



Quest Diagnostics Announces Improved Earnings in Fourth Quarter and Full Year 1998

January 27, 1999

TETERBORO, N.J., JANUARY 27, 1999—Quest Diagnostics Incorporated (NYSE: DGX) announced net income for the fourth quarter ended December 31, 1998, of \$5.3 million, or \$0.18 per diluted share. This compares to fourth quarter 1997 net income of \$2.5 million, or \$0.08 per diluted share, adjusted to exclude special charges. Revenues were \$363.3 million in the fourth quarter of 1998 compared to \$365.4 million for the 1997 fourth quarter.

"Our performance and overall financial condition continue to improve, reflecting progress in executing our strategy," said Kenneth W. Freeman, chairman and chief executive officer.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$33.9 million for the fourth quarter, compared to \$33.4 million, adjusted for special charges, in 1997.

During the quarter, revenues declined 0.6% from the previous year. Clinical testing volume, measured by the number of requisitions, or orders, declined 4.7%. Average revenue per requisition, or price, increased 4.2% over the prior year period.

Total operating costs for the quarter declined \$7 million from 1997, adjusted for special charges. Bad debt expense during the quarter was 6.1% of revenues, compared to 7.3% for the prior year period, adjusted for special charges. The number of days sales outstanding, a measure of billing and collection efficiency, was 58 days, compared to 63 days a year ago and 61 days at the end of the third quarter. Capital expenditures were \$11.6 million for the quarter and approximately \$40 million for the full year.

Mr. Freeman added: "We continued to close the volume gap during the quarter. While market pressures will continue, we expect to produce positive volume trends as we exit the second quarter. During the fourth quarter, we invested in capabilities to drive profitable growth in 1999 as well as to address Year 2000 issues."

For the full year, net income increased to \$26.9 million, or \$0.89 per diluted share, from \$17.6 million before special charges, or \$0.60 per diluted share, in 1997. Revenues totaled \$1.46 billion compared to \$1.53 billion in the prior year. EBITDA for the full year increased to \$158.6 million from \$153.8 million, adjusted for special charges.

Quest Diagnostics is one of the nation's leading providers of diagnostic testing, information and services to physicians, hospitals, managed care organizations, employers and government agencies. The wide variety of tests performed on human tissue and fluids help doctors and hospitals diagnose, treat and monitor disease. Its Nichols Institute unit conducts research, specializes in esoteric testing using genetic screening and other advanced technologies, performs clinical studies testing, and manufactures and distributes diagnostic test kits and instruments. Quest Informatics collects and analyzes laboratory, pharmaceutical and other data to help large health care customers identify and monitor patients who are at-risk for certain diseases. Additional company information can be found on the Internet at: www.questdiagnostics.com.

The statements in this press release which are not historical facts or information may be forward-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 1997 Form 10-K and subsequent filings.

-- Table follows --

Quest Diagnostics Incorporated and Subsidiaries Consolidated Statements of Operations For the Quarters and Years Ended December 31, 1998 and 1997

(in millions, except per share data)

	<u>Quarter Ended December 31</u>		<u>Year Ended December 31</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Net revenues	\$ 363.3	\$ 365.4	\$ 1,458.6	\$ 1,528.7
Costs and expenses:				
Cost of services	214.3	219.8	861.0	927.9
Selling, general and administrative	122.3	130.6	481.6	502.1
Interest expense, net	6.9	9.5	33.4	41.0
Amortization of intangible assets	5.4	5.9	21.7	24.0

Provision for restructuring and other special charges	-	48.7	-	48.7
Other, net	<u>4.5</u>	<u>1.1</u>	<u>7.0</u>	<u>4.1</u>
Total	<u>353.4</u>	<u>415.6</u>	<u>1,404.7</u>	<u>1,547.8</u>
Income (loss) before taxes	9.9	(50.2)	53.9	(19.1)
Income tax expense (benefit)	<u>4.6</u>	<u>(12.8)</u>	<u>27.0</u>	<u>3.2</u>
Net income (loss)	<u>\$ 5.3</u>	<u>\$ (37.4)</u>	<u>\$ 26.9</u>	<u>\$ (22.3)</u>
Basic net income (loss) per common share	<u>\$ 0.18</u>	<u>\$ (1.29)</u>	<u>\$ 0.90</u>	<u>\$ (0.77)</u>
Diluted net income (loss) per common share	<u>\$ 0.18</u>	<u>\$ (1.29)</u>	<u>\$ 0.89</u>	<u>\$ (0.77)</u>
Weighted average common shares outstanding - basic	29.6	29.5	29.7	29.2
Weighted average common shares outstanding - diluted	30.1	29.5	30.2	29.2
Net income before special charges	<u>\$ 5.3</u>	<u>\$ 2.5</u>	<u>\$ 26.9</u>	<u>\$ 17.6</u>
Diluted net income per common share before special charges	<u>\$ 0.18</u>	<u>\$ 0.08</u>	<u>\$ 0.89</u>	<u>\$ 0.60</u>

Notes to consolidated statements of operations:

Earnings per share are computed by dividing net income less dividends on preferred stock (approximately \$30 thousand per quarter) by the weighted average number of common shares outstanding. Potentially dilutive common shares represent primarily stock options.

Depreciation expense totaled \$11.7 million and \$12.7 million for the three months ended December 31, 1998 and 1997, respectively, and \$47.1 million and \$52.4 million for the year ended December 31, 1998 and 1997, respectively.

(3) Net income before special charges excludes restructuring and other special charges, and in 1997, a \$6.8 million charge included in selling, general and administrative expenses related to the Company's consolidation of its laboratory network.

(4) Net income for the year ended December 31, 1998 includes a \$2.5 million charge (\$1.2 million, net of tax, or \$0.04 per basic and diluted share) included in selling, general and administrative expenses related to the Company's consolidation of its laboratory network which was announced in December 1997.

Quest Diagnostics Incorporated and Subsidiaries
Selected Balance Sheet Information
December 31, 1998 and 1997

(in millions)

	<u>1998</u>	<u>1997</u>
Cash and cash equivalents	\$ 203	\$ 162
Accounts receivable, net of allowance of \$71 and \$90 at December 31, 1998 and 1997, respectively	221	238
Other assets	<u>936</u>	<u>1,001</u>

Total assets	<u>\$ 1,360</u>	<u>\$ 1,401</u>
Short-term debt	\$ 51	\$ 33
Long-term debt	413	482
Other liabilities	328	344
Stockholders' equity	<u>568</u>	<u>542</u>
Total liabilities and stockholder's equity	<u>\$ 1,360</u>	<u>\$ 1,401</u>