



Lab Corp Bullish Positions Accumulate Under New CEO

Ticker/Price: LH (\$175.65)

Analysis:

Lab-Corp (LH) with 4000 August \$180 calls bought \$11.20 to \$12.90 to open Friday afternoon, a large trade and a name already with notable size open interest. LH already with 2,725 of the August \$180 calls in open interest from a large buy on 1/17, and has 500 each of the May \$165 and \$170 calls bought in OI. LH shares pulled back with the market last week and retested its big range breakout level from early 2020, also hitting its 200 day MA on the low Friday. The \$17.7B healthcare company operates in two segments, LabCorp Diagnostics and Covance Drug Development. LH shares are attractively valued at 13.7X Earnings, 23.4X FCF and 10.8X EBITDA. Forecasts see revenue growth of 3-5% each of the next two years and 4-5% EBITDA growth. LH is coming off a strong beat quarter with acquisition and organic growth offsetting the PAMA impact. LH has five key priorities including Oncology diagnostics, Data Analytics, Synergies, Customers, and Capital Allocation to fast growing opportunities. LH mentioned at the JPM Conference it sees a good pipeline of deal potential in 2020. Analysts have an average target of \$208 on shares with short interest low at 1.9% of the float. On 2/13 Piper raised its target to \$219 from \$177 noting a smooth first quarter under the new CEO though the situation in China may impact the Covance segment. Wells Fargo started coverage in early January at Overweight with a \$210 target. Hedge Fund ownership rose slightly in Q4 filings, Healthcor the largest buyer making LH its top holding at a 5.1% weighting, while Melvin Capital the largest holder and likely the one responsible for the call buys.

Hawk Vision:



Hawk's Perspective: LH caught a nice run from this level last time with size call buying and continues to be an attractively valued business, and giving a key 200 MA level with some slippage in the past, but nice reward/risk down here.

Confidence Ranking: \$\$