

Q1 2024
CONFERENCE CALL SCRIPT
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Conference operator: Welcome to the Quest Diagnostics First Quarter 2024 conference call. At the request of the company, this call is being recorded. The entire contents of the call, including the presentation and question and answer session that will follow, are the copyrighted property of Quest Diagnostics with all rights reserved. Any redistribution, retransmission or rebroadcast of this call in any form without the written consent of Quest Diagnostics is strictly prohibited. Now I'd like to introduce Shawn Bevec, Vice President of Investor Relations for Quest Diagnostics. Go ahead, please.

Shawn Bevec: Thank you and good morning. I am joined by Jim Davis, our Chairman, Chief Executive Officer and President, and Sam Samad, our Chief Financial Officer. During this call, we may make forward-looking statements and will discuss non-GAAP measures. We provide a reconciliation of non-GAAP measures to comparable GAAP measures in the tables to our earnings press release. 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.

For this call, references to reported EPS refer to reported diluted EPS and references to adjusted EPS refer to adjusted diluted EPS. Any references to base business, testing, revenues, or volumes refer to the performance of our business excluding COVID-19 testing. Growth rates associated with our long-term outlook projections – including consolidated revenue growth, revenue growth from acquisitions, organic revenue growth, and adjusted earnings growth – are Compound Annual Growth Rates. Finally, revenue growth rates from acquisitions will be measured against our base business.

Now, here is Jim Davis.

Jim Davis: Thanks Shawn and good morning, everyone.

In the first quarter, we delivered nearly 6% base business revenue growth, continuing the strong momentum of recent quarters. We also grew total revenues for the first time since the height of the pandemic nearly three years ago.

Our strong commercial focus on physicians and hospitals, combined with our broad health plan access, enabled us to take advantage of sustained high rates of healthcare utilization, and drive new customer growth. Our investments in advanced diagnostics also enabled double digit growth within multiple key clinical areas, including brain health, women's health and advanced cardiometabolic health.

In addition, our Invigorate initiative, which includes ongoing investments in automation and AI, continued to improve productivity as well as service levels and quality. Given the strength of our business, we are raising our guidance for the full year.

Before turning to highlights from the quarter, I'd like to briefly discuss the FDA's proposed rule to regulate laboratory developed testing services. We still encourage the Administration to withdraw the proposed rule and engage in advancing appropriate legislation that preserves the critical role of laboratory diagnostics. We are disappointed that the FDA continues to move forward with this regulation which we believe, if enacted, will compromise patient access to critical lab testing, slow diagnostic innovation and add unnecessary healthcare costs. We also believe that the rule raises serious legal issues, including that the FDA lacks the statutory authority to unilaterally regulate these services. While we will be prepared to comply with the rule, we will continue to work with our trade association, ACLA, on potential next steps.

Now, I'll recap our strategy and discuss highlights from the first quarter. Then Sam will provide detail on our financial results and talk about our updated financial guidance for 2024.

Our strategy to drive growth is focused on delivering solutions that meet the evolving needs of our core customers – physicians, hospitals, and consumers. We enable growth across our customer channels through advanced diagnostics, with an intense focus on faster growing clinical areas, including brain health and molecular genomics and oncology. In addition, acquisitions are a key growth driver, with an emphasis on accretive outreach purchases as well as smaller independent labs. Our strategy also includes driving operational improvements across the business, with the strategic deployment of automation and AI to improve quality, service, efficiency, and the workforce experience.

Here are a few key updates on progress we have made in each of these areas.

In **Physician lab services**, we delivered high single-digit base business revenue growth, driven by sustained high healthcare utilization, overall market growth, and share gains. This growth also reflects new customer wins and our strengthening relationships with physician practices of all sizes, including large multi-specialty physician groups and those owned by large retailers.

A significant driver of our success in the physician channel is our broad health plan access as approximately 90% of health plan members in the U.S. have access to laboratory services at Quest Diagnostics.

Health plans value our size, scale and innovation. We partner closely with them to reduce laboratory costs through programs that redirect volume from hospital outreach labs and out-of-network labs, which often charge significantly higher prices than we do, raising healthcare costs for patients and employers. We also remain disciplined in our pricing strategy as we increase our investments in improving the customer experience, such as through digital platform enhancements and adjustments to frontline pay. As we highlighted previously, we successfully renegotiated our large health plan contracts that were up for renewal last year. In addition, more than 50% of our health plan revenues now have some type of value-based incentive.

In physician services, our recent acquisition, Lenco, an independent lab in New York, also contributed to growth in the quarter. Our M&A pipeline continues to be robust, and we are making progress with several promising opportunities.

In **Hospital lab services**, we grew base business revenues by mid-single digits. Hospital reference testing in particular continued to grow faster than pre-pandemic trends, maintaining the momentum from last year. Hospitals are sending us more reference testing largely because of our innovation, our quality and our value. They also face persistent challenges with staffing certain roles in specialized fields like histology, microbiology and cytotechnology, which we can more easily fill with our talent and our technology.

In general, as hospitals face both staffing and cost challenges, they continue to re-evaluate their lab strategies. Additionally, as the cost of capital continues to rise, some are revisiting their investment priorities and are directing more capital into other clinical areas that generate better returns. Quest provides hospitals with a range of ways to help optimize lab operations, whether through reference testing; savings and efficiencies through professional lab services; or access to capital by selling their outreach programs. Many hospital and health system leaders are approaching us with a heightened sense of urgency for help with their lab strategies. As a result, our pipeline of both PLS and outreach opportunities remains very strong.

Consumer initiated testing revenues grew double digits while base business revenues nearly doubled, building on the gains we delivered last year from our consumer facing platform, questhealth.com. Some of our most popular test categories included general health panels, STDs and tuberculosis. We also continued to expand our test menu, such as with our launch of PFAS testing for assessing potential exposure to dangerous “forever chemicals,” and are extending our reach through various partners.

In **Advanced Diagnostics**, we generated strong double-digit revenue growth within several key clinical areas, including in brain health, women’s health ... particularly prenatal and hereditary genetics ... and advanced cardiometabolic health.

- Growth in brain health was driven largely by our Alzheimer’s disease portfolio of tests, which includes our Quest AD-Detect® blood tests for early risk assessment of Alzheimer’s disease and our CSF tests for diagnosing and monitoring. We are launching our AD-Detect ptau217 blood test

to providers this week, and we intend to add additional biomarkers this year to further expand our menu.

- In molecular genomics and oncology, we completed the validation of our Haystack MRD test in March and have oversubscribed our Haystack MRD Early Experience program with nearly 20 leading cancer institutions as participants. The Early Experience program is the final step to prepare for our broad national launch of the clinical test later this year.
- We are also excited about the opportunities in early blood-based cancer screening. This quarter, our Lewisville, Texas site received the first specimens for the Promise clinical trial on a liquid biopsy screening test for colorectal cancer from our partner UniversalDX. We look forward to supporting Universal's efforts to gain U.S. regulatory approval for this test.
- And lastly, our Step 500 somatic tumor sequencing service, which helps providers select therapy for late-stage cancers, based on tumor mutation profiles, is generating interest from large cancer centers.
- Our investments in cancer screening, treatment selection and monitoring are positioning us to be a leader in the MRD space and other fast growth molecular genomics and oncology markets.

Turning to **operational excellence**, our Invigorate program aims to deliver a targeted 3% annual cost savings and productivity improvements. During the quarter, we continued to deploy automation and AI to improve productivity as well as service levels and quality.

- For instance, we made progress creating what we term a “digital front door,” which will use AI in our website and service center kiosks to answer basic questions from patients, reducing workload on phlebotomists and calls to our customer service team.
- We also recently automated elements of the specimen preparation process in several labs and expect to deploy these systems across other sites in 2024. These systems make our front-end operations more efficient and improve quality while also freeing our employees to focus on other value-added work.

Finally, I'd like to personally thank my Quest colleagues for delivering a superior customer experience. Our industry just celebrated Lab Week, which reminds us of the key role labs play at the heart of healthcare. I'm proud that our nearly 50,000 employees bring Quest's purpose to life every day: Working together, to create a healthier world, one life at a time.

And with that, I'll turn it over to Sam to provide more details on our performance and our 2024 guidance. Sam?

Sam Samad: Thanks, Jim.

In the first quarter, consolidated revenues were \$2.37 billion, up 1.5% versus the prior year while base business revenues grew nearly 6%.

Revenues for Diagnostic Information Services were up 1.7% compared to the prior year reflecting strong growth in our base testing revenues partially offset by lower revenues from COVID-19 testing services.

Total volume, measured by the number of requisitions, increased 1.6% versus the first quarter of 2023 with acquisitions contributing 60 basis points to total volume. Total base testing volumes grew 3.3% versus the prior year, despite the impact of severe weather in the first two weeks of January. During the quarter, weather negatively impacted volume growth by approximately 30 basis points.

Revenue per requisition was up slightly versus the prior year, driven primarily by an increase in the number of tests per req and favorable test mix, largely offset by lower COVID-19 testing. Base business revenue per req was up 2.6% due to an increase in the number of tests per req and favorable test mix. Unit price reimbursement was flat.

Reported operating income in the first quarter was \$300 million, or 12.7% of revenues, compared to \$305 million, or 13.1% of revenues last year.

On an adjusted basis, operating income was \$349 million, or 14.8% of revenues, compared to \$350 million, or 15% of revenues last year.

Adjusted operating income was relatively consistent versus the prior year due to strong growth in the base business, largely offset by lower COVID-19 testing revenues, wage increases, and higher benefit costs.

Reported EPS was \$1.72 in the quarter compared to \$1.78 a year ago. Adjusted EPS was \$2.04, flat versus the prior year.

Cash from operations was \$154 million in the first quarter versus \$94 million in the prior year. Subsequent to the end of the first quarter, we repaid \$300 million of senior notes which matured on April first.

Turning to our updated full year 2024 guidance:

- Revenues are expected to be between \$9.40 billion and \$9.48 billion.
- Reported EPS expected to be in a range of \$7.57 to \$7.82, and adjusted EPS to be in a range of \$8.72 to \$8.97.
- Cash from operations is expected to be approximately \$1.3 billion; and
- Capital expenditures are expected to be approximately \$420 million.

The following are some key assumptions underlying our guidance to consider as you update your models:

- COVID testing revenues to decline approximately \$175 million for the full year.
- In terms of M&A, our guidance only includes acquisitions that have been announced or closed to date.
- No change to our expectation for dilution from Haystack Oncology of an incremental \$0.20 to adjusted EPS for the full year.
- Operating margin to expand for the full year, driven by volume growth and improved productivity.
- Net interest expense to be approximately \$190 million.
- Weighted average share count to be flat compared to the end of 2023.
- While we are only one quarter into the year, given the strong volume trends in Q1, we have raised our adjusted EPS guidance by 10 cents at the midpoint which more than offsets the 5-7c headwind we experienced from weather in January.

With that, I will now turn it back to Jim.

Jim Davis: Thanks, Sam.

To summarize:

- Our business delivered strong revenue growth across our core customer channels, physicians, hospitals and consumers, building on trends from 2023.
- Our strong customer relationships, broad health plan access, and investments in Advanced Diagnostics are enabling us to take advantage of sustained high healthcare utilization and drive new customer growth.
- We are steadily improving productivity as well as service levels and quality, giving us confidence in improved profitability in 2024.

Now we'd be happy to take your questions.

Operator?

JIM: Thanks again for joining our call today. We appreciate your continued support.

- Have a good day, everybody.