

QUEST DIAGNOSTICS INC
Form DEF 14A
April 05, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

- [] Preliminary Proxy Statement
- [] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (as permitted by Rule 14a-6(e)(2))
- [X] Definitive Proxy Statement
- [] Definitive Additional Materials
- [] Soliciting Material Pursuant to Section 240.14a-12

Quest Diagnostics Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- [X] No fee required.
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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Notice of 2017 Annual Meeting

and

Proxy Statement

April 5, 2017

Action from Insight

VISION

Empowering **better health**
with **diagnostic insights**

Accelerate growth

Drive operational excellence

- Grow General Diagnostics
- Enhance the Quest customer experience
- Expand Advanced Diagnostics
- Deliver Invigorate operational efficiencies
- Extend Diagnostic Services

2 - POINT
STRATEGY

Promote a healthier world

Build value

GOALS

Create an inspiring workplace

HOW WE OPERATE

Our principles

- Focus on diagnostic information services

Our behaviors

- Agile

Our values

- Quality

- Strengthen organizational capabilities
- Customer Focused
- Integrity

- Deliver disciplined capital deployment
- Transparent
- Innovation

- United as One Team • Accountability

- Performance Oriented • Collaboration

- Leadership

Notice of 2017 Annual Meeting of Stockholders

Quest Diagnostics Incorporated

Three Giralda Farms

Madison, New Jersey

May 16, 2017, 10:30 a.m. local time

April 5, 2017

Dear Fellow Stockholder:

It is our pleasure to invite you to attend Quest Diagnostics' 2017 Annual Meeting of Stockholders. At the meeting, stockholders will vote:

- to elect nine directors;
- to approve the executive officer compensation disclosed in the Company's 2017 proxy statement;
- to recommend the frequency of the stockholder advisory vote to approve executive officer compensation;
- to ratify the appointment of our independent registered public accounting firm for 2017; and
- to approve amendments to the Amended and Restated Long-Term Incentive Plan for Non-Employee Directors.

Stockholders also will transact any other business as may properly come before the meeting or any adjournment or postponement thereof.

Attendance at the meeting is limited to stockholders at the close of business on March 17, 2017, or their duly appointed proxy holder.

We enclose our proxy statement, our Annual Report and a proxy card; distribution of these materials is scheduled to begin on April 5, 2017. *Your vote is very important.* Whether or not you plan to attend the meeting, I urge you to

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submit your proxy. Most stockholders may submit a proxy via mail, telephone or the Internet. Instructions on how to submit your proxy are included with your proxy card and these proxy materials. Please submit your proxy promptly.

Thank you for your continued support of Quest Diagnostics.

Sincerely,

Stephen H. Rusckowski
*Chairman of the Board, President
and Chief Executive Officer*

Daniel C. Stanzione, Ph.D.
Lead Independent Director

PROXY SUMMARY

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.

Annual Meeting of Stockholders

Time and Date 10:30 a.m., May 16, 2017 Record date March 17, 2017
 Place Quest Diagnostics Incorporated Voting Record date stockholders only;
 Three Giralda Farms one vote per share
 Madison, NJ 07940

Meeting Agenda

	<u>Our Board's Recommendation</u>	<u>For More Detail, See Page</u>
1. Elect nine directors	FOR EACH DIRECTOR NOMINEE	1
2. Approve the executive officer compensation disclosed in our 2017 proxy statement (advisory resolution)	FOR	17
3. Recommend the frequency of the stockholder advisory vote to approve executive officer compensation (advisory vote)	FOR	17
4. Ratify the appointment of our independent registered public accounting firm for 2017	FOR	48
5. Approve amendments to the Amended and Restated Long-Term Incentive Plan for Non-Employee Directors (the "Director Plan")	FOR	51

Board Proposals

Advisory Resolution to Approve Executive Officer Compensation. We are asking our stockholders to approve, on an advisory basis, the compensation of our named executive officers disclosed in our 2017 proxy statement.

Advisory Vote Regarding the Frequency of the Advisory Vote to Approve Executive Officer Compensation. We are asking our stockholders to vote, on an advisory basis, to recommend the frequency of the advisory vote to approve executive officer compensation. We recommend that the vote be conducted annually.

Ratify the Appointment of Independent Registered Public Accounting Firm for 2017. We are asking our stockholders to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2017.

Approve Amendments to the Director Plan. We are asking our stockholders to approve amendments to the Director Plan. The amendments will increase the number of shares of our common stock available for issuance under the Director Plan, and revise it so that it no longer provides for a termination date.

2018 Annual Meeting of Stockholders

- Stockholder proposals submitted pursuant to SEC Rule 14a-8 must be received by the Company by December 6, 2017.

Notice of stockholder proposals outside of SEC Rule 14a-8, including nominations (other than proxy access

- nominations) for the Board of Directors (the “Board”), must be received by the Company no earlier than January 16, 2018 and no later than February 15, 2018.

- Notice of proxy access director nominations must be received by the Company no earlier than November 6, 2017 and no later than December 6, 2017.

i 2017 Proxy Statement

Board Nominees

The following table provides summary information about our director nominees.

AFC Audit & Finance Committee **FE** Financial Expert
CC Compensation Committee **GC** Governance Committee
EX Executive Committee **QSC** Quality, Safety & Compliance Committee

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Occupation</u>	<u>Experience/Qualification</u>	<u>Committee Memberships</u>	<u>Other Public Company Boards</u>
Jenne K. Britell, Ph.D.	74	2005	Non-Executive Chair, United Rentals, Inc.	<ul style="list-style-type: none"> • Finance • Executive • Advisory • Capital Markets • International • Strategic Planning 	AFC/FE QSC	<ul style="list-style-type: none"> • Crown Holdings, Inc. • United Rentals, Inc.
Vicky B. Gregg	62	2014	Retired CEO, Blue Cross and Blue Shield of Tennessee	<ul style="list-style-type: none"> • Executive • Advisory • Strategic Planning • Healthcare General Management 	CC QSC	<ul style="list-style-type: none"> • Acadia Healthcare Company
Jeffrey M. Leiden, M.D., Ph.D.	61	2014	Chairman, President and CEO, Vertex Pharmaceuticals Incorporated	<ul style="list-style-type: none"> • Executive • Advisory • Strategic Planning • Healthcare General Management 	CC QSC	<ul style="list-style-type: none"> • Vertex Pharm. Incorporated
Timothy L. Main	59	2014	Chairman, Jabil Circuit, Inc.	<ul style="list-style-type: none"> • Executive • International • Operations • Corporate Governance • General Management 	AFC GC	<ul style="list-style-type: none"> • Jabil Circuit, Inc.
Gary M. Pfeiffer	67	2004	Retired Senior Vice President	<ul style="list-style-type: none"> • Accounting • Executive 	AFC/FE (Chair) GC	<ul style="list-style-type: none"> • InterNAP Corporation • TerraVia Holdings, Inc.

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			and Chief Financial Officer, E.I. du Pont de Nemours and Company	<ul style="list-style-type: none"> • Finance • International • Strategic Planning 	EX	
Timothy M. Ring	59	2011	Chairman and CEO, C. R. Bard, Inc.	<ul style="list-style-type: none"> • Executive • International • Strategic Planning • Healthcare 	CC (Chair) GC	• C. R. Bard, Inc.
Stephen H. Rusckowski	59	2012	Chairman, President and CEO, Quest Diagnostics Incorporated	<ul style="list-style-type: none"> • Executive • International • Healthcare • Strategic Planning 	EX	• Xerox Corporation
Daniel C. Stanzione, Ph.D.	71	1997	President Emeritus, Bell Laboratories	<ul style="list-style-type: none"> • Executive • General Management • Strategic Planning 	AFC GC (Chair) EX (Chair)	• InterNap Corporation
Gail R. Wilensky, Ph.D.	73	1997	Senior Fellow, Project Hope	<ul style="list-style-type: none"> • Healthcare • Government • Strategic Planning 	CC GC QSC (Chair)	• United Healthcare Corporation

Executive Compensation Highlights

<u>Type</u>	<u>Form</u>	<u>Terms</u>
Equity	•Performance Shares	•40% of total equity award •Performance metrics for 2016-2018 performance cycle: revenue growth, 50%; average return on invested capital, 50% •Vest after 3-year performance period
	•Stock Options	•40% of total equity award •Vest ratably over three years from the grant date
	•Restricted Share Units	•20% of total equity award •Vest 25% on each of the first and second anniversaries of the grant date and 50% on the third anniversary of the grant date
Cash	•Salary	•Reviewed and approved annually
	•Annual Incentive Compensation	•Based on quantitative and qualitative goals with formula amount subject to negative discretion
Retirement	•401(k) Plan	•Company matching contributions
	•Supplemental Deferred Compensation Plan	•Company matching contributions

Our Board is firmly committed to pay for performance. The table above outlines the main components of our compensation program for executive officers in 2016. The objective of our program is to attract and retain talented executives who have the skills and experience required to help us achieve our strategic objectives and advance the long-term interests of our stockholders. The compensation opportunity for our named executive officers is directly tied to corporate performance, including both financial and non-financial results, and individual performance. In recent years the Compensation Committee has built a strong foundation for our executive compensation program, and has taken numerous steps to enhance the program's alignment of pay and performance.

The 2016 annual incentive payout for our named executive officers, including Mr. Rusckowski, on our annual cash incentives under the Senior Management Incentive Plan ("SMIP") was 94% of target, compared to 89% of target in the prior year. The increase reflects stronger year-on-year top line performance relative to target as well as improvements in non-financial metrics, including medical quality and customer experience. Similarly, payout on performance share awards for the 3-year performance period ended December 31, 2016 was 93% of target, which was significantly higher than the payout on performance share awards for the 3-year performance period ended December 31, 2015. The following table summarizes annual incentive plan and performance share payouts for the two most recent performance periods for our named executive officers.

<u>Incentive Program</u>	<u>Annual Incentive Payout</u> <u>(% of target)</u>	<u>Performance Share</u> <u>Payout for 3-year</u> <u>performance period</u> <u>(% of target)</u>
Performance period ended December 31, 2016	94	93
Performance period ended December 31, 2015	89	19

Our Compensation Discussion and Analysis, which includes a discussion of our program’s “Best Practices,” begins on page 19. The 2016 compensation of our named executive officers is set forth in tables beginning at page 37.

iii 2017 Proxy Statement

2016 Business Performance Highlights

2-Point Strategy

In 2016, we continued to make progress executing our business strategy. The Company improved on financial and operating metrics and exceeded several key financial targets. At our Investor Day in November 2016, we communicated a refinement in our strategy to reflect our progress, narrowing our focus to two elements: accelerate growth and drive operational excellence. Our Compensation Discussion and Analysis, beginning on page 19, discusses our 2016 business performance. The following highlights 2016 progress on our 2-point strategy.

Accelerate Growth. We grew revenues. Our focus on esoteric testing through our clinical franchises is yielding results (e.g., gene-based and esoteric testing grew approximately 4%; growth in prescription drug monitoring; introduced IBM Watson® Genomics from Quest Diagnostics). We entered into professional laboratory services agreements with RWJ Barnabas, the largest health care system in New Jersey, and HCA's HealthOne system in the Denver, Colorado area. We continued to expand our pipeline of hospitals and integrated delivery networks interested in working with us. We also made progress executing our strategy to be the provider of choice for consumers, including opening patient service centers in 56 Safeway stores. In addition, our emerging data analytics business is gaining traction: the customer list for our Data Diagnostics™ tool, offered in partnership with Inovalon, is growing and includes premier health plan payers such as Anthem and Harvard Pilgrim.

Drive Operational Excellence. We continued to make strong progress driving operational excellence and improving our quality, efficiency and customer experience. We improved performance on key medical quality and customer service measures as we became more efficient. In our Invigorate cost excellence program, we ended 2016 with more than \$1.1 billion in run-rate savings delivered, compared to 2011, and are on track to deliver our goal of \$1.3 billion in run-rate savings as we exit 2017.

3 Operating Principles

The following are highlights on our three operating principles—strengthening the organization, delivering disciplined capital deployment and focusing on diagnostic information services—that formerly were part of the Company's 5-point strategy.

• *Strengthen the organization.* In 2016, we streamlined our regional operations. In addition, we implemented across our entire organization our Everyday Excellence program, which includes guiding principles to support a superior customer experience, to inspire our employees to be their best every day, with every person and with every customer interaction. We also continued our Leading Quest Academy, which is designed to strengthen our more senior employee leaders through a highly experiential leadership development program focused on creating a high-performance culture and sharpening the capabilities needed to lead our organization, and started a new leadership training program for our supervisor-level employees. Reinforcing our commitment to integrity as one of our core values, we updated our Code of Ethics to better align with our vision, goals and brand. We also improved

the engagement levels of our employees.

Focus on diagnostic information services. In 2016, we completed our efforts to refocus on diagnostic information services: we sold our Focus Diagnostics® products business and concluded the disposition of our Celera® products business.

Deliver disciplined capital deployment. We returned a majority of our free cash flow to stockholders through dividends and repurchases of our common stock. We reinvested in our business through nearly \$300 million in capital expenditures and closed the acquisition of the outreach laboratory testing business of Clinical Laboratory Partners, a subsidiary of Hartford HealthCare. In November 2016, we announced the sixth increase in our quarterly common stock dividend since 2011, increasing the dividend by over 12%, from \$0.40 per common share to \$0.45 per common share. In January 2017, we announced a \$1.0 billion increase in repurchase authority under our common stock repurchase program.

2017 Proxy Statement iv

QUEST DIAGNOSTICS INCORPORATED

PROXY STATEMENT

3 Giralda Farms, Madison, New Jersey 07940

	<u>Page</u>
<u>Proxy Summary</u>	i
<u>Information About Our Corporate Governance</u>	1
<u>Proposal No. 1—Election of Directors</u>	1
<u>Governance Practices</u>	6
<u>Director Independence</u>	7
<u>Stockholder Access</u>	7
<u>Board Nomination Process</u>	8
<u>Board Committees</u>	9
<u>Board Leadership Structure and Role in Risk Oversight</u>	12
<u>Related Person Transactions</u>	12
<u>2016 Directors Compensation Table</u>	13
<u>Stock Ownership Information</u>	15
<u>Information Regarding Executive Compensation</u>	17
<u>Proposal No. 2—Advisory Resolution to Approve Executive Officer Compensation</u>	17
<u>Proposal No. 3—Advisory Vote to Recommend the Frequency of the Executive Officer Compensation Advisory Vote</u>	17
<u>Compensation Discussion and Analysis</u>	19
<u>Executive Summary</u>	19
<u>Executive Compensation Philosophy</u>	23
<u>Setting Executive Compensation</u>	25
<u>Pay Components</u>	27
<u>Base Salary</u>	27
<u>Annual Cash Incentive Compensation</u>	27
<u>Long Term Incentive Awards</u>	31