

QUEST DIAGNOSTICS INC
Form 10-Q
October 19, 2017

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017
Commission file number 001-12215

Quest Diagnostics Incorporated

500 Plaza Drive
Secaucus, NJ 07094
(973) 520-2700

Delaware
(State of Incorporation)

16-1387862
(I.R.S. Employer Identification Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 12, 2017, there were outstanding 136,299,442 shares of the registrant's common stock, \$.01 par value.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(unaudited)
(in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenues	\$1,931	\$1,885	\$5,773	\$5,654
Operating costs and expenses and other operating income:				
Cost of services	1,190	1,157	3,525	3,456
Selling, general and administrative	423	409	1,297	1,281
Amortization of intangible assets	19	18	54	54
Gain on disposition of business	—	—	—	(118)
Other operating expense (income), net	1	(21)	1	(20)
Total operating costs and expenses, net	1,633	1,563	4,877	4,653
Operating income	298	322	896	1,001
Other income (expense):				
Interest expense, net	(38)	(37)	(112)	(107)
Other (expense) income, net	(2)	4	12	(50)
Total non-operating expenses, net	(40)	(33)	(100)	(157)
Income before income taxes and equity in earnings of equity method investees	258	289	796	844
Income tax expense	(92)	(95)	(264)	(345)
Equity in earnings of equity method investees, net of taxes	9	11	25	30
Net income	175	205	557	529
Less: Net income attributable to noncontrolling interests	14	13	39	39
Net income attributable to Quest Diagnostics	\$161	\$192	\$518	\$490
Earnings per share attributable to Quest Diagnostics' common stockholders:				
Basic	\$1.18	\$1.37	\$3.77	\$3.46
Diluted	\$1.15	\$1.34	\$3.68	\$3.42
Weighted average common shares outstanding:				
Basic	137	139	137	141
Diluted	140	142	140	143
Dividends per common share	\$0.45	\$0.40	\$1.35	\$1.20

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(unaudited)
(in millions)

	Three Months Ended September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
Net income	\$175	\$205	\$557	\$529				
Other comprehensive income (loss):								
Currency translation	8	(5)	20	(23)				
Investment adjustments, net of taxes	3	—	3	(1)				
Net deferred loss on cash flow hedges, net of taxes	1	—	1	1				
Other comprehensive income (loss)	12	(5)	24	(23)				
Comprehensive income	187	200	581	506				
Less: Comprehensive income attributable to noncontrolling interests	14	13	39	39				
Comprehensive income attributable to Quest Diagnostics	\$173	\$187	\$542	\$467				

The accompanying notes are an integral part of these statements.

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CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

(unaudited)

(in millions, except per share data)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 350	\$ 359
Accounts receivable, net of allowance for doubtful accounts of \$286 and \$265 as of September 30, 2017 and December 31, 2016, respectively	960	926
Inventories	100	82
Prepaid expenses and other current assets	134	164
Total current assets	1,544	1,531
Property, plant and equipment, net	1,097	1,029
Goodwill	6,164	6,000
Intangible assets, net	1,029	949
Investment in equity method investees	459	443
Other assets	146	148
Total assets	\$ 10,439	\$ 10,100
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,047	\$ 975
Current portion of long-term debt	5	6
Total current liabilities	1,052	981
Long-term debt	3,759	3,728
Other liabilities	722	654
Commitments and contingencies		
Redeemable noncontrolling interest	78	77
Stockholders' equity:		
Quest Diagnostics stockholders' equity:		
Common stock, par value \$0.01 per share; 600 shares authorized as of both September 30, 2017 and December 31, 2016; 216 shares issued as of both September 30, 2017 and December 31, 2016	2	2
Additional paid-in capital	2,585	2,545
Retained earnings	6,946	6,613
Accumulated other comprehensive loss	(48)	(72)
Treasury stock, at cost; 80 shares and 79 shares as of September 30, 2017 and December 31, 2016, respectively	(4,691)	(4,460)
Total Quest Diagnostics stockholders' equity	4,794	4,628
Noncontrolling interests	34	32
Total stockholders' equity	4,828	4,660
Total liabilities and stockholders' equity	\$ 10,439	\$ 10,100

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(unaudited)
(in millions)

	Nine Months Ended September 30, 2017 2016	
Cash flows from operating activities:		
Net income	\$557	\$529
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	197	186
Provision for doubtful accounts	241	242
Deferred income tax provision	90	19
Stock-based compensation expense	54	52
Gain on disposition of business	—	(118)
Other, net	(5)	(15)
Changes in operating assets and liabilities:		
Accounts receivable	(265)	(316)
Accounts payable and accrued expenses	(3)	43
Income taxes payable	—	74
Termination of interest rate swap agreements	—	54
Other assets and liabilities, net	(14)	15
Net cash provided by operating activities	852	765
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(299)	(139)
Proceeds from disposition of businesses	1	270
Escrow proceeds associated with disposition of business	25	—
Capital expenditures	(170)	(165)
Decrease (increase) in investments and other assets	4	(11)
Net cash used in investing activities	(439)	(45)
Cash flows from financing activities:		
Proceeds from borrowings	—	1,869
Repayments of debt	(5)	(1,722)
Purchases of treasury stock	(350)	(440)
Exercise of stock options	125	63
Employee payroll tax withholdings on stock issued under stock-based compensation plans	(23)	(10)
Dividends paid	(186)	(168)
Distributions to noncontrolling interests	(38)	(31)
Other financing activities, net	55	(8)
Net cash used in financing activities	(422)	(447)
Net change in cash and cash equivalents	(9)	273
Cash and cash equivalents, beginning of period	359	133

Cash and cash equivalents, end of period	\$350	\$
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