



## FEATURED OPTIONS RADAR REPORT



### Healthcare Services Value Name Attracts Large Call Buy

**Ticker/Price:** LH (\$264.6)

**Lab Corp (LH)** with 6150 May \$280 calls bought to open for \$6.4M on 2/15 as the \$300 calls adjusted back into weakness and still has the 3400 March \$290 calls bought in open interest. LH shares are -15.75% YTD and have a bearish 8/21 week EMA crossover while also in a MACD sell signal but sit right back above a key \$262.50 volume node of support. LH shares are now below VWAP from the start of 2021 while VWAP from March 2020 lows is down at \$226. Lab Corp operates via its Diagnostics and Drug Development segments and provides diagnostic, drug development, and technology-enabled solutions for more than 160 million patient encounters per year. Bloomberg reported in November that LH was in talks to merge its Covance business with Syneos (SYNH) through a Reverse Morris Trust though spin-off or sale of unit remains a possibility. LH is a value name with a \$26B market cap trading 14.35X Earnings, 10X EBITDA and with a 7% FCF yield. LH will face tough comps as COVID testing rolls off with revenues and EBITDA seen down Y/Y in 2022 causing the multiple contraction. LH detailed long-term guidance on its latest earnings call excluding any COVID impact and is seeing notable labor and supply inflation. LH did an interesting \$450M deal in December for Personal Genome entering the liquid and tissue biopsy market. LH also started a cost-savings program and in 2022 is authorizing a \$2.5B buyback and a dividend which opens the door for a large AUM new shareholder base. Analysts have an average target of \$340 with short interest low at 1.9% of the float. Melvin Capital is the likely firm behind the call option trades with LH its 6<sup>th</sup> largest position. Wells Fargo cut its target to \$320 remaining constructive on the company's growth and value-creation opportunities and Citi raised its target to \$350 after Q4 results. Deutsche Bank cut shares to Hold on 1/28 on margin concerns.

#### Hawk Vision:



**Hawk's Perspective:** LH is a high quality business with potential to re-rate higher once some of these headwinds pass, historically trades in the 10-12X EBITDA range so I do see value but would like to see the chart stabilize and Melvin has not exactly had a hot hand. It's a transition year but a likely good name to scoop up in 2H22.

**Confidence Ranking:** \$\$