

OUTSOURCED PHARMACEUTICAL SERVICES SECTOR CASE STUDY

LabCorp Announces Spin-off of Its Clinical Development Business

M&A Advisory | Growth Capital | Recapitalizations | Board Advisory | Strategic Evaluations



August 2022

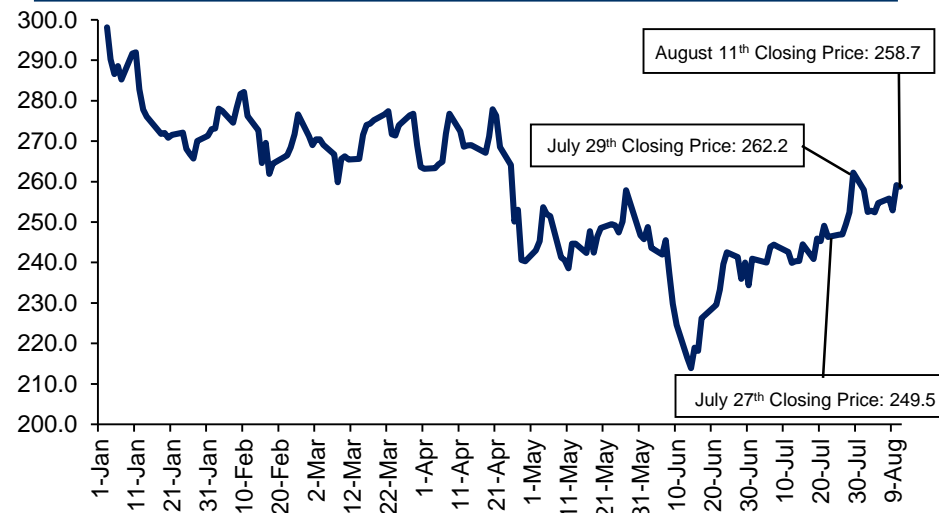
Transaction Overview



On July 28, 2022, Laboratory Corporation of America Holdings (“LabCorp” or the “Company”) announced that its Board of Directors authorized a plan to spin off the Company’s Clinical Development business into an independent, publicly traded company

- Post spin-off, LabCorp will retain its laboratory business (comprising of routine and esoteric labs, central labs, and early development research labs) and will continue to be publicly listed on the New York Stock Exchange under the ticker LH
- The Clinical Development business (NewCo.) will operate as a contract research organization (CRO) and will be a newly listed public entity
- The Clinical Development business was created in 2015 through the \$5.7 billion acquisition of Covance Inc.
 - Generated revenue for the trailing twelve month period ending June 30, 2022 of \$3.0 billion
 - Grew 8.0% on a CAGR basis from second quarter 2019 to second quarter 2022 and is expected to generate high-single-digit revenue growth moving forward
- Shares of LabCorp were up nearly 4% upon the announcement
- The spin-off is intended to qualify as a tax-free transaction for U.S. federal income tax purposes
- The Board of Directors, executive leadership team, and company name of the Clinical Development business will be determined at a later date
- The spin-off is expected to be completed in the second half of 2023 subject to the satisfaction of customary legal and regulatory requirements and approvals

LabCorp (NYSE:LH) YTD Stock Price Performance



Overview of the Clinical Development Business

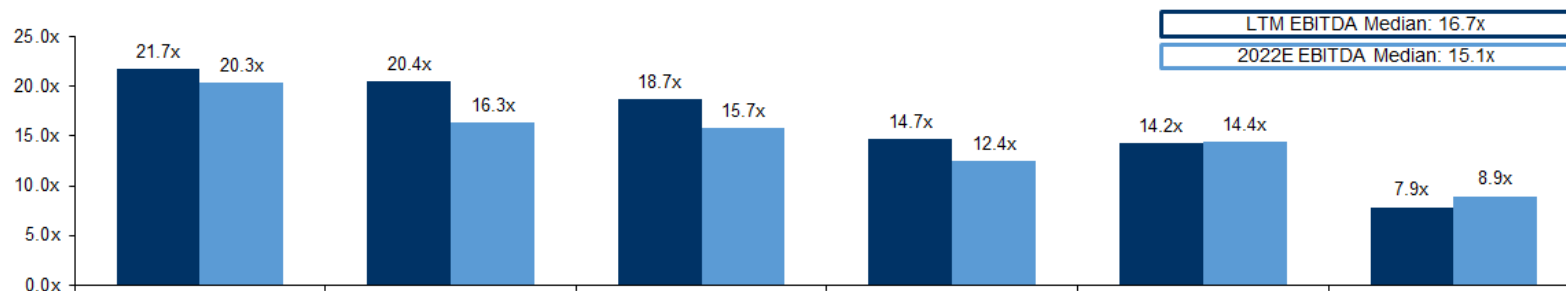
- The Clinical Development business is a leading, global CRO providing Phase I-IV clinical trial management, market access and technology solutions to pharmaceutical and biotechnology organizations
- Offers a full suite of nonclinical, clinical, and commercialization services with global capabilities and expertise in oncology, cell & gene therapy, rare disease and other therapeutic areas
- The Clinical Development business has supported more than 3,900 clinical trials from 2017-2021 in 100+ countries for small, mid-size, and large pharmaceutical and biotechnology clients
- The Clinical Development business represents ~12% of the overall \$25 billion global CRO market according to the company estimates

History of the LabCorp Clinical Development Business

- In February 2015, LabCorp completed its acquisition of Covance, a leading comprehensive drug development CRO for \$5.7 billion
- The acquisition provided LabCorp entry into the CRO industry, which was growing as drug firms continued to downsize their internal operations, cut costs, and increasingly outsource R&D services to the CROs
- Notable strategic rationale for the Covance transaction included:
 - LabCorp’s core laboratory business had been experiencing lower reimbursement rates from insurers. The transaction diversified LabCorp’s revenue into other higher margin segments that were not susceptible to reimbursement pressures
 - Provided Covance access to LabCorp’s large patient database to improve patient recruitment quality and times for clinical trials
 - Provided LabCorp access to Covance’s drug development database to develop companion diagnostic tests that predict which patients will benefit from certain drug treatments
 - LabCorp’s core laboratory business (90% of LabCorp’s FY 2014 revenue) was largely focused on sales from the U.S. In comparison, more than half of Covance’s revenue came from overseas providing LabCorp geographic diversification
- Prior to the acquisition of Covance, LabCorp had a market cap of approximately \$9.2 billion as of the last trading day prior to the transaction announcement in November 2014. The combined entity had a market cap of approximately \$12.3 billion the day following the announced completion of the transaction in February 2015
- In the years following the acquisition of Covance in 2015, LabCorp completed more than eight add-on acquisitions to the Covance platform. Most notably, Covance acquired Chiltern in August 2017 for \$1.2 billion
- Chiltern was a leading CRO with deep expertise in early stage clinical development. This acquisition of Chiltern is noteworthy because as a part of the planned 2022 spin-off, management indicated that it would be retaining this portion of the business as part of LabCorp
- According to management, the decision was made for LabCorp to retain the early stage clinical development capabilities (legacy Chiltern business) as it will allow the Clinical Development Business to focus exclusively on Phase I-IV clinical trial and technology solutions moving forward
- The combined LabCorp business has historically traded at a discount to our DSP Pharma Services Index and more in line with clinical laboratory peers

EV / LTM EBITDA - CURRENT TRADING PERFORMANCE

(\$ in millions)



Enterprise Value	\$14,036.3	\$23,032.0	\$54,723.6	\$27,333.9	\$5,529.9	\$10,490.0
Revenue	3,688.0	7,588.4	14,136.0	15,715.2	1,286.3	5,418.6
Three-Year Revenue CAGR	13.9%	40.3%	9.3%	9.7%	17.8%	5.5%
Gross Margin	37.4%	27.7%	34.4%	32.6%	62.0%	23.7%
EBITDA Margin	26.7%	16.3%	18.9%	22.2%	19.8%	13.2%

MEDPACE

IQVIA

ICON

Syneos
Health

charles river

labcorp

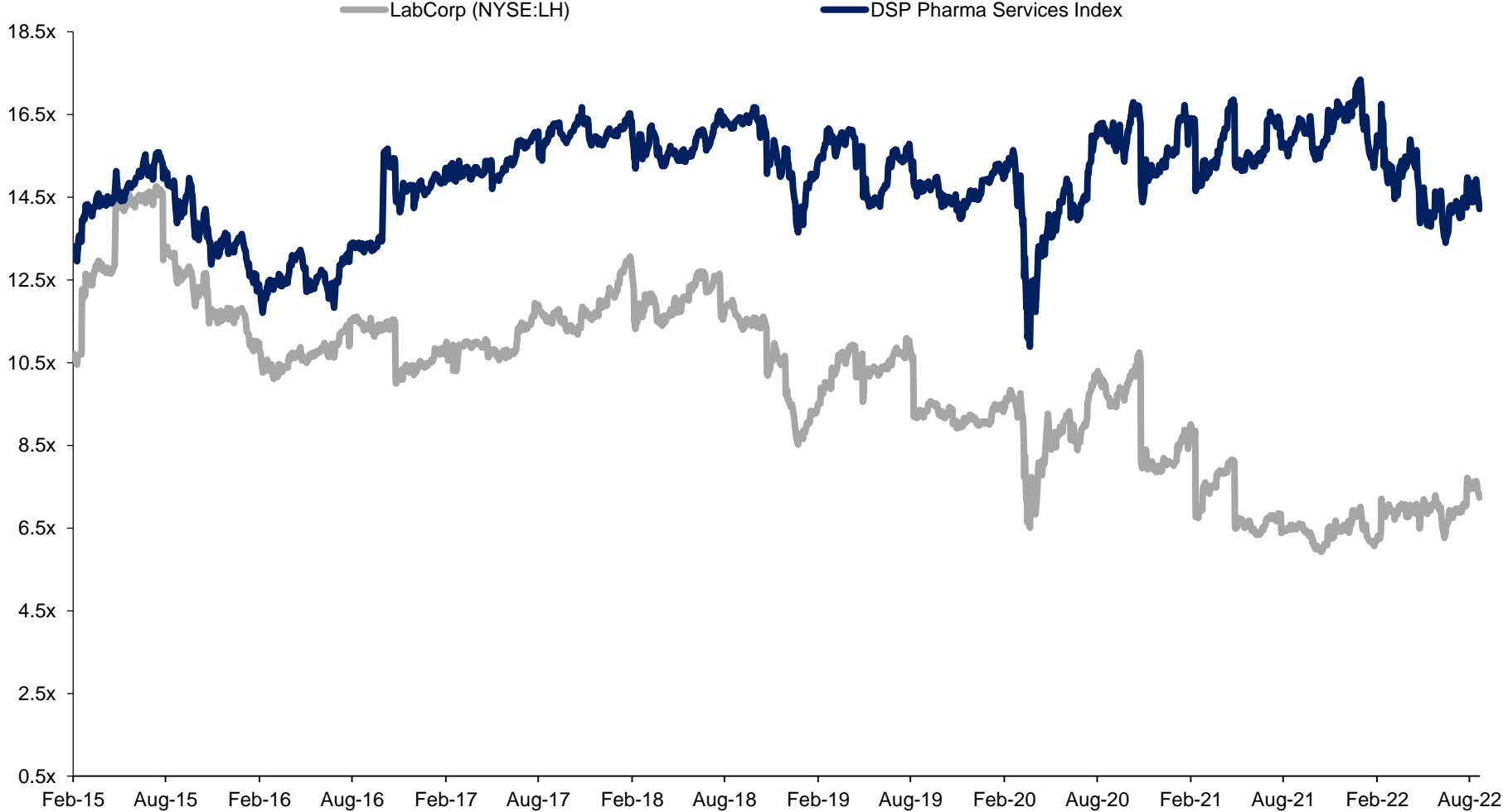
COMPANY	STOCK PERFORMANCE AND COMPANY DATA					MARGINS		VALUATION DATA			
	Price 8/22/2022	30 Day % Change	YTD % Change	Market Value (\$mm)	Enterprise Value (\$mm)	LTM Gross % Margin	LTM EBITDA % Margin	EV / Rev LTM	EV / EBITDA		P / E
Company									LTM	2022E	2022
Charles River Laboratories International, Inc.	\$211.90	(10.6%)	(43.8%)	\$10,777.9	\$14,036.3	37.4%	26.7%	3.8x	14.2x	14.4x	19.7x
ICON Public Limited Company	225.80	2.1%	(27.1%)	18,408.7	23,032.0	27.7%	16.3%	3.0x	18.7x	15.7x	19.3x
IQVIA Holdings Inc.	231.57	4.4%	(17.9%)	43,189.6	54,723.6	34.4%	18.9%	3.9x	20.4x	16.3x	22.9x
Laboratory Corporation of America Holdings	243.49	(1.2%)	(22.5%)	22,011.5	27,333.9	32.6%	22.2%	1.7x	7.9x	8.9x	12.1x
Medpace Holdings, Inc.	166.75	3.3%	(23.4%)	5,169.0	5,529.9	62.0%	19.8%	4.3x	21.7x	20.3x	25.4x
Syneos Health, Inc.	64.79	(14.5%)	(36.9%)	6,645.8	10,490.0	23.7%	13.2%	1.9x	14.7x	12.4x	12.9x
Overall Group Mean		(2.7%)	(28.6%)	17,700.4	22,524.3	36.3%	19.5%	3.1x	16.3x	14.7x	18.7x
Overall Group Median		0.5%	(25.2%)	14,593.3	18,534.2	33.5%	19.4%	3.4x	16.7x	15.1x	19.5x
Overall Group Max		4.4%	(17.9%)	43,189.6	54,723.6	62.0%	26.7%	4.3x	21.7x	20.3x	25.4x
Overall Group Min		(14.5%)	(43.8%)	5,169.0	5,529.9	23.7%	13.2%	1.7x	7.9x	8.9x	12.1x

Clinical Development Business Spin-off Rationale

- In 2021, LabCorp initiated a strategic review of the Company after activist investment firm Jana Partners, put pressure on management to conduct the review as it believed the Company was undervalued
- The strategic review ended in December 2021, but did not result in an immediate reorganization of the business. However, at that time the Company's board approved distribution of a dividend to its shareholders and authorized a \$2.5 billion buyback program
- Notable strategic rationale for the transaction included:
 - LabCorp's laboratory business has different capital structure requirements and equipment needs compared to the primarily service focused clinical development business
 - The laboratory business (~64% of FY21 revenue) is largely focused on the North American market, whereas the Clinical Development business (~36% of FY21 revenue) is equally split between the US and the rest of the world
 - Post spin-off, both companies will have the opportunity to target key markets independently with tailored capital structures, focus on achieving above-market growth, and continue to enhance shareholder value
 - The Clinical Development business will retain access to LabCorp's vast health and clinical data insights, which they will seek to monetize by providing support to their pharmaceutical and biotechnology clients
 - Post spin-off, the LabCorp entity will continue to focus on core diagnostics services and will strive to expand its routine and esoteric labs, central labs and early development research laboratories network outside the US
 - Notably, the laboratory business is poised for a mid-single or higher digit revenue growth in the coming years, as the division's global addressable market is poised to grow at a CAGR of ~10% from \$150 billion in 2022 to \$250 billion by 2026E
 - The Clinical Development business also offers a compelling growth opportunity as the global addressable CRO market (\$25 billion) is poised to grow at a CAGR of ~6% from 2022-2030E. The Clinical Development business itself is projected to deliver high single-digit revenue growth going forward.
 - Management believes the transaction will create differentiated and compelling investment opportunities based on each company's particular business model. It anticipates that post separation the two companies will be better positioned to be more appropriately valued by the investor community based on the appropriate set of peers
 - As a standalone public company, the Clinical Development business should garner a multiple higher than the laboratory business. Prior to announced spin-off, the combined entity was trading in line with clinical laboratory peers at ~8-10x LTM EV/EBITDA compared to clinical CRO peers of ~15-18x

LABCORP ANNOUNCES SPIN-OFF OF ITS CLINICAL DEVELOPMENT BUSINESS

LabCorp (NYSE:LH) vs. DSP Outsourced Pharma Services Index Companies (EV / EBITDA) (1) (2)



(1) Source: S&P Capital IQ

(2) The EV / EBITDA multiples above include: ICON, IQVIA, Charles River Laboratories, Medpace, Syneos, Laboratory Corporate Holdings of America, and Pharmaceutical Product Development (PPD). The multiples above also include companies taken private (Parexel, UDG Healthcare, Cello Health, and Huntsworth) or merged into the entities above (Quintiles, IMS Health, INC Research, and PRA Health Sciences) while they were public.

Spin-Off

Executive Commentary



“Spinning off the Clinical Development business will benefit customers and shareholders by creating two standalone businesses that are poised to accelerate growth and focus resources on distinct strategic priorities, customer needs and value creation. Our shareholders will be able to participate in the upside potential of two market-leading businesses in the global healthcare sector, each of which will be well-capitalized and positioned to generate sustainable growth with strong free cash flows and attractive returns. Our customers will continue to have access to our full range of capabilities with the same quality and seamless delivery of services they have come to expect from our teams. Today is a testament to our long history of growth through innovation and track record of delivering on our mission to improve health and improve lives.”

– Adam Schechter in Spin-off Press Release, Chairman and CEO, LabCorp (7/28/2022)

To Spin-off

“In December, we said that we decided that the current structure was in the best interest of stakeholders at that time. And we were very clear to say at that time because we knew that post strategic review, the board was going to continue to evaluate avenues to enhance value, including potential transactions. We were going to talk to more external people. At this point, we see strong growth in each of the businesses, so we feel really good about the business profiles. We've determined that a separation by spin will enhance value, but it's also going to give both companies the ability to get sustainable growth. And to me, having both focused capital structures is really important because there's a lot of business development opportunities out there. And I think the way you prioritize those could be very different between the two businesses.”

– Adam Schechter in Q2 Earnings Call, Chairman and CEO, LabCorp (7/28/2022)

Clinical Development Business

“We have a very strong balance sheet, a commitment to continue as LabCorp investment-grade with the same targeted leverage ratios that we've had before. We don't believe there will be a constrain on our ability to continue to pursue acquisitions for both companies as they're both part of LabCorp today. But when we stand up to spin the Clinical Development business, while we haven't commented specifically on its capital structure other than to say that businesses will both be well-capitalized such that they'll be in very good positions to continue to pursue growth strategies, both through organic or internal investments as well as through acquisition opportunities.”

– Glenn Andrew Eisenberg in Q2 Earnings Call, CFO and EVP, LabCorp (7/28/2022)

DELANCEY STREET PARTNERS RECENT HEALTHCARE TRANSACTION EXPERIENCE

Outsourced Pharmaceutical Services

 <p>Herspiegel Consulting™ has received an investment from DFW CAPITAL PARTNERS Advisor to Herspiegel</p>	 <p>has acquired pharmatech associates Advisor to Buyer</p>	 <p>has completed a majority recapitalization with the edgewater funds Advisor to Deerfield</p>	 <p>has completed a senior debt financing with Santander Advisor to KPS Life</p>	 <p>has been acquired by W2O a portfolio company of NMC New Mountain Capital LLC Advisor to Seller</p>	 <p>has merged with red nucleus a portfolio company of RENOVUS CAPITAL Advisor to Pyxa</p>	 <p>has completed a majority recapitalization with BEHRMAN CAPITAL Advisor to Emmes</p>	 <p>has been acquired by WATER STREET Advisor to Seller</p>	 <p>has agreed to be acquired by PAREXEL Advisor to Seller</p>
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Healthcare Services

 <p>has completed a growth equity financing with VSS Advisor to GLOBO</p>	 <p>has been acquired by CROSS COUNTRY HEALTHCARE Advisor to Seller</p>	 <p>has been acquired by MEDNAX Advisor to Seller</p>	 <p>has been acquired by PIVOT PHYSICAL THERAPY a portfolio company of CI CAPITAL PARTNERS Advisor to Seller</p>	 <p>has divested GEO Care in a Management Buyout Advisor to Independent Committee Fairness Opinion</p>
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Life Science Tools

 <p>a portfolio company of MITLER TOLEDO has been acquired by MITLER TOLEDO Advisor to Seller</p>	 <p>has been acquired by MITLER TOLEDO Advisor to Seller</p>
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