

**Quest Diagnostics - Q2 2024
Conference Call Script
Tuesday, JULY 23, 2024, 8:30 am ET**

Conference operator: Welcome to the Quest Diagnostics Second 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.

We delivered another strong quarter, with base business revenue growth of nearly 4% and total revenue growth of 2.5% as well as continued improvement in productivity and profitability in the base business. This performance is due to growth of new physician and hospital customers, more favorable test mix that includes greater adoption of advanced diagnostics and continued strength in healthcare utilization. We also made progress improving our operational quality and efficiency through greater use of automation and AI.

In addition, we are excited to announce four acquisitions that meet our criteria for growth, profitability and returns, and that will enable us to expand in strategic growth areas.

- Our planned acquisition of **LifeLabs**, a trusted name in laboratory services for millions of Canadians, will enable us to grow in Canada, which has a population that is growing, and aging faster, than in the U.S. LifeLabs is especially strong in two of Canada's largest and fastest growing provinces, British Columbia and Ontario, which collectively account for about half of the country's population. We are familiar with the Canadian market, having delivered reference testing to many providers there for over 20 years. LifeLabs has been one of those reference partners for about a decade, so we know firsthand that their business, team and reputation is strong, and provides a solid foundation for growth. We expect to complete the transaction by the end of the year.

- Our recently announced acquisition of select lab assets of **Allina Health**, a leading non-profit health system, will enable us to extend our reach in Minneapolis and throughout Minnesota and Wisconsin.
- We also announced our plans to acquire the outreach lab assets of **OhioHealth**, a nationally recognized charitable health system in Ohio
- Both transactions will broaden our presence in geographic areas of the United States where we've had limited access to providers due to the predominance of health systems.
- These acquisitions show our ability to attract and partner with top, growing health systems that share our commitment to expanding patient access to innovative and more affordable testing. We expect to complete both transactions in the third quarter.
- We also completed our acquisition of **PathAI Diagnostics**, which provides a readymade platform on which to scale digital pathology and AI to help health systems and other providers improve quality, speed and efficiency in cancer diagnosis.
- These acquisitions take time and involve teams of dedicated individuals. I want to personally thank my Quest colleagues for delivering on our M&A strategy, and we will now turn our attention to the hard work of integrating these deals.

Now, I'll recap our strategy and discuss highlights from the second 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 within 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 other 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 some updates on progress we have made in each of these areas.

While we grew total volumes from Diagnostic Information Services 1.1% with base business volume growth of 1.7%, volumes from our base clinical business grew 3.2% in the second quarter, due to the strength among physicians and hospitals.

In **Physician lab services**, we delivered another quarter of high single-digit base business revenue growth. This growth was driven by continued strength in healthcare utilization, as well as overall market growth, and share gains due to new customer wins. We drove favorable test mix as well as growth in test per requisition, which we attribute to greater utilization of our expanding portfolio of advanced diagnostics. Finally, we also saw strong volume and revenue growth within Medicare Advantage plans, where narrow network strategies direct testing to high quality, cost-efficient options like Quest.

Our broad health plan access, which extends to approximately 90% of covered lives in the U.S., enabled us to take advantage of high demand for lab services, consistent with recent quarters. Health plans value

our ability to improve access, scale innovation and drive costs out of healthcare. We are also working to develop opportunities to serve new geographies with our health plan partners.

In **Hospital lab services**, we grew base business revenues by nearly 4%. Growth of reference testing remains higher than historical levels as hospitals struggled to fill open positions, especially in technical fields, such as histotechnology, microbiology and cytotechnology. Our advanced diagnostics portfolio provides a compelling alternative for hospitals to send us more reference work.

Hospitals face several challenges, including high supply costs, high wages and decisions about how and where to deploy their capital. Patients want better value from lab services as well as easier access. Plus, diagnostic innovation is evolving at a fast pace. These dynamics are contributing to an accelerating trend of outreach acquisitions and professional lab service arrangements with the national labs.

Our specialization and scale empower us to deliver a breadth of quality, innovative and accessible services that are often far more affordable for the patient. That's why top hospitals are choosing Quest for reference testing, professional lab services and outreach asset sales that deliver quality and efficiency.

In **consumer-initiated testing**, our consumer facing platform, questhealth.com, grew total revenues nearly 40% while base business revenues grew more than 50% versus the prior year. As we learn more about our customers as our portfolio expands, we are improving growth and marketing productivity. Today, about 25% of our revenues are from existing customers and 20% of our revenues are from tests we introduced in the past year.

In **Advanced Diagnostics**, several key clinical areas drove double-digit revenue growth, continuing the trend in recent quarters. This growth was particularly strong in brain health, women's health ... particularly prenatal and hereditary genetics ... and advanced cardiometabolic health.

- Our Alzheimer's disease portfolio was the primary driver of growth for our brain health offering. Demand was strong for our AD-Detect blood tests which assess risk based on amyloid, p-tau and APOE biomarkers. Demand was also strong for our CSF test options for aiding treatment decisions. Yesterday, we introduced our Neurofilament Light Chain test, which helps assess neuronal damage that may signify Alzheimer's disease as well as multiple sclerosis and other neurodegenerative conditions.
- In molecular genomics and oncology, we are encouraged by early results of our Haystack MRD Early Experience program prior to the broad national launch later this year. Physicians from leading cancer institutions are using the Haystack MRD blood test to assess cancer recurrence and treatment response for a range of cancers, including colorectal, lung and breast.
- We also grew the body of evidence on the clinical and economic value of ctDNA blood testing in cancer care. A study published in [JAMA Health Forum](#) in June found that MRD testing could reduce costs for health plans, particularly commercial payers, by identifying patients that would benefit from chemotherapy after stage II colon cancer surgery. In addition, research presented at the June ASCO conference showed that Haystack MRD testing identified complete clinical response to immunotherapy for patients with colorectal cancer earlier than standard assessments, such as PET, MRI and endoscopy scans.
- Finally, we recently expanded our Haystack research collaborations to include Lisata Therapeutics, which will use Haystack MRD to study an investigational treatment for advanced pancreatic cancer.
- Turning to advanced cardiometabolic testing, we are seeing interest in several biomarkers that improve early detection of cardiovascular and metabolic diseases like diabetes and kidney disease. These include insulin resistance, which can identify prediabetes risk before A1c tests, and ApoB, a

more precise marker of heart attack risk than traditional lipid panels. They also include Lp (little a), which is an inherited marker of heart disease risk found in up to 20% of the population and for which several therapies are now in development.

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

- For instance, we advanced our use of automation in front-end specimen processing to now include five of our labs, freeing more of our processors to focus on value-added work.
- We also expanded our AI capabilities in microbiology to include the ability to segregate out specimens with no evidence of microbial growth so our medical scientists can concentrate on reviewing those with the greatest likelihood of disease.
- In addition, we broadened our use of AI in customer service to help our representatives access answers more quickly, improving their efficiency and service quality.

Now, 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 second quarter, consolidated revenues were \$2.4 billion, up 2.5% versus the prior year while base business revenues grew 3.8%. Organic base business revenues grew by 3.1%.

Revenues for Diagnostic Information Services were up 2.8% 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 1.1% versus the second quarter of 2023 with acquisitions contributing 40 basis points to total volume. Total base testing volumes grew 1.7% versus the prior year.

Total revenue per requisition was up 1.6% versus the prior year, driven primarily by an increase in the number of tests per req and favorable test mix, partially offset by the timing of certain value-based arrangements in the second quarter of 2023 that did not repeat this year and lower COVID-19 testing. Base business revenue per req was up 2.4%. Unit price reimbursement was flat.

Clinical base business revenues were up 5.1% while volumes grew 3.2%. This primarily reflects growth through our physician and hospital channels, which comprise approximately 90% of our total revenues, and excludes the impact of lower volumes primarily in our employer businesses providing workforce drug testing and employee population health services.

Reported operating income in the second quarter was \$355 million, or 14.8% of revenues, compared to \$348 million, or 14.9% of revenues last year.

On an adjusted basis, operating income was \$398 million, or 16.6% of revenues, compared to \$389 million, or 16.7% of revenues last year.

The increase in adjusted operating income was due to strong growth in the base business, partially offset by lower COVID-19 testing revenues and wage increases.

Reported EPS was \$2.03 in the quarter compared to \$2.05 a year ago. Adjusted EPS was \$2.35, versus \$2.30 the prior year.

Cash from operations was \$514 million year to date through the second quarter versus \$538 million in the prior year.

Turning now to our updated full year 2024 guidance:

- Revenues are expected to be between \$9.5 billion and \$9.58 billion.
- Reported EPS expected to be in a range of \$7.57 to \$7.77, and adjusted EPS to be in a range of \$8.80 to \$9.00.
- Cash from operations is expected to be approximately \$1.3 billion; and
- Capital expenditures are expected to be approximately \$420 million.

Given the uncertainty around when the LifeLabs acquisition will close, we are not including this transaction in our updated 2024 guidance. However, in the first 12 months after closing the acquisition, we expect the transaction to generate approximately \$710 million in annual revenues and to be slightly dilutive to GAAP EPS, due primarily to amortization of intangibles and other items, but approximately 10 to 15 cents accretive to adjusted EPS. These assumptions include the impact of expected debt financing to close the acquisition.

With that said, the following are some key assumptions underlying our updated guidance for you to consider:

- The increase in our revenue guidance reflects the recently announced acquisitions of PathAI Diagnostics, Allina Health, and OhioHealth as well as the strength of our base business. The PathAI Diagnostics acquisition closed in June, while Allina Health and OhioHealth are expected to close in Q3. The revenue contribution from these acquisitions represents the majority of the increase in our updated revenue guidance.
- As a reminder, new acquisitions are typically breakeven to slightly profitable initially with profitability expanding over several quarters. Therefore, we are not expecting a material contribution to earnings from these acquisitions in 2024 but do expect increasing profitability next year.
- 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 expected to be approximately \$190 million. This does not include interest expense related to debt financing for the LifeLabs acquisition.
- Weighted average share count to be flat compared to the end of 2023.
- Finally, our operations were affected by the worldwide IT outage last week, which limited our ability to collect and process specimens on Friday and through the weekend. Our labs were processing specimens by Friday afternoon, and the rest of our operations, including patient service centers, were largely restored to normal by yesterday morning.
- At this point, we estimate the IT outage and a minor impact from hurricane Beryl in Texas earlier this month could amount to a roughly 6 to 8 cent headwind on our Q3 earnings. This is currently reflected in our updated full year guidance.

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

Jim Davis: Thanks, Sam.

To summarize:

- Our business delivered strong total and base revenue growth across our core customer channels, due to strong commercial execution, innovative offerings and ongoing strength in healthcare utilization.
- We announced four acquisitions that meet our criteria for growth, profitability and returns and position us for growth in new geographic and service areas.
- We improved productivity as well as service levels and quality, through greater use of automation and AI.

Finally, I'd like to personally thank my nearly 50,000 Quest colleagues for our strong performance this quarter, which is largely the result of the dedication, care and collaboration that they show patients, customers each and every single day. This commitment was exemplified by the tireless efforts of our teams to restore outstanding service for patients and customers this past weekend following the global IT outage. I'm proud to work with so many talented people committed to living our Purpose: Working together, to create a healthier world, one life at a time.

And with that, we'd be happy to take your questions.

Operator?

OPERATOR: Thank you. We will now open it up to questions. At the request of the Company, we ask that you please limit yourself to one question. If you have additional questions, we ask that you please fall back in the queue.

JIM: Thanks again for joining our call today. We appreciate your support. Have a good day, everybody.

OPERATOR:

Thank you for participating in the Quest Diagnostics Second Quarter 2024 conference call. A transcript of prepared remarks on this call will be posted later today on Quest Diagnostics' website at www.QuestDiagnostics.com.

A replay of the call may be accessed online at www.QuestDiagnostics.com/investor or by phone at 866-363-1805 for domestic callers or 203-369-0193 for international callers. Telephone replays will be available from approximately 10:30 a.m. Eastern Time on July 23, 2024 until midnight Eastern Time on August 6, 2024. Goodbye.