

# 2018 Guidance

February 1, 2018



**Quest**  
Diagnostics™

# Safe Harbor Disclosure

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The statements in this presentation 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.

# Note on Non-GAAP Financial Measures

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As used in this presentation, 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 that exclude (1) special items such as the gain on sale of the Focus Diagnostics products business, the effect of changes in tax law on our deferred tax assets (liabilities) and reserves, the retirement of debt and related refinancing charges, restructuring and integration charges, and other items, (2) amortization expense; and (3) excess tax benefit associated with stock based compensation (“ETB”).

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.

# Guidance for Full Year 2018

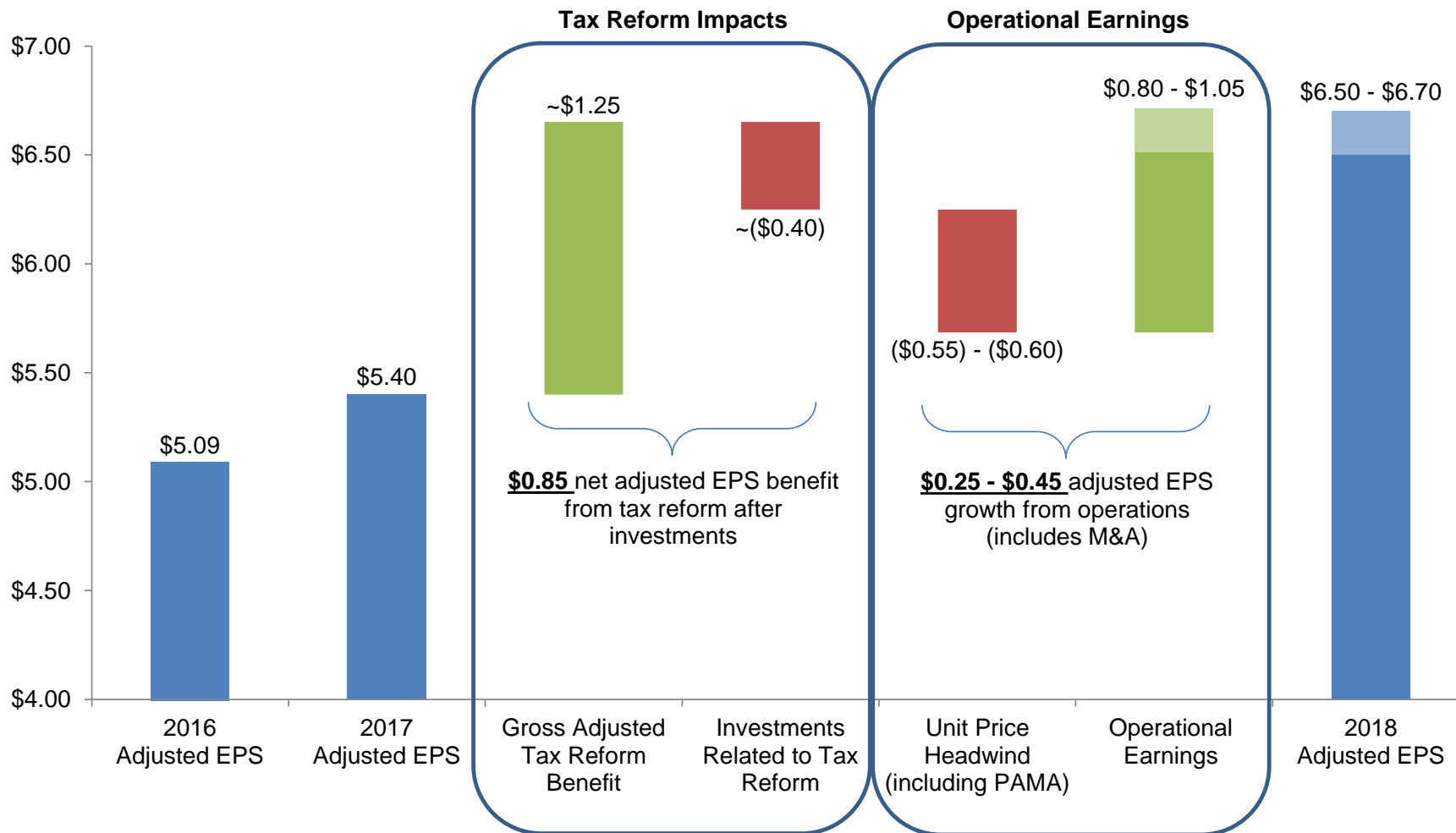
- Beginning in 2018, the company will change how it presents adjusted diluted EPS excluding amortization expense to additionally exclude ETB. The company believes this presentation provides investors with additional insight into the company's operational performance as well as the impact of the Tax Cuts and Jobs Act ("TCJA"). As a result, the company's presentation of 2018 adjusted diluted EPS guidance described below excludes the impact of special items, amortization expense and ETB. For the full year 2017, adjusted diluted EPS excluding amortization expense and ETB was \$5.40.
- The company estimates full year 2018 results as follows:

	Low	High
<b>Revenues (a)</b>	\$7.70 billion	\$7.77 billion
<b>Revenue increase (a)</b>	4%	5%
<b>Reported diluted EPS</b>	\$5.42	\$5.62
<b>Adjusted diluted EPS excluding amortization expense and ETB</b>	\$6.50	\$6.70
<b>Cash provided by operations</b>	Approximately \$1.3 billion	
<b>Capital expenditures</b>	\$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. 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. We do not expect the new rules to impact net income attributable to Quest Diagnostics or diluted EPS.

# 2018 Adjusted EPS Guidance Bridge

Quest Diagnostics 2018 Adjusted EPS Guidance Bridge



# Non-GAAP Reconciliations

- The following table reconciles adjusted results to reported results under accounting principles generally accepted in the United States.

	Twelve Months Ended December 31,		Twelve Months Ended December 31, 2018	
	2016	2017	Low	High
Diluted earnings per common share	\$ 4.51	\$ 5.50	\$ 5.42	\$ 5.62
Gain on disposition of business (a)	(0.24)	-	-	-
Retirement of debt and related refinancing charges (b)	0.21	-	-	-
Restructuring and integration charges (c)	0.35	0.47	0.59	0.59
Certain income tax benefits (d)	-	(0.77)	-	-
Other (e)	(0.06)	0.07	-	-
Amortization expense (f)	0.38	0.40	0.53	0.53
ETB (g)	(0.06)	(0.27)	(0.04)	(0.04)
Adjusted diluted EPS excluding amortization expense and ETB	<u>\$ 5.09</u>	<u>\$ 5.40</u>	<u>\$ 6.50</u>	<u>\$ 6.70</u>

# Non-GAAP Reconciliations

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- (a) For the twelve months ended December 31, 2016, represents the gain on the sale of our Focus Diagnostics products business. Income tax expense associated with the gain resulted in a combined tax rate of 71.4%, which was significantly in excess of the statutory rate primarily due to a lower tax basis in the assets sold, specifically the goodwill associated with the disposition.
- (b) For the twelve months ended December 31, 2016, represents charges associated with the March 2016 cash tender offer where the company purchased \$200 million of its 6.95% Senior Notes due July 2037 and 5.75% Senior Notes due January 2040. Income tax benefits were calculated such that the combined tax rate was 38.9%.
- (c) For the twelve months ended December 31, 2017, represents costs primarily associated with systems conversions, integration and workforce reductions incurred in connection with further restructuring and integrating our business. For the twelve months ended December 31, 2016, represents costs primarily associated with systems conversions and integration incurred in connection with further restructuring and integrating our business. For the twelve months ended December 31, 2018, represents costs primarily associated with systems conversions, integration and workforce reductions incurred in connection with further restructuring and integrating our business. For the twelve months ended December 31, 2018, 2017 and 2016 income tax impacts were primarily calculated using combined tax rates of 25.5%, 38.7%, and 38.7%, respectively.
- (d) For the twelve months ended December 31, 2017, certain income tax benefits represents the net tax benefit associated with the TCJA. The company recorded an estimated net income tax benefit of \$106 million associated with the TCJA, including a deferred income tax benefit of \$115 million primarily due to the remeasurement of net deferred tax liabilities and reserves at the new combined tax rate of 25.5%, partially offset by \$9 million of current tax expense primarily due to the mandatory repatriation toll charge on undistributed foreign earnings and profits.
- (e) For the twelve months ended December 31, 2017, primarily represents non-cash asset impairment charges associated with an investment, non-cash asset impairment charges and incremental costs incurred as a result of hurricanes and costs incurred related to certain legal matters, partially offset by gain on the sale of an interest in an equity method investee. For the twelve months ended December 31, 2016, primarily represents a gain on escrow recovery associated with an acquisition, partially offset by costs associated with winding down subsidiaries, non-cash asset impairment charges and costs incurred related to certain legal matters. Income tax impacts were recorded, were primarily calculated using combined tax rates of 38.7%. For the twelve months ended December 31, 2017, other items also includes the impact of recording a valuation allowance against certain net operating loss carryforwards in a geography impacted by hurricanes.
- (f) Represents the impact of amortization expense on diluted earnings per common share, net of the income tax benefit. For the twelve months ended December 31, 2018, 2017 and 2016, income tax benefits were primarily calculated using a combined tax rate of 25.5%, 38.7, and 38.7%, respectively.
- (g) Represents the impact of excess tax benefit associated with stock based compensation.