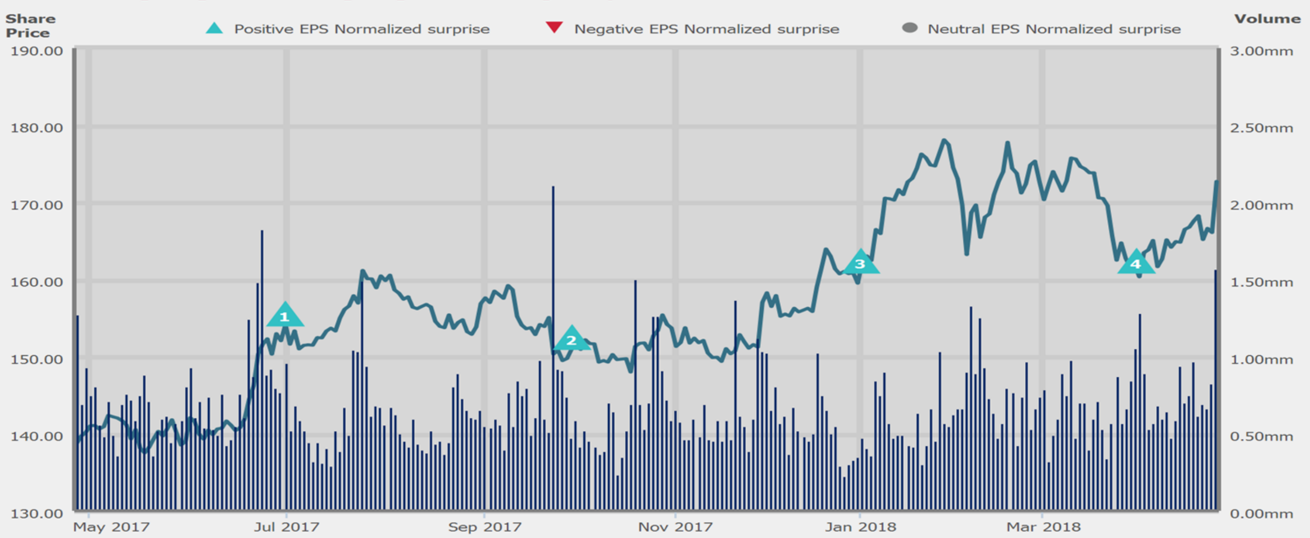
S&P Global
Market Intelligence

Laboratory Corporation of America Holdings
NYSE:LH
FQ2 2018 Earnings Call Transcripts
Wednesday, July 25, 2018 1:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.92	2.98	▲2.05	2.92	11.55	12.34
Revenue (mm)	2846.80	2866.30	▲0.68	2860.46	11451.01	11927.26

Currency: USD
Consensus as of Jul-25-2018 1:46 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	2.41	2.47	▲2.49 %
FQ3 2017	2.39	2.46	▲2.93 %
FQ4 2017	2.38	2.45	▲2.94 %
FQ1 2018	2.63	2.78	▲5.70 %

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Call Participants

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Gary M. Huff
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Glenn A. Eisenberg
CFO & Executive VP

John D. Ratliff
Chief Executive Officer of Covance Drug Development

Scott Frommer
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to LabCorp's Second Quarter 2018 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call may be recorded. I would now like to turn the conference over to Scott Frommer, Vice President of Investor Relations. You may begin.

Scott Frommer
Vice President of Investor Relations

Good morning, and welcome to LabCorp's Second Quarter 2018 Conference Call. As detailed in today's press release, there will be a replay of this conference call available via telephone and Internet. With me today are Dave King, Chairman and Chief Executive Officer; Glenn Eisenberg, Executive Vice President and Chief Financial Officer; Gary Huff, CEO of LabCorp Diagnostics; and John Ratliff, CEO of Covance Drug Development.

In addition to our press release, we also furnished a Form 8-K this morning that includes additional financial information. Both are available in the Investor Relations section of our website at www.labcorp.com and include a reconciliation of non-GAAP financial measures discussed during today's call to GAAP.

Finally, we are making forward-looking statements during today's call. These forward-looking statements include, but are not limited to, statements with respect to 2018 guidance and the related assumptions, the impact of various factors on operating and financial results and the opportunities for future growth.

These statements are based upon current expectations and are subject to change based upon various factors that could affect our financial results. Some of these factors are set forth in detail in our 2017 Form 10-K and subsequent Forms 10-Q and other filings with the SEC. We have no obligation to provide any updates to these forward-looking statements, even if our expectations change.

Now I'll turn the call over to Dave King.

David P. King
Chairman, CEO & President

Thank you, Scott, and good morning. LabCorp delivered another outstanding quarter across our integrated enterprise. The combination of strong organic revenue growth, acquisition contributions, our LaunchPad initiative and the benefits from tax reform powered top line growth of 13% and adjusted EPS growth of 23%. We created value through our disciplined deployment of our robust free cash flow. In the quarter, we enhanced Covance's offerings through the [indiscernible] acquisition, returned capital to shareholders through share repurchase and reduced our leverage to its lowest level since 2015 through debt paydown.

In addition, we continue to enhance the focus of our portfolio by agreeing to divest our food solutions business at a very attractive valuation. This transaction is expected to close in the third quarter, providing additional proceeds to support value creation.

Our strong financial performance results from execution on our key strategic initiatives, which in turn leads to profitable growth and stable enterprise margins. I will now update you on our progress on each.

Our first strategic objective is to support our customers transition to value-based care. In the quarter, we announced significant multiyear agreements with UnitedHealthcare and Aetna. In both instances, our proven track record of delivering convenient, high-quality and cost-effective services translated to into expanded opportunities and fair reimbursement rates. Furthermore, these partnerships incorporated a broad range of innovative and value-based arrangements.

We have multiple initiatives underway with our customers to retain United business and capitalize on our growth opportunity with Aetna. As we have said, given the relative size of each company's insured population, we expect the net results to negatively impact revenue and profit next year. Nonetheless, these partnerships reinforce our strong competitive position in the fragmented clinical laboratory market. They also highlight LabCorp's increasingly important role in delivering targeted care to patients through our leadership in population health tools and personalized medicine capabilities.

In the quarter, we continued to expand those tools and capabilities through, among other activities, our digital evolving partnership with Philips and the commercial launch of OmniSeq Advance, our precision medical tool that includes key immunotherapy biomarkers.

Our second strategic objective is to enhance the Drug Development process. We continue to deliver high-quality performance on one of the largest backlogs in the industry, demonstrate the value of our differentiated beyond-lab, beyond-CRO offering sponsors and invest in expanded solutions to increase trial efficiency and improve the patient experience. During the quarter, we were selected by a top 40 biopharma sponsor with whom we have not collaborated in the past for a dual-source strategic partnership. One of the primary reasons the sponsor selected Covance was our strong data and study visibility solutions. We will provide clinical development and central laboratory services across all therapeutic areas of this customer. Our early development business won a competitive process to become a primary provider and strategic partner in the top 10 pharma sponsor. We expect toxicology awards from this sponsor to eventually double from current levels with new awards beginning at the end of this year. These partnerships will ramp over time, neither benefited net orders of book-to-bill in the quarter.

In companion diagnostics, we delivered record quarterly revenue and signed a new commercial partnership with that will facilitate greater availability of Companion Diagnostics throughout Europe. Companion Diagnostics is a mobile opportunity and the partnership with Unilabs is the first step in extending our unique companion worldwide. We also continued to invest in the CRO in the future. These investments begin with LaunchPad, which is progressing at a rapid pace and contributed to Covance's 80 basis point margin improvement in the quarter. The global service delivery model we discussed last quarter is up and running, improving quality and optimizing our utilization of resources and infrastructure.

At the same time, we added a global preferred site partnerships, incorporated mobile health technologies with the divisional studies and enhanced our virtual clinical trial capabilities highlighted by another key customer adoption of the Xcellerate suite of technology tools.

Each of these opportunities, along with our patient and investigator performance data, represents progress toward better trial design, site selection, patient recruitment and patient experience.

Our third strategic objective is to create a leading consumer engagement platform. We continue to enhance patient convenience and engagement, broaden our challenged market and build brand loyalty. We also continue to improve the consumer-friendly tools in our patient service centers and on mobile apps. Our strategic collaboration with Walgreens has expanded to 16 stores with the addition of sites in Florida. We plan to expand this partnership through additional markets this year and are actively discussing ways that we can expand and integrate our combined services.

Our consumer platform focuses on meeting consumers where they want to be met, and our next innovation will let us reach them at home.

We have made significant progress on the validation of our innovative self-collection device, showing strong concordance between test results collected with our device and traditional venous blood The device is currently in beta testing and remain on track to make it available commercially later this year.

Before I turn the call over to Glenn, I want to address the recent ransomware event at LabCorp. When our IT team a detected suspicious activity on our network, we promptly took certain systems offline. That action was designed, first and foremost, to protect the private information of the patients we serve. This decision was the right one although it led to a disruption in service which required approximately 1 week for recovery. Operations have now returned to normal. Our investigation, which has included highly respected independent forensic IT experts has found no evidence of theft or misuse of data. We are still assessing the full financial impact of this system hack. We have incurred costs related to remediation efforts. It is too early to determine the volume impact at this time. We believe the financial impact will not be significant, and the company has cyber insurance coverage. As a result, this event does not cause a change in our full year guidance range. Although we have a host of tools to guard against and mitigate this sort of attack, the critical components of recovery was our people. They worked long hours with little rest. They demonstrated amazing teamwork to get problem solved. They stayed calm in the face of great diversity. They went the extra mile to help patients and clients in need, and they were attentive and responsive to doctors, consumers and partners who needed more information. They did these things because we are here to serve the patients who need us as we have been and always will be.

When people asked what makes me proud of LabCorp, I always say it's the passion of my colleague from what we do. In our nearly 50 years of existence, that passion has never been more certain and focused during this incident. Every one of my colleagues stood tall at a time of great challenge, and I thank each of them from the bottom of my heart. Because of their commitment to and passion for our mission to improve health and improve lives, LabCorp continues to prosper and to deliver value to everyone who depends on us.

Now I will turn the call over to Glenn.

Glenn A. Eisenberg
CFO & Executive VP

Thank you, Dave. I'm going to start my comments with a review of our second quarter results followed by a discussion of our performance in each segment and conclude with commentary on our full year outlook. As a reminder, on January 1, 2018, we adopted ASC 606 using the full retrospective method, meaning that we restated our 2017 financial results to better enable the valuation of our 2018 performance and guidance. In the press release, our prepared remarks and the Q&A session to follow, all references to our 2017 results are to the restated numbers unless we specifically note otherwise.

Revenue for the quarter was $2.9 billion, an increase of 13.4% over last year as acquisitions added 10.5%, organic revenue increased 2.1% and we benefited from foreign currency translation of 80 basis points.

Operating income for the quarter was $369 million or 12.9% of revenue compared to $330 million or 13% last year. During the quarter, we had $36 million of restructuring charges and special items, primarily related to acquisitions, integration, our LaunchPad business process improvement initiative and the planned divestiture of the food solutions business. Adjusted operating income, which excludes amortization of $59 million. Restructuring charges and special items was $463 million or 16.2% of revenue compared to $431 million or 17.1% last year. The $32 million increase in adjusted operating income was primarily due to acquisitions, organic revenue growth and savings from our LaunchPad initiative, partially offset by lower Medicare pricing as a result of the implementation of PAMA and personnel costs. The 90 basis point decline in operating margins was due to the implementation of PAMA and the mix impact from the acquisition of Chiltern, which was not in the prior year's results.

The tax rate for the quarter was 25.1% compared to 33.7% last year. The adjusted tax rate excluding special charges and amortization was 24.5%, down from 33.6% last year. This lower rate was primarily due to the implementation of tax reform in the U.S. We continue to expect the full year of 2018 adjusted tax rate to be approximately 25%.

Strong operational performance and the benefit of tax reform translated into net earnings for the quarter of $234 million or $2.27 per diluted share. Adjusted EPS, which excludes amortization, restructuring charges and other special items, were $2.98 in the quarter, up 23% over last year.

Operating cash flow was $367 million in the quarter, up from $311 million a year ago. The increase was due to higher cash earnings and favorable working capital. Capital expenditures totaled $87 million or 3% of revenue compared to $69 million or 2.7% last year. As a result, free cash flow was $280 million in the quarter, up from $241 million last year.

We remained active throughout the quarter in terms of capital allocation. At quarter end, our cash balance was $221 million, down from $362 million at the end of the first quarter. During the quarter, we invested $79 million in acquisitions and repurchased $75 million of stock. As of June 30, we had $994 million of authorization remaining under our share repurchase program. During the quarter, we also paid down $310 million of the company's variable-rate term loan. Despite our total debt to $6.5 billion at quarter end, reducing our leverage to 3.1x gross debt to last 12 months EBITDA at the top end of our target leverage ratio of 2.5x to 3x.

Now I'll review our segment performance, beginning with LabCorp Diagnostics. Revenue for the quarter was $1.8 billion, an increase of 5.4% over last year. The increase in revenue was primarily driven by acquisitions, organic volume measured by requisitions and the benefit from currency translation of approximately 30 basis points. These favorable items were partially offset by the negative impact from PAMA. Revenue per requisition decreased 0.7%, primarily due to the impact of PAMA partially offset by acquisitions. Total volume increased 5.8%, of which organic volume was 2.8% and acquisition volume was 3%. Note that our acquisitions of Mount Sinai's outreach business and PAML excluding certain related joint ventures annualized in May.

LabCorp Diagnostics adjusted operating income for the quarter was $376 million or [20.7%] of revenue compared to $376 million or 21.8% last year. Operating income benefited from organic volume growth and acquisitions, which were essentially offset by the negative impact from PAMA and personnel costs. The decline in operating margin was primarily due to the negative impact from PAMA.

Now I'll review the performance of Covance Drug Development. Revenue for the quarter was $1.1 billion, an increase of approximately 31% over last year due to acquisitions, organic growth and the benefit from 180 basis points of foreign currency translation. Adjusted operating income for the segment was $123 million or 11.7% of revenue compared to $89 million or 11% last year. The $35 million increase in operating income and 80 basis points improvement in margins were primarily due to organic demand, LaunchPad savings and acquisitions partially offset by personnel costs. We are on track to deliver $150 million of net savings from Covance LaunchPad by the end of 2020 and $30 million of cost synergies from the integration of Chiltern by the end of 2019.

For the trailing 12 months, net orders were $4.9 billion and net book-to-bill was 1.22. Backlog at the end of the quarter was $9 billion, a decrease of approximately $200 million from last quarter, primarily due to foreign currency translation relating to the stronger U.S. dollar. We expect approximately $3.7 billion of this backlog to converge into revenue over the next 12 months.

Now I'll discuss our 2018 guidance, which assumes foreign exchange rate as of June 30 for the remainder of the year and includes the impact from currently anticipated deployment of free cash flow toward acquisitions, share repurchases and debt repayment. In addition, this guidance includes the expected the financial impact related to the previously announced divestiture of the food solution business in the third quarter. We expect revenue growth of 10.5% to 11.5% over 2017 revenue of $10.3 billion, which includes the benefit of approximately 50 basis points of currency translation. This is the narrowing of the range as compared to our prior guidance of 10% to 12% as the increased revenue outlook in Covance Drug Development is offset by the planned divestiture of the food solutions business.

We expect LabCorp Diagnostics revenue growth of 3% to 4.5% over 2017 revenue of $6.9 billion, which includes the benefit of approximately 20 basis points of currency transaction. This is the decrease of our prior guidance of 3.5% to 5.5% due to the planned divestiture of the food solutions business. For modeling purposes, the food solution business generated revenue of approximately $150 million in 2017 at margins in line with the diagnostic segment overall but at a significantly higher revenue per requisition.

We expect Covance Drug Development revenue growth of 23% to 26% over 2017 revenue of $3.5 billion, which includes the benefit of approximately 110 basis points of currency translation. This is an increase over our prior guidance of 21% to 25% due to higher-than-expected investigator fees and other pass-through expenses for which the company will be reimbursed, partially offset by the 120 basis points change in foreign currency translation, given the stronger U.S. dollars. We remain on track to deliver mid to high single-digit organic growth in 2018.

Our adjusted EPS guidance is $11.35 to $11.65, a narrowing of the range as compared to our prior guidance of $11.30 to $11.70.

Finally, we expect free cash flow to be between $1.1 billion and $1.3 billion, unchanged from our prior guidance.
This concludes our formal remarks, and we will now take questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Jack Meehan of Barclays.

Jack Meehan
Barclays Bank PLC, Research Division

Dave, can you help us put some ranges around what you think the net-net impact of the new UnitedHealth relationships will be in 2019? And also, what are some of the investments you're going to put in place to try and drive share gains with other payers during this period?

David P. King
Chairman, CEO & President

I'll make a couple of comments on this and ask if Gary has anything further. I think it's not appropriate to talk about ranges of outcomes with United and Aetna because we're guiding towards 2019 now. I will say that as we have said, from the beginning, given the number of covered lives in each of those plans, it is highly likely that you will lose more in United than Aetna. That's not anything against United or against Aetna. It's just the reality is there are more covered lives under United, and we have a percentage of that market. So that will have a negative impact on revenue and, obviously, on profit. And as we always do, we'll look at what are the opportunities to tweak the cost structure to accommodate those changes. In terms of tools for share gains, I think one of the most critical things that we're doing and that we talked about is all the work we're doing around data and data integration. So the population tools that we mentioned, the integration with the Covance data, the data and analytics that we're working on to overlap with Walgreens, for example, with their patient population and the combination of capabilities. And I think the -- as we talk with large customers, as I saw a couple of them last week, they want to know not only how are my patients doing, where are my care, what are the opportunities that I have to treat better so that I can receive bonus payments and improves rates, they also want to know in the health system, for example, how is my patient cohort performing against comparable patient cohorts. How are my physicians performing against comparable physicians, both internally and externally? So we are really focused on how we use the data tools to enhance our offerings. In conjunction with that, the whole digital opportunities, so the mobile app, the increasing reach to consumers, the self check-in in patient service centers, the realtime email feedback on the patient experience, which allows us to not only do net promoter calculations but also to do literally contemporaneous improvements of the patient experience and again, thinking about how we integrate those opportunities and experiences with our partners during the check-in process at Walgreens, for example, or using the Walgreens mobile app LabCorp These are all things that we're talking about working towards we think about how can we enhance our opportunities to create brand identification and gain share with the consumer, with the health system, with the physician beyond our traditional sales mechanisms. Gary, anything you would like to add to that?

Gary M. Huff
Chief Executive Officer of Labcorp Diagnostics

Well, I would like to say that, first of all, we look at the Aetna and UnitedHealthcare as an opportunity for us, and it really comes down to organizational execution of a plan. I would like to say we have an extensive plan. We are mobilized and we are prepared to execute on that plan.

Jack Meehan
Barclays Bank PLC, Research Division

That's great. And Dave, your color. That's a good lead into the question I had for you and John, which is could you update us in any progress you made rolling out in the check-in tool and getting patients to opt in for Covance? And just related to that, some of the progress you made in the expanded strategic relationships, do they have any impact on the timing of bookings in the quarter?

David P. King

Chairman, CEO & President

Well, I'll start with the check-in tool. So a couple of things on that. One is that the database of patients who have opted to be contacted continues to grow. I think more important, after a consideration and review of how we engage with patients, we have a significant opportunity to engage with patients through the collection of email and versus at self check-in, the billing process, so we have a very, very large base of email addresses. And we will be using those as well to communicate with patients about their interest in trial opportunities and to solicit their consent for opt-in. So the number of patients who are coming and checking is just a subset of the people who will be communicating with how can they opt into trials. And we're actually enthused about that opportunity for a lot of reasons, not only because, look, trial criteria tend to be quite narrow, and it's not even patients who are interested or not always eligible. But when you think about the number of patients who come and see us and those email addresses to collect and pay their bills, we have an enormous opportunity to capitalize on what we've talked about as sort of next-generation trials, so virtual trial, virtual control alarms, observational studies, our market access business all simply through the LabCorp data that we have and the ability to communicate with those customers on behalf of Covance. So that's where we are on the opt-in and the database. We continue to see very strong progress there, and I'll turn it over to John in terms of the impact of data on the bookings.

John D. Ratliff
Chief Executive Officer of Covance Drug Development

As the integration and Drug Development has matured, we're looking at data capabilities really an important factor necessary to be successful. We now see this $1 billion in awards where data capabilities have facilitated the selection of Covance. We expect to exceed the cumulative revenue of $150 million through 2018, higher than our initial estimates the acquisition. We now have demonstrated as we did even on the Investor and Analyst Day case studies that showcase the realtime demonstrations of the really actionable nature of these unique assets. I'm sure we'll get into the bookings of the quarter, but clearly, the strategic partnerships, and as Dave even noted, the clinical partnership was enabled through our data capabilities in the clinical stage to a top 40 sponsor. And then finally, in terms of data, we've been able to demonstrate through our central lab data on how we have compared to the industry on the timing of oncology studies as an example where we finished our oncology studies anywhere from 3 to 5 months earlier than our competition. So clearly, data and our capability there is facilitating a winning environment for Covance.

Operator

Our next question comes from the line of Lisa Gill of JPMorgan.

Lisa Christine Gill
JP Morgan Chase & Co, Research Division

I just wanted to follow up with some of your comments around what's happening in the managed care market today. As we think about this, I understand that, clearly, United is bigger than Aetna, but how do we think about the shift to the large national players like yourselves and Quest? One, how do you think you're differentiated from Quest? And two, within the new contract, is there any bigger opportunity to continue to move market share away from the regional labs? And as you think about that and you talked a lot about data and analytic populations help tools, how do we think about value-based care and how you potentially can be paid around value-based offerings and enhancements to the current contracts around any kind of value-based initiatives.

David P. King
Chairman, CEO & President

So both the United contract and the Aetna contract contained a value-based care initiatives and some value-based care commitments. And without going into an enormous amount of detail, suffice it to say there is opportunity for us in revenue and if we can redirect work away from higher-cost providers, I will say the reality is we cannot do that ourselves. There are many reasons why lab work goes to higher-cost providers, mainly, health systems are very insistent with the doctors and their work to their own captive laboratories. They do things like telling the doctor -- telling us that we can't have an interface to return results electronically so everything has to go back to fax, which is inconvenient for the doctor in terms of putting that information to the medical records. So there are structural obstacles, but there are things that we and our managed care partners are working on, including things like benefit design to redirect work from out-of-network to in-network laboratories and other initiatives that will help support our -- our benefiting from value-based care initiatives. In terms of the overall market and market opportunity for large nationals versus regionals and health systems, it's still a highly fragmented market. We have a strong competitive position, which is founded on convenience, quality, service and cost-effectiveness, and we continue to build out that infrastructure with initiatives like the LabCorp Walgreens and other -- the home testing and other ways in which we engage with and reach the consumer where the consumer wants to be met. So we feel that we're extremely well positioned in the market competitively, and we're going to continue to work on ways that we can not only provide value to the health system provide value to the physician but gain the identification with the consumer as a trusted provider of more than numbers on a piece of paper but a trusted provider of knowledge about condition and how I can manage it better.

Lisa Christine Gill
JP Morgan Chase & Co, Research Division

And how do we think about your competitive position against the other national provider? Is there something that you feel that you have differentiated in the marketplace? Or is this just more of we believe there's 2 big national providers who are fairly comparable and the real opportunity is to move it away from the regional players that you just talked about?

David P. King
Chairman, CEO & President

I think if you look at performance, the market clearly sees differentiation. That's why we are gaining organic volume. That's why we're -- we're moving forward with key initiatives. That's why we're leading in innovation. I think if you compare the tools that are being offered to the patient, our tools are measurably better. They're measurably more convenient. They can be loaded populations of health tools that we're offering to health systems and physicians and the kinds of collaboration that we're doing, we see ourselves as differentiated, and my view is the market is telling us the same thing.

Lisa Christine Gill
JP Morgan Chase & Co, Research Division

And I don't want to be but if you look at organic growth, are you saying we believe the market is saying with the organic growth nearly 2x what theirs were in the quarter, that's the market showing the difference between LabCorp and Or is that your customer mix. I just want to understand as we think about going into 2019 and some of the shifts in the contracting.

David P. King
Chairman, CEO & President

Well, I never say that we're gaining share because it's so difficult to determine, and I just don't think there's a reliable measure for it. Our organic volume speaks for itself. It was very strong in the quarter again. It was strong across all lines of testing and all areas of testing, and so the market is telling us what the market is telling us, and I leave it to others to interpret what that means. Again, I said we appreciate the detail, the persistence on the topic, but one of the important things to remember as you think about '19 is we are the network that is opening to our competitor, which is United, has more covered lives than the network that's opening to us, which is Aetna, so the impact, invariably, is we will lose more with United than we will gain with Aetna, and that will have an impact on revenue and profitability for us. So all of the positives are there, and the market is telling us that positives are working. But when you think about 2019, you have to realize that the numbers say what they say, which is will a greater burden in terms of share loss than our competitor will just because of covered lives and the contracts.

Operator

Our next question comes from the line of Eric Caldwell of Baird.

Eric White Coldwell
Robert W. Baird & Co. Incorporated, Research Division

First one, I was hoping I could get the CRO's through growth, the organic constant currency growth, or maybe stated differently if you could give us contribution because I think we already had effects?

David P. King
Chairman, CEO & President

Yes. We have this high single-digit growth on the organic side, Eric, in terms of the CRO and are on track to have that on the full year with respect to the legacy "Covance."

Eric White Coldwell
Robert W. Baird & Co. Incorporated, Research Division

Got it. And can I get the M&A dollars, please?

David P. King
Chairman, CEO & President

We're not delineating that out in terms of the segments, Eric.

Eric White Coldwell
Robert W. Baird & Co. Incorporated, Research Division

Okay. And then on the book-to-bill, I realize there's a big FX adjustment in here. Can you talk about what the book-to-bill would have been on a constant currency basis? And also I know in your a.k.a. talked about the ASC 605 book-to-bill on a trailing 12 month basis. I don't think we have all of the pieces to pull together what the -- or not book-to-bill but what the trailing 12 month is. I don't think we can do the quarter because we don't have ASC 605 basis revenue, but I was hoping you could give that to us as well.

David P. King
Chairman, CEO & President

We delineated out in the 8-K the 605 versus 606. Why don't I take the opportunity here to address the booking pipeline at the same time and then hopefully, that gives you some granularity being a little proactive and talk about even some of the segments, fair enough? Well, we had with respect to the pipeline very strong pipeline of opportunity. We still see that. It's actually the highest level that I've seen since my time at Covance in the central labs in early development and even the clinical side is up versus last quarter. As Dave talked about in the competition, strategic partnerships, the dual source or with top 40 biopharma sponsor, it's really in part due to our data capabilities on the clinical side, selecting in the early development. We also chatted a little bit about primary provider that we were selected as with current top 10 pharma where we should double the awards every time. And then finally, we then had agreed to the sole-source central lab award with top 10 pharma sponsors actually an award that we had from 3 years with an optional [2 to] 5 years with an optional [2 to] 7-year sole-source deals are a beautiful thing probably anyone, but we see no bookings from the partnerships now ramp over the next year plus some bookings that shift from Q2 to Q3. That's not uncommon. That's why we focus on really the trailing 12-month period. Speaking from [indiscernible] 15 years of experience in this piece of business, 1.24 on a 605 basis or 1.22 on a 606 basis trailing 12 months, especially when you have an early development business, is the strong result. So in terms of the clarity on the book-to-bills and hopefully between what I stated as well as what's in the 8-K that you can get to math on what you're trying to get to.

Eric White Coldwell
Robert W. Baird & Co. Incorporated, Research Division

Yes, it truly sounds encouraging. I mean, you guys you sound in your prepared remarks given us a lot of good anecdotes about future awards, but it just when you go from a 1 3 4 to a 1 2 4...

John D. Ratliff
Chief Executive Officer of Covance Drug Development

Yes, I like my business, I like my industry, the industry, in general, based on the FDA approvals, based on the biotech funding, based on our now with Chiltern acquisition participating in that segment, all those are positives in my evaluation. And even -- I know that there's some debate on internal versus external. I've seen that over in a decade here in terms of the ins and outs. But bottom line is we're seeing penetration to the CRO business increasing, and there's plenty of surveys out there to demonstrate that.

Eric White Coldwell
Robert W. Baird & Co. Incorporated, Research Division

Yes, I really appreciate all the comments. I guess my point is what I'm trying to get to is the quarter itself was a weak quarter for bookings, it looks like. Some of that was currency adjustment, which we appreciate. We factored that in, but when you're trailing 12-month book-to-bill go from a 1 3 4 to a 1 2 4, that's a 0.4 impact from the quarter alone compared to the trailing 12 month average in the prior quarter so I just want to know what is weak this quarter I can fully appreciate the comments on what's going to drive the future.

John D. Ratliff
Chief Executive Officer of Covance Drug Development

Probably the point of the performance across businesses early development high-level strength and then on the clinical and central lab side, we saw clearly some level of shifting from a Q2 to a Q3, not uncommon, but it happened within those segments.

Operator

Our next question comes from the line of Ross Muken of Evercore ISI.

Ross Jordan Muken
Evercore ISI Institutional Equities, Research Division

Normally, when you sort of go through the process of resigning a larger strategic relationship, et cetera, is it possible you see some delay relative to that or possibly in a given Q, awards may not, around a certain strategic whereas they may be lumpy in a later part of the year, which is I think what you're kind of suggesting around 3Q. I just want to understand that it seems like of there was a key partner you renewed with that, that would be a relevant explanation.

David P. King
Chairman, CEO & President

It is but at the same time, we're on a contract basis so when we get these strategic partnerships, we're not taking those into bookings until a program underneath the partnership actually gets transacted in a contract. So you'll see that through time. You'll see that in terms of moving to startup and then into full recruitment.

David P. King
Chairman, CEO & President

Just as I mentioned in my prepared remarks, 2 major things we talked about are significant accomplishments, but the awards won't start to ramp until next year so you will see those in the future awards. You're not seeing them now. The other thing is, to Eric's point, when you think about a trailing 12, obviously, it's not just the current quarter that has the impact. If a strong earlier quarter falls off and you have a less strong current quarter, you're going to see a kind of a double whammy in terms of a trailing 12. So I think it's important to recognize that it's not all a 1-quarter impact when you're looking at the trailing 12 month number.

Ross Jordan Muken
Evercore ISI Institutional Equities, Research Division

That's helpful, Dave. And just quickly in the lab business, you had a boost from consumer genomics for a while. That was an interesting announcement this morning with GSK and and 23andMe. It seems to be sort of expanding the profile. I guess, what are your thoughts on where that business is going and kind of your play there. It seems like it's been a nice additive to your growth overall in the lab.

David P. King
Chairman, CEO & President

Absolutely. We have a terrific collaboration with 23andMe. We think of them as important strategic collaborators. We spend a lot of time with them talking about just as we do with our other partners about other things that we can do together, and they continue to be a nice component of our organic growth but also a thought partner for what we do with data, how we better engage consumers, how we build that brand association.

Operator

Our next question comes from the line of Erin Wright of Credit Suisse.

Unknown Analyst

I'm curious kind of how you view your position now in Covance in some of the factor growing areas market whether it be or real-world evidence now, how are you positioned with Chiltern as well as I think you get the recent full-time acquisition in the late-stage postapproval area, I guess, should be both on deals continuing in the CRO space and I noticed you did expedite that Chiltern synergy capture? I guess, could you elaborate on that impetus for that?

David P. King
Chairman, CEO & President

Sure. We feel good with our positions with respect to the FSP, the real-world evidence, the biotech late-stage areas. The Chiltern acquisition, we did move up. We are in the very, very final stages of that integration. Organization's done, leadership picked, that all has actually happened. They -- we have now intertwined the organization with respect to processes, et cetera. The only thing truly the long holes in the tent, if you want to call it that or system integration of that actually are flowing through now, July, August. So we see that as materially complete. That has added real strength in terms of the FSP areas. We had significant monitoring scale on the legacy Covance clinical. And now with the biometrics scale of the Chiltern organization, that now allows us to go to enterprise and bid on enterprise and got involved in terms of whipping those opportunities now through the second half. Clearly, on the biotech stage, that has enhanced our capabilities. Ever since I've been here, the Covance has ticked off from the high teens in terms of the 16% to kind of 18% levels to now 30% of our revenue is from the biotech areas. So real strength there that came from the Chiltern acquisition. Obviously, on the data side, we talked a bit about that earlier building out that post-marketing, real-world evidence in key areas. We believe in our data solutions, and that strengthened our later-stage capabilities so a little bit about our position.

Mark Anthony Massaro
Canaccord Genuity Limited, Research Division

Okay. Great. And a quick follow-up, how is Walgreens progressing? And would you say it's progressing according to plan? And when do you think we'll get meaningful contribution from that effort? And then taking back a step further, how could you potentially leverage the Walgreens relationship across Covance as well with potentially a greater focus on virtual trials?

David P. King
Chairman, CEO & President

So I think -- it's Dave. And obviously, we continue to expand the footprint. We will be opening more stores and entering new locations throughout this year. We see the Walgreens partnership as a valuable new channel for reaching consumers, and we have collected quite a bit of data showing that not only are these -- are many of these patients new to LabCorp, but they are also patients who don't typically shop at Walgreens. We also have data showing that many of the patients are doing the prescription at the same time they're doing their lab work done. So the the thesis which we went into this, which is we want to be in retail, we want to create engagement with the consumer, and we want to be in a health care environment for In terms of integration of capabilities with Covance, I think I mentioned that earlier in the comments in response to Jack's question. But the creation of large databases in patients, knowing their disease condition and their -- what drugs they're taking is very valuable in terms of virtual trials. It also can be valuable in terms of virtual trials where patients are following one course of treatment as opposed to being in the trial course of treatment. There is a substantial amount of opportunity to benefit both the enterprise and the individual business from Walgreens and we have -- we have continuing and in-depth and extensive conversations with them about what our key priorities are and how we can accelerate.

Operator

Our next question comes from the line of Patrick Donnelly from Goldman Sachs.

Unknown Analyst

On the lab side, looking at the revenue per requisition trends, obviously, the first decline there in a while. Certainly understand PAMA as a a headwind, but can you just talk through the dynamics there and also your confidence level and drivers for improvement moving forward?

David P. King
Chairman, CEO & President

It's Dave. I think you broke up a little bit, but I think your question was revenue per requisition. And so let me start by saying that the PAMA impact on revenue per requisition more than accounted for the total decline. So if we take PAMA out, revenue per requisition would have been up. The other factors that have an impact on revenue per requisition are acquisitions, obviously, test mix. And inside the test mix, as we have said a number of times, 23andMe is a highly valuable strategic collaboration for us. It is at a lower price point than our average price point and, therefore, it makes us down even though it increase the volume. So I will say also that pricing on the managed care front from our perspective is stable. We're not seeing pricing headwinds for managed care. And obviously, the pricing impact of United and Aetna which we've already -- which we've talked about previously wouldn't take effect until the first of next year so that would not have any impact on price. So to recap and then I'll ask Glenn if any further comments, but to recap, if you back PAMA out of the equation, price would have been up.

Glenn A. Eisenberg
CFO & Executive VP

I think you've covered it.

Patrick B. Donnelly
Goldman Sachs Group Inc., Research Division

And then maybe just one on capital allocation. The M&A consolidation story on the lab side may be a bit slower to develop than anticipated, can you just talk through the pipeline there any acceleration of conversations with hospitals and PAMA margins a bit more as the year progresses?

David P. King
Chairman, CEO & President

Sure. So the M&A pipeline is robust and healthy, and there are a number of interesting opportunities. Obviously, we evaluate every opportunity based on our key metrics which are accretion, recovering our cost of capital in [3] years, return on invested capital, strategic fit, so all of the factors that we have enumerated before. In terms of hospitals and health systems, we take the view that we are interested in broad strategic partnerships with key anchor systems so Providence, St. Jude, Mount Sinai PAML. These are deals that take time to materialize, but they're more than just -- we take over a lab and manage the laboratory. These are deals that include data. They include reference testing. They include a whole range of services, and we have a significant number of health system opportunities on the table in front of us. But again, it's difficult to predict what the timing is. I will say I think there earlier in the year as he commented on the first quarter call, there was some -- everybody in that -- everybody was getting used to the impact of PAMA and what was it going to mean, and I think we're seeing that people are seeing the consequences, and they are thinking about what their strategic options might be with their lab assets.

Operator

Our next question comes from the line of Ralph Giacobbe of Citi.

Ralph Giacobbe
Citigroup Inc, Research Division

I joined a little bit late so if you could Quest yesterday specifically called out pressure in hep C, vitamin D and drug monitoring. Dave, I guess, basing your commentary earlier it sounded like he said the organic growth was strong across all categories. So one, I just wanted to call out and see if you saw any of these pressures within those categories. And then they specifically cited policy changes and higher denials that sounded more macro than company-specific. Again, are you just sort of not seeing it or can you give us any color within those categories?

David P. King
Chairman, CEO & President

Even though we're getting close to the top of the hour, I want to spend a couple of minutes on it because I think it's created some uncertainty across the industry which I don't think is So first of all, I think it's important that we distinguish between volume and revenue. So policy changes and denials do not affect volume. They affect revenue. Now I can say, with respect to all 3 of those test categories: hepatitis C, vitamin D and medical drug monitoring, that our volume for each of those 3 categories of tests was up in the quarter, and medical drug monitoring was up substantially in the quarter. So that's volume. Now revenue, we are seeing, as we have seen for years, more and more limited coverage policies, restrictive payment policies, preauthorization policies implemented by payers in an effort to control their lab spend. We don't agree with those policies. Many of those policies, particularly in medical drug monitoring, are aimed at curbing thought and abuse, but they are using blood instruments that affect compliant players like us and Quest just as much as they affect the noncompliant players. So we are seeing more denials, and those denials affect revenue, and so they slow revenue growth. And obviously, they also have an impact on write-offs and bad debt. But we did not see volume declines in any of those areas and, in fact, we saw volume increases in all 3. I will say specifically with a comment on hepatitis C genotyping, yes, we did see a decline in hepatitis C genotyping, but hepatitis C genotyping is a very small fraction of our total hepatitis C portfolio, and it's not something that would have a significant impact on our volume overall. And to recapitulate, total hepatitis C volume was up in the quarter in any event. So I hope that helps in terms of verification route with how we saw those tests performing.

Ralph Giacobbe
Citigroup Inc, Research Division

Yes, that's helpful. Just one more quick one with the Walgreen relationship, it sounds like you've been pretty happy with the relationship to this point. Is there sort of a gating factor of a much broader and kind of wider expansion?

David P. King
Chairman, CEO & President

No, the gating factor, the only gating factor is store selection and buildout, and we are far down the road in the process of talking about a significant expansion of the partnership.

Operator

Our next question comes from the line of Dan Leonard of Deutsche.

Unknown Analyst

Another product-specific question on the lab side. Can you update us on the trends on your NIPT business, the sizing of that and how you're thinking about the potential for expansion of average risk coverage?

David P. King
Chairman, CEO & President

Yes, I'll start and then Gary is probably closer to it. NIPT is growing nicely. The Sequenom acquisition, which is a terrific complement to our NIPT portfolio and we continue to see strong volume growth there as well as across health. In terms of average risk, I think there was some optimism that the physician groups will come out with a stronger statement in favor of average screening, which I think did not happen, but I think the support of the physician groups for non-invasive prenatal testing for average risk patients is growing. And over time, we expect to see better payer coverage of that test or that utilization of the test. Gary, Anything further to add there?

Gary M. Huff
Chief Executive Officer of Labcorp Diagnostics

I will just say one thing in regards to the NIPT testing, we are seeing good growth there, and it is a great complement to our industry-leading women's health portfolios. So as we continue to leverage and drive our women's health growth, it's a key component, and we see the reimbursement landscape promising.

Operator

Our next question comes from the line of Ricky Goldwasser with Morgan Stanley.

Our next question is Kevin Ellich, Craig-Hallum.

Kevin Kim Ellich
Craig-Hallum Capital Group LLC, Research Division

Just two quick questions talked about. Organic growth was pretty strong. Did you guys quantify how much contribution came from 23andMe?

David P. King
Chairman, CEO & President

We did not quantify how much came from 23andMe. I would say, obviously, it was a strong contributor. Quarter-over-quarter, it was less of a contributor to organic growth than the prior quarter. So sequentially, it was less meaningful to the organic growth than 1Q.

Kevin Kim Ellich
Craig-Hallum Capital Group LLC, Research Division

Understood. Then Glenn, capital expenditures, we saw a little increase. Free cash flow guidance has maintained. Just wondering how we should think about CapEx going forward. Are there any big deals we should be looking for?

Glenn A. Eisenberg
CFO & Executive VP

We're pretty much tracking where we thought we gave our original guidance we talked around a 3.5% of revenue spend this year, which would be higher than the past years as we see good opportunities to invest for the growth of the business, but we're tracking pretty much on that, which is why we're maintaining our guidance range.

Operator

Our next question comes from the line of Donald Hooker of KeyBanc.

Donald Houghton Hooker
KeyBanc Capital Markets Inc., Research Division

Great. So one question kind of maybe at a high level. Curious if you're kind of a few years into the Covance acquisition now, are you seeing any pull through from the early development business at Covance to the late-stage business? And is there -- kind of what are your thoughts are on the synergy of owning both of those businesses?

John D. Ratliff

Chief Executive Officer of Covance Drug Development

This is John. In terms of we are seeing pull-through, we are seeing pull through in terms of from the tox business, the bio a business into our Clint farm Phase I area. That's what we're actually tracking. We have seen that increase we're actually trying -- well, we are and have put in place an organization to actually move that from the early development stage into the Phase I areas and then move that and up into the 2 3 4. But obviously, in terms of there's some falloff in terms of this is clinical research our products to get rejected in that early development stage, but we have a group now of scientists that actually do a level of due diligence in terms of the early development and how that shouldn't be pushed into either our areas, our Clint farm areas, and we are seeing upticks in terms of those businesses. It is a clear differentiator. We are the only CRO that actually does all 3.

Operator

Our next question comes from the line of Bill Quirk of Piper Jaffray.

William Robert Quirk
Piper Jaffray Companies, Research Division

Dave, speaking to the structural obstacles that move more lab business in network, can you talk a little bit about how long you see before that happens? And presumably this is some sort of step function over several years we, and I have a quick follow-up.

David P. King
Chairman, CEO & President

One of the structural parameters is plans that have an out-of-network benefit. If I have an employer and I have a plan that pays 50% of billed charges or 70% of usual and customary out of network, and you have noncompliant behavior by where they're willing to write off patient responsibility, they can do pretty well at 50% of billed charges and writing off the balance. And until we have changes in benefit design, there's really nothing that we or anybody else can do to bring that work into the network. So this is not something that's going to happen overnight, Bill. It's a great question, and it's going to require a sustained effort on the part of the managed care industry employers and health care providers to encourage compliant behavior and to encourage benefit design and structural setups that reward patients for bringing their work into the network.

William Robert Quirk
Piper Jaffray Companies, Research Division

Okay. Got it. Just a quick clarification appreciate the rev rec was up excluding PAMA. Can you separate what PAMA was with respect to rev rec?

Glenn A. Eisenberg
CFO & Executive VP

This is Glenn. What we said is that the impact from PAML for the full year be around $75 million, and that will be pretty pro rata over the period of time. So I think you can get to that whereas Dave said, you get to roughly around, call it, 100 basis points so up to 70 basis point decline, the negative impact from PAMA really accounted for more than the decline year-over-year.

Operator

Our next question comes from the line of Amanda Murphy of William Blair.

Unknown Analyst

This is Max on for Amanda. Just a few quick ones for me. Just a quick one on 23andMe. I was wondering if you're seeing any slowdown in terms of volume now that we moved past the holiday season and to the back half of the year.

David P. King

Chairman, CEO & President

I think that's a question better directed to 23andMe rather than us. not in a position to comment volume trends.

Unknown Analyst

Got it. And then moving to Covance a little bit and the updated guidance I was wondering about the shift towards the late stage. I was wondering how much of that increase in guidance was pull-through of the existing backlog as maybe opposed to an increase in sales.

David P. King
Chairman, CEO & President

It's truly, Matt, it'd be in the clinical late stage but it was more so because of an uptick in the pass-through investigator fees, a little bit offset by currency, but it would be in that clinical stage, but it was much more so in that pass-through.

Operator

The next question comes from the line of Ricky Goldwasser of Morgan Stanley.

Rivka Regina Goldwasser
Morgan Stanley, Research Division

So Dave, I wanted to go back to a comment that you made when you talked about revenue per requisition. And specifically, you said that the pricing impact from United and Aetna will not take effect until next year. So on the impact from United and Aetna, I get a lot of questions from investors on how should we think about the pricing components of these relationships. So when you talk about 2019 and about the financial impact, can you just clarify whether this is early restriction of your expectations for volumes? Or is price factor as well?

David P. King
Chairman, CEO & President

So as we said at the time of the renewal, we are very pleased with the pricing of both. And as we also said, we had discussed during the negotiations that if the United contract opened up that we would expect a price increase, and we said we were very pleased with the outcome of the discussion. So I'll leave you to draw the inference. I'll leave you to draw your own conclusions from that. With respect to how we see the impact next year, the impact will be lost volume, and that will be the revenue and the profitability impact. We're not factoring price as a contributor to how we balance out the United loss versus the gain.

Rivka Regina Goldwasser
Morgan Stanley, Research Division

Great. That's very helpful. And then just a follow-up there, in terms of the volume, can you maybe give us -- I know you're saying it's too early to talk about the volume cadence in 2009. But maybe you can give us some perspective to go back to 2007, how long did it take you to pick up share back then? And what might be different or not this time around? It's just going to help us with that framework.

David P. King
Chairman, CEO & President

I think you and I were the only ones around in 2007, Ricky, so we are the only members. So first of all, let me just say in 2007, different situation because we were both in network with United prior to the change in January of 2007. So in 4Q of 2006, LabCorp was a network. Quest was a network. United has made an announcement in October that the contract will be switching over. We saw a very significant movement of volume in the fourth quarter of 2006 leading into the first quarter of 2007. So the impact was pretty substantial in 4Q 2006, pretty substantial in 1Q 2007 and then it tapered off. This time, our competitor is not in the network in 4Q of 2018. So consequently, we don't expect volume to shift in 4Q 2018 because if it does shift, what will happen is, first of all, United will see an increase because of the network rates.

Second of all, patients will see an increase in patient responsibility so that will put a patient in the middle and that's obviously not everybody's goal here. So we don't expect significant movement in the fourth quarter of '18, which means that what's going to move will probably largely move in the first quarter of '19 and then somewhat in the second quarter, but we certainly expect the bulk of the impact to be in the first half of 2019.

Operator

That is all the time we have for questions. I'd like to hand the call back to Dave King for closing remarks.

David P. King
Chairman, CEO & President

Again, we're very pleased with the performance of the quarter. Very appreciative again to our colleagues of the outstanding performance in our ransomware situation and appreciate you joining us for the call this morning. Wish you good day.

Operator
Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program. You may all disconnect. Everyone have a great day.