Laboratory Corporation of America Holdings and Subsidiaries

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PART ONE: COMPANY OVERVIEW

Introduction

Purpose: To introduce Laboratory Corporation of America Holdings and describe the greater pharmaceutical industry.

Brief History of the Company. Laboratory Corporation of America Holdings, better known as LabCorp, is a diagnostic laboratories and pharmaceuticals giant, a world-leading provider of Covid-19 PCR test kits, known for the rapid development of testing Covid-19 viral RNA in patients globally. In 1995, an international business merger between Switzerland's National Health Laboratories and Roche Biomedical Laboratories in North Carolina created LabCorp, first led by Dr. James Powell (History | LabCorp, n.d.). A timeline of events from 1995 leading up to the 2020 pandemic highlights major brand acquisitions and the resulting structural changes to the LabCorp organization (History | LabCorp, n.d.):

2000. Acquisition of National Genetics Institute

2001. Acquisition of ViroMed laboratories molecular microbial testing

2002. Acquisition of Dynacare expanding presence to US Midwest and Canada

2003. Acquisition of DIANON Systems, now Dianon Pathology

2005. Acquisition of Esoterix and US LABS

2006. Acquisition of Litholink chronic disease management

2008. Acquisition of Tandem Laboratories clinical trials

2009. Acquisition of Monogram Biosciences HIV and cancer products

2010. Acquisition of Genzyme Genetics reproductive and oncology testing

2011. Acquisition of Orchid Cellmark expanding footprint to the UK

2012. Acquisition of MEDTOX Scientific, creation of three subsidiaries

2014. Acquisition of LipoScience and Bode Technology Group

2015. Acquisition of Covance drug development

2016. Acquisition of Sequenom prenatal and reproductive testing

2017. Acquisition of Chiltern, PAML and Mount Sinai's Clinical Outreach Labs

2019. Acquisition of MNG Laboratories neurology and neurogenetics

LabCorp developed into a Fortune 500 company (Haskins, 2019, para. 14). As of 2019, LabCorp's chairman and chief executive officer is Adam Schechter (Taylor, 2021, para. 5). Corporate headquarters is in the United States at Burlington, North Carolina (LabCorp, n.d., para. 2). LabCorp is publicly traded under the ticker symbol LH on the New York Stock Exchange (LabCorp, n.d., para. 3). LabCorp continues to grow its global presence through the expansion of "global facilities in cities like Leeds (U.K.), Shanghai (China), Mechelen (Belgium) and Singapore," (History | LabCorp, n.d.). LabCorp asserted itself in recent history as the "first commercial lab to launch PCR testing ... the company developed six EUA COVID tests and performed approximately 35 million COVID tests in 2020," (Zacks Equity Research, 2021, para. 4). LabCorp's crisis response to the pandemic depended upon rapid technological acquisition, automation, and manual assembly of Covid test kits amid concurrent emergency financial action to facilitate diagnostics and drug development operations throughout the 2020-21 period.

Principal Business Model of the Firm. LabCorp's 2020 quarterly financial statements reflect major business segments of diagnostics and drug development with special breakouts specific to Covid testing in addition to its base business (LabCorp, 2021b). LabCorp financial success stems from a record of accomplishment as a leading provider of diagnostic testing outside the scope of pandemic; particularly, in diagnostic testing for various cancer detection protocols (LabCorp, 2021a, para.7), women's reproductive health, and Personal Genome

Diagnostics (History | LabCorp, n.d.). LabCorp continually buys smaller innovating companies to increase its market share, portfolio, and prestige within the global healthcare sciences community. Examples of recent advances include “digital and mobile technology capabilities through the acquisitions of GlobalCare and SnapIOT,” (LabCorp, 2021a, para. 10). In 2021, LabCorp had a market capitalization of $27.46 billion with projected 10.6% growth for the next five years (Zacks Equity Research, 2021, para. 3).

Vision Statement. LabCorp does not publish a public vision statement.

Mission Statement. As LabCorp operates “to improve health and improve lives, LabCorp delivers world-class diagnostic solutions, brings innovative medicines to patients faster and uses technology to improve the delivery of care,” (LabCorp, n.d., para. 1).

Brief Description of the Industry. Price pressure of pharmaceutical companies does not directly affect customer demand so long as customer costs continue to be offset by federal stimulus spending. Customer demand for Covid-19 test kits in 2021 remained high as reinfection rates rose amid variant spread (Taylor, 2021, para. 10). Government equitable-access incentives dramatically reduced test kit prices thereby reducing the pricing power of companies. This reduced elasticity of consumer testing demand and diminished test-kit price elasticity. LabCorp predicted testing sales to drop anywhere between 35% to 50% in 2021 (Taylor, 2021, para. 5) as vaccination efforts increased. As market competitors began to provide consumers with nonprofit cost-level testing kits (Robinson, 2021, para. 6), profit management strategies shifted to consumer knowledge sharing, brand awareness, product control, and quality assurance in the interim. Research informs emergent revenue opportunities. LabCorp expected surging demand for booster vaccinations and serology (Taylor, 2021, para. 11) and at once began shifting resources to support that transition.

Analysis

Purpose: To conduct LabCorp's internal and external analysis of LabCorp as the basis to formulate new strategies for the future. This section explores LabCorp's pandemic crisis response in terms of PESTEL framework, core competencies, and VIRO framework.

Financial Analysis. This section surveys LabCorp's recent financial successes and seized opportunities when pandemic affected economies reopened identified in ratio analysis. This section explores annual statements of cash flows (see Appendix A) and balance sheets (see Appendix B) published by LabCorp leading up to and including the 2020 pandemic year data. Ratio analysis (see Appendix C) is based on data submitted to the United States Securities and Exchange Commission Form 10-K publicly available.

($ in Millions)	2020	2019	2018	2017
Profit Margin (%)	11.1%	7.1%	7.8%	
Retention Ratio (%)	16.6%	10.4%	12.5%	
Total Asset Turnover Ratio	1.44	1.57	1.43	
Financial Leverage (Assets/Equity)	2.14	2.38	2.32	
Actual Growth Rate in Sales (%)	21.0%	2.0%	9.9%	
Retained Earnings (from Balance Sheet)	$ 9,402.30	$ 7,903.60	$ 7,079.80	
Revenues (from Statement of Operations)	$ 13,979.00	$11,555	$ 11,333.40	$ 10,308.00
Net Income (from Statement of Operations)	$ 1,557.00	$ 824.90	$ 883.90	
Assets	$ 20,071.70	$ 18,046.40	$ 16,185.30	
Debt	$ 10,691.30	$ 10,459.30	$ 9,194.80	
Equity	$ 9,359.70	$ 7,567.00	$ 6,971.40	

	2020	2019	2018
Sustainable Growth Rate	5.7%	2.8%	3.2%
Actual Growth Rate in Sales (%)	20.98%	1.96%	9.95%

Interpretation of LabCorp's financial ratios support that the actual growth rate for 2020 is roughly four times the sustainable growth rate. Business boomed when Covid test kit demand skyrocketed. It also underwent a consolidation starting in 2019 to liquidate assets to prepare for expansion. This calculated financial move was made easier with an increase in cash inflows with increased sales revenue. LabCorp became very liquid in 2020, with net working capital and cash accounts both quadrupling from 2019 to 2020. They reduced long-term debt year over year.

Asset turnover and leverage both trended in a V-shape, and debt leverage declined overall due to liquidation and consolidation of brands like Covance into LabCorp.

It is important to consider the ramifications of the actual growth rate compared to sustainable growth. The company is riskier for future creditors, or at minimum is observationally more volatile due to Covid-boom financial serendipity. This dramatic influx of cash flows is likely not sustainable into the future and probably will have a financial backswing when the Covid bubble pops. It follows that LabCorp should cash flow business projects with its excess cash to expect a reduction in future income. With respect to market performance from 2018 to 2020, stock price sharply declined from October to December 2018; it recovered and gradually increased (Yahoo! Finance, 2024), then continued to trend upward through the 2020 measurement window defined in this analysis. LabCorp sold and repurchased shares to increase cash flow, offsetting financial losses associated with fluctuating currency exchange rates. In 2021, LabCorp repurchased approximately 1.1 million shares (LabCorp, 2021b) and stock values for LabCorp continued to rise (Zacks Equity Research, 2021, para. 2). It may be pertinent to invest this excess cash in revenue generating sources moving forward.

	LabCorp			IQVIA			Quest Diagnostics		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Current Ratio	1.66	1.12	1.51	1.12	1.05	1.10	1.72	1.25	0.94
Quick Ratio	1.53	1.03	1.38	1.01	0.93	0.97	0.81	0.52	0.07
Cash Ratio	0.43	0.13	0.23	0.40	0.21	0.25	0.65	0.60	0.09
Return on Assets (Profitability Ratio)	0.08	0.05	0.05	0.01	0.01	0.01	0.10	0.07	0.07
Return on Equity	16.60%	10.87%	12.64%	4.90%	3.62%	4.08%	21.02%	15.09%	13.97%
Recievables Turnover Ratio	5.64	7.48	7.72	4.71	4.29	4.35	6.21	7.27	7.44
Collection Period (Days' Sales in Receivables)	64.75	48.77	47.28	77.44	85.00	83.92	58.77	50.19	49.05
Profit Margin	11.14%	7.14%	7.80%	2.71%	2.05%	2.73%	15.16%	11.10%	9.77%
Total Asset Turnover Ratio	1.44	1.57	1.43	2.16	2.10	2.17	1.49	1.66	1.46
Improved Profit Margin	12.10%	8.10%	8.80%						
Assets	$20,071.7	$18,046.4	$16,185.3	$24,564.0	$23,251.0	$22,549.0	$14,026.0	$12,843.0	$11,003.0
Debt	$10,691.3	$10,459.3	$ 9,194.8	$18,284.0	$16,988.0	$15,595.0	$ 7,217.0	$ 7,156.0	$ 5,736.0
Equity	$ 9,359.7	$ 7,567.0	$ 6,971.4	$ 6,280.0	$6,263.0	$6,954.0	$ 6,809.0	$ 5,687.0	$ 5,267.0
Equity Multiplier (Leverage Ratio)	2.14	2.38	2.32	3.91	3.71	3.24	2.06	2.26	2.09
Debt-to-Equity Ratio	1.14	1.38	1.32	2.91	2.71	2.24	1.06	1.26	1.09
Improved ROE	37.34%	30.25%	29.26%						

LabCorp's key financial ratios may be compared to major competitors Quest Diagnostics and IQVIA Holdings Inc. Both companies provide pharmaceutical products and laboratory services to patients and healthcare providers. Quest Diagnostics Incorporated reported the following financial results for the 2020 year, providing that “Full year revenues of $9.44 billion, up 22.1% from 2019,” (Quest Diagnostics Incorporated, 2021, para. 1). IQVIA Holdings Inc reported similar positive financial outcomes for the year 2020. According to their annual filing, “revenue of $11,359 million for the full year of 2020 grew 2.4 percent on a reported basis and 2.3 percent at constant currency, compared to 2019,” (IQVIA Holdings Inc., 2021, para. 7). LabCorp’s capital structure can be simply defined as its debt ratio of 53% which appears to be trending downward in 2020. The calculated debt-to-equity ratio for LabCorp is 1.14 in 2020 and seems to trend downward also. For valuation purposes, it is important to note that debt excludes accruals and accounts payable. The goal of LabCorp is to maximize its value for its stockholders; thus, it is important to show how year-over-year changes in capital structure including debt-to-equity trending downward positively affects LabCorp’s value. Decreases in year-over-year debt ratio serve to decrease exposure to financial risk, the risk of bankruptcy, going into the pandemic and looking into the face of impending inflation rates.

The firm's total value is a function of projected free cash flows and the weighted average cost of capital. With respect to 2018 to 2020, the calculated weighted average cost of capital for LabCorp based SEC data filings is 8.00% in 2019 and 13.27% in 2020 as shown in the table below. Optimal capital structure ought to result in the lowest WACC possible for the firm but instead WACC appears to increase for LabCorp. This means that in 2020 the weighted average cost of capital would serve as a competitive disadvantage for the company. WACC is the minimum return the firm needs to earn to satisfy investors who supply capital, including both bondholders and stockholders (Ross et al., 2022, p. 474). As WACC increases, given steady levels of free cash flows, the overall value of the firm declines over time. It appears that LabCorp will need to earn more money in the future to satisfy investors and the firm will be worth less, thus increasing LabCorp's financial risk. Fortunately, pandemic sales of Covid Test kits dramatically improved cash flows to solve this valuation problem.

Based on WACC calculations (see Appendix D), it appears that the company's common stock is negative in both 2019 and 2020, showing long term losses. LabCorp favors debt to finance the purchase of assets as it has minimal risk, low return, and a fixed payment schedule. Taking on debt also builds a presentation of security and financial stability to creditors which is important for an umbrella corporation that continually buys emerging medical technologies to grow its brand. Negative equity may result from long-term losses, as in the case of these recurrent company acquisitions, or otherwise from paying excess dividends to shareholders. Negative common stock may be in place prevent financial risk during economic downturn or otherwise predicting that bonds and preferred stocks will need to be converted into common stock soon. Information on preferred stock or bonds does not appear to be presented in SEC filing data or associated press releases.

PESTEL Framework. One must consider characteristics of the market economy and legal systems status (Greenlaw et al. 2018) as indicators of economic growth potential amid the current United States' social, political, technological, and ecological climate. PESTEL Framework identifies multiple barriers and opportunities for LabCorp's future development.

Political. The United States' economy slowly reopened in 2021 and fiscal policymakers showed rapid response to declining economic sectors not thriving during that time. The consumer transition from crisis mindset to precautionary safety mindset translated into remerging consumer demand for routine patient visits, vaccination, at-home testing supplies, and disease research. LabCorp was rewarded with "a contract from the Centers for Disease Control and Prevention (CDC) to provide genomic sequencing of samples of SARS-CoV-2...conducting a large-scale longitudinal genomic survey of the virus," (Zacks Equity Research, 2021, para. 4). While this shift affected specific products' profit margin for LabCorp, the outlook for diagnostics and drug development is good in terms of greater U.S. economic recovery as well as overall public interest in ongoing life-sciences research and pharmaceutical products.

Economical. Scarcity refers to when "human want for goods, services, and resources exceeds what is available," (Greenslaw et al. 2018). Scarcity constantly evolves for LabCorp diagnostic testing supplies regarding the production volume of test kits and consumer demand shifts with spikes in Covid-19 transmission and variant resurgence. LabCorp pushed test capacity to all-time highs to meet 2020 demand surges, increasing production rates to 275,000 COVID-19 PCR test kits daily (LabCorp, 2021a, para. 9), test supplies became less scarce as time lapsed. Covid-19 test kits continue to become increasingly more available to consumers worldwide. LabCorp is a leading provider in Covid-19 testing, known for its rapid response to the pandemic as "more than 70,000 employees... provide support for the response to the pandemic, including developing innovative COVID-19 tests and delivering," (Business Wire, 2021, para. 2).

Sociocultural. Several social factors impact global economies and market positioning. LabCorp supports healthcare businesses in over 100 countries (LabCorp, 2021b). LabCorp shows no signs of slowing global growth despite opposing protective deglobalization trends. LabCorp continues to make domestic and foreign investments, "venture fund investments in companies or investment funds developing promising technology related to its operations," (LabCorp, 2021b). In recent times, LabCorp began expanding business relationships to better forecast finances and predict emerging global competition. As with many other global pharmaceutical companies, currency exchange rate fluctuation exposure challenges LabCorp's continued growth (Zacks Equity Research, 2021, para. 8). However, recent financial reports show marginal benefits from recent foreign exchange rates in both diagnostics and drug development business sectors (LabCorp, 2021b).

Technological. Several technological factors including robotic automated applications impact kit production and global distribution. “Price/mix increased by 0.1% due to currency of 0.9%, COVID-19 Testing of 0.7%, and acquisitions of 0.2% ... Organic Base Business volume was up 48.2% while price was up 3.1%.,” (LabCorp, 2021b, para. 16). In 2020, LabCorp shifts its focus to other service sectors including drug development and relies on scheduling future orders to forecast future earnings. “Net orders and net book-to-bill during the trailing twelve months were $7.86 billion and 1.41, respectively... the company expects approximately $4.87 billion of its backlog to convert into revenue in the next twelve months,” (LabCorp, 2021b, para. 20). Artificially smoothing out the demand curve prevents supply bottleneck scarcity; however, it is important to note that technological factors including supply chain infrastructure as well as both manual and automated kit production capacities may limit LabCorp’s productivity outcomes. Scheduled backlog conversion to revenue serves to spread out work across time to support labor scheduling and ongoing business income amid falling Covid kit demand and increasing serology demand.

Ecological. LabCorp looks to appeal to the target audience’s need for speed to introduce testing innovation to the market faster than competitors. LabCorp was “first to receive an FDA Emergency Use Authorization ("EUA") to launch several COVID-19 PCR test kits,” (LabCorp, 2021a, para. 6). LabCorp specializes in more exact, however more time-consuming, PCR test kit offerings rather than rapid antigen test kit production. PCR technology niche offsets scarcity disadvantage by appealing to the target audience’s need for superior testing that lends to tracing sources of present outbreaks and expected pandemics of the future. Pandemic resources may have been generated out of fear rather than calculated need. An opportunity exists to explore profit losses related to medical product waste including overproduction of Covid test kits, plastic and latex waste such as gloves and wipes, and test kit waste.

Legal. Use of personally identifiable information and HIPPA regulations present ever-present legal challenges for LabCorp. Violations of healthcare privacy are both costly to prevent and expensive to pay out when infraction fines incur. For example, an unauthorized data breach of third-party collections American Medical Collection Agency negatively impacted “10,251,784 patients who used LabCorp’s services... [It] cost the company $11.5 million in 2019 in response and remediation costs,” (Alder, 2020, para. 2-6). Additional costs associated with legal barriers include cost of labor associated with the creation and maintenance of standard of practice documentation, technology safeguards, compliance teams, and litigation. A second cyber-attack affected “TechCrunch in January 2020 that involved around 10,000 LabCorp documents,” (Alder, 2020, para. 3) resulting in a shareholder lawsuit claiming technological and legal negligence caused preventable financial damage to the company. Additional recourse for this lawsuit included reimbursement for damages, public acknowledgement, corporate governance reform, and the creation of a board-level committee (Alder, 2020, para. 8).

Porter’s Five Forces Model. This framework identifies competitive forces impacting emergent pharmaceutical competitors of LabCorp; furthermore, the nature of the market ensures continued success for LabCorp in terms of profitability and market attractiveness. The following analysis addresses LabCorp’s ability to influence various non-controllable factors.

Threat of Entry. With respect to limitations on how profitable the pharmaceutical market can be, it is important to consider federal regulations that prevent businesses from charging egregiously high prices for diagnostic kits. Over time, LabCorp has acquired a great deal of intellectual property that presents a barrier to entry for emergent rivals. It is more difficult for rivals to compete with LabCorp due to its continual acquisition of unique technology.

Power of Suppliers. LabCorp currently faces disadvantages in terms of global market share. Many competitors exist in the pharmaceutical industry and in the specific sectors of diagnostic testing and drug development. “In a $55-billion U.S. lab market, hospitals control an estimated 55%…compared to LabCorp’s 10% share,” (Zacks Equity Research, 2021, para. 9). Recent action to merge the Covance brand under the LabCorp umbrella may serve as a foothold for increasing brand awareness and freeing up capital to push market share (LabCorp, 2021b). Restructuring is financially challenging in the best of circumstances, let alone under the financial constraints of a pandemic-induced recession.

Power of Buyers. The demand for Covid test kits is elastic. As innovation increases and material sourcing costs decline, pharmaceutical companies like LabCorp should expect consumer demand to increase with the onset of major Covid variants, as production had increased at the onset of the pandemic. However, aggregate demand of pharmaceutical companies on test kit supplies creates scarcity among suppliers, bottlenecks aggravated by shipping delays, and increasing supply prices that must be offset by increasing kit retail prices. To evaluate LabCorp’s pricing power coming out of the pandemic, it is necessary to address all these pricing components as well as ramifications for increased government pricing pressure in the pharmaceutical industry. It is important to recognize how corporations like LabCorp may have exploited public fear in their profit seeking during the pandemic. One critic wrote, “The lesson of the COVID-19 experience is that...reliance on pharmaceutical industry prices and profits is jettisoned in favor of governmental grants,” (Robinson, 2021, para. 11).

Threat of Substitutes. The pharmaceutical industry overall may be described as oligarchical in terms of market structure. Many competitors exist in the market and government-mandated price regulation prevents any one of them from achieving monopoly power. Increased demand for Covid test kits, treatment, and vaccination efforts further worsened public outcry for increased government sanctions on pricing within the pharmaceutical industry during 2020. LabCorp may be described as a smaller participant compared to some foreign market competitors; however, LabCorp makes specific business decisions to achieve competitive advantage and monopoly power within certain areas of medicine, including cancer research. For example, LabCorp bought its remaining ownership interest in OmniSeq which “enhances LabCorp's growing portfolio of diagnostic tests and clinical trial opportunities for people with cancer,” (LabCorp, 2021b, para. 3). A resource transferring strategy for LabCorp supports increasing domestic portfolio acquisitions to further diversify and thus strengthen support for further differentiated product offerings. Reducing the amount of debt needed to continually buy competing companies reduces emphasis on operating leverage thus leveling competitive advantage with companies leveraging less debt such as like IQVIA.

Rivalry Among Existing Competitors. While many competing healthcare and pharmaceutical organizations exist, LabCorp mitigates the need to control rivalry by continually acquiring emergent firms aligned with their mission. By acquiring emergent rivals and building a portfolio of brands, LabCorp captures profits and acquires new customers without increasing spending on marketing. LabCorp’s record of accomplishment as a leading provider of diagnostic testing positions them to establish their product prices as a benchmark compared to rivals.

Core Competencies. LabCorp differentiates their diagnostic testing products from competitors by leveraging organizational strengths including “structures, processes, and routines that strategic leaders put in place," (Rothaermel, 2021, p. 120). Rapid increases in test kit supply through automation while market values were still high allowed LabCorp to cash in early on a higher profit margin, offsetting currency exchange losses and mitigating the need to maintain customer demand post-pandemic as product scarcity declined. Kitting is a simple, repeatable process easily communicable to new hires; LabCorp's facilities operate at all hours with the support of partnerships with third party staffing agencies, and LabCorp excels at quickly scaling up or down manual kitting infrastructure as consumer demands change.

VRIO Framework. It is necessary to recognize that "a firm can gain and sustain a competitive advantage only when it has resources that satisfy all of the VRIO criteria," (Rothaermel, 2021, p. 128). The following analysis identifies VRIO criteria impacting LabCorp.

Valuable. Optimal capital structure "maximizes the value of the firm... with no direct effect on assets," (Ross et al., 2022, p. 542). An observable increase in operating leverage increases overall business risk for LabCorp. The calculated degree of operating leverage from 2019 to 2020 is approximately 2.63. This higher degree of leverage creates a greater potential negative impact for a given drop in sales to have on operating income. When comparing the company's capital structure, it is interesting that both LabCorp and its competitor Quest Diagnostics appear to rely on debt leverage strategies; conversely, IQVIA appears to have much less debt than equity. LabCorp's debt decreases from 57% to 53% from 2019 to 2020. Future capital structure changes should aim to reduce debt leverage to seek competitive advantage over IQVIA. Beta coefficient indicates "how much systematic risk a particular asset has relative to an average asset," (Ross et al., 2022, p. 442). Implications of LabCorp's beta place its CAPM outcomes in midline compared to the company's main competitors as IQVIA Beta is 1.51, LabCorp Beta is 1, and Quest Diagnostics Beta is 0.89 (Yahoo! Finance, 2024). All three companies have beta coefficients within the range of well-known companies “typical for stocks of large U.S. corporations,” (Ross et al., 2022, p. 442).

Rare. Many companies offer diagnostic testing supplies. The short-run costs of organizational restructuring necessary to better handle cash flow and liquidity problems resulted in expenses that may not have been as easily carried without increased revenue from the pandemic as well as government relief aid to serve as insurance. Company acquisitions, local community investments, and philanthropic donations also seem to support the goal of increasing public awareness of the LabCorp brand. LabCorp increased market share in laboratory research domestically through spending: “to acquire the outreach laboratory business of Minnesota-based North Memorial Health and provide management services to its inpatient lab,” (LabCorp, 2021b, para. 3). An opportunity exists to focus on externalities, or knowledge sharing, as LabCorp relies on technological acquisition to feel out new demand markets in the post-pandemic world, “strategy focusing on science, innovation and technology” (LabCorp, 2021b, para. 2) to generate new revenue streams.

Costly to Imitate. Business risk is “inherent in a firm's operations” (Ross et al., 2022, p. 551) and refers to adjacent general risk factors, both internal and external, that impact LabCorp’s profitability. Examples of this include global economic recession coming out of the Covid-19 pandemic, resulting inflation impacting supply prices and sales margins, medical supply bottlenecks, supply chain problems, LabCorp’s sudden shift to serology expecting increased Covid-testing beyond 2020, and operating leverage shifts. Opportunities for LabCorp to support sustainable growth moving forward include mitigating costs coming out of the pandemic. Medical supplies are “products that serve universal needs” (Hill, 2004, p. 371) including pre-assembled Covid kits. Cost reduction pressures increase as market competitors continue to prove their own standards for patient access and laboratory analysis turnaround time. As with other firms, successful pressure mitigation is achieved through production shifts to low-cost facilities, including temporary staffing, and achievement of globally standardized products (Hill, 2004, p. 372). LabCorp incurred billions of dollars in costs during the pandemic. LabCorp "recorded amortization, restructuring charges, special items, and impairments, which together totaled $259.8 million in the first half of 2021," (LabCorp, 2021b, para. 11).

Organized to Capture Value. LabCorp's customers include clinics, drugstores, and individual purchasers of at-home test kits. An imperative lies in finding a way to give back to the public coming out of the pandemic by finding ways to make testing more accessible and affordable. Analyzing costs using finance tools is "vital in marketing research, the design of marketing and distribution channels, and product pricing," (Ross et al., 2022, p. 3). Improved pricing strategy addresses price discrimination across markets in different countries based on labor and supplies availability, strategic pricing for countries willing to pay more for testing supplies, and the regulatory influence of government-mandated price control (Hill, 2004, p. 464).

PART TWO: STRATEGY FORMULATION

Formulation

Purpose: To conduct SWOT analysis that organizes and synthesizes analyses completed in Part One and further develops findings into actionable business strategies.

Evaluation of Current Strategies. Strategic preemption refers to a "reduction in competitive intensity as a motivation to acquire...promising startups that have the potential to be a competitive threat," (Rothaermel, 2021, p. 339). LabCorp has acquired promising medical technologies firms for over twenty years at great expense and to great financial success. In capturing innovative threats, LabCorp benefitted from many first-mover advantages. These encompass the accrual of competitive benefits (Rothaermel, 2021, p. 236) increasing economies of scale, boosting learning-curve effects, improving experience, developing positive network effects, and building intellectual property including innovative medical technologies patents.

Major Goals or Strategies of the Company. According to the company, “LabCorp delivers world-class diagnostic solutions, brings innovative medicines to patients faster and uses technology to improve the delivery of care,” (LabCorp, n.d., para. 1). Such delivery elicits major goals for production speed, processing productivity, staffing efficiency, data management, and ongoing accrual of cutting-edge pharmaceutical science technology. CEO Adam Schechter asserts that LabCorp is “so well positioned as the global laboratory service leader” (LabCorp, 2023, 17:27) that they have “tremendous ability to operate with excellence,” (LabCorp, 2023, 17:39).

Changes in Strategy Over Time. The opportunity for rapid medical development presented by the Covid-19 pandemic outbreak demonstrates how “changes in the external environment can appear suddenly... through black swan events,” (Rothaermel, 2021, p. 109). Rapid research, development, and financial opportunity arose at an internal social cost to the organization, however. LabCorp held its most recent Investor Day event in September 2023, the first since 2018, to discuss the financial state and strategy development moving beyond the pandemic (LabCorp, 2023, 16:55). This gap between events demonstrates the ongoing need for improved communication on company strategy formulation and shared people-oriented goals.

As of 2023, LabCorp has shifted strategy in pursuit of two specific growth opportunities for diagnostics and biopharmaceutical business segments. According to the CEO, the “first is to be the partner of choice for health systems and local or regional laboratories,” (LabCorp, 2023, 26:44). This initiative supports increased brand recognition and loyalty among buyers. Second, LabCorp aims “to develop, to license, and ultimately to scale specialty testing, including companion diagnostics,” (LabCorp, 2023, 26:59). LabCorp focuses on four primary areas for its specialty testing development in oncology, women’s health, neurology, and autoimmune disease detection; however, “these four specialty areas represent significant growth but also disproportionate growth,” (LabCorp, 2023, 30:00).

Delays in getting patients access to approved products result in delayed profit for the company. In a move toward more even development across specialty areas, LabCorp aims to strategically target potential buyers directly using internal data instead of continuing efforts to appeal broadly to consumers. LabCorp will use registry programs to help identify patients and expedite time between product approval and direct access to clinical trials across major global locations (LabCorp, 2023, 32:13).

Summary of Working and Non-Working Strategies. It is necessary to explain why existing preemptive strategies may no longer work or become less effective in the post-pandemic global pharmaceutical marketplace. Continual acquisition of emerging threats requires constant free cash flows with which to purchase emergent companies as well as the guarantee of continually emerging rival firms. LabCorp needs to acquire competitors within specific, strategic locations across the globe to increase its footprint outside of North America and sever economic dependence. LabCorp faces supply chain problems and inflation impacting the profitability of test kit supplies in the post-pandemic world restricting cash flows.

SWOT Analysis. The following analysis provides SWOT insight for future LabCorp strategy decision-making as “strengths (S) and weaknesses (W) concern resources, capabilities, and competencies,” (Rothaermel, 2021, p. 146). This analysis seeks to leverage specific attributes to motivate continued organizational growth and counterbalance existing challenges. A summary of objectives is offered for strategy formulation purposes (see Appendix E).

Strengths. Anticipatory or offensive strategy development derives from “an internal strength to exploit an external opportunity,” (Rothaermel, 2021, p. 146). LabCorp is a leading global producer and distributor of diagnostic test kits (MarketLine Company Profile, 2023, p. 34). LabCorp offers a wide range of specialized kits and elicits support from its diverse consumer base (MarketLine Company Profile, 2023, p. 35). LabCorp maintains “more than 600 million tests per year... [and] a single database with more than forty-five billion lab results,” (LabCorp, 2023, 20:48). On demand laboratory purchases generated “more than 160 million customer interactions,” (LabCorp, 2023, 34:34). Sustained revenue growth amid global pandemic continues to attract investors amid inflation (MarketLine Company Profile, 2023, p. 35). An opportunity exists for LabCorp to reinvest revenue in ecological and social initiatives as a demonstration of support for increased public health testing and research (MarketLine Company Profile, 2023, p. 37). LabCorp can also continue to expand its global footprint and diversify its non-clinical portfolio (MarketLine Company Profile, 2023, p. 36).

Weaknesses. Preventative or defensive strategies aim at “eliminating or minimizing an internal weakness to mitigate an external threat,” (Rothaermel, 2021, p. 146). LabCorp heavily depends upon on North American economies for financial stability despite global reach (MarketLine Company Profile, 2023, p. 35). Complex billing processes made more complicated by international billing differences compromise cash flows (MarketLine Company Profile, 2023, p. 36). Geopolitical risks may disrupt LabCorp’s supply chain (MarketLine Company Profile, 2023, p. 35). Increasing internal quality measures decreases likelihood of incorrect kit shipments and more quickly identifies expired lots, discontinued and recalled testing supplies (MarketLine

Company Profile, 2023, p. 38). LabCorp might consider developing strategies to reduce the outstanding sales level created by fee-for-service healthcare plans, reducing bad debt rate and increasing cash flows (MarketLine Company Profile, 2023, p. 36).

Opportunities. Effective strategies “shore up an internal weakness to improve its ability to take advantage of an external opportunity,” (Rothaermel, 2021, p. 146). Staffing demand increases as demand for diagnostic screening increases. LabCorp partners with third party talent staffing agencies to upscale or downscale staffing to offset American market changes quickly and affordably (LabCorp, 2024, p. 3). During the pandemic, over three thousand laboratory technicians and the CEO volunteered to work in LabCorp’s laboratories because demand for Covid-19 testing was so high (LabCorp, 2023, 18:34). LabCorp’s greatest opportunities for potential talent growth leverage common values of care and service. LabCorp maintains a high level of educated and talented personnel to meet global healthcare needs. LabCorp employs over 1200 PhDs and MDs to serve patient needs in more than one hundred countries (LabCorp, 2023, 23:25). An opportunity exists to move beyond strategic preemption in favor of developing internal talent and generating emergent technologies that would otherwise be purchased.

Threats. By focusing on company strengths, it is possible “to minimize the effect of an external threat,” (Rothaermel, 2021, p. 146). LabCorp’s strategic acquisitions reduce competitive pressure from emergent competitors (MarketLine Company Profile, 2023, p. 36). LabCorp faces scrutiny for the treatment of animals, specifically monkeys, used in laboratory testing for pharmaceutical products prior to human use. Animal research is critical to the development of medicines; moreover, tuberculosis outbreaks among captive laboratory monkeys and questionable ethics surrounding animal testing may pose reputational and legal risk (Schecter, 2024,17:40) as well as potential financial risk to shareholders. Emergent competitors that develop testing practices not reliant on primate testing may deviate business from LabCorp.

Creation of New Strategies. Formulation of new business strategies supports value creation. Moreover, “rewards of superior value creation and capture are profitability and market share,” (Rothaermel, 2021, p. 11). Proposed strategic responses presented in this paper are threefold:

Strategic Response 1. Increase globalization under the guidance of CAGE distance framework (Rothaermel, 2021, p. 365). Increasing global presence will reduce overdependence on North American markets, providing alternative supply chain opportunities (MarketLine Company Profile, 2023, pp. 35-36). Current strategy supports “launching specialty and companion diagnostics in parts of the world using [their] biopharmaceutical laboratory services footprint (LabCorp, 2023, 35:31). However, a people-oriented and culturally sensitive strategy must additionally be considered to increase the likelihood of broader acceptance for LabCorp’s products and systems.

Strategic Response 2. Increase pursuit of social goals in a spirit of strategic social entrepreneurship, evaluating performance “not only by financial metrics but also by ecological and social contribution (profits, planet, and people),” (Rothaermel, 2021, p. 240). LabCorp currently offers “more than fifty health and wellness tests online... [and] completely digitalized the patient journey,” (LabCorp, 2023, 34:54). Through collaborative analysis of medical supply waste and emerging medical needs in developing countries, LabCorp can enact more sustainable business products focused on the regional needs of targeted locations.

Strategic Response 3. LabCorp can create specialized pricing stratification for targeted preventative testing to limit cash flow restriction from reimbursement reductions or policy changes (MarketLine Company Profile, 2023, p. 37). “A blue ocean strategy allows a firm to offer a differentiated product or service at a low cost... providing important spill-over effects,” (Rothaermel, 2021, p. 216). LabCorp’s efforts to reduce existing costs and control future costs remain undermined by competing interests including government healthcare payers and managed care organizations. Yet, according to LabCorp’s CEO, longer-term guidance supports “five to eight percent revenue growth margin improvement... [and] free cash flow in line with our earnings growth,” (LabCorp, 2023, 37:27). LabCorp must take definitive steps as a major pharmaceutical company and first-mover to direct the narrative on global healthcare spending. LabCorp should seek out opportunities for research sponsorship hosted by third-party charities to scout emerging talent including university researchers and former military personnel.

PART THREE: STRATEGY IMPLEMENTATION

Implementation

Purpose: This section explains how LabCorp should implement solutions based on recommendations proposed in Part Two. This section is based on creative thinking and synthesis of concepts applicable to the company's history, financial analysis, and strategy formulation.

Implementation Plan for Strategy 1: To implement strategy supporting globalization in strategic world areas, benchmarks should be clearly identified under the guidance of CAGE distance framework (Rothaermel, 2021, p. 365) with proposed target development timelines. CAGE framework evaluates global expansion in terms of best fit and distance. To reduce costs associated with geographic and cultural distance, "CAGE distance framework breaks distance into relative components between any two country pairs," (Rothaermel, 2021, p. 366). Prospective pairs are analyzed to determine existing cultural, geographic, economic, administrative, and political conditions that increase synergy for cross-cultural teams. While "acquisitions are popular vehicles for entry into foreign markets" (Rothaermel, 2021, p. 369), LabCorp should shift away from reactive, strategic preemption and toward CAGE framework selection. This shift supports a proactive, protective process to "reduce the firm's exposure to...loss of reputation and loss of intellectual property," (Rothaermel, 2021, p. 369). Risks to intellectual property also include mismanagement of identifiable healthcare data relevant to HIPPA regulations, potential for data breach, and ethics concerns in cross-cultural settings.

To leverage its digital assets in developing world areas, LabCorp must address global concerns of technology access and the digital divide. Multicultural competency is a necessary management skill in multiple applications. LabCorp must also improve its standards for developing multicultural competency for its emerging leaders. Multiculturally competent managers are aware of communication concerns and actively strategize to improve communication outcomes for both internal and external stakeholders. “Culturally competent interventions are essential for promoting positive outcomes in digital media usage and well-being within diverse cultural contexts. Tailoring interventions to align with cultural values, communication styles, and preferences can enhance engagement and effectiveness,” (Jolly & Shivani, 2024, p. 110). Multiculturally competent managers are aware of the cultural lens of consumers as they might be interested in a product based on culturally informed attitudes. “Cultural norms play a significant role in shaping attitudes towards technology adoption and adaptation within different countries and regions,” (Jolly & Shivani, 2024, p. 109). Multiculturally competent managers are aware of socioeconomic disparities that influence consumers buying power, access to energy, and right to use technology. “Bridging the digital divide requires targeted interventions that address the unique socioeconomic challenges faced by individuals within specific national contexts,” (Jolly & Shivani, 2024, p. 110). Effective multiculturally competent managers bring solutions that anticipate barriers to learning, knowledge, and technology access in support of an inclusive working environment.

LabCorp must assess uncertainty avoidance levels across organizational cultures of acquired brands. Uncertainty avoidance may cause employees to resist change, require highly documented processes, and testing periods to affect change. Reliable information may only be receivable through established silos. “Uncertainty avoidance captures the degree to which people prefer structured to unstructured situations,” (Kemper et al., 2011, p. 94) either in terms of threat or with a level of comfortability. When employees require a highly structured environment to support routine and reduce perceived threats to organizational structure, rapid improvement initiatives may be less successful. Supportive efforts might ensure efficient decision making in organizations comprised of team members from different cultural backgrounds and with varying levels of uncertainty avoidance. Management "should develop strong ties with both business contacts (e.g., suppliers, customers, competitors) and political contacts," (Kemper et al., 2011, p. 108). Qualitative interviews with employees might capture data regarding internal company attitudes. Managers may also be interviewed to capture their perspectives on employee empowerment.

To effectively support emerging leaders at LabCorp, mentorship pathways should be emphasized. "Effective corporate governance and solid business ethics are critical to sustaining competitive advantage over time," (Rothaermel, 2021, p. 451). Professional development via networking and mentorship are critical to organizational success where uncertainty avoidance is reduced. Intellectual risk taking and creative projects should be encouraged. Concerning social capital, "the quality of the relationship, as reflected in the trust dimension, drives marketing capabilities... showing concern about the problems of other actors," (Kemper et al., 2011, p. 108). It is the quality of relationships, not the number of employees, that demonstrates LabCorp's values and capacity for transparent leadership within the pharmaceutical industry.

Implementation Plan for Strategy 2: Constant acquisition of emergent rival companies results in unequal organizational value emphasis across brand employees. Acquired employees may feel uprooted and disposable. To implement a strategy supporting ecological and social contributions, LabCorp should outline and publish its social goals including a new vision statement. LabCorp does not currently publish a vision statement, and the absence of vision may send a negative message to acquired employees. "Organizational culture describes the collectively shared values and norms of an organization's members," (Rothaermel, 2021, p. 416). LabCorp should develop a vision statement to provide a roadmap for employees as to how the company will achieve its goals through strong reliance on collective values. Moreover, an organization’s core values “guide employees in achieving an organization’s vision and fulfill its mission,” (Rothaermel, 2021, p. 416). Employees gain a sense of personal connection and responsibility for maintaining the company’s position as a leading organization.

To reconnect to its history and initial values, LabCorp should consider forgotten opportunities in founder imprinting (Rothaermel, 2021, p. 419). LabCorp in the United States began as a laboratory operating out of a hospital basement in North Carolina out of necessity for the immediate diagnostic needs of sick patients, ran under the purview of a caring and experienced military physician with the support of his two skilled and talented brothers (Haskins, 2019, para. 2-7). “Founders set the initial strategy, structure, and culture of an organization by transforming their vision into a reality,” (Rothaermel, 2021, p. 419), Codified language emphasizing brotherhood and family values reflects the history and vision of its founders as well as serves to bridge the gap between acquired organizations in terms of support and collective action. Manifested in a vision statement, LabCorp connects strong founder impressions of the past with the recent heroic volunteerism and successes achieved during the Covid pandemic and beyond. Consumers also find many pharmaceutical companies to be indistinctive and their care experiences depersonalized. Public relations campaigns should also reverberate shared common purpose, connection, triumph, compassion, and brotherhood.

To reduce its negative ecological impact, LabCorp should focus on internal processes to eliminate medical supply waste and bottlenecks through improvements in just-in-time inventory management. Just-in-time inventory refers to inventories that are ready to go exactly as the name suggests, ‘just in time’ to be utilized in the next stage of production. This drastically reduces, or ideally eliminates, the time elapsed when materials are sitting in inventory as surplus waiting to be used, or materials are otherwise bottlenecked by a staging procedure. The primary benefit of just-in-time inventory management is that it eliminates time-related waste ultimately resulting in financial savings. Perhaps more importantly, however, is that each step pulls the worker to the place where work is performed. It is obvious who is responsible for the work and where it goes because of where it showed up. Concerning managerial accounting, “JIT is a demand-pull system in which materials and products are pulled through the manufacturing process based on customer demand,” (Whitecotton et al., 2023, p. 176). Each step of the process naturally flows into a handoff from the previous to the next. Each step anticipates the needs of its subsequent pullers, including internal departments and vendors and external customers. Detailed process flow mapping reveals opportunities for duplicate workflow elimination across acquired brands.

Managerial accounting applies JIT to the manufacturing of material goods, but JIT can also be applied to understand and map process flows more generally. Managerial finance is then concerned with the various financial implications for costs associated with pull-system inventory management, including reduced inventory carrying costs, that impact decision-makers outside of the business. It is important to understand that a JIT system requires that “inventories are reordered and restocked frequently...avoiding shortages requires a high degree of cooperation among suppliers,” (Ross et al., 2022, p. 703). It is the role and responsibility of those outside of the immediate production-focused business to decide who cooperators will be, impacting financial outcomes and brand optics. Increased social activity frequency for LabCorp, such as Investor Day 2023, improves interaction between collaborators and level-sets expectations for sustainable kit production outcomes.

Implementation Plan for Strategy 3: LabCorp should reduce prices for preventative diagnostic test kits. By cutting consumer prices and comparing offerings to rival offerings, LabCorp can offset cash flow restriction from reimbursement reductions and policy changes through increased revenue from first-time buyers. By reducing price barriers to preventative diagnostic tests, LabCorp builds public rapport, increases brand presence within the market as an accessible and affordable option, and collects data for future target marketing.

To implement definitive steps as a major pharmaceutical company and first-mover to direct the narrative on global healthcare spending, it is necessary to make a bold public statement. LabCorp should invest a portion of the pandemic-derived influx in cash flows to either establish or donate to a diagnostic testing site in a developing country aligned with its global footprint goals; in particular, LabCorp should proactively build a new foothold relevant to one of its four major specialty testing development areas in oncology, women's health, neurology, or autoimmune disease detection. Spending on critical specialty research infrastructure demonstrates LabCorp's commitment to global healthcare spending as first-mover and major player in global policy making.

As a leading owner and investor of diagnostic research and technology, LabCorp can sponsor research development teams or competitions hosted by third-party charities to scout emerging talent within universities. Academic emphasis supports open discourse on global healthcare spending and engages existing public health networking opportunities. LabCorp can also publicly recruit and facilitate opportunities for post-military medical personnel. The creation of innovation spaces builds positive network effects through scouting highly skilled prospective employees already operating in the field at a cheaper cost than acquiring entire rival organizations.

Concluding Thoughts. Strategic management "combines analysis, formulation, and implementation in the quest for competitive advantage," (Rothaermel, 2021, p. 6). Emphasis on internal organizational development ensures continued competitive advantage for LabCorp as it advances into the future. “To gain and sustain competitive advantage, structure must follow strategy...organizational form must match the firm’s business strategy,” (Rothaermel, 2021, p. 400). By adopting strategies recommended in this paper, LabCorp will undoubtedly continue to grow and shape the development of the greater pharmaceutical industry in the years to come.

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APPENDIX A – Financial Analysis

LabCorp Statement of Cash Flows 2018-2020

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
Annual Report

Consolidated Statement of Operations - USD ($) (Dollars in Millions, except per share data)	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	ncrease or Decreas 2019 to 2020 Amount	%	Increase or Decrease 2018 to 2019 Amount	%
Revenues	$ 13978.5	11554.8	11333.4	2,424	21.0%	221.4	2.0%
Cost of revenues	9025.7	8302.3	8157.0	723	8.7%	145.3	1.8%
Gross profit	4952.8	3252.5	3176.4	1,700	52.3%	76.1	2.4%
Selling, general and administrative expenses	1729.3	1624.5	1570.9	105	6.5%	53.6	3.4%
Amortization of intangibles and other assets	275.4	243.2	231.7	32	13.2%	11.5	5.0%
Goodwill and other asset impairments	462.1	0.0	0.0	462	#DIV/0!	0.0	#DIV/0!
Restructuring and other charges	40.6	54.6	48.1	(14)	-25.6%	6.5	13.5%
Operating income	$ 2445.4	1330.2	1325.7	1,115	83.8%	4.5	0.3%
Other income (expense):							
Interest expense	$ -207.4	-240.7	-244.2	33	-13.8%	3.5	-1.4%
Equity method income, net	2.9	9.8	11.6	(7)	-70.4%	-1.8	-15.5%
Investment income	10.3	8.8	7.5	2	17.0%	1.3	17.3%
Other, net	-32.1	-3.2	167.7	(29)	903.1%	-170.9	-101.9%
Earnings before income taxes	2219.1	1104.9	1268.3	1,114	100.8%	-163.4	-12.9%
Provision for income taxes	662.1	280.0	384.4	382	136.5%	-104.4	-27.2%
Net earnings	$ 1557.0	824.9	883.9	732	88.8%	-59.0	-6.7%
Less: Net earnings attributable to the noncontrolling interest	-0.9	-1.1	-0.2	0	-18.2%	-0.9	450.0%
Net earnings attributable to Laboratory Corporation of America Holdings	$ 1556.1	823.8	883.7	732	88.9%	-59.9	93.2%
Basic earnings per common share	16.0	8.4	8.7				
Diluted earnings per common share	15.9	8.4	8.6				

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
Annual Report

Consolidated Statement of Operations - USD ($) (Dollars in Millions, except per share data)	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Component Percentages Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Revenues	$ 13978.5	11554.8	11333.4	100.0%	100.0%	100.0%
Cost of revenues	9025.7	8302.3	8157.0	64.6%	71.9%	72.0%
Gross profit	4952.8	3252.5	3176.4	35.4%	28.1%	28.0%
Selling, general and administrative expenses	1729.3	1624.5	1570.9	12.4%	14.1%	13.9%
Amortization of intangibles and other assets	275.4	243.2	231.7	2.0%	2.1%	2.0%
Goodwill and other asset impairments	462.1	0.0	0.0	3.3%	0.0%	0.0%
Restructuring and other charges	40.6	54.6	48.1	0.3%	0.5%	0.4%
Operating income	$ 2445.4	1330.2	1325.7	17.5%	11.5%	11.7%
Other income (expense):						
Interest expense	$ -207.4	-240.7	-244.2	-1.5%	-2.1%	-2.2%
Equity method income, net	2.9	9.8	11.6	0.0%	0.1%	0.1%
Investment income	10.3	8.8	7.5	0.1%	0.1%	0.1%
Other, net	-32.1	-3.2	167.7	-0.2%	0.0%	1.5%
Earnings before income taxes	2219.1	1104.9	1268.3	15.9%	9.6%	11.2%
Provision for income taxes	662.1	280.0	384.4	4.7%	2.4%	3.4%
Net earnings	$ 1557.0	824.9	883.9	11.1%	7.1%	7.8%
Less: Net earnings attributable to the noncontrolling interest	-0.9	-1.1	-0.2	0.0%	0.0%	0.0%
Net earnings attributable to Laboratory Corporation of America Holdings	$ 1556.1	823.8	883.7	11.1%	7.1%	7.8%
Basic earnings per common share	16.0	8.4	8.7			
Diluted earnings per common share	15.9	8.4	8.6			

APPENDIX B – Financial Analysis

LabCorp Balance Sheets 2018-2020

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
Annual Report

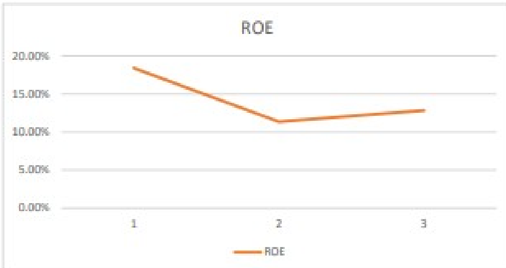
Consolidated Balance Sheet - USD ($)			Increase or Decrease	
$ in Millions	**Dec. 31, 2020**	**Dec. 31, 2019**	**Amount**	**%**
Current assets:				
Cash and cash equivalents	$ 1320.8	337.5	$ 983	291.3%
Accounts receivable	2479.8	1543.9	936	60.6%
Unbilled services	536.8	481.4	55	11.5%
Supplies inventory	423.2	244.7	179	72.9%
Prepaid expenses and other	364.8	373.7	(9)	-2.4%
Total current assets	$ 5125.4	2981.2	2,144	71.9%
Property, plant and equipment, net	2729.6	2636.6	93	3.5%
Goodwill, net	7751.5	7865.0	(114)	-1.4%
Intangible assets, net	3961.1	4034.5	(73)	-1.8%
Joint venture partnerships and equity method investments	73.5	84.9	(11)	-13.4%
Deferred income taxes	20.6	8.8	12	134.1%
Other assets, net	410.0	435.4	(25)	-5.8%
Total assets	**$ 20071.7**	**18046.4**	**2,025**	**11.2%**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable	$ 638.9	632.3	7	1.0%
Accrued expenses and other	1357.7	942.4	415	44.1%
Unearned revenue	506.5	451.0	56	12.3%
Short-term operating lease liabilities	192.0	206.5	(15)	-7.0%
Short-term finance lease liabilities	6.7	8.4	(2)	-20.2%
Short-term borrowings and current portion of long-term debt	376.7	415.2	(39)	-9.3%
Total current liabilities	3078.5	2655.8	423	15.9%
Long-term debt, less current portion	5419.0	5789.8	(371)	-6.4%
Operating lease liabilities	677.6	596.6	81	13.6%
Financing lease liabilities	84.4	91.1	(7)	-7.4%
Deferred income taxes and other tax liabilities	905.4	942.8	(37)	-4.0%
Other liabilities	526.4	383.2	143	37.4%
Total liabilities	**$ 10691.3**	**10459.3**	**232**	**2.2%**
Commitments and contingent liabilities				
Noncontrolling interest	20.7	20.1	1	3.0%
Shareholders' equity				
Common stock	9.0	9.0	-	0.0%
Additional paid-in capital	110.3	26.8	84	311.6%
Retained earnings	9402.3	7903.6	1,499	19.0%
Less common stock held in treasury	—	—		
Accumulated other comprehensive loss	-161.9	-372.4	211	-56.5%
Total shareholders' equity	$ 9359.7	7567.0	1,793	23.7%
Total liabilities and shareholders' equity	**$ 20071.7**	**18046.4**	**2,025**	**11.2%**

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
Annual Report

Consolidated Balance Sheet - USD ($)				Component Percentages	
$ in Millions		**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Current assets:					
Cash and cash equivalents	$	1320.8	337.5	6.6%	1.9%
Accounts receivable		2479.8	1543.9	12.4%	8.6%
Unbilled services		536.8	481.4	2.7%	2.7%
Supplies inventory		423.2	244.7	2.1%	1.4%
Prepaid expenses and other		364.8	373.7	1.8%	2.1%
Total current assets	$	5125.4	2981.2	25.5%	16.5%
Property, plant and equipment, net		2729.6	2636.6	13.6%	14.6%
Goodwill, net		7751.5	7865.0	38.6%	43.6%
Intangible assets, net		3961.1	4034.5	19.7%	22.4%
Joint venture partnerships and equity method investments		73.5	84.9	0.4%	0.5%
Deferred income taxes		20.6	8.8	0.1%	0.0%
Other assets, net		410.0	435.4	2.0%	2.4%
Total assets	**$**	**20071.7**	**18046.4**	**100.0%**	**100.0%**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable	$	638.9	632.3	3.2%	3.5%
Accrued expenses and other		1357.7	942.4	6.8%	5.2%
Unearned revenue		506.5	451.0	2.5%	2.5%
Short-term operating lease liabilities		192.0	206.5	1.0%	1.1%
Short-term finance lease liabilities		6.7	8.4	0.0%	0.0%
Short-term borrowings and current portion of long-term debt		376.7	415.2	1.9%	2.3%
Total current liabilities		3078.5	2655.8	15.3%	14.7%
Long-term debt, less current portion		5419.0	5789.8	27.0%	32.1%
Operating lease liabilities		677.6	596.6	3.4%	3.3%
Financing lease liabilities		84.4	91.1	0.4%	0.5%
Deferred income taxes and other tax liabilities		905.4	942.8	4.5%	5.2%
Other liabilities		526.4	383.2	2.6%	2.1%
Total liabilities	**$**	**10691.3**	**10459.3**	**53.3%**	**58.0%**
Commitments and contingent liabilities					
Noncontrolling interest		20.7	20.1	0.1%	0.1%
Shareholders' equity					
Common stock		9.0	9.0	0.0%	0.0%
Additional paid-in capital		110.3	26.8	0.5%	0.1%
Retained earnings		9402.3	7903.6	46.8%	43.8%
Less common stock held in treasury		—	—		
Accumulated other comprehensive loss		-161.9	-372.4	-0.8%	-2.1%
Total shareholders' equity	$	9359.7	7567.0	46.6%	41.9%
Total liabilities and shareholders' equity	**$**	**20071.7**	**18046.4**	**100.0%**	**100.0%**

APPENDIX C – Financial Analysis

LabCorp Ratio Analysis



	2020	2019	2018
Net Income	1557.00	824.90	883.90
Avg SE	8463.35	7269.20	6887.75
Ending SE	9359.70	7567.00	6971.40
Beginning SE	7567.00	6971.40	6804.10

		2020	2019	2018
	Net Income	1557.00	824.90	883.90
Return on Equity (ROE) =	Average Total Stockholders' Equity	8463.35	7269.20	6887.75
	=	18.40%	11.35%	12.83%

Year	2020	2029	2018
ROE	18.40%	11.35%	12.83%

APPENDIX D – Financial Analysis

LabCorp WACC Calculation

LabCorp 2019 WACC Calculation

Where E is total equity, D is total debt, Re is the required return on equity, Rd is the required return on debt, L is the percentage debt, and T is the tax rate percentage

Spreadsheet Calculation		Enter Data			L = D / (D+E)
Required Return on Debt	Rd	7.89%	1	Debt Ratio =	0.5796
Required Return on Equity	Re	10.90%	2		WACC = (1 - L) Re + L (1- T) Rd
Marginal Tax Rate	T	25.34%	3	WACC =	8.00%
Debt %	L	57.96%	4		
Equity %		41.93%	5		

Actual Calculations	Numerator	Denominator	%
1 Return/Debt	824.9	10459.3	7.89%
2 Return/Equity	824.9	7567.0	10.90%
3 Tax/NIBT	280.0	1104.9	25.34%
4 Debt/(Debt+Equity)	10459.3	18046.4	57.96%
5 Equity/(Debt+Equity)	7567.0	18046.4	41.93%

2019 Income Statement	$ in M
Sales Revenue	11554.8
Less Cost of Sales	8302.3
Gross Profit	3252.5
Operating Expenses	1922.3
Operating Income	1330.2
Non-operating Income (Expense)	(225.3)
Net Income Before Tax (NIBT)	1104.9
Tax Expense	280.0
Net Income After Tax	824.9

2019 Balance Sheet	$ in M
Current Assets	2,981.2
Non-current Assets	15,065.2
Total Assets	18,046.4
Current Liabilities	2,655.8
Non-current Liabilities	7,803.5
Total Liabilities	10,459.3
Common Stock	-336.6
Retained Earnings	7,903.6
Total Equity	7,567.0
Total Debt and Equity	18,046.4

LabCorp 2020 WACC Calculation

Where E is total equity, D is total debt, Re is the required return on equity, Rd is the required return on debt, L is the percentage debt, and T is the tax rate percentage

Spreadsheet Calculation		Enter Data			L = D / (D+E)
Required Return on Debt	Rd	14.56%	1	L = Debt Ratio =	0.5327
Required Return on Equity	Re	16.64%	2		WACC = (1 - L) Re + L (1- T) Rd
Marginal Tax Rate	T	29.84%	3	WACC =	13.22%
Debt %	L	53.27%	4		
Equity %		46.63%	5		

Actual Calculations	Numerator	Denominator	%
1 Return/Debt	1557.0	10691.3	14.56%
2 Return/Equity	1557.0	9359.7	16.64%
3 Tax/NIBT	662.1	2219.1	29.84%
4 Debt/(Debt+Equity)	10691.3	20071.7	53.27%
5 Equity/(Debt+Equity)	9359.7	20071.7	46.63%

2020 Income Statement	$ in M
Sales Revenue	13978.5
Less Cost of Sales	9025.7
Gross Profit	4952.8
Operating Expenses	2507.4
Operating Income	2445.4
Non-operating Income (Expense)	(226.3)
Net Income Before Tax (NIBT)	2219.1
Tax Expense	662.1
Net Income After Tax	1557.0

2020 Balance Sheet	$ in M
Current Assets	5,125.4
Non-current Assets	14,946.3
Total Assets	20,071.7
Current Liabilities	3,078.5
Non-current Liabilities	7,612.8
Total Liabilities	10,691.3
Common Stock	-42.6
Retained Earnings	9,402.3
Total Equity	9,359.7
Total Debt and Equity	20,071.7

APPENDIX E – SWOT Analysis

LabCorp Strategy Formulation Worksheet

Strategic Questions	Opportunities	Threats
Strengths -Leading global producer and distributor of diagnostic test kits (MarketLine Company Profile, 2023, p. 34) -Wide range of specialized kits elicits support from diverse consumer base (MarketLine Company Profile, 2023, p. 35) -Sustained revenue growth amid global pandemic continues to attract investors amid inflation (MarketLine Company Profile, 2023, p. 35)	**How can the firm use internal strengths to take advantage of external opportunities?** -LabCorp can reinvest revenue to demonstrate support for increased healthcare spending (MarketLine Company Profile, 2023, p. 37) -LabCorp can continue to expand its global footprint and diversify its non-clinical portfolio (MarketLine Company Profile, 2023, p. 36)	**How can the firm use internal strengths to reduce the likelihood and impact of external threats?** -LabCorp's strategic acquisitions reduce competitive pressure from emergent competitors (MarketLine Company Profile, 2023, p. 36) -Efforts to reduce existing costs and control future costs remain influenced by government healthcare payers, so LabCorp could create specialized pricing stratification for targeted preventative testing to limit cash flow restriction from reimbursement reductions or policy changes (MarketLine Company Profile, 2023, p. 37)
Weaknesses -Dependence on North American economies for financial stability despite global reach (MarketLine Company Profile, 2023, p. 35) -Complex billing processes made more complicated by international billing differences (MarketLine Company Profile, 2023, p. 36) -Geopolitical risks may disrupt supply chain (MarketLine Company Profile, 2023, p. 35)	**How can the firm overcome internal weaknesses that prevent it from taking advantage of external opportunities?** -Increasing internal QC decreases likelihood of incorrect kit shipments and more quickly identifies expired lots, discontinued and recalled testing supplies (MarketLine Company Profile, 2023, p. 38) -Increasing global presence will reduce overdependence on American market, provide alternative supply chain opportunities (MarketLine Company Profile, 2023, pp. 35-36)	**How can the firm overcome internal weaknesses that will make external threats a reality?** -LabCorp partners with third party talent staffing agencies to upscale or downscale staffing to offset American market changes quickly and affordably (LabCorp, 2024, p. 3) -LabCorp can develop strategies to reduces sales outstanding level created by fee-for-service healthcare plans, reducing bad debt rate and increasing cash flows (MarketLine Company Profile, 2023, p. 36) -LabCorp can better publicly address policies in place that mitigate ethics concerns of animal testing and reduce reputational, legal, and financial risk to shareholders (Schecter, 2024, 17:40)