

## COMPANY NOTE

Rating Change

USA | Healthcare | Health Care Facilities

November 10, 2011

# Jefferies

## Bio-Reference Labs (BRLI) Report Puts BRLI Under High-powered Microscope

### Key Takeaway

**We expect BRLI shares to see increased pressure after a second short report, published on Thursday afternoon, criticized the company's business practices and the background of certain employees. While we have no reason to believe the company has done or is doing anything inappropriate or unethical, we believe the news will not be well received and could elicit scrutiny from regulators. Rating under review (from Hold).**

**The Street Sweeper strikes again.** On Thursday afternoon, *The Street Sweeper*, an online research organization whose goal is "to uncover the dirty little secrets that investors need to know," released the second part of its investigation into BRLI's business practices. The report digs deeper into BRLI and discusses the alleged sordid background of a few current and former employees. As a reminder, the first report was issued on November 1st and raised concerns about the viability and sustainability of BRLI's earnings growth, which has been fueled in part by increased utilization of the company's GenPap test -- a sophisticated test allowing OB/GYNs to better screen and detect a wide range of organisms such as chlamydia, gonorrhea, syphilis, etc. That report also articulated concerns about the company's billing practices, its weak cash flows, and salesforce tactics.

**A new overhang emerges for BRLI.** The Street Sweeper report is definitely an eye-opener and could spook investors as well as draw the attention of regulators. While we have no reason or evidence to conclude that the company or its employees have done anything unethical or inappropriate, the allegations are poignant and could provide a meaningful overhang on BRLI shares.

### Valuation/Risks

Our rating and PT are under review. **Risks:** increased regulatory scrutiny, potential reimbursement reductions, and an uncertain Q4 earnings performance.

USD	Prev.	2009A	Prev.	2010A	Prev.	2011E	Prev.	2012E
Rev. (MM)	--	362.7	--	458.0	--	559.4	--	643.5
EV/Rev		1.3x		1.1x		0.9x		0.7x
EBITDA (MM)	--	48.1	--	60.2	--	74.4	--	88.9
EV/EBITDA		10.0x		8.0x		6.5x		5.4x
<b>EPS</b>								
Jan	--	0.10	--	0.14	--	0.17A	--	--
Apr	--	0.17	--	0.21	--	0.26A	--	--
Jul	--	0.23	--	0.29	--	0.36A	--	--
Oct	--	0.26	--	0.31	--	0.37	--	--
FY Oct	--	0.75	--	0.94	--	1.15	--	1.37
FY P/E		21.7x		17.3x		14.1x		11.9x

### Under Review

(from HOLD)

Price target \$21.00

Price \$16.27

### Healthcare

#### Financial Summary

Book Value/Share:	\$6.37
Net Debt (MM):	\$26.8
Net Debt/Capital:	6.0%

#### Market Data

52 Week Range:	\$25.99 - \$15.75
Total Entprs. Value (MM):	\$481.5
Market Cap. (MM):	\$454.7
Insider Ownership:	11.5%
Institutional Ownership:	86.7%
Shares Out. (MM):	28.0
Float (MM):	24.7
Avg. Daily Vol.:	300,999

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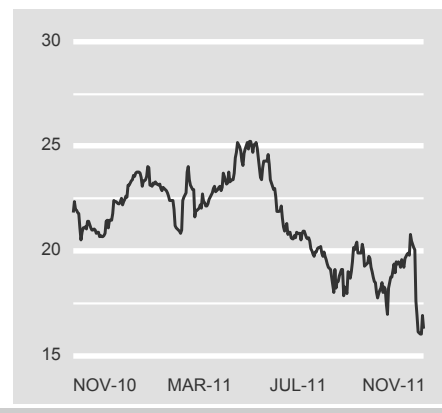
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### Price Performance



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**Exhibit 1: Statement of Earnings**

- dollars in thousands, unless otherwise indicated -

<b>FYE: OCTOBER</b>	FY2009	Q1 Jan-10	Q2 Apr-10	Q3 Jul-10	Q4 Oct-10	FY2010	Q1 Jan-11	Q2 Apr-11	Q3 Jul-11	Q4E Oct-11	FY2011E	FY2012E
Net Revenue	\$362,654	\$99,261	\$110,447	\$121,719	\$126,596	\$458,023	\$121,659	\$137,658	\$148,029	\$152,007	\$559,353	\$643,518
% growth (sequential)	- -	-3.0%	11.3%	10.2%	4.0%	- -	-3.9%	13.2%	7.5%	2.7%	- -	- -
% growth (annual)	20.5%	31.1%	26.7%	24.9%	23.7%	26.3%	22.6%	24.6%	21.6%	20.1%	22.1%	15.0%
Total Cost of Services	183,524	51,754	56,779	60,089	63,630	232,252	64,854	72,019	74,597	77,446	288,916	331,825
Gross Profit	179,130	47,507	53,668	61,630	62,966	225,771	56,805	65,639	73,432	74,561	270,437	311,693
Total G&A	140,808	40,049	42,816	46,689	47,840	177,394	48,088	52,326	55,023	55,909	211,346	240,584
EBIT	38,322	7,458	10,852	14,941	15,126	48,377	8,717	13,313	18,409	18,652	59,091	71,110
% growth (annual)	33.3%	50.1%	29.8%	24.7%	16.2%	26.2%	16.9%	22.7%	23.2%	23.3%	22.1%	20.3%
Total Other Income	(1,333)	(253)	(390)	(363)	(409)	(1,415)	(306)	(380)	(416)	(380)	(1,482)	(1,530)
Pre-tax Income	36,989	7,205	10,462	14,578	14,717	46,962	8,411	12,933	17,993	18,273	57,610	69,580
Taxes	16,074	3,200	4,676	6,565	6,140	20,581	3,606	5,722	7,912	7,857	25,097	30,615
Net Income	20,915	4,005	5,787	8,013	8,577	26,382	4,805	7,211	10,081	10,415	32,512	38,965
% growth	32.6%	50.4%	25.0%	24.4%	19.4%	26.1%	20.0%	24.6%	25.8%	21.4%	23.2%	19.8%
Diluted Shares	27,881	28,022	28,077	28,098	28,087	28,071	28,122	28,142	28,147	28,197	28,152	28,397
<b>Diluted EPS</b>	<b>\$0.75</b>	<b>\$0.14</b>	<b>\$0.21</b>	<b>\$0.29</b>	<b>\$0.31</b>	<b>\$0.94</b>	<b>\$0.17</b>	<b>\$0.26</b>	<b>\$0.36</b>	<b>\$0.37</b>	<b>\$1.15</b>	<b>\$1.37</b>
% growth	32.9%	49.3%	23.8%	23.7%	18.9%	25.3%	19.6%	24.3%	25.6%	21.0%	22.9%	18.8%
<b>EBITDA</b>	<b>\$48,093</b>	<b>\$10,052</b>	<b>\$13,691</b>	<b>\$17,988</b>	<b>\$18,467</b>	<b>\$60,198</b>	<b>\$12,195</b>	<b>\$17,051</b>	<b>\$22,244</b>	<b>\$22,892</b>	<b>\$74,382</b>	<b>\$88,901</b>
% growth (annual)	29.5%	39.0%	27.6%	24.4%	17.8%	25.2%	21.3%	24.5%	23.7%	24.0%	23.6%	19.5%
% margin	13.3%	10.1%	12.4%	14.8%	14.6%	13.1%	10.0%	12.4%	15.0%	15.1%	13.3%	13.8%
<b>COMMON SIZE STATEMENT</b>												
Net Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Cost of Services	50.6%	52.1%	51.4%	49.4%	50.3%	50.7%	53.3%	52.3%	50.4%	50.9%	51.7%	51.6%
Gross Profit	49.4%	47.9%	48.6%	50.6%	49.7%	49.3%	46.7%	47.7%	49.6%	49.1%	48.3%	48.4%
Total G&A	38.8%	40.3%	38.8%	38.4%	37.8%	38.7%	39.5%	38.0%	37.2%	36.8%	37.8%	37.4%
EBIT	10.6%	7.5%	9.8%	12.3%	11.9%	10.6%	7.2%	9.7%	12.4%	12.3%	10.6%	11.1%
Total Other Income	-0.4%	-0.3%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.3%	-0.2%
Pre-tax Income	10.2%	7.3%	9.5%	12.0%	11.6%	10.3%	6.9%	9.4%	12.2%	12.0%	10.3%	10.8%
Taxes	43.5%	44.4%	44.7%	45.0%	41.7%	43.8%	42.9%	44.2%	44.0%	43.0%	43.6%	44.0%
Net Income	5.8%	4.0%	5.2%	6.6%	6.8%	5.8%	3.9%	5.2%	6.8%	6.9%	5.8%	6.1%

Source: Jefferies estimates, company data

## Company Description

Bio-Reference is the fourth largest full service laboratory in the United States and the largest independent regional laboratory in the Northeastern market, primarily a clinical testing lab servicing physician offices with concentrations in the focused markets of esoteric testing, molecular diagnostics, anatomical pathology and correctional health care.

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# BRLI

Rating Change

November 10, 2011

## Other Companies Mentioned in This Report

- Bio-Reference Laboratories, Inc. (BRLI: \$16.27, Under Review)
- Laboratory Corporation of America Holdings (LH: \$81.97, HOLD)
- Quest Diagnostics Incorporated (DGX: \$57.24, HOLD)

Rating and Price Target History for: Bio-Reference Laboratories, Inc. (BRLI) as of 11-09-2011



Rating and Price Target History for: Quest Diagnostics Incorporated (DGX) as of 11-09-2011



## Rating and Price Target History for: Laboratory Corporation of America Holdings (LH) as of 11-09-2011



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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	742	53.50%	103	13.88%
HOLD	570	41.10%	56	9.82%
UNDERPERFORM	74	5.30%	2	2.70%

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