



Sell: DGX

Presented by:
Valentin Arroyo
JJ Cervantes
Tarun Bala
Tom Szyszka
Tuong Le

Portfolio Management Team

Company Overview

- Quest Diagnostics originally founded in 1967
- Primarily in the diagnostic information services business so think bloodwork and in lab clinical testing.
- Fee based income from the services offered
- Hospitals and clinics utilize Quest for their specialized diagnosis capabilities.
- Mainly operates through leased spaces



Historical Analysis (Qualitative)

- Haystack Oncology, (06/21/2023)
- NewYork-Presbyterian (04/17/2023)
- Northern Light Laboratory in Maine (03/20/2023)
- Summa Health (11/28/2022)
- Mercy's Outreach Laboratory Services Business (06/01/2021)
- Mid America Clinical Laboratories(08/03/2020)
- Boyce & Bynum Pathology Laboratories (02/11/2019)
- Overall trend → Lots of Lab Services acquisitions for expansion



Historical Analysis

All time:

5 Years:



Wave of R&D

Struggled to adapt

Leadership changes
+good Q420

COVID testing kits



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Historical Analysis (Cont.)

10 Years (comparison):

Purple: Thermo Fisher Scientific (TMO)

Yellow: Quest Diagnostics (DGX)

Red: Agilent Technologies Inc. (A)

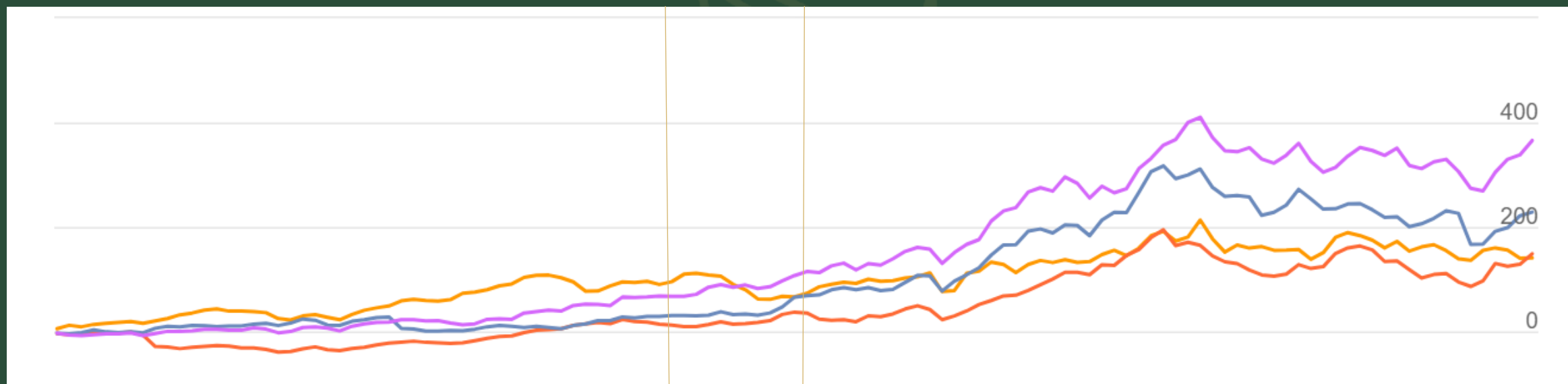
Blue: Danaher Corp. (DHR)

Mrkt Cap: 226.24B; Volume: 1.4M

Mrkt Cap: 14.33B; Volume: 1.05M

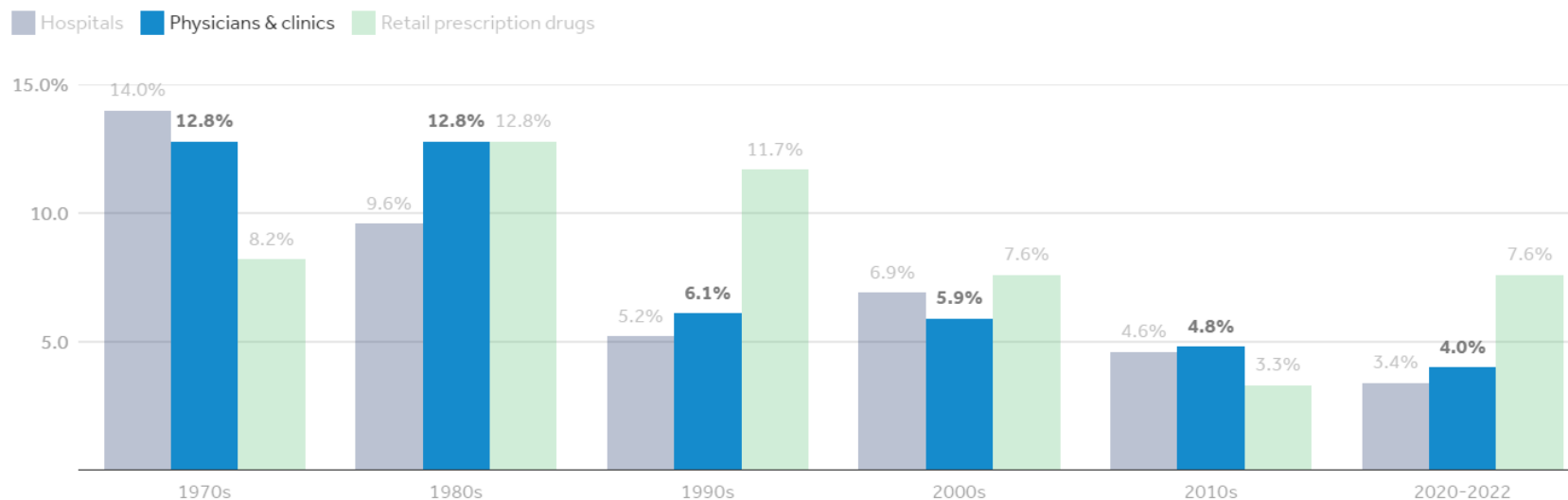
Mrkt Cap: 43.32B; Volume: 1.62M

Mrkt Cap: 188.88B; Volume: 2.77M

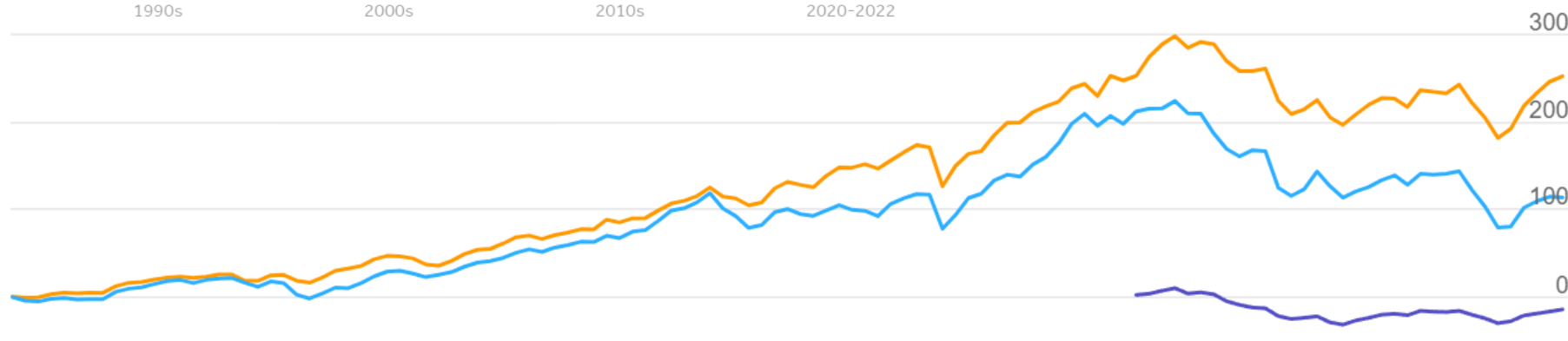


Qualitative Analysis

Average annual expenditures growth rate for select service types, 1970-2022



Medical ETFs (10yr)



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Qualitative Analysis (Cont.)

Sluggish transition over to nutrition, tumorous disease, and genetic diagnostics

01/08/2024

Haystack Oncology and Alliance Foundation Trials collaborate to use Haystack MRD™ technology in phase II clinical trial for unresectable stage III NSCLC

07/13/2023

Quest Diagnostics Launches Novel Prostate Cancer Test Aimed at Improving Diagnosis and Grading

12/14/2023

Haystack Oncology and Rutgers Cancer Institute Collaborate to use Haystack MRD™ in Clinical Study of Early-Stage Triple-Negative Breast Cancer

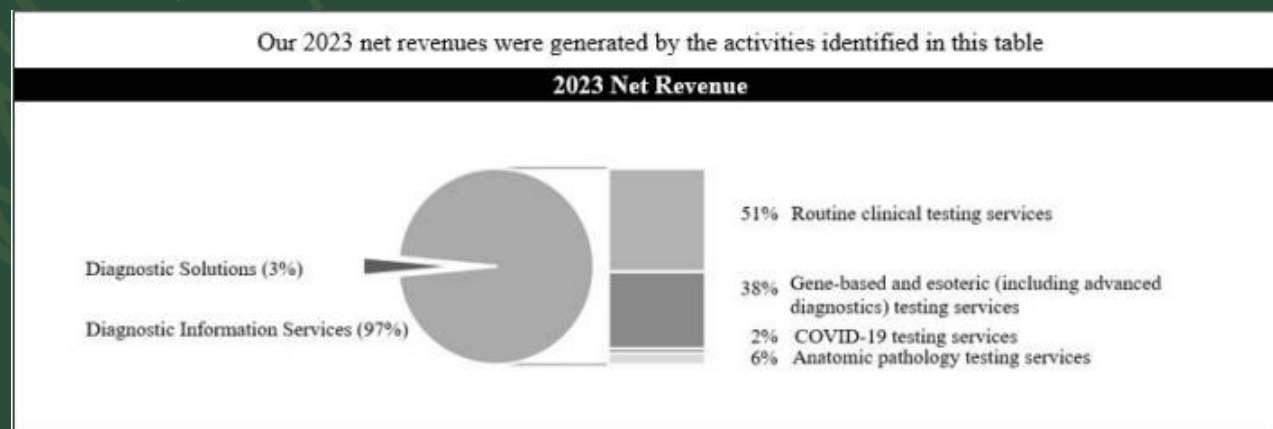
01/17/2024

Fitbit and Quest Diagnostics Collaborate to Advance Research on the Use of Wearable Devices to Improve Metabolic Health



Quantitative Analysis

- Most of DGX's revenue is generated in the US.
- 2000 labs in the US vs 1 lab in India, general office in Ireland, and consulting in Brazil and 35 labs in Mexico.



| | 2023 | 2022 | \$ Change | % Change |
|----------------------|--|----------|-----------|----------|
| | (dollars in millions, except per share data) | | | |
| Net revenues: | | | | |
| DIS business | \$ 8,976 | \$ 9,609 | \$ (633) | (6.6)% |
| DS businesses | 276 | 274 | 2 | 0.7 |
| Total net revenues | \$ 9,252 | \$ 9,883 | \$ (631) | (6.4)% |



Income Statement

| Quarterly Data Millions of US \$ except per share data | | 2023-12-31 | 2023-09-30 | 2023-06-30 |
|--|---|------------|------------|------------|
| Revenue |  | \$2,288 | \$2,295 | \$2,338 |
| Cost Of Goods Sold |  | \$1,552 | \$1,541 | \$1,546 |
| Gross Profit |  | \$736 | \$754 | \$792 |
| Research And Development Expenses | | - | - | - |
| SG&A Expenses |  | \$407 | \$380 | \$416 |
| Other Operating Income Or Expenses |  | \$-35 | \$-5 | - |
| Operating Expenses |  | \$469 | \$412 | \$444 |
| Operating Income |  | \$267 | \$342 | \$348 |
| Total Non-Operating Income/Expense |  | \$-30 | \$-43 | \$-31 |
| Pre-Tax Income |  | \$237 | \$299 | \$317 |
| Income Taxes |  | \$40 | \$68 | \$75 |
| Income After Taxes |  | \$197 | \$231 | \$242 |
| Other Income | | - | - | - |
| Income From Continuous Operations |  | \$205 | \$237 | \$249 |
| Income From Discontinued Operations |  | - | - | - |
| Net Income |  | \$192 | \$225 | \$234 |
| EBITDA |  | - | \$453 | \$460 |
| EBIT |  | \$267 | \$342 | \$348 |
| Basic Shares Outstanding |  | 112 | 112 | 112 |
| Shares Outstanding |  | 113 | 114 | 114 |
| Basic EPS |  | \$1.72 | \$1.99 | \$2.08 |
| EPS - Earnings Per Share |  | \$1.70 | \$1.96 | \$2.05 |

Q4'23 Income Statement

Revenue:

- QoQ: -\$7M down 0.31%

Cost of Sales:

- QoQ: +\$11M up 0.71%

Operating Income:

- QoQ: -\$75M down 21.93%

Net Income:

- QoQ: -\$33M down 14.67%

EPS:


- QoQ: -\$0.27 down 13.57%

Cashflow Statement

| | 2023 | 2022 | 2021 |
|--|----------------|----------------|----------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 908 | \$ 1,015 | \$ 2,080 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 439 | 437 | 408 |
| Provision for credit losses | 1 | 3 | 4 |
| Deferred income tax (benefit) provision | (49) | 1 | (57) |
| Stock-based compensation expense | 77 | 77 | 79 |
| Gain on disposition of joint venture | — | — | (314) |
| Other, net | 41 | 66 | (54) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (15) | 246 | 81 |
| Accounts payable and accrued expenses | (55) | (149) | 35 |
| Income taxes payable | (2) | (31) | (20) |
| Other assets and liabilities, net | (73) | 53 | (9) |
| Net cash provided by operating activities | 1,272 | 1,718 | 2,233 |
| Cash flows from investing activities: | | | |
| Business acquisitions, net of cash acquired | (611) | (144) | (331) |
| Proceeds from disposition of joint venture | — | — | 755 |
| Capital expenditures | (408) | (404) | (403) |
| (Increase) decrease in investments and other assets, net | (42) | 5 | — |
| Net cash (used in) provided by investing activities | (1,061) | (543) | 21 |
| Cash flows from financing activities: | | | |
| Proceeds from borrowings | 2,592 | — | — |
| Repayments of debt | (1,844) | (2) | (2) |
| Purchases of treasury stock | (275) | (1,408) | (2,199) |
| Exercise of stock options | 72 | 123 | 129 |
| Employee payroll tax withholdings on stock issued under stock-based compensation plans | (28) | (28) | (22) |
| Dividends paid | (314) | (305) | (309) |
| Distributions to noncontrolling interest partners | (57) | (73) | (99) |
| Other financing activities, net | 14 | (39) | (38) |
| Net cash provided by (used in) financing activities | 160 | (1,732) | (2,540) |
| Net change in cash and cash equivalents and restricted cash | 371 | (557) | (286) |
| Cash and cash equivalents and restricted cash, beginning of year | 315 | 872 | 1,158 |
| Cash and cash equivalents and restricted cash, end of year | \$ 686 | \$ 315 | \$ 872 |

- Down (46.17)% on Net Cash provided by operating Activities (Life-line)
- Started repayments of debt
- Significantly decreased their purchase of Treasury Stock

Balance sheet

| Quarterly Data Millions of US \$ except per share data | | 2023-09-30 | 2023-06-30 | 2023-03-31 |
|--|---|-----------------|-----------------|-----------------|
| Cash On Hand |  | \$143 | \$126 | \$175 |
| Receivables |  | \$1,281 | \$1,235 | \$1,254 |
| Inventory |  | \$184 | \$184 | \$190 |
| Pre-Paid Expenses |  | \$207 | \$188 | \$195 |
| Other Current Assets |  | - | - | - |
| Total Current Assets |  | \$1,815 | \$1,733 | \$1,814 |
| Property, Plant, And Equipment |  | \$1,830 | \$1,814 | \$1,795 |
| Long-Term Investments |  | \$130 | \$135 | \$128 |
| Goodwill And Intangible Assets |  | \$8,951 | \$8,980 | \$8,318 |
| Other Long-Term Assets |  | \$149 | \$152 | \$150 |
| Total Long-Term Assets |  | \$11,667 | \$11,692 | \$10,980 |
| Total Assets |  | \$13,482 | \$13,425 | \$12,794 |
| Total Current Liabilities |  | \$1,618 | \$1,875 | \$1,355 |
| Long Term Debt |  | \$3,946 | \$3,777 | \$3,975 |
| Other Non-Current Liabilities |  | \$874 | \$901 | \$809 |
| Total Long Term Liabilities |  | \$5,401 | \$5,263 | \$5,351 |
| Total Liabilities |  | \$7,019 | \$7,138 | \$6,706 |
| Common Stock Net |  | \$2 | \$2 | \$2 |
| Retained Earnings (Accumulated Deficit) |  | \$8,711 | \$8,566 | \$8,412 |
| Comprehensive Income |  | \$-20 | \$-16 | \$-18 |
| Other Share Holders Equity | | - | - | - |
| Share Holder Equity |  | \$6,463 | \$6,287 | \$6,088 |
| Total Liabilities And Share Holders Equity |  | \$13,482 | \$13,425 | \$12,794 |

Q3'23 Balance Sheet

Cash:

- QoQ: +\$17M up 13.49%

Total Current Assets:

- QoQ: +\$82M up 4.73%

Total Assets:

- QoQ: +\$57M up 0.42%

Total Current Liabilities:

- QoQ: -\$257M down 13.71%

Total Liabilities:

- QoQ: -\$119M down 1.67%

Total Equity:

- QoQ: +\$176M up 2.80%

Company Vs Competitors

| Metrics | Stock 1 | Stock 2 | Stock 3 |
|---------------------|-------------------------|--------------|--------------------------|
| Ticker | Quest Diagnostics (DGX) | LabCorp (LH) | Roche Holding AG (RHHBY) |
| P/E: | 17.28 | 15.62 | 16.97 |
| P/S: | 1.49 | 1.35 | 3.17 |
| P/FCF: | 24.50 | 20.97 | 17.17 |
| Operating Cash Flow | 1.27B | 1.33B | 16.1B |
| Beta: | 0.89 | 1.00 | 0.15 |
| Market Cap: | 13.97B | 18.29B | 218.16B |
| Dividend Yield | 2.27% | 1.29% | 4.13% |



Company Vs Competitors - Qualitative

- Quest is solely differentiated from its competitors by the controlling market share it has over Total industry rev.
- Very concentrated in Routine Clinical Testing
 - "Highly Competitive"
- What's stopping people from going to LabCorp?
- Quest's need for expansion to capture more clients (acquisitions)



S.W.O.T Analysis

Strengths

- Large market share
- Strategic partnerships and acquisitions

Weaknesses

- YOY decrease in financials (3 years)
 - Overpriced tests
 - Bad Public image

Opportunities

- Market growth overseas

Threats

- High exposure to regulatory actions
 - Pricing pressures



Conclusion

- Overall, Quest Diagnostics finds itself in an industry wide correction due to the Covid-19 fallout
- Net cash on operating activities down over 40% for the year
- Indifferentiable competitive advantage
- CAGR of 4% after 7 years
- Looking for new opportunities

| Healthcare | | | | |
|------------|-------------|-------------------------------|-----------|---------------|
| Ticker | Date Bought | Name | Gain/Loss | D/D Gain/Loss |
| ELV | 11/28/2017 | Elevance Health Inc | 128.0% | 0.76% |
| DGX | 3/2/2017 | Quest Diagnostics Inc | 31.7% | 1.72% |
| REGN | 12/1/2023 | Regeneron Pharmaceuticals Inc | 18.4% | -0.45% |
| MRK | 3/10/2022 | Merck & Co Inc | 57.6% | -0.59% |

