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CONFERENCE CALL SCRIPT
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Shawn Bevec: Thank you and good morning. I am here with Steve Rusckowski, our Chairman, President and Chief Executive Officer, and Mark Guinan, our Chief Financial Officer. During this call, we may make forward-looking statements and will discuss non-GAAP measures. For this call, references to reported EPS refers to reported diluted EPS and references to adjusted EPS refer to adjusted diluted EPS excluding amortization. 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 our most recent Annual Report on Form 10-K and subsequently filed quarterly reports on Form 10-Q and Current Reports on Form 8-K.

The text of our prepared remarks will be available later today in the Investor Relations page of our website.

Now, here is Steve Rusckowski.

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

This morning, I'll provide you with some perspective on PAMA, highlights of the quarter and review progress on our 2-point strategy which continues to drive results. Then Mark will provide more detail and take you through updates to our 2017 guidance.

- We delivered another strong quarter of revenue growth in spite of weather challenges.
- We completed two previously announced acquisitions, and agreed to purchase Shiel Medical Laboratory.
- Yesterday we also announced a strategic relationship with Cleveland Clinic that includes the acquisition of Cleveland HeartLab.

Here are some key highlights from the quarter:

- Revenues were $1.93 billion, up 2.4 percent;
- Reported EPS of $1.15 was down 14% from 2016. Adjusted EPS grew 150 basis points to $1.39, which includes an increase of 2 cents over the prior year of excess tax benefit associated with stock-based compensation.

Our updated guidance for full year 2017 primarily reflects the impact of hurricanes in the third quarter which impacted geographies where we have a large presence, as well as recently closed acquisitions.

Before I describe the progress we have made to accelerate growth and drive operational excellence, I'd like to discuss PAMA…

We continue to urge CMS to delay the implementation of PAMA to take the time to get it right. The preliminary rates that CMS released are not “market based” rates as Congress intended.

Unfortunately, only 1 percent of all laboratories submitted data, and over 99 percent of hospital and physician office laboratories were prohibited from reporting their rates.

Also, based on the data submitted to CMS, Quest alone represented nearly 40 percent of all the market data CMS collected. As you’re aware from previous Investor Days, our estimated share of the Medicare market is less than 15 percent.

Instead of protecting access to essential laboratory testing, this flawed approach could greatly compromise Medicare beneficiaries' access to testing. A large portion of the Medicare population receives their services through smaller laboratories, and PAMA could put them at risk.

We have been collecting facts that demonstrate the many ways that CMS has disregarded the intent of Congress, and we’ve been finding a receptive audience among legislators and policymakers in Washington, D.C. for our call to take more time to get the implementation right.

The clinical lab industry is a critical element in the health care and economic landscape of this country, creating jobs, driving economic activity, and generating tax revenues for the federal and state governments. Our trade association’s recent economic study found that this industry directly and indirectly employs over 600,000 people and contributes $13 billion in tax revenues. The impacts of these proposed cuts are far-reaching to this vital industry.

These rates should not be finalized as proposed, and this view is shared by 22 respected medical societies and health groups, including the American Medical Association and the American Hospital Association. In an October 6th letter, these leading voices in health care called on CMS to take immediate action to address the significant deficiencies in its process to establish new clinical laboratory payment rates.

Along with our trade association we are exploring every option to ensure that Medicare beneficiaries have access to diagnostic information services.

In whatever form CMS might implement PAMA, Quest will be prepared…and we remain confident in our ability to meet the long-term commitments outlined at our 2016 Investor Day. Mark will touch on this later.

Turning to the progress we’ve made in the third quarter, we delivered on all five elements of our strategy to accelerate growth.

The first element of our growth strategy is to grow 1-2% per year through strategically aligned, accretive acquisitions, which we are on track to achieve for the fifth consecutive year.

We had a very productive quarter. We completed two previously announced acquisitions, and agreed to purchase Shiel Medical Laboratory, which will further strengthen our position in the New York metro market.

Yesterday we also announced the acquisition of Cleveland HeartLab from Cleveland Clinic. This lab will become our advanced diagnostics center of excellence in cardiovascular testing, and the agreement builds on our existing relationship with the Cleveland Clinic.

Our M&A pipeline remains very strong, and our strategy is delivering growth.

With the acquisitions we've completed this year, and those we expect to close by the end of 2017, we are well positioned to exceed our long term M & A objective for 2018. And, of course, any accretion realized from deals in 2018 will help offset the potential impact of new Medicare rates.

Under the second element of our growth strategy, we continued to expand relationships with hospital health systems.

Our relationship with PeaceHealth is progressing well. As you may recall, the relationship included the acquisition of the outreach laboratory as well as a Professional Laboratory Services agreement to manage laboratories at eleven PeaceHealth medical centers in Washington state, Oregon and Alaska. This relationship is fully operational, and already contributing to revenues and adjusted earnings growth.

The third element of our growth strategy is to offer the broadest access to diagnostic innovation.

In the third quarter we completed the acquisition of Med Fusion and Clear Point in Texas, forming a National Precision Oncology Center of Excellence and we are very pleased with the integration efforts to date.

In women's health, we continue to be excited about the progress we are making in noninvasive prenatal screening. Our QNatal test is providing strong double digit growth year over year. We recently complemented our women's health offering with QHerit, a screening panel that helps both women and men across multiple ethnicities identify the risk of passing 22 genetic diseases to their children.

We also introduced a convenient cholesterol test with an improved method for assessing heart disease risk and aiding treatment decisions. Unlike most lipid tests, it does not require fasting, and patients like this added convenience.

We also made progress executing the fourth element of our growth strategy, which is to be the provider of choice for consumers.

- Our relationship with Safeway continues to expand, as we are now operating in 128 stores and are expecting to open about 30 more by the end of 2017.
- In addition, our collaboration with Walmart will open new locations in 2017.
- In this exciting era of the empowered healthcare consumer, our MyQuest mobile application is now delivering lab results into the hands of 4 and a half million users.
- Payers are taking notice of the progress we are making on our consumer strategy, especially with the convenience, value and number of access points we provide.

The fifth element of our growth strategy is to support population health with data analytics and extended care services. We are building a solid pipeline within data analytics with a number of partners interested in leveraging our data, including pharma, CRO, and health plan customers.

Turning to the second part of our two-point strategy to drive operational excellence, we remain on track to deliver $1.3 billion in Invigorate run-rate savings as we exit 2017.

As we drive operational efficiency, we continue to improve the customer experience.

Over 950 of our 2,200 PSCs are live with e-Check-in, which improves the patient experience. Our total e-Check-in volume is over 12 million encounters to date. We expect to have this capability in most of our PSCs by the end of next year.

Now, let me turn it over to Mark, who will take you through our financial performance in detail.

Mark Guinan: Thanks, Steve.

Starting with revenues…

Consolidated revenues of $1.93 billion were up 2.4% versus the prior year. We estimate the impact of the recent hurricanes reduced our revenue growth by approximately 130 basis points in the third quarter, which is slightly lower than what we had estimated in late September.

Revenues for Diagnostic Information Services grew by 2.8% compared to the prior year with approximately 140 basis points attributed to recent acquisitions.

Volume, measured by the number of requisitions, increased 1.6% versus the prior year, of which about 60 basis points was organic. However, note that the impact of hurricanes presented a headwind of approximately 140 basis points to volume in the quarter.

Revenue per requisition in the third quarter grew by 1.2% compared to the prior year. As a reminder, revenue per req is not a proxy for price. It includes a number of variables such as: unit price variation; test mix; and tests per req.

Unit price headwinds in the third quarter remained less than 100 basis points. While price fluctuations can vary from quarter to quarter, we continue to expect that unit price headwinds will remain moderate in the final quarter of 2017 and consistent with the last several quarters.

Beyond unit price and the impact of growth in our PLS partnerships; other mix elements, including test mix, contributed slightly more than the positive 100-200 basis point trend we've observed for several quarters.

Reported operating income for the quarter was $298 million, or 15.5% of revenues, compared to $322 million, or 17.1% of revenues, a year ago. Keep in mind, our reported operating income in 2016 included a gain on escrow recovery associated with an acquisition.

On an adjusted basis, operating income was $325 million, or 16.8% of revenues, compared to $320 million, or 17% of revenues last year.

We estimate the impact of the hurricanes reduced adjusted operating income by approximately $18 million in the third quarter which adversely impacted operating income growth by nearly 6 percentage points.

Excluding the impact of the hurricanes, adjusted operating income would have grown more than 7 percent and adjusted operating margin would have expanded 50 basis points year over year.

Reported EPS was $1.15 in the quarter, versus $1.34 in the prior year period. As noted previously, our third quarter 2016 results included a gain on escrow recovery associated with an acquisition. Adjusted EPS was $1.39, up 2% from $1.37 last year. We estimate the impact of hurricanes in the third quarter reduced adjusted EPS by approximately 8 cents, or nearly 6%.

The company recorded net after-tax charges totaling $20 million in the third quarter, or 14 cents per diluted share, representing system conversion, restructuring, integration and other one-time costs.

Our effective tax rate in the quarter was approximately 36 percent, versus 33 percent last year. Last year's rate benefited from the previously mentioned escrow recovery which was non-taxable.

In the quarter we recorded approximately $7 million, or 4 cents per diluted share, of excess tax benefit associated with stock based compensation, or SBC, compared to a $3 million, or 2 cents per share benefit, last year. Year to date, we have recorded $36 million, or 25 cents per share, of excess tax benefits associated with SBC which is an increase of 20 cents year over year.

Bad debt expense as a percentage of revenues was 4.0%, flat versus last year and 20 basis points lower versus the prior quarter.

Turning to cash provided by operations, we generated $852 million in 2017 year to date versus $765 million last year. Capital expenditures year to date were $170 million, compared to $165 million a year ago.

Turning to guidance…

We are providing the following updated outlook for 2017:

- Revenues now expected to be approximately $7.71 billion, an increase of about 2.6% versus the prior year on a reported basis, and an increase of about 3% on an equivalent basis.
- Reported EPS to be between $4.87 and $4.92 and adjusted EPS to be between $5.62 and $5.67
- Cash provided by operations remains at approximately $1.2 billion; and finally
- Capital expenditures remain between $250 and $300 million.

Despite the impact of recent hurricanes, our full year revenue guidance is in line with our prior outlook and operating cash flow guidance remains unchanged. Our updated EPS guidance reflects:

- the approximate 8 cent hurricane impact noted previously;
- the impact from recently closed acquisitions;
- the 2 cent year over year increase of excess tax benefits associated with SBC recorded in the third quarter;
- and a small but ongoing impact from Hurricane Maria on our Puerto Rico operations in the fourth quarter.

It's also important to remember that despite these headwinds just mentioned, our updated guidance is in keeping with, or exceeds, the outlook we provided to you at the beginning of 2017.

While we aren't prepared to provide 2018 guidance at this time, we want to remind you that we do not expect the same levels of excess tax benefits associated with SBC in 2017 to recur next year.

Therefore, as you think about 2018, we would encourage you to focus on our 2017 EPS guidance excluding the 20 cent year-to-date increase of excess tax benefits associated with SBC and assume the same 6 cents we saw in 2016 as the jump off point for 2018.

Finally, I'd like to make a few comments on our long term outlook which we have reaffirmed today.

Recall, at our 2016 Investor Day we provided a long term outlook from 2017 through 2020 which included a revenue CAGR of 3-5%, with 1-2% growth expected from acquisitions. It also included an adjusted earnings CAGR faster than revenue in the mid-to-high single-digit range.

Note that this earnings outlook contemplated a starting point of $5.15 in adjusted EPS in 2016 and did NOT include excess tax benefits associated with SBC beyond the 6 cents recorded in 2016.

This outlook implies adjusted EPS in the range of $6 to $7 by 2020 excluding the impact of excess tax benefits associated with SBC.

With regard to PAMA, the cuts in the current proposed fee schedule are deeper than expected. If the proposed fee schedule is finalized as it currently stands, we remain confident that we can achieve our long term outlook, though our earnings outlook is more likely to be at the lower end of the range we provided.

That said, M&A activity beyond our 1-2% growth target represents upside to this outlook.
Now, let me turn it back to Steve.

Steve Rusckowski: Thanks, Mark.

To summarize a very busy and productive quarter:

- **We turned in another strong quarter and are delivering on all five elements of our strategy to accelerate growth.**
- **Our updated guidance for full year 2017 reflects the impact of hurricanes in the third quarter which impacted geographies where we have a large presence, as well as the impact of recently closed acquisitions.**
- **And finally, we remain confident in our ability to meet the long-term commitments outlined at our 2016 Investor Day**

Now we'd be happy to take your questions.

STEVE: Thanks again for joining our call today.

- We had a strong third quarter of 2017.
- We look forward to continue meeting our commitments by executing our two-point strategy of accelerating growth and driving operational excellence
- Thank you very much for your continued support.
- Goodbye.