

**Quest Diagnostics – Q3 2024  
Conference Call Script  
Tuesday, October 22, 2024, 8:30 am ET**

**Conference operator:** Welcome to the Quest Diagnostics Third Quarter 2024 conference call. At the request of the company, this call is being recorded. The entire contents of the call, including the presentation and question and answer session that will follow, are the copyrighted property of Quest Diagnostics with all rights reserved. Any redistribution, retransmission or rebroadcast of this call in any form without the written consent of Quest Diagnostics is strictly prohibited. Now I'd like to introduce Shawn Bevec, Vice President of Investor Relations for Quest Diagnostics. Go ahead, please.

**Shawn Bevec:** Thank you and good morning. I am joined by Jim Davis, our Chairman, Chief Executive Officer and President, and Sam Samad, our Chief Financial Officer. During this call, we may make forward-looking statements and will discuss non-GAAP measures. We provide a reconciliation of non-GAAP measures to comparable GAAP measures in the tables to our earnings press release. 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 our most recent Annual Report on Form 10-K and subsequently filed quarterly reports on Form 10-Q and Current Reports on Form 8-K.

For this call, references to reported EPS refer to reported diluted EPS and references to adjusted EPS refer to adjusted diluted EPS. Growth rates associated with our long-term outlook projections – including consolidated revenue growth, revenue growth from acquisitions, organic revenue growth, and adjusted earnings growth – are Compound Annual Growth Rates. Finally, revenue growth rates from acquisitions will be measured against our base business.

Now, here is Jim Davis.

**Jim Davis:** Thanks Shawn and good morning, everyone.

Before we get into the details from the third quarter, I want to recognize the Quest employees who are working hard to serve our patients and customers impacted by hurricanes Helene and Milton while also contending with the effects on their personal lives. I am inspired by their commitment to our values, especially customer focus, collaboration, and care, during this difficult time. They bring to life our Purpose: Working together to create a healthier world, one life at a time.

Turning to our results, we delivered a strong third quarter, with total revenue growth of 8.5%, including 4.2% organic growth, driven by new customer wins and expanded business with physicians and hospitals, as well as acquisitions.

During the third quarter, we completed three acquisitions.

- We finalized our acquisition of **LifeLabs**, a trusted lab leader serving millions of Canadians. LifeLabs provides a strong foundation for us to expand in Canada, and we are excited about the

growth opportunity serving a population that is growing, and with more favorable demographics than in the U.S.

- We also completed our transaction with **Allina Health**, a leading non-profit health system serving Minnesota and western Wisconsin.
- And at the end of the quarter, we acquired the laboratory business of three physician groups in New York.
- During the quarter, we also announced plans to acquire select outreach lab assets from **OhioHealth** and **University Hospitals**, two leading nonprofit health systems in Ohio. We completed the transaction with OhioHealth just last week and expect to complete the acquisition with University Hospitals later this quarter.
- Our recent outreach acquisitions highlight our ability to attract top health systems seeking to evolve their lab strategies to improve access and affordability. They also position us to expand in geographic areas of the U.S. where the influence of health systems had previously limited our reach.
- We are now on track to complete eight acquisitions this year that meet our criteria for growth, profitability and returns.

Now, I'll recap our strategy and discuss highlights from the third quarter. Then Sam will provide detail on our financial results and talk about our updated financial guidance for 2024.

Our strategy to drive growth is focused on delivering solutions that meet the evolving needs of our core customers – physicians, hospitals and consumers. We enable growth across our customer channels through advanced diagnostics, with an intense focus on faster growing clinical areas, including brain health and molecular genomics and oncology.

In addition, acquisitions are a key growth driver, with an emphasis on accretive outreach purchases as well as other independent labs.

Our strategy also includes driving operational improvements across the business, with the strategic deployment of automation and AI to improve quality, service, efficiency, and the workforce experience.

Here are some updates on progress we have made in each of these areas.

In **Physician lab services**, we delivered another quarter of high single-digit revenue growth. Our performance was driven by new customer wins and expanded business, largely due to increased utilization of our advanced diagnostics. Our acquisitions also contributed to growth within this core customer channel. As a reminder, volumes from both hospital outreach and independent lab acquisitions originate in physician offices.

We also continued to see strong volume and revenue growth within Medicare Advantage plans, where narrow network strategies direct testing to high quality, cost-efficient options like Quest.

During the quarter, we also made progress to expand into new geographies through our health plan partnerships. We renewed a large national health plan agreement with Elevance Health that will extend our reach in Virginia, Georgia, Colorado, and Nevada, markets in which we had previously limited access. We also broadened our access in Virginia and Florida with our recently announced arrangement with Sentara Health Plans.

In **Hospital lab services**, we grew revenues mid-single digits, which is above historical levels. Hospitals continued to struggle to fill specialized lab positions, including histology, cytotechnology and microbiology. In addition, the range and scope of testing being ordered is increasing as hospitals take advantage of our expanding advanced diagnostics portfolio rather than building their own in-house lab capability. These dynamics contributed to strong continued demand for reference testing.

Our expertise managing laboratories can help hospitals improve quality and efficiency in their lab operations. During the quarter, we formed a professional lab services collaboration with a leading health system in New Jersey that includes reference testing as well as laboratory and supply chain management.

Quest specializes in scaling diagnostic innovation to improve access, quality and affordability. This ability enables us to help hospitals address the many challenges they face, from workforce shortages to capital constraints to the demand for more affordable care from patients, health plans and employers. That's why premier health systems continue to seek us out for a range of collaborations, from reference testing to professional lab management to outreach acquisitions.

In **consumer-initiated testing**, our consumer facing platform, questhealth.com, grew total revenues more than 40%. Our repeat customer rate has grown to 30% from less than 10% two years ago, driven by demand for comprehensive health, chronic disease and STI testing. During the quarter, we also introduced micronutrient blood tests to help identify vitamin and mineral deficiencies. In addition, we continued to expand our partner network with resellers and ecommerce providers.

In **advanced diagnostics**, we drove double-digit revenue growth across several clinical areas. This growth was particularly strong in areas of brain health, especially for our AD-Detect blood-based Alzheimer's disease testing, as well as in women's health, cardiometabolic health and autoimmune disorders. Our investments in advanced diagnostics enable us to deliver and scale innovative services that improve patient care and drive growth.

- In molecular genomics and oncology, we are pleased with the results to date from our Haystack MRD Early Experience program, through which providers from many leading academic and community oncology centers have used our Haystack MRD blood test to assess cancer recurrence and treatment response for solid tumor cancers. We are on track to make Haystack MRD available nationally to providers in the fourth quarter.
- Our growth in women's health was largely driven by prenatal and hereditary genetic testing, consistent with recent quarters. We also saw continued robust testing demand in genital tract infections, which includes several STIs. This month, we introduced a specimen self-collection

option at our 2,000 patient service centers to give women a fast, convenient and discreet way to access GTI testing.

- In the area of autoimmune disorders, we saw strong demand for our testing solutions, which help primary care physicians comprehensively screen for autoimmune disorders in order to speed diagnosis and care by specialists.
- Finally, we were pleased to be selected by the CDC to be one of a handful of diagnostic services providers to support the development of laboratory tests for the H5N1 avian flu and *o-ro-poosh* viruses. We plan to introduce an H5N1 avian flu test later this month.

Turning to **operational excellence**, our Invigorate program aims to deliver 3% annual cost savings and productivity improvements, driven largely through the use of automation and AI to improve productivity as well as service levels and quality.

- During the quarter, we completed the build out of full end-to-end automation for core routine tests at our Lenexa, Kansas laboratory, making it the third fully automated lab in our national network.
- We are now piloting automated specimen accessioning in our Clifton lab, which will help increase productivity in specimen processing and improve quality.
- Finally, we are pleased to extend our collaboration with Hologic to include their automated cytology solution, the Hologic Genius Digital Diagnostics System, which utilizes AI to help analyze cervical cell samples. We expect the solution will help us improve quality and efficiency in cervical cancer screening.

Before I turn it over to Sam, I want to take a moment to recognize the decision by Congress to delay Medicare reimbursement cuts and data collection scheduled under PAMA for 2025. While we are pleased with the delay, we continue to collaborate with our trade association ACLA to encourage Congress to secure a permanent legislative solution that provides fair reimbursement.

Now, Sam will share more details on our third quarter performance and on our updated 2024 guidance. Sam?

**Sam Samad:** Thanks, Jim.

In the third quarter, consolidated revenues were \$2.49 billion, up 8.5% versus the prior year. Consolidated organic revenues grew by 4.2%.

Revenues for Diagnostic Information Services were up 9% compared to the prior year, reflecting strong growth in our key physician and hospital channels as well as the contribution from recently closed acquisitions. As a reminder, our acquisition of LifeLabs closed towards the end of August and our outreach acquisition from Allina Health closed in September.

Total volume, measured by the number of requisitions, increased 5.5% versus the third quarter of 2023, with acquisitions contributing 5% to total volume. The impact of weather and the CrowdStrike global IT outage in July negatively impacted volume by approximately 40 basis points in the quarter.

Total revenue per requisition was up 3.3% versus the prior year, driven primarily by an increase in the number of tests per req and favorable test mix driven by advanced diagnostics demand, partially offset by the impact of the recent LifeLabs acquisition, which carries a lower revenue per requisition than our typical average. Unit price reimbursement was stable, consistent with our expectations.

Reported operating income in the third quarter was \$330 million, or 13.3% of revenues, compared to \$342 million, or 14.9% of revenues last year.

On an adjusted basis, operating income was \$385 million, or 15.5% of revenues, compared to \$380 million, or 16.6% of revenues last year.

The increase in adjusted operating income was due to strong organic revenue growth and the impact of recent acquisitions, partially offset by the impact of weather and the CrowdStrike outage, as well as wage increases and higher performance-based compensation. We estimate the impact of weather and the IT outage on operating margin to be approximately 50 basis points. LifeLabs had a negligible impact on operating margin rate in the quarter.

Reported EPS was \$1.99 in the quarter compared to \$1.96 a year ago. Adjusted EPS was \$2.30, versus \$2.22 the prior year. We estimate the EPS impact of weather and the IT outage to be approximately 8 cents in the quarter.

Cash from operations was \$870 million year to date through the third quarter versus \$745 million in the prior year. In the third quarter, we issued \$1.85 billion of senior notes with an average coupon of approximately 4.8%.

Turning now to our updated full year 2024 guidance:

- Revenues are expected to be between \$9.80 billion and \$9.85 billion.
- Reported EPS expected to be in a range of \$7.55 to \$7.65, and adjusted EPS to be in a range of \$8.85 to \$8.95.
- Cash from operations is expected to be approximately \$1.3 billion; and
- Capital expenditures are expected to be approximately \$420 million.

The following are key assumptions underlying our updated guidance for you to consider:

- The increase in our updated revenue guidance is related to recently announced and closed acquisitions, with the majority being from LifeLabs.
- As a reminder, new acquisitions are typically breakeven to slightly profitable initially with profitability expanding over several quarters. Therefore, we are not expecting a material contribution to earnings from these acquisitions in 2024 but do expect increasing profitability next year.
- We are projecting the disruption from Hurricane Milton to negatively impact revenues by approximately \$15 million and EPS by approximately 8 cents in the fourth quarter.
- Operating margin expected to be down versus the prior year due to the integration of LifeLabs and the combined impact of weather and CrowdStrike headwinds. Excluding the impact of these items full year operating margin is expected to be up.

- Net interest expense expected to be approximately \$200 million.
- Weighted average share count to be flat compared to the end of 2023.
- We have narrowed our adjusted EPS guidance and maintained the midpoint at \$8.90 despite the impact of Hurricane Milton in the fourth quarter.

While we aren't prepared to provide 2025 guidance today, I would like to share some initial considerations as you think about next year.

- We are reaffirming our long-term outlook from 2023 through 2026, which assumes a mid-single digit revenue CAGR with at least 1-2% growth from acquisitions and a high-single digit earnings CAGR with approximately 75-150 basis points of margin expansion over the 3-year period.
- Given the eight acquisitions we expect to complete in 2024, we will exceed our 1-2% revenue growth target from acquisitions next year. Excluding LifeLabs, we already expect to be towards the high end of this range due to the carryover contribution from the other acquisitions that will be completed this year.
- Interest expense is expected to increase next year as a result of our recent debt issuance. As I noted previously, we raised \$1.85 billion of senior notes with an average coupon of approximately 4.8% in August, and in March 2025, we plan to retire \$600 million of senior notes with a coupon of 3.5%.
- Finally, as we consider all the moving pieces heading into 2025, we expect to deliver earnings growth consistent with our long-term outlook in the high single digits.

With that, I will now turn it back to Jim.

**Jim Davis:** Thanks, Sam.

To summarize:

- Our business delivered strong total and organic revenue growth, driven by new customer wins and expanded business with physicians and hospitals as well as acquisitions.
- We are now on track to complete eight acquisitions by year's end that meet our criteria for profitability, growth and returns.
- Our growing advanced diagnostics offering and increasing health plan access position us to drive new customer business next year.
- Given the strength of our business and revenue from acquisitions, we are well positioned to drive accelerated revenue growth and earnings growth in 2025.

And with that, we'd be happy to take your questions.

Operator?

**JIM:** Thanks again for joining our call today. We appreciate your support. Have a good day, everybody.