



# Fourth Quarter and Full Year 2014

January 29, 2015

# Safe Harbor Disclosure

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

“We ended 2014 strong, and in the fourth quarter generated growth in revenues and EPS. The 2015 outlook we are providing today is based on our expectations for strengthening operational performance and an improving business environment. Further, based on our ability to continue to generate strong cash flow, today we are announcing the fourth increase in our dividend since 2011.”

Steve Rusckowski  
President and Chief Executive Officer

# Q4 2014 Performance

## Continuing operations (\$ in millions - except EPS)

		Q4	Δ 2013
Revenues	\$	1,883	7.2%
- DIS Revenues	\$	1,732	7.1%
- Rev/Req			(1.5)%
- Volume			8.8%
Adjusted Operating Income *	\$	283	0.3%
- % of Revenues *		15.0%	(110) bps
Adjusted Income from Continuing Operations attributable to Quest Diagnostics *	\$	158	5%
Adjusted Diluted EPS *	\$	1.08	5%
Net cash provided by operating activities	\$	303	44%

Revenues grew 7.2% in the quarter with 0.6% organic revenue growth. DIS revenue grew 7.1% with organic revenues essentially flat. Acquisitions added nearly 9% to DIS volumes and reduced Rev/Req by approximately 1.5%.

Adjusted operating income was slightly higher in the quarter. Adjusted operating income as a % of revenues was lower as a result of lower initial margins on recent acquisitions and the impact of management incentive compensation, partially offset by savings associated with our Invigorate program.

Adjusted income from continuing operations attributable to Quest Diagnostics and adjusted diluted EPS in the quarter benefitted from slightly better operating performance as well as favorable resolution of certain tax matters in 2014.

Cash from operations was higher in the quarter due to a Q4 2013 tax payment associated with the gain on the sale of ibrutinib royalty rights.

\* Amounts represent adjusted measures that exclude restructuring and integration charges, favorable resolution of tax contingencies and other items. See reconciliations on pages 8, 9 and 10.

# FY 2014 Performance

Continuing operations (\$ in millions - except EPS)

		FY 2014	Δ 2013
Revenues	\$	7,435	4.0%
- DIS Revenues	\$	6,783	4.3%
- Rev/Req			(1.8)%
- Volume			6.3%
Adjusted Operating Income *	\$	1,119	(3)%
- % of Revenues *		15.0%	(120) bps
Adjusted Income from Continuing Operations attributable to Quest Diagnostics *	\$	598	(2)%
Adjusted Diluted EPS *	\$	4.10	3%
Net cash provided by operating activities	\$	938	44%

Revenues grew 4% in the year with approximately 5.5% of the growth from our recent acquisitions. Acquisitions added approximately 7% to DIS volumes and reduced Rev/Req by approximately 1%.

Adjusted operating income as a % of revenues decreased principally due to lower initial margins on recent acquisitions and the impact of management incentive compensation, partially offset by savings associated with our Invigorate program.

Adjusted income from continuing operations attributable to Quest Diagnostics decreased due to lower adjusted operating income. Adjusted diluted EPS benefitted from lower weighted average shares outstanding in 2014.

Cash from operations was higher due to a Q4 2013 tax payment associated with the gain on the sale of ibrutinib royalty rights and tax payments deferred in Q4 2012 to Q1 2013.

\* Amounts represent adjusted measures that exclude the gain on sale of ibrutinib royalty rights, restructuring and integration charges, favorable resolution of tax contingencies, loss on sale of Enterix and other items. See reconciliations on pages 8, 9 and 10.

# Our 5 Point Strategy

1

**RESTORE**

Restore Growth

2

**DRIVE**

Drive Operational Excellence

3

**SIMPLIFY**

Simplify the Organization

4

**REFOCUS**

Refocus on Diagnostic Information Services

5

**DELIVER**

Deliver Disciplined Capital Deployment

## 2015 Outlook\*

- Revenues to increase 2% to 3% compared to 2014.
- Adjusted diluted EPS excluding amortization expense to be between \$4.70 and \$4.85.
- Cash provided by operations to approximate \$850 million.
- Capital expenditures to approximate \$300 million.

\* Before special items. See reconciliation on page 11.

# Non-GAAP Reconciliations

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
	(dollars in millions)			
<b><u>Adjusted operating income:</u></b>				
Operating income	\$ 257	\$ 270	\$ 983	\$ 1,475
Gain on sale of ibrutinib royalty rights (a)	—	—	—	(474)
Restructuring and integration charges (b)	30	12	121	115
Loss on sale of Enterix	—	—	—	40
Other (c)	(4)	—	15	—
Adjusted operating income	<u>\$ 283</u>	<u>\$ 282</u>	<u>\$ 1,119</u>	<u>\$ 1,156</u>
<b><u>Adjusted operating income as a percentage of net revenues:</u></b>				
Operating income as a percentage of net revenues	13.7%	15.3%	13.2%	20.6%
Gain on sale of ibrutinib royalty rights (a)	—	—	—	(6.6)
Restructuring and integration charges (b)	1.5	0.8	1.6	1.6
Loss on sale of Enterix	—	—	—	0.6
Other (c)	(0.2)	—	0.2	—
Adjusted operating income as a percentage of net revenues	<u>15.0%</u>	<u>16.1%</u>	<u>15.0%</u>	<u>16.2%</u>



# Non-GAAP Reconciliations

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
(dollars in millions, except per share data)				
<b><u>Adjusted income from continuing operations:</u></b>				
Income from continuing operations attributable to Quest Diagnostics' stockholders	\$ 185	\$ 143	\$ 551	\$ 814
Gain on sale of ibrutinib royalty rights (d)	—	—	—	(298)
Restructuring and integration charges (d)	18	8	77	71
Favorable resolution of tax contingencies	(44)	—	(44)	—
Loss on sale of Enterix (d)	—	—	—	25
Other (d)	(1)	—	14	—
Adjusted income from continuing operations	<u>\$ 158</u>	<u>\$ 151</u>	<u>\$ 598</u>	<u>\$ 612</u>
<b><u>Adjusted diluted EPS:</u></b>				
Diluted earnings per common share	\$ 1.26	\$ 0.97	\$ 3.78	\$ 5.31
Gain on sale of ibrutinib royalty rights (a)	—	—	—	(1.95)
Restructuring and integration charges (b)	0.13	0.06	0.53	0.47
Favorable resolution of tax contingencies	(0.30)	—	(0.30)	—
Loss on sale of Enterix	—	—	—	0.17
Other (c)	(0.01)	—	0.09	—
Adjusted diluted EPS	<u>\$ 1.08</u>	<u>\$ 1.03</u>	<u>\$ 4.10</u>	<u>\$ 4.00</u>

# Non-GAAP Reconciliations

- (a) - Represents the gain, net of transaction costs, associated with the sale of the Company's ibrutinib royalty rights.
- (b) - Represents costs primarily associated with workforce reductions and professional fees incurred in connection with further restructuring and integrating our business.
- (c) - For the three months ended December 31, 2014, represents a gain of \$9 million associated with a decrease in the fair value of the contingent consideration accrual associated with the Summit Health acquisition, partially offset by costs incurred related to legal matters. For the twelve months ended December 31, 2014, represents costs incurred related to legal matters, partially offset by a gain of \$9 million associated with a decrease in the fair value of the contingent consideration accrual associated with the Summit Health acquisition.
- (d) - For the gain on sale of ibrutinib royalty rights, income tax expense was calculated using a combined federal and state rate of 37.1%. For the restructuring and integration charges and other, income tax impacts, where recorded, were calculated using a combined federal and state rate of 38.2%. For the loss on sale of Enterix, income tax benefits were calculated using combined federal and state rates of 35.9%.

# 2015 Outlook

The following table reconciles our 2015 outlook for adjusted diluted EPS excluding amortization expense to the corresponding amount determined under accounting principles generally accepted in the United States.

	<u>Low</u>		<u>High</u>
Diluted earnings per common share	\$ 4.34	\$	4.49
Amortization expense, net of tax (a)	<u>0.36</u>		<u>0.36</u>
Adjusted diluted EPS excluding amortization expense	<u>\$ 4.70</u>	<u>\$</u>	<u>4.85</u>

(a) - Represents the impact of amortization expense, estimated at approximately \$85 million or \$52 million, net of an estimated tax benefit, on diluted earnings per common share.



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