QUIDEL SECOND QUARTER 2017
CONFERENCE CALL SCRIPT
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OPERATOR:

Ladies and gentlemen, thank you for standing by.

Welcome to the Quidel Corporation Second Quarter 2017 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. Randy Steward, Quidel's Chief Financial Officer. Please go ahead.

Randy Steward

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 Ruben Argueta, Director of Investor Relations.

Our second quarter 2017 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 July 26, 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, July 26, 2017. 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 and six months ended June 30, 2017. If you have not received our news release, or if

you would like to be added to the company's distribution list, please contact Ruben at 858-646-8023.

Following Doug's comments, I will briefly discuss our financial results and we'll open the call for your questions.

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

DOUG BRYANT

Thank you Randy and good afternoon everyone. Q2 has truly been an extraordinary quarter for Quidel, and the morale at our company is quite high, as you might imagine. For today's call, my prepared remarks on both our performance during the quarter and on the Triage business will be short, as I'm anticipating that we will need more time today for Q&A, given our recent announcement and follow-up questions that we have received from our investors. Let me begin with our revenue for the quarter and our progress on organic growth initiatives.

Revenue for the second quarter, 2017 was $38.3 million, compared with $39.1 million in the same period last year. Despite Q2 2016's unusually higher ILI than is typical, and certainly dramatically higher than this year's Q2, second quarter 2017 influenza test sales, driven by a greater number of Sofia Influenza A+B customers than the previous influenza season, were only slightly below the second quarter 2016. In fairness, however, given the additional Sofia placements, we should have seen

about 9-10% in growth of influenza test sales, or about $2 million more in influenza revenue, but the orders from distribution, despite growth in outsales to our customers, did not materialize as expected. And of course, as a matter of principle, we don't manage distributor orders. Even without the orders, normalizing for grant revenue and the flu seasons, Q2 was actually a pretty good quarter. Group A Strep product revenue in the second quarter was up 10% over the prior year quarter; RSV product revenue was up 6%; and, Herpes product revenue was up 8%. TTM revenue through the end of June for all products was $214.1 million versus $188.7 million one year ago. TTM molecular revenue was $11.5 million versus $7.1 million one year ago. Sofia TTM revenue was $64.7 million versus $48.7 million, and Influenza TTM revenue was $92.9 million versus $73.1 million. We are clearly making progress with our new products, and are growing organically.

In the quarter, we also demonstrated continued progress with our product development programs. We received CE Marks, FDA 510(k) clearances and CLIA waivers for Sofia 2, for use with our Sofia RSV and Sofia Influenza A+B assays. We began actively promoting those products, and I can tell you that market receptivity has been very good and encouraging. Based on feedback from our commercial organization, I can say with some certainty that Sofia 2, with Virena, has legs and will meet or exceed our expectations over the next few years. I know that there is some level of excitement for Sofia Vitamin D and Sofia Lyme as well. I don't like to comment on our submissions while

we are in dialogue with the FDA, except to say that we are communicating routinely with the agency on these two products, as we are with the Sofia Strep product for use on Sofia 2. We expect to launch all three products this year, and are excited about the opportunity that each of these products represents.

In the quarter, we also received FDA 510(k) clearance for our Solana C. difficile molecular assay, which increases the number of products in the Solana bundle to six. We worked with one of our larger distribution partners in the US on a Solana blitz program during the second quarter, and think that with the leads generated we could see an acceleration in molecular sales as we exit the year. That's certainly what our operating plan calls for. As previously discussed the number of potential targets for Solana assays is large, and we expect to have at least one more assay in market before year end, and more to come in 2018.

We currently have seventeen funded and active R&D programs in various phases of our five-phase development process, and numerous others in phase 0 at Quidel. We are happy to discuss any of our product development initiatives in some detail, including Savanna, during our Q&A or perhaps at the upcoming AACC meeting.

Triage

Let me move now to Triage. The weekend before last, we entered into a definitive agreement to purchase the Alere Triage and BNP assets,

and I think that we did an effective job during the call and in other meetings at laying out the strategic rationale for this acquisition, which does a lot for our company, and checks many of the boxes on our acquisition criteria chart, the chart that describes what we've been patiently looking for. We said during the call that we would be using the time between signing and closing to begin to validate what we had modeled in terms of synergies and other operating and financial details, and that after close, we would be in a better position to provide more color to our investors. In the meantime, it's clear that as investors have analyzed the deal and its impact on Quidel, there are some common questions that I should probably address today.

First, a common question is how we will handle the process of integrating the two assets. From an organizational perspective, we've assigned the overall integration responsibility to Karen Gibson, who is our VP, Information Systems, and an individual who has managed a number of highly complex projects in her career. She will be full time on the project for up to 24 months, and we have backfilled her IS role with a senior member of her current staff. And we've engaged a well-qualified consultancy, as well, to oversee the integration process and to help us to achieve our integration goals. We held our integration kickoff with Karen and our executive staff last Friday, and with the consulting firm yesterday. There are several work streams, of course, and we will be seconding highly talented members from within our organization as needed as well as third parties to complete the

numerous tasks that need to be accomplished. Each of the work streams is important, but the ones that I'm personally following closely are R&D, international infrastructure, order to cash, and commercial operations globally. While integrating the Alere assets will require work and focus, we are quite confident that we know what to do and in our ability to execute.

Next, many investors, having had time to read our 8K, have asked us to clarify what was meant in the language describing the real estate. The short answers are yes, the Alere San Diego Campus assets are part of the transaction, and yes, we will execute a sale and lease back as soon as possible post close. The net proceeds from the transaction, which are likely to be significant, will be used almost exclusively to pay down the note.

And then finally, we've been asked about the Beckman BNP assets: why the contingent consideration and what the mechanics are. So here's a quick explanation. While the agreement to distribute BNP kits used on Beckman immunoassay analyzers is for an extended period of time, it's possible that there is some risk that the business does not continue at the same level indefinitely, a risk that is not necessarily within our control. We've modeled that the business continues at the same level for five years, and then declines for several years after. For each of the five years that the business continues at the current level, we are obligated to pay $8 million. If the business falls by a pre-

determined level, our obligation terminates. In other words, our obligation to pay $8 million each year for five years is contingent upon the current revenue being maintained at a certain level.

I'm sure that our research analysts will have other questions related to the acquisition, some of which we will be able to answer today, and others we will answer later when we have more information.

In summary, the second quarter 2017 was a spectacular period for us. Our core Quidel business looks solid, the Sofia and Solana programs are progressing nicely, and our R&D teams once again demonstrated just how good they are. And we executed on a transaction that promises to be transformational for us, and a real value creator for our shareholders. There has never been a better time to be at Quidel.

Randy?

RANDY STEWARD

Thank you, Doug.

Second Quarter Financial Results

As we reported earlier today, total revenues for the second quarter of 2017 were $38.3 million dollars, a decrease of 2 percent over the prior year. As Doug mentioned in his remarks, distribution sales lagged

outsales results in the quarter. We did realize a slight year over year increase in revenue excluding the Gates Grant revenue.

Immunoassay product revenues, which include all QuickVue and Sofia lateral flow products, increased 1 percent to $22.0 million dollars in the second quarter of 2017. Within this category, Sofia products grew 21 percent from the second quarter of 2016 to $7.9 million dollars while QuickVue revenue decreased 10 percent to $13.8 million dollars. Total Influenza revenue in the quarter was $10.1 million dollars, as compared to $10.4 million dollars in the second quarter of 2016. The Influenza immunoassay revenue split was $5.3 million dollars from Sofia versus $2.7 million dollars from QuickVue. QuickVue and Sofia Influenza inventory at distribution is in-line with prior year levels and prior quarter.

Revenue in the Virology category, which includes products from Diagnostic Hybrids, decreased 7 percent in the second quarter to $9.2 million dollars. A major driver was the 18% decline in respiratory products included in our Influenza discussion.

Our Molecular product category, which includes the Lyra, AmpliVue and Solana brands, increased 44 percent in the quarter to $3.2 million dollars. Solana continues to be the main growth driver in this category, and based on the placements to date and placements projected for the remainder of the year, we remain optimistic that we will continue to realize strong growth in this category.

Royalties, grants and other product category decreased in the quarter to $800 thousand dollars, due to the decrease in grant revenue as the revenues associated with the Gates Foundation grant were fully recognized by the third quarter of 2016.

From a platform perspective, and as Doug mentioned, we remain very encouraged by the continued commercialization of our Sofia and Molecular product lines. These products grew 27 percent from the second quarter of the previous year to $11.1 million dollars, and made up 29 percent of total revenues in the quarter.

Also worth noting, Strep A revenues increased by 10 percent to $8.5 million, RSV revenues increased 6 percent and Herpes grew 8 percent versus the same period last year. Our Pregnancy revenues declined 8 percent in the quarter due to continued competition from private label.

Gross margin in the second quarter of 2017 was approximately 54 percent, compared to 56 percent in the second quarter of 2016. The change was primarily driven by the decrease in grant revenue, as well as increased depreciation on our instrumented systems, the impact being magnified by our normally lower second quarter revenue versus the other three quarters. For the year we continue to believe we can achieve a gross margin in the range of 64 percent to 65 percent.

R&D expense decreased by $2.0 million dollars in the second quarter as compared to last year, due to a decrease in development spending for the Savanna MDx platform and reduced spending on clinical trials.

Sales and Marketing expense for the second quarter of 2017 was slightly above last year, due to the RPS acquisition and our investment in their commercial team.

The slight increase in G&A expense in the second quarter of 2017 was due to higher incentive compensation.

In the second quarter of 2017, we recorded one-time costs of $2.4 million in professional services related to business development activities associated with the announced definitive agreement to acquire Alere's Triage assets.

Our tax rate for the first quarter was approximately 14 percent, as compared to 34 percent for the second quarter of the prior year. The effective tax rate was lower compared to the same period of 2016 as we expect to utilize net operating loss and R&D tax credit carryforwards to offset 2017 domestic taxable income. The Company recorded a full valuation allowance against these tax benefits during 2016.

Net loss for the second quarter of 2017 was $11.8 million dollars, and 35 cents per share, as compared to net loss of $7.8 million dollars, or 24

cents per share, for the second quarter of 2016. On a non-GAAP basis, net loss for the first quarter of 2017 was $4.0 million dollars, or 12 cents per share, as compared to a net loss of $3.4 million dollars, or 11 cents per share for the second quarter of 2016.

During the six months ended June 30, 2017, our net cash position increased by approximately $5.5 million dollars. Through six months, the major contributors to operating cash flows were a net income of $2.4 million, a net working capital contribution of $3.4 million and the add back of non-cash items of $18.4 million dollars associated with depreciation, amortization and stock-based compensation. During the six months, we spent $8.1 million dollars on property, equipment and intangibles. We also used approximately $14 million dollars for the acquisition of the InflammaDry and AdenoPlus diagnostic businesses from RPS Diagnostics. As of the end of the second quarter, the company had $175 million dollars in cash.

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 a 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.