

## Quest Diagnostics

## Takeaways from Mgmt. conference presentation: Puts &amp; takes in 2024

Maintain Rating: BUY | PO: 160.00 USD | Price: 142.11 USD

**Puts: Entering '24 with stable pricing, full M&A pipeline**

At a conference presentation earlier today, Quest Diagnostics (DGX) discussed current business trends, reaffirmed the medium-term outlook for 5% base revenue growth, and provided some color on the set up for 2024. While Mgmt. shied away from providing an explicit guidance, they noted that DGX will continue to see solid base business growth due in part to flat to slightly positive pricing in 2024, as the company renegotiated a significant portion of its health plan contracts in 2023. Supplementing core growth is a strong M&A pipeline, mainly comprised of health system outreach assets and professional lab services business. Indeed, yesterday DGX announced an acquisition of outreach lab assets in Pennsylvania, Ohio, and Massachusetts.

**Takes: Debt refinancing, Haystack dilution, COVID roll off**

DGX also several headwinds in 2024 which Mgmt. is working to offset. These include a ~\$150mn drop off in COVID-related sales for 2024 (vs. ~\$200mn in 2023); a full year of dilution from the Haystack acquisition (a \$0.30-\$0.40 hit to EPS); and continued tight labor markets. After a debt financing in 4Q (\$750mn of senior notes), DGX also noted that the higher interest rate would be an additional \$0.25 headwind on the bottom line in 2024. To offset these headwinds, DGX continues to see plenty of space for productivity gains via its Invigorate savings program, as well as the use of more automation and artificial intelligence in its labs. Also, the further delay of PAMA (Protecting Access to Medicare Act) creates an incremental \$85-90mn "savings" to help support the bottom-line. Overall, we remain positive on DGX given lower exposure to headwinds impacting the rest of our Life Sciences & Biopharma Services coverage universe and reasonable valuation. Maintain Buy.

09 January 2024

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## Stock Data

Price	142.11 USD
Price Objective	160.00 USD
Date Established	12-Dec-2023
Investment Opinion	B-1-7
52-Week Range	119.59 USD - 156.94 USD
Mrkt Val (mn) / Shares Out (mn)	15,978 USD / 112.4
Free Float	99.1%
Average Daily Value (mn)	122.59 USD
BofA Ticker / Exchange	DGX / NYS
Bloomberg / Reuters	DGX US / DGX.N
ROE (2023E)	16.4%
Net Dbt to Eqty (Dec-2022A)	64.0%
ESGMeter™	High

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Timestamp: 09 January 2024 10:42PM EST

## Price objective basis & risk

### Quest Diagnostics (DGX)

Our \$160 price objective is based on an EV/EBITDA multiple of about 11x our 2024 estimate. Our multiple is in-line with DGX's historic range of 8-12x, which we view as appropriate as core growth has improved but near-term margin expansion is limited.

Upside risks to our PO are higher specialty mix, additional capital deployment, deeper cost cutting, more favorable regulatory developments, and better than expected deal performance.

Downside risks to our PO are greater-than-expected pricing headwinds, inflationary pressures, lower-than-expected test volume growth, higher US corporate tax rates, competition, execution risk, integration risk, data privacy risk, and regulatory risk.

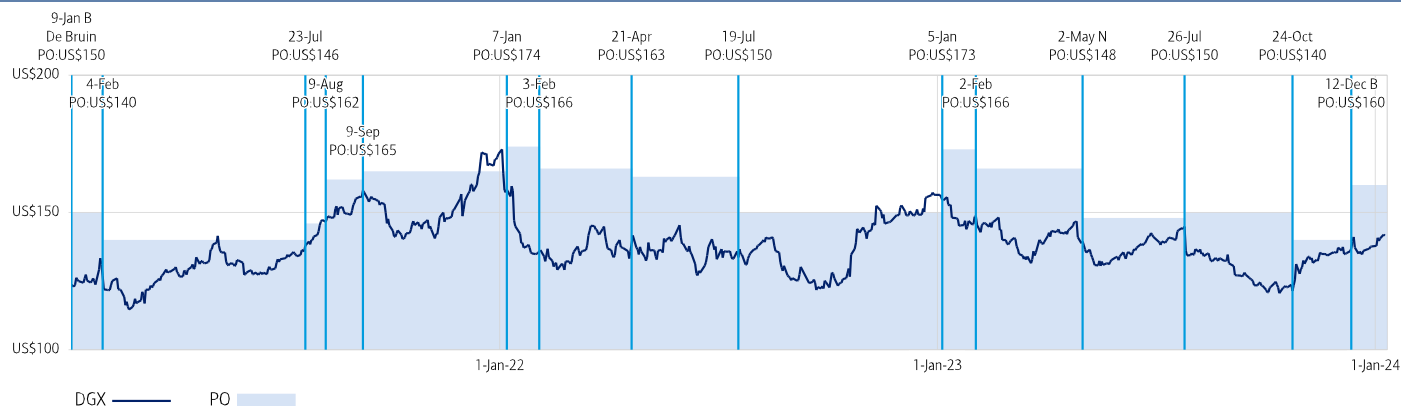
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### Quest Diagnostics (DGX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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