



## Quest Diagnostics Reports Third Quarter 2017 Financial Results, Updates 2017 Financial Guidance and Reaffirms Long Term Outlook

October 19, 2017

- Third quarter revenues of \$1.93 billion, up 2.4% versus 2016.
- Third quarter reported diluted EPS of \$1.15, down 14.2% from 2016, which included an acquisition escrow recovery gain; and \$1.39 on an adjusted basis excluding amortization, up 1.5% from 2016. Excess tax benefit associated with stock-based compensation benefited diluted EPS by \$0.04 in the quarter and increased \$0.02 compared to 2016.
- Updates outlook for full year 2017 primarily due to the financial impact of hurricanes and recently closed acquisitions in the third quarter. Reported revenues now expected to be approximately \$7.71 billion. Reported diluted EPS now expected to be between \$4.87 and \$4.92 and adjusted diluted EPS excluding amortization expense now expected to be between \$5.62 and \$5.67. Cash provided by operations remains at approximately \$1.2 billion.
- Reaffirms long term outlook for 2017-2020.

SECAUCUS, N.J., Oct. 19, 2017 /PRNewswire/ -- Quest Diagnostics Incorporated (NYSE: DGX), the world's leading provider of diagnostic information services, announced today financial results for the third quarter ended September 30, 2017.



"We delivered another strong quarter of revenue growth in spite of weather challenges, completed two previously announced acquisitions, and agreed to purchase Shiel Medical Laboratory," said Steve Rusckowski, Chairman, President and CEO. "Yesterday we also announced a strategic relationship with Cleveland Clinic that includes the acquisition of Cleveland HeartLab. Our two-point strategy of accelerating growth and driving operational excellence is producing results. Our updated guidance for full year 2017 primarily reflects the impact of hurricanes in the third quarter which impacted geographies where we have a large presence as well as recently closed acquisitions."

In the third quarter the Centers for Medicare and Medicaid Services (CMS) published its draft Clinical Laboratory Fee Schedule for 2018 as mandated by the Protecting Access to Medicare Act (PAMA).

"We continue to urge CMS to delay the implementation of PAMA to take the time to get it right," said Mr. Rusckowski. "The preliminary rates that CMS released are not "market based" rates as Congress intended. Under the proposed fee schedule, less than 1% of all laboratories submitted data, and the vast majority of hospital and physician office laboratories were prohibited from reporting their rates, yet more than half of Medicare beneficiaries get their laboratory services in these settings. Instead of protecting access to essential laboratory testing, this flawed approach could greatly compromise Medicare beneficiaries' access to testing. Along with our trade association, we are exploring every option to ensure that Medicare beneficiaries have access to vital diagnostic information services."

Mr. Rusckowski continued, "In whatever form CMS might implement PAMA, we remain confident in our ability to meet the long-term commitments outlined at our 2016 Investor Day."

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
(dollars in millions, except per share data)						
<b>Reported:</b>						
Net revenues (a) (c)	\$ 1,931	\$ 1,885	2.4 %	\$ 5,773	\$ 5,654	2.1 %
Diagnostic Information Services revenues	\$ 1,850	\$ 1,800	2.8 %	\$ 5,517	\$ 5,365	2.8 %
Revenue per requisition			1.2 %			0.5 %
Requisition volume			1.6 %			2.3 %
Operating income (b) (c)	\$ 298	\$ 322	(7.4) %	\$ 896	\$ 1,001	(10.5) %
Operating income as a percentage of net revenues (c)	15.5 %	17.1 %	(160) bps	15.5 %	17.7 %	(220) bps
Net income attributable to Quest Diagnostics (c) (d)	\$ 161	\$ 192	(16.0) %	\$ 518	\$ 490	5.8 %
Diluted EPS (c) (d)	\$ 1.15	\$ 1.34	(14.2) %	\$ 3.68	\$ 3.42	7.6 %

Cash provided by operations (e)	\$ 362	\$ 301	20.5 %	\$ 852	\$ 765	11.5 %
Capital expenditures	\$ 63	\$ 61	2.5 %	\$ 170	\$ 165	2.7 %
<b>Adjusted:</b>						
Revenues on an equivalent basis	\$ 1,931	\$ 1,885	2.4 %	\$ 5,773	\$ 5,628	2.6 %
Operating income (f)	\$ 325	\$ 320	1.6 %	\$ 965	\$ 925	4.3 %
Operating income as a percentage of net revenues	16.8 %	17.0 %	(20) bps	16.7 %	16.4 %	30 bps
Net income attributable to Quest Diagnostics (d)	\$ 181	\$ 182	(0.7) %	\$ 560	\$ 509	10.1 %
Diluted EPS excluding amortization (d)	\$ 1.39	\$ 1.37	1.5 %	\$ 4.27	\$ 3.84	11.2 %

- (a) For the nine months ended September 30, 2016, net revenues include \$26 million related to the Focus Diagnostics products business, which was sold on May 13, 2016.
- (b) For the three months ended September 30, 2016, reported operating income includes a gain on escrow recovery associated with an acquisition. For the nine months ended September 30, 2016, reported operating income includes a gain on escrow recovery associated with an acquisition and \$129 million related to the Focus Diagnostics products business and the gain from sale on May 13, 2016.
- (c) For further details impacting the year-over-year comparisons related to net revenues, operating income, operating income as a percentage of net revenues, net income attributable to Quest Diagnostics, and diluted EPS, see note 2 of the financial tables attached below.
- (d) Excess tax benefit associated with stock-based compensation arrangements impacted income tax expense and diluted EPS as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
			2017	2016
	(dollars in millions, except per share data)			
Income tax benefit	\$ 7	\$ 3	\$ 36	\$ 7
Diluted EPS	\$ 0.04	\$ 0.02	\$ 0.25	\$ 0.05

- (e) For details impacting the year-over-year comparisons related to cash provided by operations, see note 4 of the financial tables attached below.
- (f) For the nine months ended September 30, 2016, adjusted operating income includes \$12 million related to the Focus Diagnostics products business.

#### Updated Outlook for Full Year 2017

The company updates its full year 2017 outlook, primarily attributable to the impact of hurricanes in the third quarter, especially on the company's operations in Florida and Texas, states where the company has a large presence. The financial impact also includes the impact of disruptions related to Hurricane Maria in Puerto Rico, as well as recently closed acquisitions.

	Current Outlook		Previous Outlook	
	Low	High	Low	High
Revenues	Approximately \$7.71 billion		\$7.69 billion	\$7.74 billion
Revenue increase on a reported basis	Approximately 2.6%		2.3%	3.1%
Revenue increase on an equivalent basis (g)	Approximately 3.0%		2.6%	3.4%
Reported diluted EPS	\$4.87	\$4.92	\$4.90	\$5.00
Adjusted diluted EPS excluding amortization	\$5.62	\$5.67	\$5.62	5.72
Cash provided by operations	Approximately \$1.2 billion		Approximately \$1.2 billion	
Capital expenditures	\$250 million	\$300 million	\$250 million	\$300 million

- (g) Reported revenues for full year 2016 were \$7.52 billion. Revenues on an equivalent basis for full year 2016 were \$7.49 billion which represents the company's reported revenues, excluding all Focus Diagnostics products revenue.

#### Note on Non-GAAP Financial Measures

As used in this press release the term "reported" refers to measures under the accounting principles generally accepted in the United States ("GAAP"). The term "adjusted" refers to non-GAAP measures as follows: (i) for the purpose of income measures the term "adjusted" refers to operating performance measures that exclude special items such as the gain on sale of the Focus Diagnostics products business, the retirement of debt and related refinancing charges, restructuring and integration charges, and other items; (ii) the term "adjusted diluted EPS excluding amortization" represents the company's diluted EPS before the impact of special items and amortization; (iii) reference to "revenues on an equivalent basis" when comparing 2017 to 2016 represents 2016 reported revenues excluding all Focus Diagnostics products revenues.

Non-GAAP adjusted measures are presented because management believes those measures are useful adjuncts to GAAP results. Non-GAAP

adjusted measures should not be considered as an alternative to the corresponding measures determined under GAAP. Management may use these non-GAAP measures to evaluate our performance period over period and relative to competitors, to analyze the underlying trends in our business, to establish operational budgets and forecasts and for incentive compensation purposes. We believe that these non-GAAP measures are useful to investors and analysts to evaluate our performance period over period and relative to competitors, as well as to analyze the underlying trends in our business and to assess our performance. The additional tables attached below include reconciliations of adjusted measures to GAAP measures.

#### **Conference Call Information**

Quest Diagnostics will hold its quarterly conference call to discuss financial results beginning at 8:30 a.m. Eastern Time today. The conference call can be accessed in listen-only mode by dialing 773-756-0467, passcode 3214469. The company suggests participants dial in approximately 10 minutes before the call.

A replay of the call may be accessed online at [www.QuestDiagnostics.com/investor](http://www.QuestDiagnostics.com/investor) or by phone at 888-667-5784 for domestic callers or 402-220-6427 for international callers. Telephone replays will be available from approximately 10:30 a.m. Eastern Time on October 19, 2017 until midnight Eastern Time on November 2, 2017. Anyone listening to the call is encouraged to read the company's periodic reports, on file with the Securities and Exchange Commission, including the discussion of risk factors and historical results of operations and financial condition in those reports.

#### **About Quest Diagnostics**

Quest Diagnostics empowers people to take action to improve health outcomes. Derived from the world's largest database of clinical lab results, our diagnostic insights reveal new avenues to identify and treat disease, inspire healthy behaviors and improve health care management. Quest annually serves one in three adult Americans and half the physicians and hospitals in the United States, and our 43,000 employees understand that, in the right hands and with the right context, our diagnostic insights can inspire actions that transform lives. [www.QuestDiagnostics.com](http://www.QuestDiagnostics.com).

50th Anniversary: In 2017, Quest Diagnostics celebrates 50 years of life-changing results. To learn about our legacy of accomplishments and quest to improve healthcare in the future, visit [www.QuestDiagnostics.com/50Years](http://www.QuestDiagnostics.com/50Years)

The statements in this press release 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.

This earnings release, including the attached financial tables, is available online in the Newsroom section at [www.QuestDiagnostics.com](http://www.QuestDiagnostics.com).

ADDITIONAL TABLES FOLLOW

**Quest Diagnostics Incorporated and Subsidiaries**  
**Consolidated Statements of Operations**  
**For the Three and Nine Months Ended September 30, 2017 and 2016**  
(in millions, except per share data)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Net revenues</b>	\$ 1,931	\$ 1,885	\$ 5,773	\$ 5,654
<b>Operating costs and expenses and other operating income:</b>				
Cost of services	1,190	1,157	3,525	3,456
Selling, general and administrative	423	409	1,297	1,281
Amortization of intangible assets	19	18	54	54
Gain on disposition of business	—	—	—	(118)
Other operating expense (income), net	1	(21)	1	(20)
Total operating costs and expenses, net	1,633	1,563	4,877	4,653
<b>Operating income</b>	298	322	896	1,001
<b>Other income (expense):</b>				
Interest expense, net	(38)	(37)	(112)	(107)
Other (expense) income, net	(2)	4	12	(50)
Total non-operating expenses, net	(40)	(33)	(100)	(157)

<b>Income before income taxes and equity in earnings of equity method investees</b>	258	289	796	844
<b>Income tax expense</b>	(92)	(95)	(264)	(345)
<b>Equity in earnings of equity method investees, net of taxes</b>	9	11	25	30
<b>Net income</b>	175	205	557	529
<b>Less: Net income attributable to noncontrolling interests</b>	14	13	39	39
<b>Net income attributable to Quest Diagnostics</b>	\$ 161	\$ 192	\$ 518	\$ 490

**Earnings per share attributable to Quest Diagnostics' common stockholders:**

Basic	\$ 1.18	\$ 1.37	\$ 3.77	\$ 3.46
Diluted	\$ 1.15	\$ 1.34	\$ 3.68	\$ 3.42

**Weighted average common shares outstanding:**

Basic	137	139	137	141
Diluted	140	142	140	143

**Quest Diagnostics Incorporated and Subsidiaries  
Consolidated Balance Sheets  
September 30, 2017 and December 31, 2016  
(in millions, except per share data)  
(unaudited)**

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 350	\$ 359
Accounts receivable, net	960	926
Inventories	100	82
Prepaid expenses and other current assets	134	164
Total current assets	1,544	1,531
<b>Property, plant and equipment, net</b>	1,097	1,029
<b>Goodwill</b>	6,164	6,000
<b>Intangible assets, net</b>	1,029	949
<b>Investment in equity method investees</b>	459	443
<b>Other assets</b>	146	148
<b>Total assets</b>	<b>\$ 10,439</b>	<b>\$ 10,100</b>

**Liabilities and Stockholders' Equity**

<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,047	\$ 975
Current portion of long-term debt	5	6
Total current liabilities	1,052	981
<b>Long-term debt</b>	3,759	3,728
<b>Other liabilities</b>	722	654
<b>Redeemable noncontrolling interest</b>	78	77
<b>Stockholders' equity:</b>		
Quest Diagnostics stockholders' equity:		
Common stock, par value \$0.01 per share; 600 shares authorized as of both September 30, 2017 and December 31, 2016; 216 shares issued as of both September 30, 2017 and December 31, 2016	2	2
Additional paid-in capital	2,585	2,545
Retained earnings	6,946	6,613
Accumulated other comprehensive loss	(48)	(72)
Treasury stock, at cost; 80 shares and 79 shares as of September 30, 2017 and December 31, 2016, respectively	(4,691)	(4,460)
Total Quest Diagnostics stockholders' equity	4,794	4,628
Noncontrolling interests	34	32
Total stockholders' equity	4,828	4,660
<b>Total liabilities and stockholders' equity</b>	<b>\$ 10,439</b>	<b>\$ 10,100</b>

**Quest Diagnostics Incorporated and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2017 and 2016**  
(in millions)  
(unaudited)

	Nine Months Ended September 30,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net income	\$ 557	\$ 529
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	197	186
Provision for doubtful accounts	241	242
Deferred income tax provision	90	19
Stock-based compensation expense	54	52
Gain on disposition of business	—	(118)
Other, net	(5)	(15)
Changes in operating assets and liabilities:		
Accounts receivable	(265)	(316)
Accounts payable and accrued expenses	(3)	43
Income taxes payable	—	74
Termination of interest rate swap agreements	—	54
Other assets and liabilities, net	(14)	15
<b>Net cash provided by operating activities</b>	852	765
<b>Cash flows from investing activities:</b>		
Business acquisitions, net of cash acquired	(299)	(139)
Proceeds from disposition of business	1	270
Escrow proceeds associated with disposition of business	25	—
Capital expenditures	(170)	(165)
Decrease (increase) in investments and other assets	4	(11)
<b>Net cash used in investing activities</b>	(439)	(45)
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	—	1,869
Repayments of debt	(5)	(1,722)
Purchases of treasury stock	(350)	(440)
Exercise of stock options	125	63
Employee payroll tax withholdings on stock issued under stock-based compensation plans	(23)	(10)
Dividends paid	(186)	(168)
Distributions to noncontrolling interests	(38)	(31)
Other financing activities, net	55	(8)
<b>Net cash used in financing activities</b>	(422)	(447)
<b>Net change in cash and cash equivalents</b>	(9)	273
<b>Cash and cash equivalents, beginning of period</b>	359	133
<b>Cash and cash equivalents, end of period</b>	\$ 350	\$ 406
<b>Cash paid during the period for:</b>		
Interest	\$ 104	\$ 116
Income taxes	\$ 177	\$ 262

**Notes to Financial Tables**

1) The computation of basic and diluted earnings per common share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(in millions, except per share data)				

<b>Amounts attributable to Quest Diagnostics' common stockholders:</b>				
Net income attributable to Quest Diagnostics	\$ 161	\$ 192	\$ 518	\$ 490
Less: earnings allocated to participating securities	1	2	2	3
Earnings available to Quest Diagnostics' common stockholders - basic and diluted	\$ 160	\$ 190	\$ 516	\$ 487
Weighted average common shares outstanding - basic	137	139	137	141
Effect of dilutive securities:				
Stock options and performance share units	3	3	3	2
Weighted average common shares outstanding - diluted	140	142	140	143
<b>Earnings per share attributable to Quest Diagnostics' common stockholders:</b>				
Basic	\$ 1.18	\$ 1.37	\$ 3.77	\$ 3.46
Diluted	\$ 1.15	\$ 1.34	\$ 3.68	\$ 3.42

2) The following tables reconcile reported GAAP results to non-GAAP adjusted results:

<b>Adjusted operating income:</b>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(dollars in millions, except per share data)			
Operating income	\$ 298	\$ 322	\$ 896	\$ 1,001
Gain on disposition of business (a)	—	—	—	(118)
Restructuring and integration charges (b)	23	18	63	55
Other (c)	4	(20)	6	(13)
Adjusted operating income	\$ 325	\$ 320	\$ 965	\$ 925
<b>Adjusted operating income as a percentage of net revenues:</b>				
Operating income as a percentage of net revenues	15.5 %	17.1 %	15.5 %	17.7 %
Gain on disposition of business (a)	—	—	—	(2.1)
Restructuring and integration charges (b)	1.2	1.0	1.1	1.0
Other (c)	0.1	(1.1)	0.1	(0.2)
Adjusted operating income as a percentage of net revenues	16.8 %	17.0 %	16.7 %	16.4 %
<b>Adjusted net income:</b>				
Net income attributable to Quest Diagnostics	\$ 161	\$ 192	\$ 518	\$ 490
Gain on disposition of business (a)	—	—	—	(118)
Retirement of debt and related refinancing charges (d)	—	—	—	48
Restructuring and integration charges (b)	23	18	64	58
Other (c)	9	(20)	4	(6)
Income tax (benefit) expense associated with the special items above (e)	(12)	(8)	(26)	37
Adjusted net income	\$ 181	\$ 182	\$ 560	\$ 509
<b>Adjusted diluted EPS excluding amortization expense:</b>				
Diluted earnings per common share	\$ 1.15	\$ 1.34	\$ 3.68	\$ 3.42
Gain on disposition of business (a) (e)	—	—	—	(0.24)
Retirement of debt and related refinancing charges (d) (e)	—	—	—	0.21
Restructuring and integration charges (b) (e)	0.10	0.08	0.28	0.25
Other (c) (e)	0.04	(0.15)	0.02	(0.09)
Amortization expense (f)	0.10	0.10	0.29	0.29
Adjusted diluted EPS excluding amortization expense	\$ 1.39	\$ 1.37	\$ 4.27	\$ 3.84
<b>Revenue on an equivalent basis:</b>				
Net revenues	\$ 1,931	\$ 1,885	\$ 5,773	\$ 5,654
Excluded revenue (g)	—	—	—	(26)
Revenue on an equivalent basis	\$ 1,931	\$ 1,885	\$ 5,773	\$ 5,628

(a) For the nine months ended September 30, 2016, represents the pre-tax gain on the sale of our Focus Diagnostics products business to DiaSorin S.p.A.

- (b) For the three and nine months ended September 30, 2017 and 2016, represents costs primarily associated with systems conversions and integration 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,	
	2017	2016	2017	2016
	(dollars in millions)			
Cost of services	\$ 12	\$ 8	\$ 31	\$ 25
Selling, general and administrative	11	10	32	30
Operating income	<u>\$ 23</u>	<u>\$ 18</u>	<u>\$ 63</u>	<u>\$ 55</u>
Equity in earnings of equity method investees, net of taxes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 3</u>

- (c) For the three months ended September 30, 2017, primarily represents non-cash asset impairment charges and incremental costs incurred as a result of the hurricanes. For the nine months ended September 30, 2017, primarily represents non-cash asset impairment charges, incremental costs incurred as a result of hurricanes and costs incurred related to certain legal matters, partially offset by gain on the sale of an interest in an equity method investee. For the three months ended September 30, 2016, primarily represents a gain on escrow recovery associated with an acquisition. For the nine months ended September 30, 2016, primarily represents a gain on escrow recovery associated with an acquisition, partially offset by costs associated with winding down subsidiaries, non-cash asset impairment charges and costs incurred related to certain legal matters. The following table summarizes the pre-tax impact of these other items on the company's consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(dollars in millions)			
Cost of services	\$ 3	\$ —	\$ 3	\$ —
Selling, general and administrative	1	—	3	6
Other operating expense (income), net	<u>—</u>	<u>(20)</u>	<u>—</u>	<u>(19)</u>
Operating income	<u>\$ 4</u>	<u>\$ (20)</u>	<u>\$ 6</u>	<u>\$ (13)</u>
Other (expense) income, net	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ 7</u>

- (d) For the nine months ended September 30, 2016, represents charges associated with the March 2016 cash tender offer where the company purchased \$200 million of its 6.95% Senior Notes due July 2037 and 5.75% Senior Notes due January 2040. The pre-tax charges associated with the retirement of debt and related refinancing charges are recorded in other (expense) income, net on the company's consolidated statements of operations.
- (e) For gain on disposition of business, income tax expense resulted in a combined tax rate of 71.4%, which was significantly in excess of the statutory rate primarily due to a lower tax basis in the assets sold, specifically the goodwill associated with the disposition. For the retirement of debt and related refinancing charges, restructuring and integration charges and other items, income tax impacts, where recorded, were calculated using combined tax rates of 38.7% and 38.9% for 2017 and 2016, respectively. The following table summarizes the income tax (benefit) expense associated with the special items:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(dollars in millions)			
Gain on disposition of business	\$ —	\$ —	\$ —	\$ 84
Retirement of debt and related refinancing charges	—	—	—	(18)
Restructuring and integration charges	(9)	(8)	(25)	(23)
Other	(3)	—	(1)	(6)
	<u>\$ (12)</u>	<u>\$ (8)</u>	<u>\$ (26)</u>	<u>\$ 37</u>

- (f) 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 38.7% and 38.9% for 2017 and 2016, 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(dollars in millions)			
Amortization of intangible assets	\$ 19	\$ 18	\$ 54	\$ 54
Equity in earnings of equity method investees, net of taxes	4	4	12	12
	<u>\$ 23</u>	<u>\$ 22</u>	<u>\$ 66</u>	<u>\$ 66</u>

- (g) For the nine months ended September 30, 2016, excluded revenue represents reported revenues from the Focus Diagnostics products business, which was sold on May 13, 2016.
- 3) For the three months ended September 30, 2017, the company repurchased 0.6 million shares of its common stock for \$65 million. For the nine months ended September 30, 2017, the company repurchased 3.6 million shares of its common stock for \$365 million, which includes an accrual of \$15 million recorded in accounts payable and accrued expenses in the consolidated balance sheet for share repurchases not settled. At September 30, 2017, \$1.0 billion remained available under the company's share repurchase authorizations.
- 4) For the nine months ended September 30, 2016, net cash provided by operations included a \$68 million tax payment related to the sale of our Focus Diagnostics products business, and \$47 million of pre-tax cash charges related to the retirement of debt in connection with the March 2016 cash tender offer, partially offset by \$54 million of proceeds from the termination of interest swap agreements. For the nine months ended September 30, 2017, net cash provided by operations benefited from a decrease in 2017 tax payments associated with the realization of a deferred tax benefit and improved operating performance.
- 5) The outlook for adjusted diluted EPS excluding amortization expense represents management's estimates for the full year 2017 before the impact of special items and amortization expense. Further impacts to earnings related to special items may be incurred throughout the remainder of the year. The following table reconciles our 2017 outlook for adjusted diluted EPS excluding amortization expense to the corresponding amounts determined under GAAP:

<u><b>Adjusted diluted EPS excluding amortization expense:</b></u>	<u><b>Low</b></u>	<u><b>High</b></u>
Diluted earnings per common share	\$ 4.87	\$ 4.92
Restructuring and integration charges (a)	0.34	0.34
Amortization expense (b)	0.39	0.39
Other	0.02	0.02
Adjusted diluted EPS excluding amortization expense	<u>\$ 5.62</u>	<u>\$ 5.67</u>

- (a) Represents estimated full year pre-tax charges of \$80 million primarily associated with systems conversions and integration costs incurred in connection with further restructuring and integrating our business. Income tax benefits were calculated using a combined tax rate of 38.7%.
- (b) 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	\$ 73
Amortization expense included in equity in earnings of equity method investees	16
Total pre-tax amortization expense	<u>\$ 89</u>
Total amortization expense, net of an estimated tax benefit	<u>\$ 55</u>

- 6) The outlook for 3.0% revenue growth on an equivalent basis in 2017 represents management's estimates for 2017 versus reported 2016 revenues adjusted to exclude the 2016 revenues from the Focus Diagnostics products business. The company completed its exit from the products business as a result of the sale of Focus Diagnostics products on May 13, 2016. Consequently, our 2017 revenues will not include revenues associated with that business. The following tables reconcile our 2016 net revenues determined under GAAP with equivalent revenue for 2016 and provide our 2017 revenue outlook:

	Three Months Ended				Year Ended December 31, 2016
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	
(dollars in millions)					

**2016 Revenue on an equivalent basis:**

Net revenues	\$ 1,863	\$ 1,906	\$ 1,885	\$ 1,861	\$ 7,515
Excluded revenue (a)	(18)	(8)	—	—	(26)
2016 Revenue on an equivalent basis	<u>\$ 1,845</u>	<u>\$ 1,898</u>	<u>\$ 1,885</u>	<u>\$ 1,861</u>	<u>\$ 7,489</u>

**2017 Revenue outlook:**

2016 Revenue on an equivalent basis	\$ 7,489
2017 Equivalent revenue growth	3.0 %
2017 Revenue outlook	<u>\$ 7,710</u>

(a) The 2016 excluded revenue is comprised of all of Focus Diagnostics products revenues reported in 2016.

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