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OSUR - Q2 2016 OraSure Technologies Inc Earnings Call

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PRESENTATION

Rena George-Beck *- OraSure Technologies, Inc. - IR*

Good afternoon, everyone, and welcome to OraSure Technologies' 2016 Second Quarter Financial Results Conference Call and simultaneous webcast. As a reminder, today's conference is being recorded. All lines have been placed on mute to prevent any background noise. (Operator Instructions)

To allow time for as many questions as possible, questioners are asked to limit themselves to only a single question with no more than one follow-up question related to the same topic. Once the follow-up is completed, a questioner can rejoin the queue for further questions.

OraSure Technologies issued a press release at approximately 4:00 PM Eastern Time today regarding its 2016 second quarter financial results and certain other matters. The press release is available on our website at www.orasure.com, or by calling 610-882-1820. If you go to our website, the press release can be found by opening the Investor Relations page and clicking on the link for press releases.

This call is also available real-time on our website, and will be archived there for seven days. Alternatively, you can listen to an archive of this call until Midnight, August 10, 2016 by calling 855-859-2056 for domestic, or 404-537-3406 for international. The access code is 46406766.

With us today are Doug Michels, President and Chief Executive Officer; and Ron Spair, Chief Operating Officer and Chief Financial Officer. Doug and Ron will begin with opening statements, which will be followed with a question-and-answer session.

Before I turn the call over to Doug, you should know that this call may contain certain forward-looking statements, including statements with respect to revenues, expenses, profitability, earnings or loss per share and other financial performance, product development performance, shipments and markets, business plans, regulatory filings and approvals, expectations, and strategies. Actual results could be significantly different.

Factors that could affect results are discussed more fully in the Company's SEC filings, including its registration statement, its annual report on Form 10-K for the year ended December 31, 2015, its quarterly reports on Form 10-Q, and its other SEC filings. Although forward-looking statement help us to provide complete information about future prospects, listeners should keep in mind that forward-looking statements are based solely on information available to management as of today. The Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after this call.

With that, I would like to turn the call over to Doug Michels.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Okay. Thank you, Rena, and good afternoon, everyone, and welcome to our call. We're very pleased to report that our second quarter 2016 results have exceeded our expectations on both the top and bottom lines.

Consolidated net revenues for the second quarter were $31.4 million, a 3% increase over the same period of 2015. Consolidated net product revenue increased 5% in the period. And these increases resulted primarily from higher infectious disease and molecular collection systems sales.

International HIV sales, driven primarily by additional orders for our new OraQuick HIV self-test in Africa, increased 230% from the second quarter of 2015. Sales of our OraQuick HCV test increased 37% over Q2 of 2015. And this increase reflects both higher domestic and international sales.

Molecular collection systems revenues rose 4% from the prior year quarter, largely due to higher sales to customers in the commercial genomics market as well as revenue growth from our portfolio of microbiome products.

We exceeded our bottom line guidance with $3.8 million in consolidated net income for the quarter, and this represents a $1.9 million improvement from the year-ago quarter.

Ron will provide some further detail on our second quarter financial performance, along with our guidance for the third. I'll then discuss some additional business developments. So with that, let me turn the call over to Ron.

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

Okay. Thanks, Doug, and good afternoon, everyone. Let's start with our revenues.

Our second quarter 2016 consolidated net revenues increased 3% to $31.4 million, compared to $30.4 million reported in 2015. Our consolidated net product revenues of $27.6 million increased 5%, largely as a result of higher sales of our OraQuick HCV, OraQuick HIV, and molecular collection systems products, partially offset by lower sales of our risk assessment products and the absence of sales of our OraQuick

Ebola product during the current quarter.

Other revenues were $3.8 million in the current quarter, of which $3.4 million represents the recognition of exclusivity revenue under the AbbVie HCV co-promotion agreement and $417,000 represents revenue associated with Ebola-related funding we received from the Biomedical Advanced Research and Development Authority, or BARDA. Other revenues in the second quarter of 2015 also included $3.4 million of exclusivity revenue from the AbbVie agreement and $714,000 of BARDA funding.

Our HCV product revenues increased 37% to $3.2 million in Q2 from $2.3 million in the prior year. International sales of our HCV test in the second quarter of 2016 rose 121% to $1.4 million from $646,000 in the same period last year, primarily due to the expansion of our business in Asia and higher sales to a multi-national humanitarian organization.

Domestic OraQuick HCV product sales increased 6% in the second quarter of 2016 to $1.8 million from $1.7 million in the prior-year period. This continued expansion of our core domestic HCV business resulted from higher sales to current customers who have expanded their HCV testing programs and the addition of new programs primarily in the public health market.

In 2015, we began selling our OraQuick Ebola Rapid Antigen test to the CDC for field testing in Africa. Sales of this product contributed $396,000 in product revenues during the second quarter of 2015. We did not have similar sales in the second quarter of 2016. However, we do believe Ebola sales in future periods are likely, given international surveillance efforts, but the timing and magnitude is uncertain.

International sales of our professional HIV product increased 230% to $2 million in the second quarter of 2016, compared to $596,000 in the second quarter of 2015. This increase is largely due to the continued shipment of product in support of an HIV self-testing program launched in Africa during the first quarter, along with higher sales in Europe.

Domestic sales of our professional HIV product decreased 11% to $5.9 million in the second quarter of

2016, compared to $6.6 million in the second quarter of 2015. Sales of our OraQuick In-Home test remained flat at $1.7 million in the second quarter of 2016 and 2015.

Our molecular collection systems revenues rose 4% to a record $8.4 million in the second quarter of 2016 compared to $8.1 million in the second quarter of 2015. Sales of our Oragene product to commercial customers increased 7%, largely due to ordering patterns of existing customers partially offset by the absence of sales from two large US customers experiencing financial difficulties. The Company has no unreserved collections exposure related to these two customers.

Academic sales decreased 7%, primarily as a result of the timing of orders placed by existing customers.

Second quarter 2016 cryo revenues remained flat at $3 million in the second quarter of 2016 and 2015.

Turning to gross margin, our gross margin for the second quarter of 2016 was 67% compared to 68% reported for the second quarter of 2015. Margin for the current quarter decreased primarily due to an unfavorable product mix, partially offset by lower scrap and spoilage costs.

Our consolidated operating expenses for the second quarter of 2016 were $16.7 million compared to $17.9 million in the comparable period of 2015. This decrease was the result of lower costs associated with our HCV co-promotion agreement with AbbVie, partially offset by higher legal costs.

From a bottom line perspective, we reported net income of $3.8 million, or $0.07 per share on a fully diluted basis for the second quarter of 2016, compared to net income of $2 million, or $0.03 per share, for the same period of 2015.

Turning briefly to our balance sheet and cash flow, we continue to maintain a solid cash and liquidity position. Our cash and short-term investment balance at June 30, 2016 was $113.4 million compared to $101.3 million at December 31, 2015. Cash generated by operating activities in the second quarter of 2016 was $11.9 million compared to $3.2 million in the second quarter of 2015.

So turning to guidance for the third quarter of 2016, we are projecting consolidated net revenues of approximately $31.25 million to $31.75 million. We are also projecting consolidated net income of approximately $0.07 to $0.08 per share.

Our results for Q3 are projected to be lower than previously estimated for a number of reasons. We are projecting lower international cryo OTC sales resulting from a demand reduction, lower Ebola funding from BARDA due to a shift in our development timeline, and lower Ebola product sales.

With that, I'll turn the call back over to Doug.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Okay. Thanks, Ron.

The highlight for the second quarter was our infectious disease testing business. As you heard from Ron's overview, revenue growth for the second quarter was largely the result of continued progress in international markets.

A primary example of this was the $1.2 million in sales of our new OraQuick HIV self-test into Africa. These tests were purchased by Population Services International, PSI, which is a leading global health organization. PSI has launched the Self-Testing in Africa, or S-T-A-R, Star Project, with support from UNITAID, the World Health Organization, and health officials from Malawi, Zambia and Zimbabwe.

As noted on prior calls, this is a pilot program being funded by UNITAID designed to deploy approximately 750,000 OraQuick HIV self-tests that we developed specifically for developing markets. PSI has advised us that our test has been well received in the field. Our expectation is that the initial orders from PSI will lead to a much larger, long-term opportunity that is expected to expand into other countries in Africa, in Latin America, and Asia.

To help ensure the long-term success of this effort, we are pursuing pre-qualification of our HIV self-test by the WHO, and we are targeting September for our submission. WHO prequalification is important to be eligible for sustainable funding from sources such as the Global Fund, from UNITAID, and from PEPFAR. Sales of our self-test to PSI more than offset the decline in our domestic HIV business during the second quarter.

Let me turn to HCV. The 37% overall increase in product revenues for the second quarter was largely driven by a 121% increase in international sales, compared to the second quarter of 2015.

As with our HIV business, we believe the international marketplace is becoming an increasingly important opportunity for our OraQuick HCV test. As recently disclosed, we are in the late stages of fulfilling the requirements to secure the largest new supply contract for rapid tests in our company's history.

Since our last update, the contract has been signed by both parties and we are completing some additional ancillary documents required for this contract to become fully effective. The contract calls for us to supply a foreign government with $18 million of product, the vast majority of which is our HCV rapid test. The delivery period ramps over a 12-month contract period and supports a nationwide testing and treatment program with the goal of eliminating Hepatitis C infection across the country. There are a growing number of countries evaluating similar countrywide HCV elimination programs.

We're currently moving forward with the production and logistics planning required to fulfill this agreement. We expect to release additional details and timing specific to this new contract in the next 30 to 45 days, at which time we anticipate providing an update on guidance.

On the domestic front, our HCV product sales grew primarily as a result of continued growth in the US public health market. Part of this growth was in support of the Southern City Rapid Hepatitis C Test and Link to Care Initiative, which was formally announced on July 25th in Philadelphia in support of National African American Hepatitis C Action Day. The initiative was announced by the National Black Leadership Commission on AIDS with the support of several industry partners, including OraSure and Gilead Sciences.

This initiative is focused on several southern cities, including, New Orleans and Baton Rouge, Louisiana, Columbia, South Carolina, and Birmingham and Tuskegee, Alabama, and specifically seeks to number one, expand rapid Hepatitis C testing in public and community settings. Number two, educate and mobilize community leadership to respond to various barriers that limit access to HCV testing. And number three, to collect data from this testing in order to demonstrate the effectiveness of the program. Testing under this initiative is already underway and we expect additional product orders to be filled this year under this initiative.

Let's talk about Zika. So turning to one of our newer infectious disease products, we continue to pursue the development of a rapid Zika antibody test. Although there are currently molecular tests available for Zika, these tests have limited utility because of the short window of time when viral antigen can be detected in infected patients. Because IgM and IgG antibodies are present in the body for longer periods, we believe there is a significant need and utility for a rapid antibody test.

We've made good progress optimizing our OraQuick platform to meet the performance characteristics for Zika and we are optimistic that we will be successful in our development efforts. And additionally, we've made significant progress in securing funding for the development, regulatory approval and commercial scale up of our OraQuick Zika Rapid Test. We expect to share specifics on funding in the very near term.

I'll switch to Ebola. So, as previously discussed, our Ebola antigen test is the only rapid point-of-care test with FDA Emergency Use Authorization and WHO Emergency Use approval for testing both live patients and cadavers. Our product continues to be used for surveillance in West Africa. And we're also making good progress towards obtaining 510(k) clearance for our Ebola test, with funding under our previously announced contract with BARDA.

So in summary, there were a number of positive developments in our infectious disease business and from these developments, we see several noteworthy trends. First, there are significant emerging opportunities for both our OraQuick HIV and OraQuick HCV products outside the United States. We intend to pursue these markets aggressively, and we expect that international markets will become increasingly import for our Company.

Second, we continue to strengthen our position as the world-wide leader in HIV self-testing. As you know, our OraQuick In-Home HIV test is the first and only rapid HIV self-test approved by the FDA for use by consumers. And since its approval, we've sold over a million In-Home HIV tests in the US alone. With the launch of the STAR self-testing initiative in Africa and the expected expansion of self-testing to other countries and geographies, we believe our line of HIV self-tests will become a much more significant contributor to our infectious disease business.

And lastly, the successful development of our Ebola test and our continued progress on Zika has reaffirmed the strength and versatility of our OraQuick diagnostic platform. As the work on these important new products has progressed, we've expanded and strengthened our relationships with global health organizations and governments. And we continue to build on our reputation as a reliable, preferred source of diagnostic solutions for emerging diseases around the world.

Let's talk about our molecular collections business. Revenues for this segment for both the quarter and six months ended June 30th were record highs. It's important to note that somewhat modest quarterly growth compared to 2015 was primarily related to the financial misfortune of two large commercial accounts, which filed for bankruptcy protection. Excluding these customers, our molecular collection revenues for the second quarter and the first six months of 2016 would have grown 21% and 19%, respectively.

We continue to generate the vast majority of our molecular collections system revenue in the genomics market, split between academic and commercial customers. During the second quarter, the revenue mix returned to more normal levels of approximately two thirds commercial and one third research. Overall, year to date, the split is sitting at approximately 60% commercial and 40% academic.

We continue to bring on a steady stream of new customers. As indicated recently, we entered into a supply agreement for our DNA specimen collection kit with a genomics company that will be launching a wide array of services. This is an exciting and significant opportunity that we expect would have a very positive impact beginning in 2017. And we expect to name this new customer and share detail about our plans to work together in the months to come.

As discussed on prior calls, we're also supplying product for both a study on the epidemiology of aging and a study on autism conducted by the Simons Foundation Autism Research Institute. We're now seeing the revenues generated by these contracts materialize into our financial results.

And microbiome revenues are gaining traction with over 200% growth for the first six months of 2016 compared to the year-ago period. Our customer mix on microbiome is more heavily weighted on the research side, with approximately a 75%/25% split between academic and commercial. The fact that we have commercial sales is evidence of the utility of metagenomics in both biotech and pharma sponsored R&D activities and in a growing number of clinical trials collecting microbiome information for purposes of patient stratification.

One new opportunity of note is a multi-year supply agreement we signed for our OMNIgene Gut collection kits with a direct-to-consumer microbiome company in Eastern Europe. This customer intends to use gut microbiome data for nutritional purposes.

Last quarter, we also discussed a multi-year supply agreement for microbiome-wide association studies. One study out of the University of Michigan is using a novel protocol to isolate and analyze short chain fatty acids from stool collected with our device as an indication of inflammation in the gut. This protocol has been published in peer reviewed literature and is now available for our customers to use. And we anticipate that studies such as this will help drive further utility and growth for our microbiome collection device.

We're also continuing to broaden awareness and acceptance of OMNIgene Sputum for the stabilization of tuberculosis specimens. WHO endorsement studies are set to start in both Peru and Ethiopia this quarter, and are expected to be completed by the first quarter of 2017. After completion, we will submit this data to the WHO for endorsement, which we would expect to receive then in 2017. And in the meantime, we continue to see increasing interest as multiple countries and laboratories continue to evaluate our product.

And a final point I want to address is business development. We're often asked questions regarding our plans for M&A, and the money on our balance sheet. While I cannot comment on specifics, I want to emphasize that acquiring new products, technologies or companies continues to be an important strategic priority for our Company. Our primary focus for this activity is in the molecular and infectious disease areas. And there are a number of opportunities under active review, and we will apply the same general criteria that brought us DNA Genotek and caused us to pass on other transactions.

So, in closing, we delivered solid financial performance during the second quarter and made very good progress on all of our key strategic objectives. We expect ongoing growth from our HCV and molecular collection systems businesses, and we see the international marketplace as an emerging and increasingly important strategic priority for our overall business. With a strong balance sheet, we are in a great position to acquire products or companies to enhance our growth.

Over the back half of the year, we will be looking to wind down our expenditures in support of the AbbVie relationship. Our activities and expenditures in support of the patient care database, physician training, consultative services related to reimbursement and our sampling program, should conclude by year-end. Additionally, we will have no further obligations related to the promotion of the AbbVie patient care model. And beyond these activities, we will continue our efforts to drive efficiencies across our global organization. And we will share updates on all of these fronts as the year progresses.

So with that, let me open the floor to your questions. Operator, if you'd please proceed.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Nicholas Jansen, Raymond James

Nicholas Jansen - *Raymond James - Analyst*

Hey, guys. Congrats on the quarter. I just wanted to learn a little bit more about this international HCV announcement, this $18 million opportunity. I just wanted to kind of get a better sense of how the economics work there, both from a sustainability of that revenue stream and the margin profile, given the kind of international component to it.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

I'll talk broadly about the deal, Nick. We want to give more specifics once all the requirements of the contract to have it finally executed are complete, which we would expect in the next 30 days or so. But this is the opportunity that we referenced in our last call. The $18 million in revenue is predominantly HCV revenues. There is some HIV revenue associated with the agreement.

The contract calls for all of that revenue to be delivered in the 12 months contemplated in the agreement. And that 12-month period will start as soon as all these additional activities are completed. Like we highlighted in the call, the agreement's been signed. And really all that we're working on right now are finalizing some of the logistics and some of the banking details, letters of credit and the like.

So, that's where we're at on the deal. I think I should make a few points here. Number one, this is the culmination of some significant work by our team. And it represents just one of a number of HCV elimination programs that are being planned on a global basis. And we're engaged with a number of different countries that are planning these types of programs.

It's important to understand this is a 12-month commitment. And there is a renewal option. And so that's a TBD. But there is an opportunity to extend this. And obviously a third point worth making is that this represents a significant increase in unit volume that we can both accommodate in terms of capacity, and we will have the benefit from in terms of overhead absorption and future potential material cost savings.

So we're very excited about this. I want to frame it in the context of other opportunities that we're also pursuing on a global basis. But this is a real big deal for us, and we're very excited about it.

Nicholas Jansen - *Raymond James - Analyst*

Thanks for all the detail there. And secondly, I think you mentioned on the DNA Genotek side of the house, a couple customers who are-- unfortunately went through the bankruptcy [process]. When do we start to lap that from a year-over-year perspective, so we can get a better sense of when the strong underlying performance will be showing up on the actual revenue line?

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

Yes, great question, Nick. I think you'll have to wait a couple quarters to get clear of the contributions that were made in the year-ago period from these two companies. But we also can share with you that one of them has emerged from Chapter 11 bankruptcy and they are continuing in business. So at some point we may see contribution from them. But as of the moment, we don't have visibility to when that would occur in 2016. So it's probably safe to carve them out for the balance of the year.

Nicholas Jansen - *Raymond James - Analyst*

Okay. And then my last question would be on domestic HCV. Obviously the AbbVie co-promotion agreement terminated. How do we think about the contribution in the short term? It seems like we're on this decelerating path the last couple quarter of sequential down domestic HCV revenue. I just wanted to kind of get your thoughts on when we could potentially see that reaccelerate again. Do we have to wait until 2017 when you've changed strategies, or how do we think about modeling that part? Thank you.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

You know, I think the domestic market is going to continue to be an important market for us, as we commented in our prepared remarks. We're seeing new programs start and increased revenues from existing programs, primarily on the public health front. And we anticipate that that's going to continue. We're excited about some programs like the Southern Cities Initiative, which is being launched right now in several states down in the South. But there's an eye toward expanding that after these programs get launched. And there's strong support both from the CDC, from other partners in the program to deploy in particular a rapid test to reach those individuals who may not have ready access to healthcare.

So, this is going to help drive domestic growth of our Hepatitis C product. And look, we continue to deploy this product against the backdrop of cure for this disease. A significant number of people who don't know that they're infected, and pressure on the pharmaceutical manufacturers to diagnose more patients so that they can get more patients on drug, and so we continue to see increasing interest across the entire industry in diagnosing new patients and getting them into care and cured.

Nicholas Jansen - *Raymond James - Analyst*

Thanks for the color, guys. I'll hop back in queue.

Operator

Brandon Couillard, Jefferies

Unidentified Participant

Hi. Good afternoon, it's [Sachin] in for Brandon. How should we think about the trajectory of the DNA Genotek in the second half? And is there any update on the large new genomic customer you mentioned a few weeks ago, and if you can tell us about the launch timeline? It seems like you guys would benefit from initial stocking ahead of a formal launch.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

I'll take the first part of your question first. What do we think about the trajectory of DNA Genotek's business in the back half of the year? It will accelerate. So, we definitely expect an acceleration of their business in Q3, and then a further acceleration in Q4. And we also expect that we'll see revenues from this new customer in Q4. And our expectation is that this new customer will have a significant impact to our molecular growth in 2017.

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

And to date, we have not enjoyed any stocking orders related to that new customer.

Unidentified Participant

Got you. And in terms of the AbbVie issue, will you quantify the expenses associated with that roll-off? I know that there should be some in the back end. Any color on that would be very helpful.

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

Yes. No. We actually haven't gotten down to that level of granularity. But it's all built into our guidance for Q3, and will be for Q4.

Unidentified Participant

Got it. Thank you.

Operator

Mark Massaro, Canaccord Genuity

Mark Massaro - *Canaccord Genuity - Analyst*

Hey guys, nice quarter and thanks for taking my questions. The first question is for Ron. Ron, can you just clarify that the Q3 guidance for revenue includes the higher uptick in the AbbVie payments, given that they roll off at the end of the year?

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

It does, Mark. I can confirm that, yes.

Mark Massaro - *Canaccord Genuity - Analyst*

Okay, great. My second question is related to your project with Ebola. And can you comment if you've initiated clinical trials to pursue the 510(k)?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

We have not. And we'll let you know when we do that.

Mark Massaro - *Canaccord Genuity - Analyst*

Okay. And maybe just at a high level, can you maybe comment on how a 510(k) clearance could potentially accelerate your initiatives in Ebola beyond what you have today?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

So, I think it's important to appreciate that our Ebola product is being made available around the world under emergency use authorization from the FDA as well as from WHO. And at some point in time, the regulatory bodies encourage manufacturers like us to go through the entire process to gain formal regulatory approval, 510(k) or PMA, depending on the case. This happens to be 510(k) process.

The BARDA funding that we receive for this program contemplates supporting our efforts through the clinical study process to the achievement of 510(k), at which time then we wouldn't have any future use or need for emergency use authorization of the product. That's really the background behind our efforts here.

Mark Massaro - *Canaccord Genuity - Analyst*

Excellent. And one last one if I can, congratulations on the $18 million deal to come. I imagine it has taken a good amount of time, management time and the like. But I would be curious to know if you've-- where you're at. Obviously you have to finish that contract, and then announce that and execute on that.

But Doug, you did comment that there could be a similar type contract in other countries around the world. Have you initiated conversations with other global health agencies for a contract similar to this? Or is that just given the secular demand and the need for testing, you're encouraged by it. But are you actually having discussions to do another one?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

We have been in discussions with other countries who have similar programs. I wouldn't say they're of this magnitude. But the objective is the same. Let's go back to an appreciation of HCV infection. The estimates are there's 170 million or 180 million people infected around the world. About 5 million or so are here in the United States.

So the vast majority of Hepatitis C infection is outside of our country. And now with a cure available, these countries are realizing the opportunity they have to reduce the global health burden as well as the economic burden that comes along with later-stage chronic Hepatitis C infection.

So this is really what's driving this. And WHO is behind it and very supportive. The US government is very supportive. And I think we're going to see more of these kinds of opportunities. We're certainly pursuing them. And I expect that they're going to be opportunities for the long term.

Mark Massaro - *Canaccord Genuity - Analyst*

Terrific. Good work.

Operator

Eric Criscuolo, Mizuho

Eric Criscuolo - *Mizuho Securities USA - Analyst*

Hey. Good afternoon. Thanks for taking the question. Ron, I guess on the gross margin, slightly weaker this quarter. And I know you had mentioned mix. Can you maybe just call out which products in particular were pulling down on that mix?

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

Yes. So, thanks for the question, Eric. The HIV self-test in Africa is at a lower gross margin than our typical corporate average, which was a bit of a drag on our margin profile versus the year-ago quarter.

Eric Criscuolo - *Mizuho Securities USA - Analyst*

Okay. So that would be the vast majority of the mix that you talked about.

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

Right, yes.

Eric Criscuolo - *Mizuho Securities USA - Analyst*

Okay. Great. Thanks. And then just on the operating expenses in the second half of the year, with the AbbVie co-promote going away, are there still incremental expenses that are going to roll off in the second half? Or have they already been kind of taken out in the second quarter?

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

No. We still have some expenses to excise out of the business, which we will do over the course of the balance of the year, but being mindful that we have an obligation to fulfill under the contract that we have with AbbVie, and we will absolutely fulfill our obligations thereunder.

Eric Criscuolo - *Mizuho Securities USA - Analyst*

Understood. Thank you. And lastly, just on the guidance for I guess 3Q and then implied into 4Q, the accelerated AbbVie co-promote, you're looking for about $6 million in 3Q and 4Q for that line item. Is that correct?

Ron Spair - *OraSure Technologies, Inc. - COO, CFO*

That's right. The actual exclusivity revenues that we will record in both Q3 and Q4 will approximate $6.1 million per quarter, just to be perfectly clear.

Eric Criscuolo - *Mizuho Securities USA - Analyst*

Okay, great. That helps a lot. Thank you very much, guys.

Operator

Thank you. And that brings an end to the Q&A session of today's call. I will turn the call back over to Doug Michels for closing remarks.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Okay. Thanks, everybody, for being on the call this afternoon. We look forward to keeping you posted on the developments here at OraSure, and look forward to talking to you in a few months. Have a great evening.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone have a great day.
