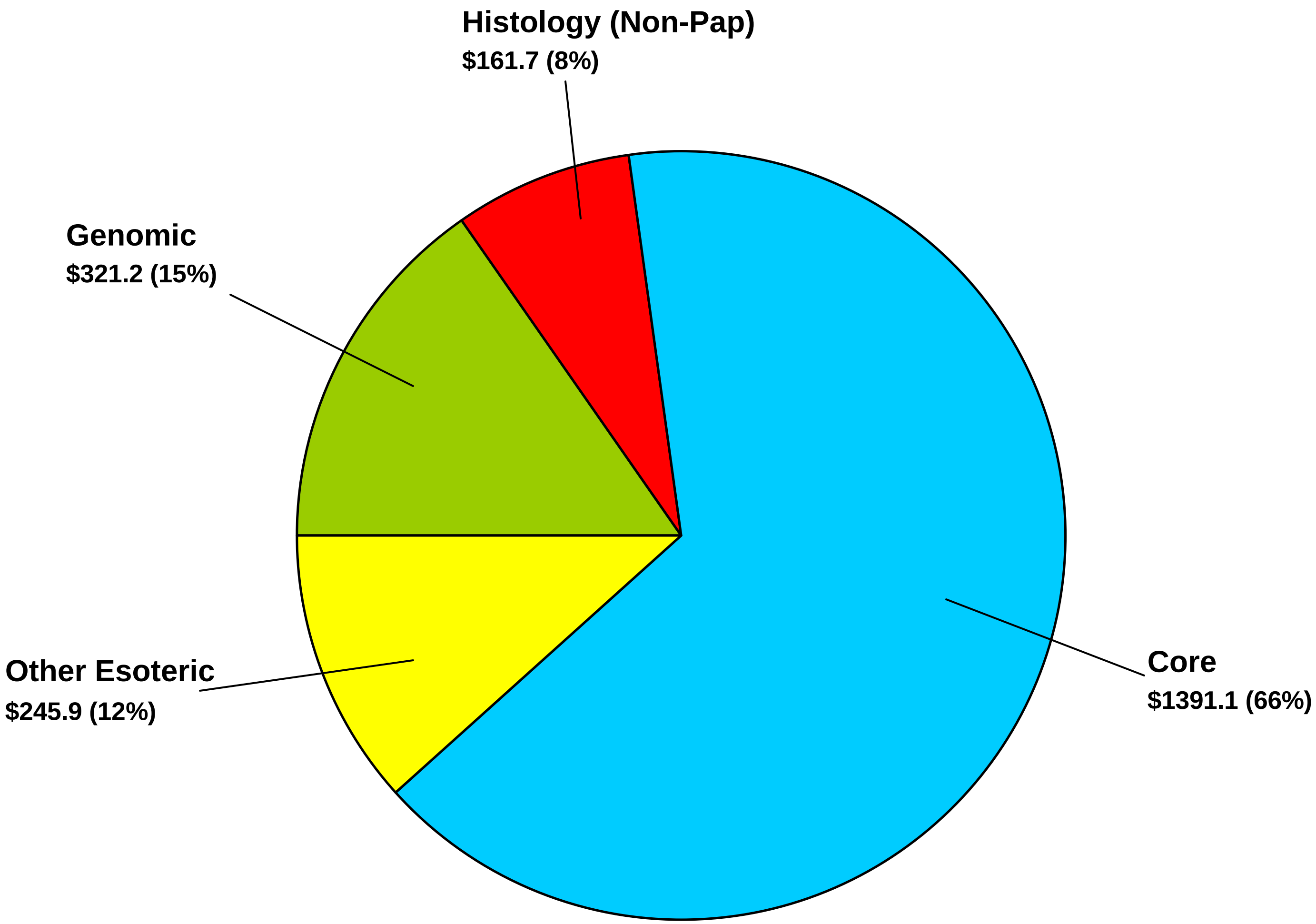
# Revenue by Payer- US YTD Q2 2008

(In millions)



# Revenue by Business Area - US YTD Q2 2008
(In millions)



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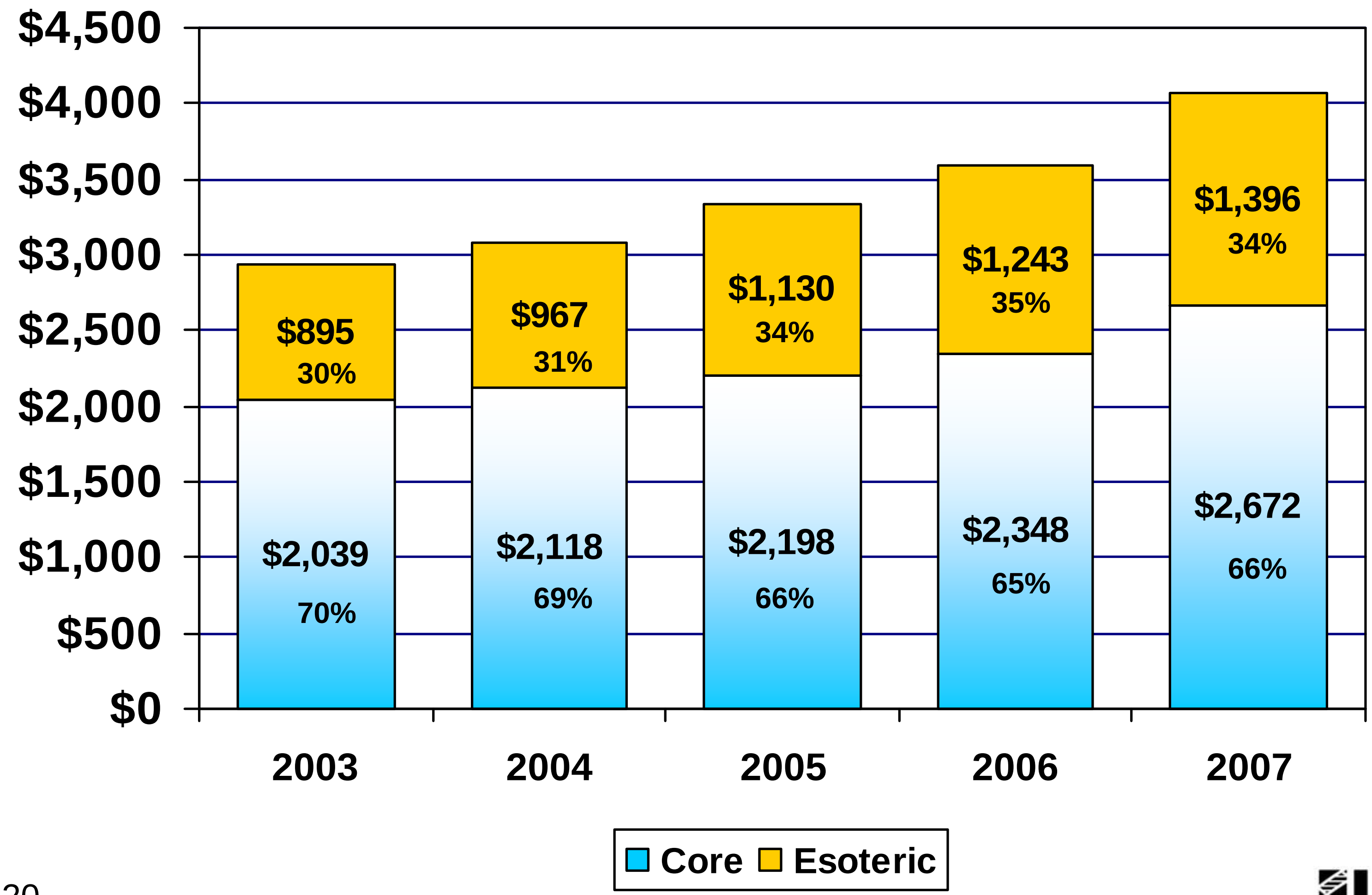
# Revenue Mix- US by Business Area
(In millions)



# Revenue by Payer – YTD Q2 2008
## (in millions, except PPA)

| | YTD Q2-2006 | | | | YTD Q2-2007 | | | | YTD Q2-2008 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue | | | | Revenue | | | | Revenue | | | |
| | $'s | % | Accns | PPA | $'s | % | Accns | PPA | $'s | % | Accns | PPA |
| **Client** | $ 487.0 | 27% | 16.645 | $ 29.26 | $ 525.1 | 26% | 17.071 | $ 30.76 | $ 585.9 | 28% | 17.625 | $ 33.24 |
| **Patient** | 169.7 | 10% | 1.148 | $ 147.81 | 195.5 | 10% | 1.226 | $ 159.44 | 190.8 | 9% | 1.156 | $ 165.08 |
| **Third Party (Medicare/Medicaid)** | 379.5 | 21% | 9.405 | $ 40.35 | 373.7 | 18% | 9.221 | $ 40.53 | 403.6 | 19% | 9.545 | $ 42.28 |
| **Managed Care:** | | | | | | | | | | | | |
| **- Capitated** | 70.7 | 4% | 6.701 | $ 10.55 | 86.8 | 4% | 7.765 | $ 11.18 | 88.1 | 4% | 7.501 | $ 11.74 |
| **- Fee for service** | 675.3 | 38% | 13.768 | $ 49.05 | 860.7 | 42% | 18.662 | $ 46.12 | 851.6 | 40% | 18.890 | $ 45.08 |
| **Total Managed Care** | 746.0 | 42% | 20.469 | $ 36.44 | 947.5 | 46% | 26.427 | $ 35.85 | 939.6 | 44% | 26.391 | $ 35.60 |
| **LabCorp Total - US** | $ 1,782.2 | 100% | 47.667 | $ 37.39 | $ 2,041.8 | 100% | 53.945 | $ 37.85 | $ 2,119.9 | 100% | 54.717 | $ 38.74 |
| **LabCorp Total - Canada** | $ - | - | - | - | $ - | - | - | - | $ 131.1 | | 3.935 | $ 33.32 |
| **LabCorp Total** | $ 1,782.2 | | 47.667 | $ 37.39 | $ 2,041.8 | | 53.945 | $ 37.85 | $ 2,251.0 | | 58.652 | $ 38.38 |



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# Revenue Mix by Business Area – YTD Q2 2008

## (in millions, except PPA)

| | YTD Q2-2006 | | | | YTD Q2-2007 | | | | YTD Q2-2008 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue | | | | Revenue | | | | Revenue | | | |
| | $'s | % | Accns | PPA | $'s | % | Accns | PPA | $'s | % | Accns | PPA |
| **All Genomic** | $ 274.4 | 15% | 3.543 | $ 77.45 | $ 314.3 | 15% | 4.246 | $ 74.01 | $ 321.2 | 15% | 4.310 | $ 74.53 |
| **Other Esoteric** | 190.8 | 11% | 4.577 | 41.69 | 220.3 | 11% | 5.396 | 40.83 | 245.9 | 12% | 5.951 | 41.32 |
| **Histology** | 147.9 | 8% | 1.195 | 123.79 | 164.1 | 8% | 1.367 | 120.02 | 161.7 | 8% | 1.284 | 125.90 |
| **All Genomic / Esoteric** | 613.1 | 34% | 9.315 | 65.83 | 698.7 | 34% | 11.009 | 63.47 | 728.8 | 34% | 11.546 | 63.12 |
| **Core** | 1,169.1 | 66% | 38.352 | 30.48 | 1,343.1 | 66% | 42.936 | 31.28 | 1,391.1 | 66% | 43.172 | 32.22 |
| **LabCorp Total - US** | $ 1,782.2 | 100% | 47.667 | $ 37.39 | $ 2,041.8 | 100% | 53.945 | $ 37.85 | $ 2,119.9 | 100% | 54.717 | $ 38.74 |
| **LabCorp Total - Canada** | $ - | - | - | - | $ - | - | - | - | $ 131.1 | | 3.935 | $ 33.32 |
| **LabCorp Total** | $ 1,782.2 | 100% | 47.667 | $ 37.39 | $ 2,041.8 | 100% | 53.945 | $ 37.85 | $ 2,251.0 | | 58.652 | $ 38.38 |



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# Financial Guidance - 2008

Excluding the impact of restructuring and other special charges and share repurchase activity after June 30, 2008, guidance for 2008 is:

| | |
|---|---|
| • Revenue growth | 10.3% to 11.3% |
| • EBITDA margins of approximately | 25.0% to 25.3% |
| • Diluted earnings per share of between | $4.54 and $4.66 |
| • Operating cash flow of approximately<br>(Excluding any transition payments to UnitedHealthcare) | $750 million to $770 million |
| • Capital expenditures of approximately<br>(Including capital dedicated to the Company's 2010 Plan) | $140 million to $160 million |
| • Net interest of approximately | $70 million |



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# Reconciliation of Non-GAAP Financial Measures

(In millions)

- EBITDA represents earnings before interest, income taxes, depreciation and amortization, and includes the Company's proportional share of the underlying EBITDA of the income from joint venture partnerships. The Company uses EBITDA extensively as an internal management performance measure and believes it is a useful, and commonly used measure of financial performance in addition to earnings before taxes and other profitability measurements under generally accepted accounting principles ("GAAP"). EBITDA is not a measure of financial performance under GAAP. It should not be considered as an alternative to earnings before income taxes (or any other performance measure under GAAP) as a measure of performance or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. The following table reconciles earnings before income taxes, representing the most comparable measure under GAAP, to EBITDA for the three- and six-month periods ended June 30, 2008 and 2007:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Earnings before income taxes | $ 177.8 | $ 219.4 | $ 399.7 | $ 428.3 |
| Add (subtract): | | | | |
| Interest expense | 17.3 | 12.6 | 37.2 | 25.2 |
| Investment income | (0.6) | (0.7) | (1.1) | (2.8) |
| Other (income) expense, net | 0.7 | 0.5 | 1.3 | 0.9 |
| Depreciation | 29.8 | 26.1 | 59.0 | 52.5 |
| Amortization | 14.6 | 13.4 | 28.4 | 26.7 |
| Restructuring and other special charges | 61.0 | 7.0 | 61.0 | 7.0 |
| Joint venture partnerships' depreciation and amortization | 0.5 | 1.3 | 1.1 | 2.3 |
| EBITDA | $ 301.1 | $ 279.6 | $ 586.6 | $ 540.1 |



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# Supplemental Financial Information

**Laboratory Corporation of America**
**Other Financial Information**
**June 30, 2008**
**($ in million's)**

| | Q1 08 | Q2 08 | YTD 2008 |
|---|---|---|---|
| Depreciation | $ 29.2 | $ 29.8 | $ 59.0 |
| Amortization | $ 13.8 | $ 14.6 | $ 28.4 |
| Capital expenditures | $ 37.9 | $ 40.9 | $ 78.8 |
| Cash flows from operations | $ 176.5 | $ 194.7 | $ 371.1 |
| Bad debt as a percentage of sales * | 5.03% | 8.90% | 7.00% |
| Effective interest rate on debt: | | | |
| Zero coupon-subordinated notes | 2.00% | 2.00% | 2.00% |
| 5 1/2% Senior Notes | 5.38% | 5.38% | 5.38% |
| 5 5/8% Senior Notes | 5.75% | 5.75% | 5.75% |
| Term loan | 3.67% | 3.67% | 3.67% |
| Revolving credit facility (weighted average) | 3.53% | 3.23% | 3.23% |
| Days sales outstanding | 58 | 54 | 54 |
| UnitedHeathcare transition payments - Billed | $ 9.6 | $ 9.1 | $ 18.7 |
| UnitedHeathcare transition payments - Paid | $ 13.0 | $ 8.5 | $ 21.5 |

* Includes $45.0 million increase in allowance for doubtful accounts recorded at June 30, 2008.
Going forward, bad debt as a percentage of sales is anticipated to be 5.28%.



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