

# Fourth Quarter and Full Year 2015

January 28, 2016



# 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.

## Key Messages

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“We finished 2015 with a solid quarter, delivering both revenue and earnings growth. For the year, we increased adjusted operating income by 7.5% as a result of our return to growth and our operational excellence program. Looking ahead to 2016, the growth we are projecting is based on continued execution of our five point strategy, which includes two recently announced hospital opportunities and the launch of our Data Diagnostics solution with Inovalon.”

Steve Rusckowski  
President and Chief Executive Officer

# Q4 2015 Performance

(\$ in millions - except EPS)

		Q4	Δ 2014
Revenues *	\$	1,849	0.6%
- DIS Revenues	\$	1,738	0.4%
- Rev/Req			0.1%
- Volume			0.3%
Adjusted Operating Income *	\$	288	1.8%
- % of Revenues *		15.5%	50 bps
Adjusted Income from Continuing Operations *	\$	157	(0.6)%
Adjusted Diluted EPS Excluding Amortization Expense *	\$	1.19	0.8%
Adjusted Cash Provided by Operations *	\$	257	(15.2)%

DIS revenues and volume increased primarily due to organic growth. Revenue per requisition benefited from test and business mix shifts.

Increase in adjusted operating income and adjusted operating income as a % of revenues was primarily due to benefits from our Invigorate program and test and business mix shifts.

Despite improved operating performance, adjusted income from continuing operations decreased primarily as a result of a higher effective tax rate in 2015.

Adjusted cash provided by operations decreased primarily due to an additional payroll cycle in 2015.

\* Revenue on an equivalent basis represents 2014 net revenues excluding clinical trials testing revenues in the fourth quarter of 2014. Adjusted operating income and adjusted income from continuing operations represent results that exclude special items, such as the gain on contribution of business to clinical trials joint venture, charges on retirement of debt and related refinancing charges, restructuring and integration charges, charges in equity in earnings of equity method investees, recognition of certain income tax benefits and other items. Adjusted diluted EPS excluding amortization expense represents results before the impact of special items and amortization expense. Adjusted cash provided by operations represents results that exclude the cash impact of charges on retirement of debt. See non-GAAP reconciliations on pages 8 to 13.

# Full Year 2015 Performance

(\$ in millions - except EPS)

		2015	Δ 2014
Revenues *	\$	7,493	2.0%
- DIS Revenues	\$	6,965	1.3%
- Rev/Req			0.1%
- Volume			1.2%
Adjusted Operating Income *	\$	1,203	7.5%
- % of Revenues *		16.1%	110 bps
Adjusted Income from Continuing Operations *	\$	640	7.1%
Adjusted Diluted EPS Excluding Amortization Expense *	\$	4.77	6.0%
Adjusted Cash Provided by Operations *	\$	899	(4.2)%

Consolidated revenues, on an equivalent basis, increased as a result of both organic growth and acquisitions. DIS revenues and volume increased primarily due to acquisitions. Revenue per requisition benefited from test and business mix shifts.

Increase in adjusted operating income and adjusted operating income as a % of revenues was primarily due to benefits from our Invigorate program and from test and business mix shifts.

Adjusted income from continuing operations and adjusted diluted EPS excluding amortization expense increased primarily as a result of improved operating performance.

Adjusted cash provided by operations decreased primarily due to an additional payroll cycle in 2015 and an income tax payment against certain tax reserves in the third quarter of 2015.

\* Revenue on an equivalent basis represents 2014 net revenues excluding clinical trials testing revenues in the third and fourth quarters of 2014. Adjusted operating income and adjusted income from continuing operations represent results that exclude special items, such as the gain on contribution of business to clinical trials joint venture, charges on retirement of debt and related refinancing charges, restructuring and integration charges, charges in equity in earnings of equity method investees, recognition of certain income tax benefits and other items. Adjusted diluted EPS excluding amortization expense represents results before the impact of special items and amortization expense. Adjusted cash provided by operations represents results that exclude the cash impact of charges on retirement of debt. See non-GAAP reconciliations on pages 8 to 13.

# Our 5 Point Strategy

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1

- Restore: Restore Growth

2

- Drive: Drive operational excellence

3

- Simplify: Simplify the organization

4

- Refocus: Refocus on diagnostic information services

5

- Deliver: Deliver disciplined capital deployment and strategically aligned accretive acquisitions

## 2016 Outlook\*

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- Revenues to be between \$7.52 billion and \$7.59 billion, an increase of 1.5% to 2.5% over 2015 revenues on an equivalent basis.
- Adjusted diluted EPS excluding amortization expense to be between \$5.02 and \$5.17.
- Cash provided by operations to approximate \$1 billion.
- Capital expenditures to be between \$250 million and \$300 million.

\* Before special items. See non-GAAP reconciliation on pages 14 and 15.

# Non-GAAP Reconciliations

The adjusted measures on page 4 and 5 are presented because management believes those measures are useful adjuncts to reported results under accounting principles generally accepted in the United States when comparing results of operations from period to period. Adjusted measures should not be considered as an alternative to the corresponding measures determined under accounting principles generally accepted in the United States. The tables on the following pages reconcile adjusted results to reported results under accounting principles generally accepted in the United States.

	<b>Three Months Ended December 31,</b>		<b>Twelve Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(dollars in millions, except per share data)			
<b><u>Adjusted operating income:</u></b>				
Operating income	\$ 239	\$ 257	\$ 1,399	\$ 983
Gain on contribution of business to clinical trials joint venture (a)	—	—	(334)	—
Restructuring and integration charges (b)	22	30	105	121
Other (c)	27	(4)	33	15
Adjusted operating income	<u>\$ 288</u>	<u>\$ 283</u>	<u>\$ 1,203</u>	<u>\$ 1,119</u>
<b><u>Adjusted operating income as a percentage of net revenues:</u></b>				
Operating income as a percentage of net revenues	12.9%	13.7%	18.7%	13.2%
Gain on contribution of business to clinical trials joint venture (a)	—	—	(4.4)	—
Restructuring and integration charges (b)	1.2	1.5	1.4	1.6
Other (c)	1.4	(0.2)	0.4	0.2
Adjusted operating income as a percentage of net revenues	<u>15.5%</u>	<u>15.0%</u>	<u>16.1%</u>	<u>15.0%</u>



# Non-GAAP Reconciliations

	<b>Three Months Ended December 31,</b>		<b>Twelve Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(dollars in millions, except per share data)			
<b><u>Adjusted income from continuing operations:</u></b>				
Income from continuing operations attributable to Quest Diagnostics' stockholders	\$ 188	\$ 185	\$ 709	\$ 551
Gain on contribution of business to clinical trials joint venture (a) (e)	—	—	(189)	—
Charges on retirement of debt and related refinancing charges (d) (e)	(2)	—	90	—
Restructuring and integration charges (b) (e)	13	18	64	77
Charges in equity in earnings of equity method investees (f)	—	—	3	—
Income tax benefits (g)	(58)	(44)	(58)	(44)
Other (c) (e)	16	(1)	21	14
Adjusted income from continuing operations	<u>\$ 157</u>	<u>\$ 158</u>	<u>\$ 640</u>	<u>\$ 598</u>
<b><u>Adjusted diluted EPS:</u></b>				
Diluted earnings per common share	\$ 1.29	\$ 1.26	\$ 4.87	\$ 3.78
Gain on contribution of business to clinical trials joint venture (a) (e)	—	—	(1.30)	—
Charges on retirement of debt and related refinancing charges (d) (e)	(0.01)	—	0.62	—
Restructuring and integration charges (b) (e)	0.09	0.13	0.44	0.53
Charges in equity in earnings of equity method investees (f)	—	—	0.02	—
Income tax benefits (g)	(0.40)	(0.30)	(0.40)	(0.30)
Other (c) (e)	0.11	(0.01)	0.14	0.09
Amortization expense (h)	0.11	0.10	0.38	0.40
Adjusted diluted EPS excluding amortization expense	<u>\$ 1.19</u>	<u>\$ 1.18</u>	<u>\$ 4.77</u>	<u>\$ 4.50</u>

# Non-GAAP Reconciliations

	<b>Three Months Ended December 31,</b>		<b>Twelve Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(dollars in millions)			
<b><u>Revenue on an equivalent basis:</u></b>				
Net revenues	\$ 1,849	\$ 1,883	\$ 7,493	\$ 7,435
Clinical trials revenue (i)	—	(46)	—	(87)
Revenue on an equivalent basis	<u>\$ 1,849</u>	<u>\$ 1,837</u>	<u>\$ 7,493</u>	<u>\$ 7,348</u>
<b><u>Adjusted cash provided by operations:</u></b>				
Cash provided by operations	\$ 271	\$ 303	\$ 810	\$ 938
Cash charges on retirement of debt (j)	(14)	—	89	—
Adjusted cash provided by operations	<u>\$ 257</u>	<u>\$ 303</u>	<u>\$ 899</u>	<u>\$ 938</u>

# Non-GAAP Reconciliations

- (a) Represents the gain associated with the contribution of our clinical trials testing business to Q<sup>2</sup> Solutions, the clinical trials joint venture with Quintiles Transnational Holdings Inc.
- (b) Represents costs, primarily associated with workforce reductions and professional fees, incurred in connection with further restructuring and integrating our business. The following table summarizes the pre-tax impact of restructuring and integration charges on the company's consolidated statements of operations:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
	(dollars in millions)			
Cost of services	\$ 12	\$ 13	\$ 63	\$ 50
Selling, general and administrative	10	16	42	69
Other operating expense (income), net	—	1	—	2
	<u>\$ 22</u>	<u>\$ 30</u>	<u>\$ 105</u>	<u>\$ 121</u>

- (c) For the three months ended December 31, 2015, primarily represents non-cash asset impairment charges and other costs associated with winding down subsidiaries as well as costs incurred related to legal matters. For the twelve months ended December 31, 2015, primarily represents non-cash asset impairment charges and other costs associated with Celera Products and the winding down of another subsidiary as well as costs incurred related to legal matters, partially offset by a pre-tax gain of \$13 million associated with a decrease in the fair value of the contingent consideration accrual associated with our Summit Health acquisition.

For the three months ended December 31, 2014, represents a pre-tax gain of \$9 million associated with a decrease in the fair value of the contingent consideration accrual associated with the Summit Health acquisition, partially offset by costs incurred related to legal matters. For the twelve months ended December 31, 2014, represents costs incurred related to legal matters, partially offset by a pre-tax gain of \$9 million associated with a decrease in the fair value of the contingent consideration accrual associated with the Summit Health acquisition.

# Non-GAAP Reconciliations

- (d) Charges on retirement of debt and related refinancing charges represent: charges associated with the March 2015 cash tender offer (the "Tender Offer") in which the company purchased \$250 million aggregate principal amount of its 6.95% Senior Notes due July 2037 and 5.75% Senior Notes due January 2040; and charges associated with the April 2015 redemption (the "Redemption") in which the company redeemed all of its 5.45% Senior Notes due November 2015, \$150 million of its 3.2% Senior Notes due April 2016 and all of its 6.4% Senior Notes due July 2017. The following table summarizes the impact of pre-tax charges on retirement of debt and related refinancing charges on the company's consolidated statements of operations:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
	(dollars in millions)			
Interest expense, net	\$ —	\$ —	\$ 6	\$ —
Other expense, net	—	—	144	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 150</u>	<u>\$ —</u>

- (e) For the gain on contribution of business to clinical trials joint venture, the associated deferred tax liability was calculated using a combined tax rate of 43.3% and does not result in any significant current taxes payable. For the charges on retirement of debt and related refinancing charges, income tax benefits were calculated such that the combined tax rate for the full year was 40%. For the restructuring and integration charges and other items, income tax impacts, where recorded, were calculated using combined tax rates of 38.9% and 38.2% for 2015 and 2014, respectively.
- (f) Charges in equity in earnings of equity method investees of \$5 million, pre-tax, primarily consist of restructuring and integration charges incurred by the clinical trials joint venture.
- (g) For the three and twelve months ended December 31, 2015, represents the recognition of a deferred tax benefit associated with winding down a subsidiary. For the three and twelve months ended December 31, 2014, represents a benefit associated with the favorable resolution of certain tax contingencies.

# Non-GAAP Reconciliations

- (h) Represents the impact of amortization expense on diluted earnings per common share, net of the income tax benefit. The income tax benefit was primarily calculated using combined tax rates of 38.9% and 38.2% for 2015 and 2014, respectively. The pre-tax amortization expense that is excluded from the calculation of adjusted diluted EPS excluding amortization expense is recorded in the company's statements of operations as follows:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
	(dollars in millions)			
Amortization of intangible assets	\$ 20	\$ 23	\$ 81	\$ 94
Equity in earnings of equity method investees, net of taxes	4	—	8	—
	<u>\$ 24</u>	<u>\$ 23</u>	<u>\$ 89</u>	<u>\$ 94</u>

- (i) Effective July 1, 2015, the company's clinical trials testing business was contributed to the clinical trials joint venture. Clinical trials revenue reported in the third and fourth quarters of 2014 is excluded to provide 2014 revenue on an equivalent basis.
- (j) Represents the portion of the estimated cash tax benefit realized on the retirement of debt in connection with the recent debt refinancing during the three months ended December 31, 2015. For the twelve months ended December 31, 2015, represents \$146 million of pre-tax cash charges on retirement of debt in connection with our recent debt refinancing, net of the estimated cash tax benefit realized.

# 2016 Outlook

The outlook for adjusted diluted EPS excluding amortization expense represents management's estimates for the full year 2016 before the impact of special items and amortization expense. This measure is presented because management believes it is a useful adjunct to the corresponding amount determined under accounting principles generally accepted in the United States since it is meaningful to evaluate the company's ongoing operating performance. Adjusted diluted EPS excluding amortization expense is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to the corresponding amount determined under accounting principles generally accepted in the United States.

The following table reconciles our 2016 outlook for adjusted diluted EPS excluding amortization expense to the corresponding amount determined under accounting principles generally accepted in the United States:

	<u>Low</u>	<u>High</u>
Diluted earnings per common share	\$ 4.63	\$ 4.78
Amortization expense, net of tax (a)	0.39	0.39
Adjusted diluted EPS excluding amortization expense	<u>\$ 5.02</u>	<u>\$ 5.17</u>

- (a) Represents the estimated impact of amortization expense for 2016 on the calculation of adjusted diluted EPS excluding amortization expense. Amortization expense used in the calculation is as follows (dollars in millions):

Amortization of intangible assets	\$ 74
Amortization expense included in equity in earnings of equity method investees, net of taxes	<u>17</u>
Total pre-tax amortization expense	<u>\$ 91</u>
Total amortization expense, net of an estimated tax benefit	<u>\$ 56</u>

# 2016 Outlook

The outlook for 1.5% to 2.5% revenue growth on an equivalent basis in 2016 represents management's estimates for 2016 versus reported 2015 revenues adjusted to exclude the 2015 revenues from the clinical trials testing business. In 2015, the company contributed its clinical trials testing business to the clinical trials joint venture. Consequently, our 2016 revenues will not include revenues associated with that business. Revenues for 2015 have been adjusted to exclude clinical trials testing revenues to provide an equivalent basis for our growth outlook.

The following table reconciles our 2015 net revenues determined under accounting principles generally accepted in the United States with equivalent revenue for 2015:

	<b>Three Months Ended</b>				<b>Year Ended</b>
	<b>March 31, 2015</b>	<b>June 30, 2015</b>	<b>September 30, 2015</b>	<b>December 31, 2015</b>	<b>December 31, 2015</b>
	(dollars in millions)				
<b><u>2015 Revenue on an equivalent basis:</u></b>					
Net revenues	\$ 1,839	\$ 1,925	\$ 1,880	\$ 1,849	\$ 7,493
Excluded revenue (a)	(40)	(45)	—	—	(85)
2015 Revenue on an equivalent basis	<u>\$ 1,799</u>	<u>\$ 1,880</u>	<u>\$ 1,880</u>	<u>\$ 1,849</u>	<u>\$ 7,408</u>

- (a) The 2015 excluded revenue is comprised of clinical trials testing revenues reported in the first and second quarters of 2015.



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