

First Quarter 2015

April 23, 2015



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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

“We grew revenues by 5%, adjusted EPS by 13% and adjusted operating income by 14% in the first quarter despite the harsh winter in many parts of the country. We continue to refocus on our core diagnostic information services business and deliver disciplined capital deployment. During the quarter we announced a joint venture with Quintiles to enhance the value of our clinical trials testing business. This month we also completed the debt refinancing and made progress in our commitment to return the majority of free cash flow to shareholders. We’re pleased with the continued progress we’re making against our five-point strategy.”

Steve Rusckowski
President and Chief Executive Officer

Q1 2015 Performance

Continuing operations (\$ in millions - except EPS)

		Q1	Δ 2014
Revenues	\$	1,839	5.3%
- DIS Revenues	\$	1,692	4.9%
- Rev/Req			(0.7%)
- Volume			5.6%
Adjusted Operating Income *	\$	269	14%
- % of Revenues *		14.6%	110 bps
Adjusted Net Income *	\$	141	16%
Adjusted Diluted EPS Excluding Amortization Expense *	\$	1.05	13%
Adjusted Cash Provided by Operations *	\$	130	55%

In Q1 2015, consolidated revenues grew 5.3%. On an organic basis, consolidated revenues grew 0.7%. Excluding acquisitions, our DIS revenues, volumes and rev/req were all essentially flat.

Increase in adjusted operating income and adjusted operating income as a % of revenues was primarily due to improved operating performance, as a result of benefits from our Invigorate program and other acquisition related synergies.

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.

* Adjusted operating income and adjusted net income represent results that exclude special items, such as charges on retirement of debt and related refinancing charges, restructuring and integration charges 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 7, 8 and 9.

Our 5 Point Strategy

1

- Restore: Restore Growth

2

- Drive: Drive operational excellence

3

- Simplify: Simplify the organization to enable growth and productivity

4

- Refocus: Refocus on diagnostic information services

5

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

2015 Outlook*

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

* Before special items. See non-GAAP reconciliation on page 10.

Non-GAAP Reconciliations

	Three Months Ended March 31,	
	2015	2014
	(dollars in millions, except per share data)	
<u>Adjusted operating income:</u>		
Operating income	\$ 228	\$ 208
Restructuring and integration charges (a)	31	24
Other (b)	10	4
Adjusted operating income	<u>\$ 269</u>	<u>\$ 236</u>
<u>Adjusted operating income as a percentage of net revenues:</u>		
Operating income as a percentage of net revenues	12.4%	11.9%
Restructuring and integration charges (a)	1.7	1.4
Other (b)	0.5	0.2
Adjusted operating income as a percentage of net revenues	<u>14.6%</u>	<u>13.5%</u>
<u>Adjusted net income:</u>		
Net income attributable to Quest Diagnostics	\$ 61	\$ 104
Charges on retirement of debt and related refinancing charges (c) (d)	53	—
Restructuring and integration charges (d)	19	15
Other (d)	8	3
Adjusted net income	<u>\$ 141</u>	<u>\$ 122</u>

Non-GAAP Reconciliations

	Three Months Ended March 31,	
	2015	2014
	(dollars in millions, except per share data)	
<u>Adjusted diluted EPS excluding amortization expense:</u>		
Diluted earnings per common share	\$ 0.42	\$ 0.71
Charges on retirement of debt and related refinancing charges (c)	0.36	—
Restructuring and integration charges (a)	0.13	0.11
Other (b)	0.05	0.02
Amortization expense (e)	0.09	0.09
Adjusted diluted EPS excluding amortization expense	<u>\$ 1.05</u>	<u>\$ 0.93</u>
<u>Adjusted cash provided by operations:</u>		
Cash provided by operations	\$ 52	\$ 84
Cash charges on retirement of debt (f)	78	—
Adjusted cash provided by operations	<u>\$ 130</u>	<u>\$ 84</u>

Non-GAAP Reconciliations

- (a) 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 impact of restructuring and integration charges on the company's consolidated statements of operations table:

	Three Months Ended	
	March 31,	
	2015	2014
	(dollars in millions)	
Cost of services	\$ 20	\$ 12
Selling, general and administrative	11	12
	\$ 31	\$ 24

- (b) For the three months ended March 31, 2015, primarily represents non-cash impairment charges associated with our Celera Products business and costs incurred related to a legal matter. For the three months ended March 31, 2014, principally represents costs incurred related to the settlement of a legal matter.
- (c) 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 (\$79 million pre-tax included in other (expense) income, net and \$5 million pre-tax included in interest expense, net).
- (d) For the charges on retirement of debt and related refinancing charges, income tax benefits were calculated using a combined federal and state rate of 37.3%. For the restructuring and integration charges and other items, income tax impacts, where recorded, were calculated using combined federal and state rates of 38.9% and 38.2% for the three months ended March 31, 2015 and 2014, respectively.
- (e) Represents the impact of amortization expense, net of an estimated tax benefit, on diluted EPS. The income tax benefit was calculated using combined federal and state rates of 38.9% and 38.2% for the three months ended March 31, 2015 and 2014, respectively.
- (f) Represents pre-tax cash charges on retirement of debt in connection with our recent debt refinancing.

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>
Adjusted diluted EPS excluding amortization expense:		
Diluted earnings per common share	\$ 3.83	\$ 3.98
Charges on retirement of debt and related refinancing charges (a)	0.36	0.36
Restructuring and integration charges (b)	0.13	0.13
Other (c)	0.05	0.05
Amortization expense, net of tax (d)	0.33	0.33
Adjusted diluted EPS excluding amortization expense	<u>\$ 4.70</u>	<u>\$ 4.85</u>
<u>Adjusted cash provided by operations:</u>		
Cash provided by operations		\$ 772
Cash charges on retirement of debt (e)		<u>78</u>
Adjusted cash provided by operations		<u>\$ 850</u>

- (a) Represents pre-tax charges of \$84 million, incurred through March 31, 2015, associated with the retirement of debt and related refinancing charges in connection with the Tender Offer.
- (b) Represents pre-tax charges of \$31 million primarily associated with workforce reductions and professional fees incurred in connection with further restructuring and integrating our business through March 31, 2015.
- (c) Represents pre-tax charges of \$10 million primarily associated with the non-cash impairment charges associated with our Celera Products business and costs incurred related to a legal matter through March 31, 2015.
- (d) Represents the full year impact of amortization expense, estimated at approximately \$80 million or \$49 million, net of an estimated tax benefit, on diluted earnings per common share.
- (e) Represents pre-tax cash charges of \$78 million on retirement of debt in connection with our recent debt refinancing incurred through March 31, 2015.



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