



Quest Diagnostics Reports First Quarter 2018 Financial Results

April 19, 2018

- Revenues of \$1.88 billion, up 3.7% from 2017
- Reported diluted EPS of \$1.27, up 9.5% from 2017
- Adjusted diluted EPS excluding amortization of \$1.52, up 24.6% from 2017
- Outlook for full year 2018 remains unchanged

SECAUCUS, N.J., April 19, 2018 /PRNewswire/ -- Quest Diagnostics Incorporated (NYSE: DGX), the world's leading provider of diagnostic information services, announced today financial results for the first quarter ended March 31, 2018.



"We delivered strong revenue and earnings growth in the first quarter," said Steve Rusckowski, Chairman, President and CEO. "We grew revenue 3.7 percent despite severe winter weather and the impact of lower Medicare reimbursement under PAMA. Earnings growth was driven by our continued strong execution as well as the benefits of tax reform. Our two-point strategy of accelerating growth and driving operational excellence continues to produce results."

	Three Months Ended March 31,		
	2018	2017	Change
	(dollars in millions, except per share data)		
Reported:			
Net revenues (a)	\$ 1,884	\$ 1,817	3.7 %
Diagnostic Information Services revenues (a)	\$ 1,803	\$ 1,730	4.1 %
Revenue per requisition			1.6 %
Requisition volume			2.2 %
Operating income (a) (b)	\$ 272	\$ 279	(2.5) %
Operating income as a percentage of net revenues (a) (b)	14.5 %	15.4 %	(90) bps
Net income attributable to Quest Diagnostics (b)	\$ 177	\$ 164	8.2 %
Diluted EPS (b)	\$ 1.27	\$ 1.16	9.5 %
Cash provided by operations	\$ 180	\$ 196	(8.5) %
Capital expenditures	\$ 73	\$ 42	75.4 %
Adjusted:			
Operating income (a)	\$ 303	\$ 297	1.9 %
Operating income as a percentage of net revenues (a)	16.1 %	16.3 %	(20) bps
Net income attributable to Quest Diagnostics	\$ 192	\$ 159	20.8 %
Diluted EPS excluding amortization	\$ 1.52	\$ 1.22	24.6 %

(a) Net revenues and selling, general and administrative expenses for the three months ended March 31, 2017 have been restated to reflect the impact of new revenue recognition rules that are effective January 1, 2018 and were adopted on a retrospective basis. Under the new rules, the Company reports uncollectible balances associated with patient responsibility as a reduction in net revenues when historically these amounts were classified as bad debt expense within selling, general and administrative expenses.

(b) For further details impacting the year-over-year comparisons related to 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.

Outlook for Full Year 2018

The company's outlook for full year 2018 remains unchanged as follows:

Current Outlook	
Low	High

Revenues (a)	\$7.70 billion	\$7.77 billion
Revenue increase (a)	4%	5%
Reported diluted EPS	\$5.42	\$5.62
Adjusted diluted EPS excluding amortization	\$6.50	\$6.70
Cash provided by operations	Approximately \$1.3 billion	
Capital expenditures	\$350 million	\$400 million

(a) The outlook for 4% to 5% revenue growth in 2018 represents management's estimates for 2018 versus 2017 reported revenues adjusted to reflect the impact of new revenue recognition rules that are effective January 1, 2018. Full year 2017 revenues adjusted to reflect the new rules were \$7,402 million. See note 5 of the financial tables attached below.

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 restructuring and integration charges, excess tax benefit ("ETB") associated with stock based compensation and other items; and (ii) the term "adjusted diluted EPS excluding amortization" represents the company's diluted EPS before the impact of special items (described above) and amortization expense.

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 or by phone at 800-846-1910 for domestic callers or 402-280-9953 for international callers. Telephone replays will be available from approximately 10:30 a.m. Eastern Time on April 19, 2018 until midnight Eastern Time on May 3, 2018. 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 45,000 employees understand that, in the right hands and with the right context, our diagnostic insights can inspire actions that transform lives. www.QuestDiagnostics.com.

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.

ADDITIONAL TABLES FOLLOW

Quest Diagnostics Incorporated and Subsidiaries
Consolidated Statements of Operations
For the Three Months Ended March 31, 2018 and 2017
(in millions, except per share data)
(unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Net revenues	\$ 1,884	\$ 1,817
Operating costs and expenses and other operating income:		
Cost of services	1,226	1,165
Selling, general and administrative	363	355

Amortization of intangible assets	22	17
Other operating expense, net	1	1
Total operating costs and expenses, net	<u>1,612</u>	<u>1,538</u>
Operating income	272	279
Other income (expense):		
Interest expense, net	(41)	(36)
Other (expense) income, net	(2)	3
Total non-operating expenses, net	<u>(43)</u>	<u>(33)</u>
Income before income taxes and equity in earnings of equity method investees	229	246
Income tax expense	(52)	(78)
Equity in earnings of equity method investees, net of taxes	12	7
Net income	189	175
Less: Net income attributable to noncontrolling interests	12	11
Net income attributable to Quest Diagnostics	<u>\$ 177</u>	<u>\$ 164</u>

Earnings per share attributable to Quest Diagnostics' common stockholders:		
Basic	<u>\$ 1.30</u>	<u>\$ 1.19</u>
Diluted	<u>\$ 1.27</u>	<u>\$ 1.16</u>

Weighted average common shares outstanding:		
Basic	136	137
Diluted	139	141

Quest Diagnostics Incorporated and Subsidiaries
Consolidated Balance Sheets
March 31, 2018 and December 31, 2017
(in millions, except per share data)
(unaudited)

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 124	\$ 137
Accounts receivable, net	1,026	924
Inventories	94	95
Prepaid expenses and other current assets	127	150
Total current assets	<u>1,371</u>	<u>1,306</u>
Property, plant and equipment, net	1,156	1,145
Goodwill	6,392	6,335
Intangible assets, net	1,174	1,119
Investment in equity method investees	474	462
Other assets	128	136
Total assets	<u>\$ 10,695</u>	<u>\$ 10,503</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 976	\$ 1,021
Current portion of long-term debt	141	36
Total current liabilities	<u>1,117</u>	<u>1,057</u>
Long-term debt	3,718	3,748
Other liabilities	717	663
Redeemable noncontrolling interest	77	80
Stockholders' equity:		
Quest Diagnostics stockholders' equity:		
Common stock, par value \$0.01 per share; 600 shares authorized as of both March 31, 2018 and December 31, 2017; 217 and 216 shares issued as of March 31, 2018 and December 31, 2017, respectively	2	2
Additional paid-in capital	2,616	2,612
Retained earnings	7,249	7,138
Accumulated other comprehensive loss	(41)	(48)
Treasury stock, at cost; 81 shares as of both March 31, 2018 and December 31, 2017	<u>(4,796)</u>	<u>(4,783)</u>

Total Quest Diagnostics stockholders' equity	5,030	4,921
Noncontrolling interests	36	34
Total stockholders' equity	5,066	4,955
Total liabilities and stockholders' equity	\$ 10,695	\$ 10,503

Quest Diagnostics Incorporated and Subsidiaries
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2018 and 2017
(in millions)
(unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 189	\$ 175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74	62
Provision for doubtful accounts	3	2
Deferred income tax provision	24	11
Stock-based compensation expense	19	17
Other, net	(1)	1
Changes in operating assets and liabilities:		
Accounts receivable	(97)	(35)
Accounts payable and accrued expenses	(68)	(95)
Income taxes payable	5	63
Other assets and liabilities, net	32	(5)
Net cash provided by operating activities	180	196
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(130)	(1)
Capital expenditures	(73)	(42)
Increase in investments and other assets	(1)	(4)
Net cash used in investing activities	(204)	(47)
Cash flows from financing activities:		
Proceeds from borrowings	935	—
Repayments of debt	(832)	(2)
Purchases of treasury stock	(50)	(150)
Exercise of stock options	34	46
Employee payroll tax withholdings on stock issued under stock-based compensation plans	(20)	(22)
Dividends paid	(61)	(62)
Distributions to noncontrolling interests	(15)	(9)
Sale of noncontrolling interest in subsidiaries	2	—
Other financing activities, net	18	33
Net cash provided by (used in) financing activities	11	(166)
Net change in cash and cash equivalents and restricted cash	(13)	(17)
Cash and cash equivalents and restricted cash, beginning of period	137	384
Cash and cash equivalents and restricted cash, end of period	\$ 124	\$ 367
Cash and cash equivalents	\$ 124	\$ 367
Restricted cash	—	—
Cash and cash equivalents and restricted cash, end of period	\$ 124	\$ 367
Cash paid during the period for:		
Interest	\$ 49	\$ 46
Income taxes	\$ 2	\$ 8

Notes to Financial Tables

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

Three Months Ended	
March 31,	
2018	2017

(in millions, except per share data)

Amounts attributable to Quest Diagnostics' common stockholders:

Net income attributable to Quest Diagnostics	\$ 177	\$ 164
Less: earnings allocated to participating securities	1	1
Earnings available to Quest Diagnostics' common stockholders - basic and diluted	<u>\$ 176</u>	<u>\$ 163</u>
Weighted average common shares outstanding - basic	136	137
Effect of dilutive securities:		
Stock options and performance share units	<u>3</u>	<u>4</u>
Weighted average common shares outstanding - diluted	<u>139</u>	<u>141</u>

Earnings per share attributable to Quest Diagnostics' common stockholders:

Basic	<u>\$ 1.30</u>	<u>\$ 1.19</u>
Diluted	<u>\$ 1.27</u>	<u>\$ 1.16</u>

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

**Three Months Ended
March 31,**

2018	2017
(dollars in millions, except per share data)	

Adjusted operating income:

Operating income	\$ 272	\$ 279
Restructuring and integration charges (a)	31	18
Adjusted operating income	<u>\$ 303</u>	<u>\$ 297</u>

Adjusted operating income as a percentage of net revenues:

Operating income as a percentage of net revenues	14.5 %	15.4 %
Restructuring and integration charges (a)	1.6	0.9
Adjusted operating income as a percentage of net revenues	<u>16.1 %</u>	<u>16.3 %</u>

Adjusted net income:

Net income attributable to Quest Diagnostics	\$ 177	\$ 164
Restructuring and integration charges (a)	31	18
Income tax benefit associated with special items (b)	(16)	(23)
Adjusted net income	<u>\$ 192</u>	<u>\$ 159</u>

Adjusted diluted EPS excluding amortization expense:

Diluted earnings per common share	\$ 1.27	\$ 1.16
Restructuring and integration charges (a) (b)	0.17	0.08
Amortization expense (c)	0.14	0.09
ETB (d)	(0.06)	(0.11)
Adjusted diluted EPS excluding amortization expense	<u>\$ 1.52</u>	<u>\$ 1.22</u>

(a) For the three months ended March 31, 2018, represents costs primarily associated with workforce reductions, systems conversions and integration incurred in connection with further restructuring and integrating our business. For the three months ended March 31, 2017, 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
March 31,**

2018	2017	
(dollars in millions)		
Cost of services	\$ 12	\$ 10
Selling, general and administrative	18	8
Other operating expense, net	1	—
Operating income	<u>\$ 31</u>	<u>\$ 18</u>

Cost of services
Selling, general and administrative
Other operating expense, net
Operating income

- (b) For restructuring and integration charges, income tax impacts, where recorded, were calculated using combined tax rates of 25.5% and 38.7% for 2018 and 2017, respectively. The following table summarizes the income tax benefit associated with special items:

	Three Months Ended March 31,	
	2018	2017
	(dollars in millions)	
Restructuring and integration charges	\$ (8)	\$ (7)
ETB (d)	(8)	(16)
	<u>\$ (16)</u>	<u>\$ (23)</u>

- (c) 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 25.5% and 38.7% for 2018 and 2017, 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 March 31,	
	2018	2017
	(dollars in millions)	
Amortization of intangible assets	\$ 22	\$ 17
Equity in earnings of equity method investees, net of taxes	4	4
	<u>\$ 26</u>	<u>\$ 21</u>

- (d) Represents the impact of ETB recorded in income tax expense.

- 3) For the three months ended March 31, 2018, the company repurchased 0.5 million shares of its common stock for \$50 million. At March 31, 2018, \$0.9 billion remained available under the company's share repurchase authorizations.
- 4) The outlook for adjusted diluted EPS excluding amortization expense represents management's estimates for the full year 2018 before the impact of special items, including ETB, and amortization expense. Further impacts to earnings related to special items may be incurred throughout the remainder of the year. Additionally, the amount of ETB is dependent upon employee stock option exercises and the company's stock price, which are difficult to predict. The following table reconciles our 2018 outlook for adjusted diluted EPS excluding amortization expense to the corresponding amounts determined under GAAP:

	Low	High
Diluted earnings per common share	\$ 5.42	\$ 5.62
Restructuring and integration charges (a)	0.59	0.59
Amortization expense (b)	0.58	0.58
ETB (c)	(0.09)	(0.09)
Adjusted diluted EPS excluding amortization expense	<u>\$ 6.50</u>	<u>\$ 6.70</u>

- (a) Represents estimated full year pre-tax charges of \$110 million primarily associated with systems conversions, integration and workforce reductions incurred in connection with further restructuring and integrating our business. Income tax benefits were calculated using a combined tax rate of 25.5%.
- (b) Represents the estimated impact of amortization expense for 2018 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	\$ 91
Amortization expense included in equity in earnings of equity method investees, net of taxes	<u>16</u>
Total pre-tax amortization expense	<u>\$ 107</u>
Total amortization expense, net of an estimated tax benefit	<u>\$ 80</u>

- (c) Represents the estimated full year impact of ETB.

- 5) The outlook for 4% to 5% revenue growth in 2018 represents management's estimates for 2018 versus 2017 reported revenues adjusted to reflect the impact of new revenue recognition rules that became effective January 1, 2018. Under the new rules, the Company will report uncollectible balances

associated with patient responsibility as a reduction in net revenues when historically these amounts were classified as bad debt expense within selling, general and administrative expenses.

The following tables reconcile our 2017 net revenues determined under previous revenue recognition rules with 2017 net revenue adjusted to reflect the impact of the new revenue recognition rules:

	Three Months Ended				Year Ended
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2017
	(dollars in millions)				
<u>2017 Revenue on an adjusted basis:</u>					
Net revenues	\$ 1,899	\$ 1,943	\$ 1,931	\$ 1,936	\$ 7,709
Adjustment for adoption of new revenue recognition rules	(82)	(79)	(75)	(71)	(307)
2017 Revenue on an adjusted basis	<u>\$ 1,817</u>	<u>\$ 1,864</u>	<u>\$ 1,856</u>	<u>\$ 1,865</u>	<u>\$ 7,402</u>
<u>2018 Revenue outlook:</u>					
2017 Revenue on an adjusted basis				\$ 7,402	\$ 7,402
2018 Equivalent revenue growth				4 %	5 %
2018 Revenue outlook				<u>\$ 7,698</u>	<u>\$ 7,772</u>

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