Quest Diagnostics Incorporated
First Quarter 2005 Conference Call
April 21, 2005

Laure Park: Thank you and good morning. I am here with Surya Mohapatra, our chairman and chief executive officer, and Bob Hagemann, our chief financial officer.

Some of our commentary and answers to questions may contain forward-looking statements that are based on current expectations and involve risks and uncertainties that could cause actual results and outcomes to be materially different. Certain of these risks and uncertainties may include, but are not limited to, competitive environment, changes in government regulations, changing relationships with customers, payers, suppliers and strategic partners and other factors described in the Quest Diagnostics Incorporated 2004 Form 10-K and subsequent filings.

A copy of our earnings press release, together with any information that is required under Regulation G, are available, and the text of our prepared remarks will be available later today in the "quarterly updates" section of our website at www.questdiagnostics.com. A downloadable spreadsheet with our results is also available on the website.

Now, here is Surya Mohapatra.

Surya Mohapatra: Thank you, Laure.

We reported strong financial results for the first quarter.

- Revenues grew 5.1%; and
- Earnings per share grew 19%.

We have established our company's strategy based on three simple words -- patients, growth and people. I am pleased with the progress we are making in each of these areas:

- We continue to improve the level of service we provide, with a special focus on the patient experience.
- We are driving growth by continuing to differentiate ourselves in the marketplace.
- And we are investing in our people so their skills and knowledge keep pace with the rapidly evolving needs of our physicians and patients.

Now Bob will share with you the analysis of our financial performance.

Bob Hagemann: Thanks, Surya.

It was a strong quarter. Our continued efforts to drive top line growth and margin expansion are driving earnings growth.

Revenue growth for the quarter of 5.1% was comprised of a volume increase of 2.8% and an increase in revenue per requisition of 2.3%.

First quarter volume growth compared to the prior year was reduced by about one percent due to the benefit from Leap Year in 2004.

Growth in revenue per requisition was slightly higher than we experienced in the fourth quarter and continues to be principally driven by improvements in test mix and the number of tests per requisition, in addition to modest price increases.

Operating income as a percentage of revenue was 17.4%, an improvement of 80 basis points from the prior year. Bad debt was 4.5% of revenues and consistent with the prior year's rate. Our longer-term goal remains to achieve a bad debt rate of 4% or less.

We are continuing to make investments in customer connectivity, and improving service levels in our PSCs. While these investments are currently increasing our cost of sales component, we are confident in their ability to drive overall profitability and continued growth over the longer term. Top line growth has allowed us to leverage our expense base, which has reduced SG&A as a percentage of revenues and fueled margin expansion.

We expect to drive additional margin expansion at the same time we continue investing in our capabilities and service levels to further differentiate our company. Our goal remains to improve operating income as a percentage of revenues to around 20%, over the next several years.

Cash from operations was excellent: $136 million, compared to $111 million in the prior year. Remember, our first quarter cash flow is historically our lowest due to the timing of several large payments.

Days sales outstanding were 46 days, one day lower than the yearend level. Capital expenditures were $55 million for the quarter.

During the quarter we paid dividends totaling $15 million and repurchased 628 thousand common shares for $62 million, at an average price of just over $99 per share. Also, during the quarter, we completed a small lab acquisition in Pennsylvania for about $19 million.

You've heard this before, but it is worth repeating. When we think about how to deploy our excess cash flow, we view growth opportunities as our <u>first</u> priority, and are excited about the longer-term prospects in this area. However, as you've seen us demonstrate, we will continue to use share repurchases as an alternative use of cash when growth opportunities are not available on appropriate terms.

Our outlook for the full year 2005 remains unchanged. We expect:

- Revenues to grow between 5 and 6%, essentially all from organic growth;
- Operating income as a percentage of revenues to expand to between 18 and 19%;
- Cash from operations to approach $800 million, and capital expenditures of between $210 and $230 million;
- And, we expect earnings per diluted share to grow 14% to 16% to between $5.45 and $5.55 compared to 2004 earnings per share of $4.77 before special charges.
- Due to the recent deferral by the SEC of the effective date for the change in accounting for equity-based compensation, we will adopt the accounting change starting at the beginning of next year.

Now, I'll turn it over to Surya.

Surya Mohapatra: Thanks, Bob.

Here is a brief update on the progress we are making on our strategy—patients, growth and people.

For most of our **<u>patients</u>**, the first point of contact is the phlebotomist. We are establishing higher standards for service provided by them, and have increased their level of training. Our focus is on defect-free, timely and caring service, so that the patient has a pleasant and professional experience – every time.

Increasingly patients are visiting our patient service centers for their blood draws -- nearly 40 million in 2004. This creates a further opportunity to differentiate ourselves in the eyes of our patients and doctors. Many PSCs now schedule patient appointments and have made changes in their workflow using Lean principles to reduce wait times. Our patient service centers are connected via the web – not only to our laboratories, but also to the physician's office through our Care360 product. This gives the doctor an opportunity to verify that their patients have gone for diagnostic testing, and expedites the process for patients.

The outcome of all these efforts is a patient who feels we care. We are making progress, but have more to do.

We also play an important role in educating patients about specific health issues that impact them. While cancer and cardiovascular disease affect both men and women, these diseases are often under diagnosed in women. To help address this issue, we remind women and their physicians about the importance of early detection through our website and educational materials. We also do this through underwriting programming such as the Art of Women's Health series that has started to be shown on public television around the country.

To drive **<u>growth</u>**, we are investing in service, sales and science.

One way we differentiate our <u>service</u> offering is through our advanced information technology solutions we offer to physicians and hospitals, which help them improve patient care and increase their efficiency. Usage of these services continues to grow —43% of orders and 64% of results are now being transmitted via the Internet. Several large physician practices have recently subscribed to our Care360 premium services, which include e-prescribing and other features that will enable them to achieve clinical integration.

Care360 is now fully integrated with pharmacy benefit managers through RxHub and directly to retail pharmacies through SureScripts. Additionally, we have been named a certified vendor for the e-prescribing employer initiative launched by the Big 3 auto manufacturers aimed at improving healthcare quality and reducing costs.

As part of our focus on <u>sales</u>, we continue to expand our sales force and enhance the training they receive. Since last year, all new sales representatives and a large portion of the existing force have gone through our enhanced sales training programs. Our investments in sales training are producing results. Graduates of these enhanced programs are demonstrating higher levels of performance.

In the area of science, we continue to build intellectual capital to create a strong pipeline of new tests and technologies. One of our focus areas is cancer.

- Last quarter we announced the development of new leukemia and lymphoma blood tests. Since then, we've seen significant interest in the new plasma-based tests being developed – tests that eventually could replace many painful bone marrow biopsies. We remain on track to introduce the first of these tests by the end of this year.
- We are seeing growth in orders for the CellSearch test to measure circulating tumor cells in patients with metastatic breast cancer. This important test is now being performed at our Nichols Institute labs on both coasts.
- These tests, along with our enhanced AP reports, growing pathology staff and specialized packaging and process for handling biopsies, are strengthening our position in anatomic pathology and cancer diagnostics.

Turning to our **people** strategy:

- We are investing in our employees, offering training and tools that provide an opportunity to all employees to improve themselves as well as the service they provide to patients.
- We believe that early detection and prevention, coupled with wellness programs reduce healthcare costs. We encourage our 38,000-plus employees and their spouses to utilize one of our product offerings, a health risk assessment based on diagnostic tests called Blueprint for Wellness. We sell this product to employers as a benefit to help employees manage their health.
- We continue to attract and recruit people from outside our industry, who are bringing new talents and perspectives, which are enhancing our existing work force.
- Our compensation structure pays people for performance, using a balanced scorecard of financial and non-financial metrics. We are further aligning the interests of senior management with those of shareholders. Management is now required to hold a minimum investment in company stock. Further, we are linking a portion of management's compensation to delivering long-term performance.

In closing:

- We are driving our strategy: focused on patients, growth and people.
- And, we are on track to meet our goals for 2005.

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