Quest Diagnostics Announces First Quarter 1997 Results

April 16, 1997

TETERBORO, N.J., APRIL 16, 1997--Quest Diagnostics Incorporated (NYSE: DGX) today announced earnings for its first quarter as an independent, public company. Net income was $4.0 million, or $0.14 per share for the period ended March 31, 1997, on revenues of $388.1 million. For the first quarter of 1996, pro forma net income before non-recurring special charges was $5.2 million, or $0.18 per share, on revenues of $401.4 million.

"Our turnaround continues to progress in line with our expectations," said Kenneth W. Freeman, chairman and chief executive officer. "We are encouraged by the first year-to-year improvement in price levels since 1992. However, as we actively manage our portfolio of accounts and continue to exert pricing discipline, we are becoming more selective about the business we accept, which has resulted in lower volume. At the same time, we are making progress in adjusting our cost structure. Our more than 17,700 employee-owners are focused on rigorously executing our plan to improve quality and increase profitability by standardizing our operations company-wide."

Earnings before interest, taxes, depreciation and amortization (EBITDA) were $38.6 million for the first quarter, compared to $31.7 million for the 1996 fourth quarter, adjusted for special one-time charges. EBITDA declined $4.9 million from the adjusted, pro forma level of the first quarter of 1996.

Revenues declined 3.3% in the quarter from the previous year. Clinical testing volume, measured by the number of test requisitions processed, declined 5.1% in the quarter compared to the same period a year ago. This decline can be attributed primarily to exiting certain unprofitable relationships and small non-strategic businesses. However, prices for clinical testing have begun to strengthen. In the first quarter, prices were 1.6% above the prior year's level, due, in large part, to increased pricing discipline and the successful renegotiation of reimbursement rates with some customers.

Cost-reduction efforts have begun to show results. Total operating costs for the quarter declined $9.9 million from the year earlier period, and $2.7 million from the fourth quarter of 1996. "As we aggressively deploy our best practices company-wide, we expect to see additional cost reductions," said Mr. Freeman.

Bad debt expense was 7.5% of revenues, which was higher than the 1996 first quarter, but approximately the same level as the fourth quarter of 1996. The challenge of complying with Medicare medical necessity documentation requirements imposed during the past year continues. In the first quarter, various state agencies and carriers around the country extended these requirements to include additional tests, particularly impacting the Chicago, Denver and Michigan laboratories. "We are confident that these labs will quickly be able to apply lessons we have learned in other facilities where similar requirements had been previously imposed," said Mr. Freeman.

Cash generation improved during the quarter, as a result of a continued focus on managing the billing process and an increased emphasis on cash flow. Quest Diagnostics paid down the entire balance of $19.3 million on its revolving credit line and ended the quarter with a cash balance of $67.9 million, $26.0 million above the year end balance. The number of days sales outstanding, a measure of billing efficiency, improved to 68 days from 70 days at year end. Accounts receivable, which totaled $291.4 million, declined by $6.3 million in the quarter compared to the year end level. Capital expenditures totaled $5.9 million for the quarter.

Quest Diagnostics Incorporated is one of the world's leading clinical providers of diagnostic testing, services and information, with 17 regional laboratories and 14 smaller branch labs across the country. The wide variety of tests performed on human tissue and fluids help doctors and hospitals diagnose, treat and monitor diseases and disease states. In addition, Quest Diagnostics' Nichols Institute conducts research, produces test kits and instruments, and specializes in esoteric testing using genetic screening and other advanced technologies. Formerly known as Corning Clinical Laboratories Inc., Quest Diagnostics was spun off to Corning Incorporated stockholders in a tax-free distribution of shares on December 31, 1996.

The statements in this press release which are not historical facts or information are foward-looking statements. These forward-looking statements involve risks and uncertainties that could cause the outcome to be materially different. Certain of these risks and uncertainties are listed in the Quest Diagnostics Incorporated 1996 Form 10-K.

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Statements of Operations

For the Three Months Ended March 31, 1997 and 1996

(in millions, except per share data)

	Three Month Period March 31		
	Historical	Pro Forma	Historical
	1997	1996	1996
Net revenues	$388.1	$401.4	$401.4
Costs and expenses:			
Cost of services	239.3	247.1	247.1
Selling, general and administrative	124.0	126.0	126.0
Interest expense, net	10.6	12.1	20.1

Amortization of intangible assets	6.0	7.1	10.8
Provision for restructuring and other special charges	--	21.9	--
Write-down of intangible assets	--	445.0	--
Other, net	(0.2)	(1.0)	(1.0)
Total	379.7	858.2	403.0
Income (loss) before taxes	8.4	(456.8)	(1.6)
Income tax expense (benefit)	4.4	(2.1)	(0.1)
Net income (loss)	$ 4.0	$(454.7)	$ (1.5)
Net income per common share	$0.14		
Weighted average common shares outstanding	28.9	28.8	--
Net income before restructuring and other special charges and write-down of intangible assets	$4.0	$5.2	
Net income per common share before restructuring and other special charges and write-down of intangible assets	$0.14	$0.18	

Notes to consolidated statements of operations:

Earnings per share are computed by dividing net income less dividends on preferred stock ($30 thousand) by the weighted average number of common shares outstanding. Historical earnings per share for 1996 is not meaningful as the Company's historical capital structure for 1996 is not comparable to the capital structure subsequent to its spin-off from Corning Incorporated. Pro forma earnings per share for 1996 were calculated by reducing net income for preferred stock dividends and by assuming that all common shares issued as a result of the spin-off and the establishment of the employee stock ownership plan were outstanding for the entire period.

The pro forma consolidated statement of operations was prepared assuming that the Company's spin-off from Corning Incorporated had been completed and the new accounting policy for intangible assets had been adopted as of January 1, 1996. In the opinion of management, the pro forma consolidated statement of operations includes all material adjustments necessary to reflect the impact of the spin-off and the change in accounting policy. Such adjustments consist of reductions to interest and amortization expense.