

# Third Quarter 2015

October 22, 2015



# Safe Harbor Disclosure

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The statements in this presentation which are not historical facts may be forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that they are made and which reflect management's current estimates, projections, expectations or beliefs and which involve risks and uncertainties that could cause actual results and outcomes to be materially different. Risks and uncertainties that may affect the future results of the Company include, but are not limited to, adverse results from pending or future government investigations, lawsuits or private actions, the competitive environment, changes in government regulations, changing relationships with customers, payers, suppliers or strategic partners and other factors discussed in the Company's most recently filed Annual Report on Form 10-K and in any of the Company's subsequently filed Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including those discussed in the "Business," "Risk Factors," "Cautionary Factors that May Affect Future Results" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of those reports.

## Key Messages

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“We delivered another good quarter as we grew equivalent revenues by 1% and both adjusted operating income and earnings by 7%. We are pleased with the progress we’re making to grow our business and we are investing in the future to capture the power of data analytics and enable precision medicine. Our new relationship with Inovalon enables us to create further value from information assets by delivering real-time insights to physicians at the point of service. We also completed our joint venture with Quintiles in July, and separately announced new companion diagnostic solutions in October for two recent FDA approved therapies for non-small cell lung cancer. We are on track to meet our expectations for the full-year 2015 and are narrowing our EPS guidance to \$4.75 to \$4.80.”

Steve Rusckowski  
President and Chief Executive Officer

# Q3 2015 Performance

(\$ in millions - except EPS)

		Q3	Δ 2014
Revenues *	\$	1,880	0.9%
- DIS Revenues	\$	1,764	0.0%
- Rev/Req			0.2%
- Volume			(0.2)%
Adjusted Operating Income *	\$	325	6.8%
- % of Revenues *		17.3%	130 bps
Adjusted Net Income *	\$	172	7.4%
Adjusted Diluted EPS Excluding Amortization Expense *	\$	1.28	6.7%
Adjusted Cash Provided by Operations *	\$	188	(30.6)%

Increase in adjusted operating income and adjusted operating income as a % of revenues was primarily due to benefits from our Invigorate program.

Adjusted net income and adjusted diluted EPS excluding amortization expense increased primarily as a result of improved operating performance.

Adjusted cash provided by operations decreased primarily due to an income tax payment against certain tax reserves in the third quarter of 2015.

\* Revenue on an equivalent basis represents 2014 net revenues excluding clinical trials testing revenues in the third quarter of 2014. Adjusted operating income and adjusted net income represent results that exclude special items, such as the gain on contribution of business to clinical trials joint venture, charges on retirement of debt and related refinancing charges, restructuring and integration charges, charges in equity in earnings of equity method investees and other items. Adjusted diluted EPS excluding amortization expense represents results before the impact of special items and amortization expense. Adjusted cash provided by operations represents results that exclude the cash impact of charges on retirement of debt. See non-GAAP reconciliations on pages 8, 9, 10, 11 and 12.

# Q3 2015 YTD Performance

(\$ in millions - except EPS)

		YTD	Δ 2014
Revenues *	\$	5,644	2.3%
- DIS Revenues	\$	5,227	1.7%
- Rev/Req			0.1%
- Volume			1.5%
Adjusted Operating Income *	\$	915	9.5%
- % of Revenues *		16.2%	110 bps
Adjusted Net Income *	\$	483	9.8%
Adjusted Diluted EPS Excluding Amortization Expense *	\$	3.58	7.8%
Adjusted Cash Provided by Operations *	\$	642	1.1%

DIS revenues and volume increased primarily due to acquisitions. Revenue per requisition benefited from test and business mix shifts.

Increase in adjusted operating income and adjusted operating income as a % of revenues was primarily due to benefits from our Invigorate program and from test and business mix shifts.

Adjusted net income and adjusted diluted EPS excluding amortization expense increased primarily as a result of improved operating performance.

Adjusted cash provided by operations increased due to increased adjusted net income and improved working capital management, which was partially offset by higher performance based compensation payments and an income tax payment against certain tax reserves in the third quarter of 2015.

\* Revenue on an equivalent basis represents 2014 net revenues excluding clinical trials testing revenues in the third quarter of 2014. Adjusted operating income and adjusted net income represent results that exclude special items, such as the gain on contribution of business to clinical trials joint venture, charges on retirement of debt and related refinancing charges, restructuring and integration charges, charges in equity in earnings of equity method investees and other items. Adjusted diluted EPS excluding amortization expense represents results before the impact of special items and amortization expense. Adjusted cash provided by operations represents results that exclude the cash impact of charges on retirement of debt. See non-GAAP reconciliations on pages 8, 9, 10, 11 and 12.

# Our 5 Point Strategy

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1

- Restore: Restore Growth

2

- Drive: Drive operational excellence

3

- Simplify: Simplify the organization to enable growth and productivity

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- Refocus: Refocus on diagnostic information services

5

- Deliver: Deliver disciplined capital deployment and strategically aligned accretive acquisitions

## 2015 Outlook\*

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- Full year 2015 revenue now expected to approximate \$7.49 billion.
- Adjusted diluted EPS excluding amortization expense to be between \$4.75 and \$4.80.
- Adjusted cash provided by operations to exceed \$850 million.
- Capital expenditures to approximate \$275 million.

\* Before special items. See non-GAAP reconciliation on pages 13 and 14.

# Non-GAAP Reconciliations

The adjusted measures on page 4 and 5 are presented because management believes those measures are useful adjuncts to reported results under accounting principles generally accepted in the United States when comparing results of operations from period to period. Adjusted measures should not be considered as an alternative to the corresponding measures determined under accounting principles generally accepted in the United States. The tables on the following pages reconcile adjusted results to reported results under accounting principles generally accepted in the United States.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(dollars in millions, except per share data)			
<b><u>Adjusted operating income:</u></b>				
Operating income	\$ 631	\$ 256	\$ 1,160	\$ 726
Gain on contribution of business to clinical trials joint venture (a)	(334)	—	(334)	—
Restructuring and integration charges (b)	29	40	83	91
Other (c)	(1)	8	6	19
Adjusted operating income	<u>\$ 325</u>	<u>\$ 304</u>	<u>\$ 915</u>	<u>\$ 836</u>
<b><u>Adjusted operating income as a percentage of net revenues:</u></b>				
Operating income as a percentage of net revenues	33.6%	13.4%	20.5%	13.1%
Gain on contribution of business to clinical trials joint venture (a)	(17.8)	—	(5.9)	—
Restructuring and integration charges (b)	1.5	2.1	1.5	1.6
Other (c)	—	0.5	0.1	0.4
Adjusted operating income as a percentage of net revenues	<u>17.3%</u>	<u>16.0%</u>	<u>16.2%</u>	<u>15.1%</u>
<b><u>Adjusted net income:</u></b>				
Net income attributable to Quest Diagnostics	\$ 342	\$ 129	\$ 521	\$ 366
Gain on contribution of business to clinical trials joint venture (a) (e)	(189)	—	(189)	—
Charges on retirement of debt and related refinancing charges (d) (e)	(2)	—	92	—
Restructuring and integration charges (b) (e)	18	25	51	59
Charges in equity in earnings of equity method investees (f)	3	—	3	—
Other (c) (e)	—	7	5	15
Adjusted net income	<u>\$ 172</u>	<u>\$ 161</u>	<u>\$ 483</u>	<u>\$ 440</u>



# Non-GAAP Reconciliations

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(dollars in millions, except per share data)			
<b><u>Adjusted diluted EPS excluding amortization expense:</u></b>				
Diluted earnings per common share	\$ 2.35	\$ 0.88	\$ 3.58	\$ 2.51
Gain on contribution of business to clinical trials joint venture (a) (e)	(1.30)	—	(1.30)	—
Charges on retirement of debt and related refinancing charges (d) (e)	(0.01)	—	0.63	—
Restructuring and integration charges (b) (e)	0.12	0.17	0.35	0.41
Charges in equity in earnings of equity method investees (f)	0.02	—	0.02	—
Other (c) (e)	—	0.05	0.03	0.10
Amortization expense (g)	0.10	0.10	0.27	0.30
Adjusted diluted EPS excluding amortization expense	<u>\$ 1.28</u>	<u>\$ 1.20</u>	<u>\$ 3.58</u>	<u>\$ 3.32</u>
<b><u>Revenue on an equivalent basis:</u></b>				
Net revenues	\$ 1,880	\$ 1,904	\$ 5,644	\$ 5,552
Clinical trials revenue (h)	—	(41)	—	(41)
Revenue on an equivalent basis	<u>\$ 1,880</u>	<u>\$ 1,863</u>	<u>\$ 5,644</u>	<u>\$ 5,511</u>
<b><u>Adjusted cash provided by operations:</u></b>				
Cash provided by operations	\$ 212	\$ 271	\$ 539	\$ 635
Cash charges on retirement of debt (i)	(24)	—	103	—
Adjusted cash provided by operations	<u>\$ 188</u>	<u>\$ 271</u>	<u>\$ 642</u>	<u>\$ 635</u>

# Non-GAAP Reconciliations

- (a) Represents the gain associated with the contribution of our clinical trial testing business to Q Squared Solutions, the clinical trials joint venture with Quintiles Transnational Holdings Inc.
- (b) Represents costs primarily associated with workforce reductions and professional fees incurred in connection with further restructuring and integrating our business. The following table summarizes the pre-tax impact of restructuring and integration charges on the company's consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in millions)			
Cost of services	\$ 20	\$ 14	\$ 51	\$ 37
Selling, general and administrative	9	25	32	53
Other operating (income) expense, net	—	1	—	1
	<u>\$ 29</u>	<u>\$ 40</u>	<u>\$ 83</u>	<u>\$ 91</u>

- (c) For the nine months ended September 30, 2015, primarily represents non-cash asset impairment charges primarily associated with our Celera Products business and costs incurred related to legal matters, partially offset by a pre-tax gain of \$13 million associated with a decrease in the fair value of the contingent consideration accrual associated with our Summit Health acquisition.

For the three and nine months ended September 30, 2014, principally represents costs incurred related to legal matters.

# Non-GAAP Reconciliations

- (d) Charges on retirement of debt and related refinancing charges represent: charges associated with the March 2015 cash tender offer (the "Tender Offer") in which the company purchased \$250 million aggregate principal amount of its 6.95% Senior Notes due July 2037 and 5.75% Senior Notes due January 2040; and charges associated with the April 2015 redemption (the "Redemption") in which the company redeemed all of its 5.45% Senior Notes due November 2015, \$150 million of its 3.2% Senior Notes due April 2016 and all of its 6.4% Senior Notes due July 2017. The following table summarizes the impact of pre-tax charges on retirement of debt and related refinancing charges on the company's consolidated statements of operations:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(dollars in millions)			
Interest expense, net	\$ —	\$ —	\$ 6	\$ —
Other (expense) income, net	—	—	144	—
	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 150</b>	<b>\$ —</b>

- (e) For the gain on contribution of business to clinical trials joint venture, the associated deferred tax liability was calculated using a combined tax rate of 43.3% and does not result in any current taxes payable. For the charges on retirement of debt and related refinancing charges, income tax benefits were calculated such that the combined tax rate for the full year will be 40%. For the restructuring and integration charges and other items, income tax impacts, where recorded, were calculated using combined tax rates of 38.9% and 38.2% for 2015 and 2014, respectively.
- (f) Charges in equity in earnings of equity method investees of \$5 million, pre-tax, primarily consist of restructuring and integration charges incurred by the clinical trials joint venture.

# Non-GAAP Reconciliations

- (g) Represents the impact of amortization expense on diluted earnings per common share, net of the income tax benefit. The income tax benefit was primarily calculated using combined tax rates of 38.9% and 38.2% for 2015 and 2014, respectively. The pre-tax amortization expense that is excluded from the calculation of adjusted diluted EPS excluding amortization expense is recorded in the company's statements of operations as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(dollars in millions)			
Amortization of intangible assets	\$ 20	\$ 24	\$ 61	\$ 71
Equity in earnings of equity method investees, net of taxes	4	—	4	—
	<b>\$ 24</b>	<b>\$ 24</b>	<b>\$ 65</b>	<b>\$ 71</b>

- (h) Effective July 1, 2015, the company's clinical trials testing business was contributed to the clinical trials joint venture. Clinical trials revenue reported in the third quarter of 2014 is excluded to provide 2014 revenue on an equivalent basis.
- (i) For the three months ended September 30, 2015, represents the estimated cash tax benefit realized on the retirement of debt in connection with the recent debt refinancing. For the nine months ended September 30, 2015, represents \$146 million of pre-tax cash charges on retirement of debt in connection with our recent debt refinancing, net of the estimated cash tax benefit realized.

# 2015 Outlook

The following table reconciles our 2015 outlook for adjusted diluted EPS excluding amortization expense and adjusted cash provided by operations to the corresponding amounts determined under accounting principles generally accepted in the United States:

	<u>Low</u>	<u>High</u>
<b><u>Adjusted diluted EPS excluding amortization expense:</u></b>		
Diluted earnings per common share	\$ 4.65	\$ 4.70
Gain on contribution of business to clinical trials joint venture (a)	(1.30)	(1.30)
Charges on retirement of debt and related refinancing charges (b)	0.63	0.63
Restructuring and integration charges (c)	0.35	0.35
Charges in equity in earnings of equity method investees (d)	0.02	0.02
Other (e)	0.03	0.03
Amortization expense, net of tax (f)	<u>0.37</u>	<u>0.37</u>
Adjusted diluted EPS excluding amortization expense	<u>\$ 4.75</u>	<u>\$ 4.80</u>
<b><u>Adjusted cash provided by operations (dollars in millions):</u></b>		
Cash provided by operations		\$ 747
Cash charges on retirement of debt (g)		<u>103</u>
Adjusted cash provided by operations		<u>\$ 850</u>

- (a) Represents the pre-tax gain of \$334 million recorded in the third quarter of 2015 associated with the contribution of our clinical trial testing business to the clinical trials joint venture.
- (b) Represents pre-tax charges of \$150 million, incurred through September 30, 2015, associated with the retirement of debt and related refinancing charges in connection with the Tender Offer and Redemption.
- (c) Represents pre-tax charges of \$83 million primarily associated with workforce reductions and professional fees incurred in connection with further restructuring and integrating our business through September 30, 2015. Further charges to earnings may be incurred as additional restructuring and integration activities are executed throughout the remainder of the year.

# 2015 Outlook

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- (d) Represents pre-tax charges of \$5 million primarily associated with restructuring and integration charges incurred by the clinical trials joint venture through September 30, 2015.
- (e) Principally represents pre-tax charges of \$20 million associated with non-cash impairment charges primarily associated with our Celera Products business and costs incurred related to legal matters, partially offset by a pre-tax gain of \$13 million associated with a decrease in the fair value of the contingent consideration accrual associated with our Summit Health acquisition through September 30, 2015.
- (f) Represents the full year impact of amortization expense on the calculation of adjusted diluted EPS excluding amortization expense. Amortization expense used in the calculation is as follows (dollars in millions):

Amortization of intangible assets	\$	80
Amortization expense included in equity in earnings of equity method investees		<u>9</u>
Total pre-tax amortization expense	\$	<u>89</u>
Total amortization expense, net of an estimated tax benefit	\$	<u>55</u>

- (g) Represents pre-tax cash charges of \$146 million on retirement of debt in connection with our recent debt refinancing, net of the estimated cash tax benefit realized through September 30, 2015.



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