QUIDEL SECOND QUARTER 2019
CONFERENCE CALL SCRIPT
Thursday, August 8, 2019
2:00 p.m. PT/ 5:00 p.m. ET

OPERATOR:

Ladies and gentlemen, thank you for standing by.

Welcome to the Quidel Corporation second Quarter 2019 earnings conference call. At this time all participants are in a listen-only mode. Later, instructions will be given for the question-and-answer session. If anyone has difficulty hearing the conference, please press *0 for operator assistance.

I'd now like to turn the call over to Mr. Ruben Argueta, Quidel's Director of Investor Relations. Please go ahead.

Ruben Argueta

Thank you, Operator. Good afternoon everyone -- and thank you for joining today's call. With me today is our president and chief executive officer, Doug Bryant and Randy Steward, our Chief Financial Officer.

Our second quarter 2019 earnings release is now available on ir.quidel.com, our Investor Relations website. We will also post our prepared remarks on the Presentations tab of our IR website following the conclusion of this call, on August 8, 2019, for a period of 24 hours.

Please note that this conference call will include forward-looking statements within the meaning of Federal securities laws. It is possible that actual results and performance could differ significantly from these stated expectations. For a discussion of risk factors, please review Quidel's annual report on Form 10-K, registration statements and subsequent quarterly reports on Form 10-Q, as filed with the SEC.

Furthermore, this conference call contains time-sensitive information that is accurate only as of the date of the live broadcast, August 8, 2019. Quidel undertakes no obligation to revise or update any statements to

reflect events or circumstances after the date of this conference call, except as required by law.

Today, Quidel released financial results for the three months ended June 30, 2019. If you have not received our news release, or if you would like to be added to the company's distribution list, please contact me at 858-646-8023.

Following Doug's comments, Randy will briefly discuss our financial results. Then, we'll open the call to your questions.

I'll now hand the call over to Doug for his comments.

DOUG BRYANT

Thank you, Ruben, and good afternoon everyone. For today's call I'll cover three topics, our financial performance for the second quarter, the status of products in development, and very briefly, as we've done in previous quarters, the status of the Danaher litigation. And as always, I'm happy to answer your questions as well, following Randy's remarks.

Regarding our financial performance, I'll begin by saying that we had

a solid, profitable quarter. We met our expectations. Total revenue was $108.3 million on a reported basis, up 5% over last year's Q2. On a constant currency basis total revenue was up 7% versus last year.

Randy will walk you through the specifics on each of the businesses in a moment. I'll just comment briefly on a couple of the key revenue drivers in the quarter. Clearly the prolonged influenza season was a tailwind. Many of you had asked what our expectation was for influenza test revenue in Q2. We said publicly that we certainly expected to exceed last year's Q2 influenza revenue, which was $5.5 million, and thought that $6 to $10 million seemed like the right range, given our experiences in previous years. Total influenza revenue for the quarter was $13.1 million, driven mainly by influenza test sales on existing and new Sofia instrument placements. Our forecast was a bit off as we may have misunderstood the impact that the new Sofia placements would have.

The other revenue driver I will comment on is the Triage Cardiac and Toxicology business. We had said that we were expecting $276 million in revenue for the year, not considering FX, which would mean an overall growth rate of just under 4%, driven by introductions in the back half of the year of the new toxicology panel globally and high sensitivity Troponin in Europe. We said, further, that we would expect to see

Triage revenue in the range from $64 million to $69 million in the early quarters, given sometimes significant variability in distributor orders in any given quarter. For Q2 2019, Cardiac revenues were $69.9 million on a constant currency basis, or $68.0 million on a reported basis. During the quarter, we did receive FDA clearance to market the Triage Toxicology assay and began shipping product to distribution partners earlier this week. In addition, we're shipping Triage TroponinTrue, our high sensitivity point-of-care troponin assay, to a limited number of European customers and expect the publication in the fall of the APACE study could generate excitement for the product and accelerate our launch as we expand more broadly in Europe.

In terms of development, the R&D and regulatory teams continued their work at their usual quick pace and made noticeable progress on many fronts. We currently fund and manage over 20 product development programs. I will provide an update on a couple, and if there are others you would like me to comment on, I'll be happy to do that during the Q&A. I've said on several occasions that sustainable growth over our longer-range plan relies on our ability to leverage our assets and infrastructure. Our Sofia instrument base is an asset that provides incredible revenue and margin opportunity in the near to medium term. When all R&D programs are adjusted for technical, regulatory and

commercial risk, the Sofia assay program with its eleven assays in development is the highest growth driver in the LRP. Nearest to launch are Sofia C. difficile and five other GI assays, which are expected to be cleared in the US around the first half of 2020.

The other large potential growth driver is Savanna, and here's a quick update. Our confidence that we have a high performing cartridge that can be reliably manufactured in the millions at very high yields has never been higher. The assay development team in Beverly is running ahead of all the other teams and the development of menu will clearly not be a constraining factor. Our third-party instrument manufacturer is engaged, and we still believe that we will achieve FDA clearance on the instrument by year-end 2020 and will launch in the US with a significant menu in the first half of 2021.

Regarding the Danaher or Beckman litigation matter, just as we managed our communication last quarter, I will not be taking questions regarding pending litigation today. The Court of Appeal issued an order agreeing to hear our writ petition on the merits of the case and has stayed the trial court's December 7th order. We are pleased that the court of appeal has agreed to hear the merits of our challenge of the trial court's decision. The timing for hearing oral arguments is scheduled

for the morning of August 13th, with a decision from the court expected within 90 days from when the court hears the matter. Our position remains unchanged. We view Beckman's claims as meritless, and in opposition to Beckman's longstanding strategy of honoring the Supply Agreement with its previous partners, Alere and BioSite, over the last 15 years. We remain confident in our position and confident in the outcome of the matter on appeal and ultimately at trial, as the matter progresses.

In summary, we had another solid quarter, and we accomplished a great deal. Sofia placements continue to grow, aided somewhat by the launch of Sofia Lyme, although we are still in the early stages of creating patient and physician awareness. The Triage business is performing as expected and the integration of the Alere assets is nearly complete. We're generating cash and continuing to pay down debt. It was a quarter when we pretty much did what we said we would do.

Randy?

RANDY STEWARD

Second Quarter Financial Results

Thank you, Doug. Good afternoon everyone. As we reported earlier today, total revenues for the second quarter of 2019 were $108.3 million dollars, as compared to $103.2 million dollars in the second quarter of 2018, an increase of 5%. On a constant currency basis, revenue increased a solid 7%.

Rapid Immunoassay revenue increased 30%, from the second quarter of 2018 due to strong results from our Sofia franchise, which experienced growth across virtually all products. The largest Rapid Immunoassay dollar growth came from the Influenza category, up $6.2 million dollars. Flu revenue for the rapid category was $9.3 million dollars, while Strep A declined 9% and RSV increased 6%. The Strep A revenue decline was purely driven by fluctuation in distribution inventory levels. Rapid Immunoassay inventory at distribution is down 41% from the second quarter of last year, and down 44% sequentially. More granularly, Influenza inventories at distribution are down 56% versus last year's second quarter, and Strep A inventories are down 33% versus the second quarter of last year. For the second quarter, Sofia revenue was $11.6 million dollars, as compared to $5.1 million dollars in Q2 of the prior year, and QuickVue revenue was $8.9 million dollars, as compared to $10.1 million dollars in Q2 of 2018.

In the Cardiac Immunoassay category, revenue totaled $68.0 million dollars in the quarter versus $69.9 million in the same period last year. On a constant currency basis, revenue was in line with last year. Within the category, Triage revenue was $36.8 million dollars, a decline of 4% from the second quarter of 2018. Regionally, Triage saw revenue declines in the U.S, and to a lesser extent, Latin America and Asia Pacific, which was partially offset by 16% growth in China. On a constant currency basis, Triage revenue was down 1% versus last year.

On the Beckman BNP side, revenue decreased 1% over the second quarter of 2018 to $31.2 million and on a constant currency basis, BNP was up 1%. Regionally, North America and China delivered top line growth, which was offset by a revenue decline in the EMEA and Asia Pacific regions.

Revenue in the Specialized Diagnostic Solutions category increased 13% in the second quarter of 2019 to $14.3 million dollars, as our cell culture business grew 10%, driven by growth in China, and our MicroVue Bone Health and Complement business grew a combined 19% in the quarter.

Our Molecular Diagnostic Solutions category increased 7% in the second quarter to $4.2 million dollars, driven by 26% growth from Solana assay revenue. AmpliVue revenue continues to decline as we migrate the c. difficile and HSV assays over to Solana.

Gross Profit in the second quarter of 2019 increased $1.5 million dollars to $59.2 million, primarily the result of increased revenues and improved product mix. Gross margin in the second quarter of 2019 was approximately 55%, as compared to 56% in the second quarter of 2018. The slight decline was the result of an unfavorable foreign exchange impact, geographic product mix, as well as unfavorable factory absorption. In the back half of the year, we anticipate an improvement in gross margin versus 2018, and full year results should be consistent with last year.

R&D expense decreased by $1.6 million dollars in the second quarter as compared to the same period last year. This decrease is primarily driven by lower compensation costs, partially offset by higher spending on Sofia assay development and the Savanna platform. We reiterate our estimate of full-year spend between $53 million dollars and $55 million dollars.

Sales and Marketing expense was $26.9 million dollars in the quarter, a decrease of $0.6 million dollars, as compared to the second quarter last year. This decrease was largely due to lower transition service expenses that were partially offset by higher salaries, as we complete the globalization of our commercial team.

G&A expense increased by $1.4 million dollars in the quarter, primarily due to higher facilities costs associated with our international expansion, as well as professional services fees, offset by lower transition services fees, as our integration of the acquired Cardiac assets nears completion.

Acquisition and Integration costs in the second quarter were $1.8 million dollars, down from $4.9 million in the second quarter last year, as a larger proportion of our global operations became fully integrated into the overall business.

Interest expense for the quarter was $4.5 million dollars, and includes $0.8 million dollars relating to the Convertible Senior Notes, $0.5 million dollars relating to the Senior Credit Facility, and $2.2 million dollars relating to the deferred and contingent consideration associated with the purchase of the BNP business. The $2.3 million decrease in interest

expense over last year was due to the reduction in debt of approximately $158.4 million dollars over the last twelve months, and this includes the deferred and contingent consideration.

In the quarter, we recorded $0.7 million in income tax benefit. The benefit for the quarter was due to the fact that the discrete tax benefit for excess stock-based compensation expense was greater than the income tax liability for the quarter. We believe our effective tax rate for full year 2019 should be within the range of 19% to 21% of pre-tax income before consideration for discrete tax items. The impact of the 2017 Tax Cuts and Jobs Act regulations are yet to be finalized, and will determine where we fall in this range.

We continue to strengthen our balance sheet. In the quarter, we generated $34 million dollars in free cash flow after spending $6.8 million dollars in capital expenditures. We used a portion of the cash to pay down another $15.0 million dollars on the Revolving Credit Facility. Additionally, in April we made our second $48.0 million-dollar payment to Abbott. And finally, in June, the Company exchanged approximately $45.4 million dollars in aggregate principal amount of our Convertible Notes for 1.5 million shares.

In the quarter, we had depreciation of $4.9 million dollars and amortization of $7.0 million dollars. As of June 30, 2019, the company had $28.6 million dollars in cash on the balance sheet, $13.1 million dollars in principal amount outstanding relating to the Convertible Notes, and $18.2 million dollars outstanding on the Revolving Credit Facility. The outstanding principal balance on deferred and contingent consideration for the acquired Cardiac assets is now approximately $184.0 million dollars.

And with that, we conclude our formal comments for today. Operator, we are now ready to open the call for questions.

Q&A

OPERATOR

That is all the time we have today. Please proceed with your presentation or any closing remarks.

DOUG BRYANT

Thanks everyone for your support and for your interest in Quidel. We had another great quarter, and I believe that we are well-positioned to achieve our growth objectives. Take care, everyone.

OPERATOR

Ladies and gentlemen, we thank you for your participation, and ask that you please disconnect your lines. Goodbye.