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CONFERENCE CALL SCRIPT
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Dan Haemmerle: Thank you and good morning. I am here with Steve Rusckowski, our president and chief executive officer, and Mark Guinan, our Chief Financial Officer. Before we begin, I'd like to share that I will be transitioning to a new role in the company over the next few months. Now I'd like to introduce our new executive director of investor relations, Shawn Bevec. Shawn?

Shawn Bevec: Thanks Dan. During this call, we may make forward-looking statements and also discuss non-GAAP measures. 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' 2015 Annual Report on Form 10-K, quarterly reports on Form 10-Q and Current Reports on Form 8-K.

Our earnings press release is available. The text of our prepared remarks and a PowerPoint presentation will be available later today, in the Investor Relations "Quarterly Updates" section of our website at www.questdiagnostics.com.

Now, here is Steve Rusckowski.

Steve Rusckowski: Thanks, Shawn, and welcome aboard. And thanks, everyone, for joining us today.

This morning, I'll provide you with highlights of the quarter, share a few comments on industry dynamics, and review progress on our five-point strategy. Then Mark will provide more detail on the results and take you through guidance.

But, before I get started, I'd like to recognize the sad passing of Dr. John Baldwin, a Quest Diagnostics Board member since 2004. John provided important independent and thoughtful perspective as a director, and was a responsible steward of shareholder interests. John's life pursuits transcended his work as a practicing physician. Our Board will miss him. Our thoughts and prayers are with the Baldwin family.

During the first quarter:

- Revenues grew by 3.6% on an equivalent basis;
- Adjusted EPS excluding amortization grew almost 7%; and
- This was our eighth consecutive quarter of year-on-year EPS growth.

Before I get to our strategy update, I'd like to briefly update you on PAMA.

Late last month, 27 members of Congress urged the Administration to delay changes to the Medicare Clinical Laboratory Fee Schedule under PAMA. Given delays in the rulemaking process, they argue the January, 2017 effective date for the updated fee schedule is not feasible and should be delayed.

Our view that PAMA needs to be built on a representative view of the market is shared by the American Hospital Association, the American Medical Association, and a number of members of Congress.

We remain optimistic that together, industry and government can still achieve a reasonable outcome. But, given all that remains to be done, we think that implementation by the January, 2017 deadline is highly unlikely.

Now let me shift to the progress we are making on our five-point strategy, which is to:

- Restore growth;
- Drive operational excellence;
- Simplify the organization;
- Refocus on our diagnostic information services business; and
- Deliver disciplined capital deployment.

Let's start with growth.

We continued to see improvement in our Diagnostic Information Services revenues.

- Diagnostic Information Services revenues grew by 3.8% versus the prior year.
- We have now grown organically on an equivalent basis for the 6th consecutive quarter, and our organic growth rate continues to improve.

Our performance reflects our continued focus on advanced gene-based and esoteric testing by our clinical franchise team and expanding hospital relationships.

We delivered solid volume growth across a number of areas with particular strength in testing for prescription drug monitoring.

We are committed to driving innovation in advanced testing and would like to share a few examples:

- As you saw last week, we've been very active on Hepatitis C testing. As many as 3.9 million Americans are chronically infected with HCV. We recently expanded our HCV offering with the launch of a new test that meets a new FDA recommendation to help physicians determine the type, dose, or duration of newly approved HCV drugs from Merck and Bristol-Myers Squibb. These new Quest services underscore the essential role of diagnostics in delivering precision medicine.
- Second, our new companion and complementary diagnostic solutions for non-small cell lung cancer and melanoma.
- Third, Zika testing. We are prepared to address the growing Zika public health concern in the U.S., which has been getting more attention and funding recently. We currently have two Zika tests awaiting FDA clearance.

In addition to advanced testing, our hospital strategy also contributed to growth in the quarter.

Our acquisition of Hartford HealthCare's outreach business closed at the end of February. Integration is off to a good start and we are excited to expand our service offerings in Connecticut.
In addition to acquiring growth, our professional lab services strategy provides us with a strong organic component of our hospital strategy.

Our latest organic, contractual professional lab services relationship with Barnabas Health, New Jersey's #1 health system, is off to a good start.

During the quarter we began to manage laboratory operations at several of their hospital locations. I am pleased that all planned locations are now operational. We can now focus on improving operational efficiencies with a great partner in New Jersey.

The Hospital Professional Lab Services pipeline remains strong and we continue to be encouraged by the growth opportunities.

We continue to make progress on the second element of our strategy, Driving Operational Excellence. Our Invigorate program continues on track. Additionally, I'd like to share some examples of how we're using technology to improve the customer experience and, at the same time, drive operational efficiency.

- We've installed kiosks in a select number of patient service centers that are benefitting patients with shorter wait times, and freeing our professional phlebotomists to do what they're trained to do – provide great service to patients.
- In the area of logistics, our new Pathfinder software platform is helping customers and driving efficiencies. This platform integrates our dispatching, dynamic route optimization, and specimen tracking systems into one end-to-end logistics solution.
- And, lastly, more clients are using our QuestConnect self-service portal to get results faster and more efficiently. As adoption has grown, we've seen a decrease in calls from clients for their test results.
- As you can see, with these initiatives we are able to become more efficient while delivering a better customer experience that will allow us to grow faster.

We continue to Simplify and strengthen our organization, which is the third element of our strategy.

We are proud to again be recognized as one of Fortune's Most Admired Companies.

The fourth element of the strategy is to Refocus on our Diagnostic Information Services business.

Since our first investor day in 2012, we've taken a number of actions, including the sale of the HemoCue point of care products business, OralDNA, ibrutinib royalty rights, and the contribution of our clinical trials business to the Q-Squared Solutions joint venture.

And, most recently, we exited the Celera Products business and announced the sale of our Focus Products business to Diasorin.

With these moves, we have substantially completed our effort to refocus on our Diagnostic Information Services business, which has grown revenues at a 3% CAGR since 2013.

We expect the Focus sale to close in the second quarter. When it does, it will generate approximately $300 million in pre-tax cash, which brings us to the fifth element of our strategy, delivering disciplined capital deployment.

As you all know, we're committed to deploying our cash in a balanced way, between investing in the business, M&A, and returning cash to shareholders through buybacks and dividends. We will deploy the after-tax cash proceeds from the Focus sale in a manner consistent with our strategy.

Now, Mark will provide an overview on our first quarter financial performance and provide you with an update on our 2016 outlook.

Mark Guinan: Thanks, Steve.

Starting with revenues…

Consolidated revenues of $1.86 billion increased by 1.3% versus the prior year on a reported basis. Equivalent revenues grew 3.6% for the company.

Revenues for Diagnostic Information Services, or DIS for short, grew by 3.8% compared to the prior year.

Volume, measured by the number of requisitions, increased 2.6% versus the prior year. Recent acquisitions contributed approximately 20 basis points to volumes in the quarter.

Revenue per requisition also improved 1.1% versus a year ago with the benefit of favorable test mix.

The quarter had favorable compares related to both a milder winter and leap year, partially offset by an earlier Easter.

Our Diagnostic Solutions revenues were lower, reflecting the actions taken to refocus on Diagnostic Information Services.

Adjusted operating income for the quarter was $281 million, or 15.1% of revenues, compared to $269 million, or 14.6% of revenues, a year ago. Adjusted operating income benefitted from stronger revenues and our Invigorate initiative.

For the quarter, adjusted EPS, excluding amortization, was $1.12, 6.7% better than a year ago.

The company recorded after-tax charges totaling $45 million in the quarter, $30 million of which is associated with the debt retirement in the first quarter. The balance of charges relates primarily to restructuring and integration costs. These referenced charges reduced our reported EPS by 32 cents.

Bad debt expense as a percentage of revenues was 4.6%, compared to 4.3% a year ago. As a reminder, bad debt expense is typically highest in the first quarter due to increased patient responsibility associated with high deductible plans. The drivers of the increase were a continued shift to greater patient responsibility and a change in our business mix, as our clinical trials and products businesses had lower bad debt rates. Our DSOs were 44 days, 1 day lower than a year ago and 3 days lower than the prior quarter.

Reported cash provided by operations was $143 million in the quarter compared to $52 million a year ago. Excluding the debt retirement impact in both periods, operating cash flow would have been $190 million in 2016 and $130 million in 2015.

Capital expenditures were $47 million in the quarter, compared to $56 million a year ago.

I want to mention a few factors I'd like you to keep in mind to help you understand our outlook for the rest of the year.

First, after we close on the Focus Diagnostics sale, we expect to provide an update to our revenue outlook to reflect our exit from our products businesses, including both Focus and Celera Products. This update will reflect a change to revenues, but at this time we do not anticipate changing our earnings guidance.

Second, I'd like to discuss the two recent hospital relationships we announced and the impact of each.

- In February we completed the acquisition of Hartford HealthCare's lab outreach business. In this relationship we will be paid on a fee-for-service basis by payers at our traditional rates. This is good for patients and payers, as our commercial rates are typically more competitive than those of hospital labs. Like any M&A transaction, margins will improve as we integrate the business, eventually reaching our historical margins for that market.
- During the first quarter, we began to manage Barnabas Health's hospital laboratory operations under a new Professional Lab Services, or PLS, agreement. Traditionally these agreements, which represent organic revenue growth, cover management of in-patient and outpatient testing for the hospital, and do not require the same level of services, such as phlebotomy or logistics. Here, we bill and collect directly from the hospital. Due to the nature of this business, Barnabas will pressure our revenue per requisition as we move through the year. In addition, keep in mind that PLS margins for any given relationship will improve over time as we implement our processes and protocols, but will lag our companywide average.

We are very pleased with our first quarter performance, which was in line with our expectations. Given that, our guidance before special items, continues to be the following:

- Revenues to be between $7.52 billion and $7.59 billion.
- Adjusted diluted EPS excluding amortization expense to be between $5.02 and $5.17.
- Adjusted cash provided by operations to approximate $1 billion; and
- Capital expenditures to be between $250 million and $300 million.

Now, let me turn it back to Steve.

Steve Rusckowski: Thanks, Mark.

To summarize:

- **We are off to a good start in 2016 with a solid performance in the first quarter**
- **Adjusted earnings grew by approximately 7% and our Diagnostic Information Services revenues grew nearly 4%**
- **And we have largely completed our strategy to refocus our business**

STEVE: Thanks again for joining our call today.

- We are making good progress executing our strategy.
- Thank you for your time and have a good day.