Quest Diagnostics Incorporated
Conference Call Prepared comments
For the Quarter Ended March 31, 2012

Kathleen Valentine: Thank you and good morning. I am here with Surya Mohapatra, our chairman and chief executive officer, and Bob Hagemann, our chief financial officer.

During this call, we may make forward-looking statements. Actual results may differ materially from those projected. Risks and uncertainties that may affect Quest Diagnostics' future results include, but are not limited to, those described in Quest Diagnostics' 2011 Annual Report on Form 10-K and Current Reports on Form 8-K.

A copy of our earnings press release is available, and the text of our prepared remarks will be available later today, in the Investor Relations "quarterly updates" section of our website at www.QuestDiagnostics.com.

A PowerPoint presentation and spreadsheet with our results and supplemental analysis are also available on the website.

Now, here is Surya Mohapatra.

Surya: Thank you, Kathleen.

Before we get started, I'd like to say a few words about our leadership transition. Last week, we announced that Steve Rusckowski will become the President and Chief Executive Officer of Quest Diagnostics, effective May 1st.

Also, Dr. Dan Stanzione, currently our Lead Independent Director, will become Non-Executive Chairman at that time.

We are pleased to have someone of Steve's caliber join and lead Quest Diagnostics. Steve is a strong leader with a proven track record of success. His experience and expertise will benefit the company as it looks to capitalize on the opportunities that lie ahead.

I know that all of you are anxious to hear about Steve and his plans for the company. However, please hold your questions until after he arrives.

Now, to the results. We had a very solid first quarter.

- Our 6.3% increase in revenues was driven by both organic growth and acquisitions. We generated a 7% increase in earnings per share
- We increased guidance for adjusted EPS to between $4 dollars and 45 cents and $4 dollars and 60 cents.
- We saw strong growth in esoteric and gene-based testing as a result of our focus on cancer, cardiovascular disease, infectious disease and neurological disorders.
- In addition, we saw improved growth in routine testing.

- Also, we are making good progress in our previously announced $500 million dollar cost reduction initiative, aimed at improving operational efficiency.

Let me briefly comment on long term and short term market trends.

The long-term fundamentals for our business remain strong.
- The population is growing and aging
- Prevalence of chronic conditions is on the rise
- Early detection and wellness are increasing in importance
- The pace of medical innovation is accelerating
- And, we are seeing much greater engagement by payers, employers and patients in improving health outcomes and reducing costs.

However, in the short term, the current market environment continues to be challenging.
- Published data indicates physician office visits remain weak in spite of mild weather.
- Reimbursement pressure from government and other payers continues.

Against this backdrop, we continued to execute our growth plans. And while we've made good progress, we have more to do.

As we have said before, our growth strategy is based on 3 factors:
- Driving innovative new tests and services
- Improving sales performance, and
- Strengthening our relationships with health plans and other payers.
- Demand for esoteric and gene based testing continued to grow faster than routine testing. In the quarter, esoteric and gene-based testing grew 20%.
- Volume for SureSwab gynecological testing was up more than 50% and ImmunoCAP allergy testing was up more than 10%. Vitamin D testing also continued to grow.
- Anatomic pathology testing continues to be affected by physician in-sourcing; however, the impact on revenues has continued to moderate.
- There have been recent developments which we believe may lessen the impact – and potentially reverse this trend over time.
  - Last week, *Health Affairs* published a study on physicians who refer biopsies to pathology labs in which they have a financial interest. The study found these physicians bill Medicare for 72% more evaluations but find fewer cancers.
  - This study highlights the adverse impact of unnecessary procedures on patients, <u>and</u> the need for Congress to end the loophole in the Stark legislation that currently allows it.
  - In addition, we are encouraged to see health plans taking actions, including changing reimbursement policies related to in-office testing.

In science and innovation, we continue to focus on bringing innovative tests to market that will improve patient care and help lower healthcare costs.

Last week, the FDA cleared our new test for c. diff, a common and dangerous hospital-acquired infection. It uses a proprietary technique to deliver faster results for hospitals and clinical labs.

Also, last month, we launched the first molecular test to help physicians detect rejection in kidney transplant patients, weeks before conventional tests. Our Renal Transplant Monitoring test enables doctors to adjust therapy based on each individual's genetic makeup. It has the potential to improve patient care while helping to reduce the significant cost of failed kidney transplants.

This test is the latest example of how we are driving personalized medicine. We are the only major laboratory to have these unique end-to-end capabilities …. from biomarker discovery… to laboratory developed tests (LDTs)… to FDA-cleared IVD test kits. These capabilities are attracting interest from pharmaceutical companies and resulting in new companion diagnostics and new business.

We are seeing greater traction in our sales efforts. The sales organization has made gains in important focus areas. We have returned to growth in women's health testing, and are seeing continued strong growth in prescription drug monitoring.

Additionally, health plans and employers continue to focus on reducing out of network spending and work going to high-cost providers.

Some of these actions include implementing stronger policies that benefit lower-cost, in-network providers like us.

Others include expanding educational outreach to employers and employees to emphasize the importance of using lower-cost, in-network providers.

Regarding our cost structure, we are committed to reduce it by $500 million over a three year period, and we are on track.

Now, Bob will provide analysis of our performance and then we will take your questions. Bob?

Bob Hagemann**:** Thanks, Surya.

As noted by Surya, revenues for the quarter were $1.9 billion, reflecting strong growth of 6.3%, and adjusted earnings per share was $1.07, compared to $1.00 in the prior year, a 7% increase. The earnings improvement is principally driven by top-line growth.

"Adjusted" EPS for the quarter excludes $.05 per share associated with restructuring and integration costs, and $.03 associated with the CEO transition. Adjusted EPS for last year's first quarter excludes items totaling $1.33 per share associated with the impact of the Medi-Cal charge, severe weather and restructuring and transaction costs. These items are further detailed in footnote [2] to the earnings release.

Consolidated revenue growth was driven by the acquisitions of Athena, Celera, and SED, which contributed 3.2% to growth in the quarter; the favorable impact from weather (about 2%); and about 1% growth in the underlying business.
Our clinical testing revenues, which account for over 90% of total revenues, grew 6.4% for the quarter, with acquisitions contributing 2.8% growth, and favorable weather comparisons contributing about 2%.

Volume in the quarter grew 3.4% from the prior year. We estimate the impact of weather helped the year-over-year comparisons by about 2%. Adjusting for the favorable impact of weather and the contribution from acquisitions, underlying volume growth was almost 1%. This continues the positive trend which began in the fourth quarter last year.

The market, in terms of estimated physician office visits, continues to be soft. In the quarter, the published data reflects about a 2% decline, compared to the prior year. While our most recent improvement in volume is encouraging, the year over year comparisons are favorably impacted by weather, and as such, we continue to believe it is still too early to conclude the market has turned the corner.

Drugs-of-abuse testing volumes have continued to rebound and grew about 5% in the quarter, in line with the growth of last quarter.

Revenue per requisition was 2.9% above the prior year, with the improvement principally due to the increased esoteric mix contributed by Athena and Celera. Note, the impact on revenue per requisition associated with the acquisitions of Athena and Celera will anniversary next quarter.

Revenues in our non-clinical testing businesses, which include risk assessment, clinical trials testing, products, and healthcare IT, grew about 6% in the quarter, driven by the products business acquired as part of the Celera acquisition.

"Adjusted" operating income as a percentage of revenues was 16.5%, compared to 16.3% in the prior year. Restructuring, integration, and CEO transition costs totaling $20 million reduced the reported operating income percentage by about 1 percentage point in the most recent quarter. Both reported and adjusted operating income percentages were reduced by about 50 basis points due to costs associated with a legal settlement and costs associated with changes in assets held in deferred compensation plans. In last year's first quarter, the Medi-Cal charge and other special items together totaling $270 million, significantly reduced reported operating income.

Last July we announced a multi-year initiative, the goal of which is to reduce our cost structure by $500 million by the end of 2014.

As we shared with you last quarter, we expect to deliver about 20% of the $500 million goal by the end of this year, with the remainder in 2013 and 2014. While it is still early in the year, we are on track to meet our 2012 targets.

As we've previously shared, common themes across most areas include standardizing systems, processes and data bases; increased use of automation and technology; and centralizing and selective outsourcing. For the next few years, this will require some increased level of capital spending to standardize systems and upgrade IT infrastructure.

We are fully committed to realizing the planned benefits from this program, which will not only make our company more efficient, but also serve as a platform for accelerated growth.

Currently, we continue to produce industry-leading performance in our billing and collection metrics. Bad debt expense as a percentage of revenues, which is typically highest in the first quarter due to increased patient responsibility associated with unmet deductibles and co-pays, was 4.2% in the quarter, unchanged from the prior year. DSOs were 44 days, compared to 45 days last quarter.

Cash from operations, which is generally lowest in the first quarter was $161 million, and is comparable to the prior year level.

Capital expenditures were $30 million in the quarter, compared to $39 million a year ago.

During the quarter we repurchased 847 <u>thousand</u> common shares at an average price of $59.00 for a total of $50 million dollars. We also reduced our outstanding debt by $105 million, in connection with our stated objective to de-lever by $500 – $700 million this year.

Turning to 2012 guidance: we now expect results from continuing operations, before special items, as follows:

- Revenue to grow between 2% and 2.5%.
- Operating income to approximate 18% of revenues.
- Cash from operations to approximate $1.2 billion.
- Capital expenditures to be between $200 million and $225 million.
- And lastly, diluted earnings per share to be between $4.45 and $4.60, compared to previous guidance of $4.40 - $4.55.

Now I'll turn it back to Surya.

Surya: Thanks, Bob.

In summary:
- We had a very solid quarter.
- We are making progress in a number of areas to drive growth and reduce our costs.
- We have named a new Chief Executive Officer of Quest Diagnostics, Steve Rusckowski, with a proven track record. I will be here through April 30 to ensure a smooth transition.
- Finally, I want to say how proud I am of Quest Diagnostics and my 42,000 colleagues – what they've accomplished so far and what they will accomplish in the future.
- Quest Diagnostics is strong… financially…medically… and technologically. It is a unique company with a very bright future.

Surya: In closing, I want to say again that it has been an honor and a privilege to serve as President, CEO and Chairman of Quest Diagnostics.

This is a truly great company ….with dedicated people who always put patients first…. a strong management team ….and a very bright future. I look forward to following its progress in the years to come.

As regards to you, ladies and gentlemen, I have always appreciated your probing questions and industry insights, and I will miss our interactions. Thank you.

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