Partnering with Hospital Health Systems

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Hospitals are under enormous financial pressure

- **60%** Hospital revenues dependent on Medicare & Medicaid
- **30%** Hospitals are currently losing money
- **45%** Hospital revenues dependent on outpatient services
Hospitals account for ~$48B in lab spend (~60% of overall market). Quest has a three-pronged strategy to partner with hospitals.

- **Hospital Outreach**: ~$17 billion market.
- **Inpatient**: ~$27 billion market.

**DGX Opportunity**:
- Grow advanced test send out business.
- Acquire and/or partner on outreach business.
- Professional Laboratory Services (PLS).
Inpatient hospital laboratory is a cost center

**Hospital Patient**  
(Inpatient)

- **Staff**
- **Equipment / Supplies**
- **Infrastructure**

**Cost Center**

Diagnostic testing done for inpatients

Not explicitly reimbursed, part of the total payment under the DRG

Average 300 bed hospital spends ~$10 million in annual laboratory costs
Professional Lab Services: Advantages for the hospital

- Move low volume, high cost tests
- Decrease staffing needs
- Free up space
- Improve turnaround time for low volume tests
- Leverage Quest’s supply & equipment pricing
- Drive standardization through the system
- Routine tests stay on site
- Manage reference menu

10%–20% savings
Professional Lab Services: Value for Quest

- High return on invested capital; use of existing facilities
- Costs for hospitals become revenue for Quest
- Market size / opportunity:

~$12 billion
Market

~800
Health Systems / Hospital Targets
### Professional Lab Services: Partnership models

<table>
<thead>
<tr>
<th>Solution</th>
<th>Employed by Quest</th>
<th>Revenue Recognized by Quest</th>
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<tbody>
<tr>
<td>Full Lab Management</td>
<td>All Personnel Supervisors &amp; staff employees</td>
<td>₹ ₹ ₹</td>
</tr>
<tr>
<td>Lab Management Partnership</td>
<td>Supervisors Only Hospital maintains staff employees</td>
<td>₹ ₹</td>
</tr>
<tr>
<td>Lab Management Lite</td>
<td>Test Send Out Hospital maintains all lab employees</td>
<td>₹</td>
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Professional Lab Services Case Study #1

Six hospital health system

- **8 year** Lab Management Partnership deal
- **~11%** annual savings
- **17%** test movement to Quest regional lab
- **17** employees (only exempt) moved to Quest
- Created microbiology center of excellence
Professional Lab Services Case Study #2

Four hospital health system

- **5 year** Full Lab Management deal
- **~12%** annual savings
- Local Quest testing moved to hospital core lab, thereby *generating revenue* for health system
- **200** employees (exempt & non-exempt) moved to Quest
- Created microbiology & molecular centers of excellence
What is hospital outreach?

Physician draws blood

Physician sends labs to:

OR

Lab Provider

Lab Cost

$17B

OR

Independent Lab

$-$

OR

Hospital Lab

$$$
What is hospital outreach?

Lab Provider

Lab Cost

$17B

Hospital acquires Physician Practice
A strong set of market forces are driving hospitals to consider selling their outreach business

Key Market Forces

1. Pricing pressures
2. Movement to bundled payments
3. Refocus on core capabilities
4. Technology evolution
5. Work force challenges
6. Capital needs
7. Patient price sensitivity
Why a joint venture?

- Different way to structure outreach partnership with the health system
- Shared risk
- Shared benefits
- Control

Shared Decision-Making

$ Shared Distribution of Profits
Quest is the largest provider of reference testing to hospitals

- Consists of specialized or advanced tests that are ordered only occasionally or require specialized equipment and/or expertise, such as infectious disease & immunology (HCV & Zika), oncology (FISH & myeloma), and women’s health (NIPT & cystic fibrosis)

- Quest is the number one provider of reference testing among four primary labs offering these services in a $4 billion market

- Quest serves 50% of hospitals for reference testing
Focusing on offering solutions to address comprehensive hospital lab strategy

**Decrease Costs**
- Lab Optimization
- Menu Optimization
- Standardization
- Purchasing Scale
- Reference Testing / Consolidation

**Increase Revenue / Capital**
- Owned / Affiliated Physician Capture
- Free Standing ED’s
- Sell Outreach

**Improve Quality**
- Turnaround Time
- Franchise Solutions
- Utilization Review / Management
Quest leads in PLS, reference and outreach

**PLS**
Professional Laboratory Services (PLS)

**Reference**
Grow advanced test send out business

**Outreach**
Acquire and/or partner on Outreach business

- HCA (2016)
- RWJ Barnabas Health (2015)
- Six other PLS deals (10 hospitals) (2013-2014)
- Integris
- UMass Memorial Health Care (2013)
- Hartford Healthcare (2016)
- MemorialCare Health System (2015)
- Steward (2014)
- Dignity Health (2013)

Quest serves 50% of U.S. hospitals
KEY TAKEAWAYS

- Hospitals are under significant cost and reimbursement pressure
- Health systems increasingly want to partner with experts who can help them improve quality and reduce costs for all laboratory services
- Quest is well-positioned to partner with health systems in all laboratory services – reference, outreach and inpatient