Quest Diagnostics Incorporated
Conference Call Prepared comments
For the Quarter Ended December 31, 2011

Kathleen Valentine: Thank you and good morning. I am here with Surya Mohapatra, our chairman and chief executive officer, and Bob Hagemann, our chief financial officer.

During this call, we may make forward-looking statements. Actual results may differ materially from those projected. Risks and uncertainties that may affect Quest Diagnostics' future results include, but are not limited to, those described in Quest Diagnostics' 2010 Annual Report on Form 10-K, 2011 quarterly reports on Form 10-Q and Current Reports on Form 8-K.

A copy of our earnings press release is available, and the text of our prepared remarks will be available later today, in the Investor Relations "quarterly updates" section of our website at www.QuestDiagnostics.com.

A PowerPoint presentation and spreadsheet with our results and supplemental analysis are also available on the website.

Now, here is Surya Mohapatra.

Surya: Thank you, Kathleen.

We delivered solid results in the fourth quarter.

During the quarter:
- Revenues grew 3% to $1.9 billion;
- Adjusted earnings per share increased 19% to $1. 23; and
- Cash flow was strong at $338 million.

For the full year 2011:
- Revenues grew about 2% to $7.5 billion;
- Adjusted earnings per share grew 7% to $4.53; and
- Adjusted cash flow was strong at $1.1 billion.

We continued to execute our revenue growth and cost reduction plans. The fourth quarter capped a year in which we made significant progress.

- Despite a further decline in physician office visits, we exceeded the earnings expectations we set at the beginning of the year.
- We completed the acquisitions of Athena and Celera that established a solid foundation in four critical areas of cancer, cardiovascular disease, infectious disease and neurological disorders.
- We began a $500 million multi-year cost-reduction program.

- And, with key acquisitions in place, we updated our capital deployment philosophy to return a majority of our free cash flow to shareholders over the medium-term. During 2011, we returned $1 billion to our shareholders through a combination of share repurchases and dividends, and we announced a 70% increase in our dividend beginning in 2012.

As we have said before, our growth strategy is based on three elements:
- Driving innovative new tests and advanced healthcare IT services.
- Enhancing sales effectiveness; and
- Strengthening our relationships with health plans and other payers.

Let me say a few words about each of these elements.

In the quarter, esoteric and gene-based testing grew 17%, driven mainly by the contribution of neurological testing from Athena and cardiovascular testing from Berkeley HeartLab. Demand for gene-based and esoteric testing continued to grow faster than routine testing.

For the full year, gene-based and esoteric testing revenues grew 11%. Testing volume for SureSwab was up more than 40%; Vitamin D was up 12%, and ImmunoCAP was up 4%.

With the acquisition of Celera, along with Focus Diagnostics, we have assembled unique capabilities, from discovery to laboratory developed tests to FDA-cleared IVD test kits.

A good example of how we utilize these capabilities to drive personalized medicine is our STRATIFY JC Virus test, which was just authorized by the FDA last week. We developed this test in collaboration with Biogen Idec. STRATIFY JCV helps physicians stratify risk for an infrequent brain infection in patients receiving Tysabri, an important multiple sclerosis therapy.

With regard to our industry-leading connectivity solutions, we continue to gain users and drive customer loyalty. Approximately 200,000 physicians and clinicians now use our Care360 connectivity platform for lab orders and results. In addition, Care360 users increased their use of e-prescribing by about 50%, to an annualized rate of 32 million medications. In 2011, Care360 was named the top e-prescribing platform by Black Book Rankings.

Our Care360 Electronic Health Record is now utilized by 4,400 physicians, and has enabled them to receive payments for “meaningful use.” Last week, we announced a plan to help physicians nationwide adopt EHRs through our Care360 EHR grant program.

Turning to sales effectiveness, as you know, our sales force expansion is complete and we continue to enhance the support and training we provide.

We have seen results when our sales force is focused on our competitive advantages, such as esoteric and gene-based testing, connectivity solutions or various disease categories.

Also, we continue to work with health plans and employers to move business to us from high-cost out-of-network providers.

Regarding our three-year $500 million cost reduction program, we are making good progress. We have begun to implement some of our plans, and expect to realize meaningful benefits in 2012. You will hear more details from Bob, who is leading this initiative.

This initiative is all about building a sustainable platform for the future, one that will ensure we can continue to effectively compete in an ever-changing and increasingly challenging healthcare environment.

To improve shareholder value, the first and most important step is improving operating performance. That is why every member of our management team is focused on driving growth and efficiency. As we said last quarter, starting in 2012, ROIC will be an important component of management's long-term incentive compensation.

All in all, we made progress in 2011 but we have more to do.

As you know, the Board of Directors is in the process of selecting my successor. We will keep you updated when we have more to report.

Now, Bob will provide analysis of our performance and our outlook for 2012, and then we will take your questions. Bob?

Bob Hagemann**:**

As noted by Surya, revenues for the quarter were $1.9 billion, 3% above the prior year; and adjusted earnings per share were $1.23, compared to $1.03 in the prior year, a 19% increase. The earnings improvement is principally driven by top-line growth and actions we have taken to reduce our cost structure.

"Adjusted" EPS for the 2011 fourth quarter excludes $0.02 per share associated with restructuring and integration costs, and $0.02 per share associated with the CEO transition. Adjusted EPS for last year's fourth quarter excludes $0.06 per share of charges associated with restructuring and employment litigation. These items are further detailed in footnote 2 to the earnings release.

Fourth quarter results include a benefit of $0.08 per share in 2011, and $0.05 per share in 2010, associated with discrete tax items.

Consolidated revenue growth was driven by the acquisitions of Athena and Celera, which contributed about 3% to growth in the quarter.

Our clinical testing revenues, which account for over 90% of total revenues, were 2.6% above the prior year, and equal to the prior year before the contributions from Athena and Celera.

Volume in the quarter grew 0.4% from the prior year, and improved from the 1.2% decrease we saw in the third quarter. We estimate the impact of weather helped the fourth quarter year-over-year comparisons by about 0.4%. The market, in terms of estimated physician office visits, may be showing signs of stabilizing. In the quarter, the data reflects a 2% improvement compared to the prior year. While our most recent improvement in volume, and the data on physician office visits is encouraging, we believe it is still too early to conclude the market has completely turned the corner.

We are not expecting further declines in physician office visits in 2012, nor are we expecting much improvement from the current levels.

Drugs-of-abuse testing volumes have continued to rebound and grew about 5% in the quarter, in line with the growth of last quarter.

Revenue per requisition was 2.2% above the prior year, with the improvement due to the increased esoteric mix contributed by Athena and Celera. Base revenue per requisition has remained relatively stable throughout the year.

Revenues in our non-clinical testing businesses, which include risk assessment, clinical trials testing, products, and healthcare IT, grew about 7% in the quarter, driven by the products business acquired as part of the Celera acquisition. For the full year, these businesses grew about 10%, with about half of the growth organic.

“Adjusted” operating income as a percentage of revenues was 17.9%, compared to 17.2% in the prior year. Actions taken earlier in the year to reduce our cost structure, are the principal driver of the improvement. Restructuring, integration, and CEO transition costs totaling $11 million reduced the reported operating income percentage by about 60 basis points in the most recent quarter. In last year’s fourth quarter, charges associated with restructuring and litigation totaling $19 million reduced the reported operating income percentage by a full 1%.

In July we announced a multi-year initiative, the goal of which is to reduce our cost structure by $500 million by the end of 2014.

As we shared with you last quarter, the opportunities have been quantified and organized into a number of areas with dedicated teams of subject matter experts and cross-functional support. Each team has a very specific charter and financial target.

Some of the areas around which teams are organized include:

- <u>Specimen Acquisition</u>, which includes all the costs associated with obtaining and transporting samples
- <u>Client Support</u>, which includes Billing and Customer Service
- The <u>labs themselves,</u> and all the costs associated with operating them
- <u>IT and Customer Connectivity</u> costs
- <u>Procurement and Supply Chain</u> and
- <u>SG&A,</u> both in the field and at corporate

Some areas are more developed than others. However, we have made significant progress in every area, and remain confident in reaching our goal. We have now established specific targets which we expect to deliver about 20% of the $500 million goal by the end of 2012, with the remainder in 2013 and 2014. The benefits we expect to realize in 2012 are the principal driver of the margin expansion we expect this year.

The areas where we are furthest along are in Client Support, and Procurement and Supply Chain, together which we expect to provide about 1/3 of our savings.

Here, we plan to leverage technology to eliminate manual work, further standardize systems and processes, implement more self-service options for customers, and leverage lean Six Sigma to further streamline activities.

In Client Support and Billing, we plan to reduce manual work and customer call volume by enabling customers to do more on-line, including supplying insurance information, making payments, checking on the status of a bill, and obtaining test results.

In the area of Procurement and Supply Chain, we will further consolidate suppliers; rationalize SKU's; standardize and optimize specs; and work more closely with our suppliers in sharing information and managing costs from design to manufacture to distribution. As one example of the opportunity here, today across our business we use hundreds of different gloves, specimen bags and labels, and more than a dozen different urine collection cups. We plan to significantly reduce these numbers and unlock the savings associated with bulk buying, and the administration associated with handling all these different choices.

Another roughly third of the savings is expected to come from SG&A, including IT. We are flattening the organization structure, and simplifying management processes, which will not only reduce costs, but drive increased accountability. In the area of IT we will place greater emphasis on connectivity solutions which don't require computer hardware. Over time, this will dramatically reduce the cost of servicing the tens of thousands of pieces of equipment we have in the field. In addition, connectivity installations will be done quicker and at lower costs.

Other areas like the labs themselves and Specimen Acquisition, we expect to contribute the remainder of the savings. In these areas we are addressing capacity utilization (including our lab footprint), service parameters, organization structure and supply consumption.

Common themes across most areas include standardizing systems, processes and data bases; increased use of automation and technology; and centralizing and selective outsourcing. For the next few years, this will require some increased level of capital spending to standardize systems and upgrade IT infrastructure.

We are fully committed to realizing the planned benefits from this program, which will not only make our company more efficient, but also serve as a platform for accelerated growth.

Today, we continue to produce industry-leading performance in our billing and collection metrics. Bad debt expense as a percentage of revenues was 3.5% in the quarter and 3.7% for the full year, reflecting continued improvement from prior year. DSOs were 45 days, compared to 44 days last quarter.

Reported cash from operations was strong at $338 million. Before the effect of special items, cash from operations was about $300 million. For the full year, reported cash from operations was approximately $900 million, and $1.1 billion, before the effect of special items.

Capital expenditures were $44 million in the quarter, compared to $69 million a year ago.

During the quarter we repurchased 874 thousand common shares at an average price of $57.21 for a total of $50 million. We completed $935 million in share repurchases for the full year.

We are firmly committed to driving increases in shareholder returns. The best way to do that is by improving operating performance. And, as you've heard, we are taking actions to accelerate organic revenue growth, and establishing a more efficient cost structure. We also intend to use our strong cash flows to enhance shareholder value.

As we stated last quarter, with a solid foundation of strategic assets and capabilities now in place, it is unlikely we will complete any large strategic acquisitions in the near term. We will, however, continue to invest in our business in a very disciplined way to ensure we continue to differentiate Quest Diagnostics in an evolving marketplace, but in a manner which should require significantly less capital than recent years.

Our investments in growth are likely to focus on smaller fold-in acquisitions, like the SED acquisition completed earlier this month in New Mexico; investments in science and innovation in the form of licensing, collaborations and internal development; and investments in technology which will improve quality and efficiency in our labs and other parts of our business.

We plan to use ROIC to guide these investment decisions and are committed to improving ROIC over time. Beginning in 2012, improving ROIC is a major component of our long-term compensation program.

We are committed to increasing shareholder returns and improving ROIC through a framework which encompasses improving operating performance, and a capital deployment philosophy which includes dividends, share repurchases and investments in our business.
As we shared with you last quarter, this philosophy is grounded in maintaining a strong BBB credit rating, which minimizes our cost of capital and provides us appropriate access to credit in support of our business. As we have also indicated, in 2012 this will require us to use the majority of our free cash flow, about $500-$700 million, to de-lever, to a leverage ratio in the range of 2 – 2 ¼ times.

Upon achieving our targeted leverage ratio, we plan to commit the majority of our free cash flow be returned to investors through a combination of dividends and share repurchases.

Last quarter we announced a significant increase (70%) in our dividend, to an annualized amount of $0.68 per share. We expect the dividend will grow over time commensurate with earnings and cash flows.

In addition, share repurchases will remain an important tool for returning cash to shareholders.

Earlier today, we announced that our Board has authorized an additional $1 billion of share repurchases, bringing our total authorization to $1.1 billion. There is no set timeframe for utilizing our current authority, and the level of share repurchases will be a function of a number of factors. While we expect share repurchases to be relatively modest in 2012 due to our commitment to de-lever, we expect them to be much more significant the following year.

Turning to 2012 guidance: we expect results from continuing operations, before special items, as follows:

- Revenue to grow between 2% and 2.5%, inclusive of the SED acquisition, but before other potential acquisitions.
- Operating income to approach 18% of revenues.
- Cash from operations to approximate $1.2 billion.
- Capital expenditures to be between $225 million and $250 million. The increase from the prior year principally due to IT investments required to standardize systems and upgrade infrastructure.
- And lastly, diluted earnings per share to be between $4.40 and $4.55.

Now I’ll turn it back to Surya.

Surya: Thank you, Bob.

In summary:

- We see signs of progress in a number of areas to drive organic growth and reduce our costs.
- We are focused on increasing shareholder value and improving returns on capital.
- With the actions we have taken over the past years, we are well positioned for the future.

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