QUIDEL

QUIDEL TRIAGE AND BNP 8-K/A (PRO FORMA) CONFERENCE CALL SCRIPT

Wednesday, December 20, 2017

5:30 a.m. PT/ 8:30 a.m. ET

Version 8

OPERATOR:

Ladies and gentlemen, thank you for standing by.

Welcome to the Quidel Corporation Triage Pro Forma (8-K/A) 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

Our Triage and BNP 8-K/A (Pro Forma) filing 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 December 20th, 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, December 20, 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.

Yesterday, Quidel released its Form 8-K/A, which amends and supplements the Form 8-K filed with the SEC on October 6, 2017. If you have not received it, 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 morning everyone. Yesterday, we filed our Triage Pro Forma 8-K amendment, and as you would have seen, there were no unexpected issues or surprises in the acquired Triage MeterPro and Triage BNP businesses. Actually, there's a lot to feel good about, and we are extremely excited about the potential for the combined businesses. As you might imagine, we are acutely focused on integrating the two new businesses, while continuing to grow our legacy Quidel business at an increasing rate. The purpose of today's call is twofold. First, we would like to provide a bit more color for you on the pro forma, and address some of your questions. And second, we would like to combine that with an update on how the legacy Quidel businesses are doing particularly with regard to the launch of Sofia 2, what we see thus far with the respiratory season, how we're doing with our molecular franchise, and finally, I'll comment briefly on the claim that Danaher filed in California state court recently, suggesting that the longstanding supply agreement for Triage BNP kits for Beckman Access immunoassay analyzers was somehow anti-competitive and therefore not enforceable.

Let me start first with some good news regarding the Sofia 2 launch this year. Simply put, the Sofia program is going extremely well. Earlier in the year, prior to the launch of Sofia 2, we placed a little over 2,100 Sofia analyzers. Since the Sofia 2 launch, we've placed another 5,500 analyzers. 2017 Sofia placements in total were 7,600, and total global Sofia placements are now just over 25,300. We now anticipate reaching the 30,000 instrument milestone in 2018, a couple years ahead of our original projection.

Regarding Influenza and Group A Strep, I think you would have seen news reports suggesting that the respiratory season has begun. Those reports are accurate. Let me share with you our Virena data through mid-December for a few key states. In Arkansas, the Influenza positivity rate on December 7 was 21.4%, which is a very strong level, and about 3 weeks earlier than last year. In Arizona, the positivity rate on December 10 was 28%, three months sooner than last year, and dominated by Flu A. Florida was at 15.1%, two weeks earlier than last year; Texas was at 22.4%, two months earlier than last year; Mississippi at 33.2% is the highest thus far in positivity. Tennessee was at 14%; Puerto Rico was at 17%. In conclusion, an Influenza epidemic is well underway, about 3-6 weeks earlier than last year. The question of course is how long it will persist. In terms of Influenza revenue, we are on a pace to generate about $30 million in the fourth quarter, compared with about $23 million in Flu revenue in Q4 of 2016. In total, assuming we close the year at the current rate, total Quidel legacy revenue should be up over 15% over the prior year quarter.

Regarding our molecular franchise, we're making progress in particular with our Solana platform. In recent weeks, our total molecular sales per week have been north of $400,000, driven in part by a recent uptick in Influenza and Group A Strep volume. I would say that when we normalize for the respiratory season, we are now comfortably in the $15 to $20 million per year range, with obvious upside as we launch additional assays.

Randy will discuss the Triage pro forma in some detail, so I'll just start the discussion by saying that the integration team is doing very well. On Day 1, we welcomed 472 US-based employees to Quidel; the US Commercial Team immediately assumed demand generation and customer relationship management of both the Triage and BNP Businesses; and we established Transition Services Agreements with Abbott to maintain business continuity and to position us to smoothly integrate the businesses. Our biggest milestone to date is completing the order-to-cash process. Quidel is now taking orders and invoicing for US customers and OUS 3rd party distributors, as well as restocking orders for Alere affiliates. With respect to the commercial organization, we have right-sized our sales territories within the US to be more responsive and efficient. With respect to manufacturing, we are working with a third-party to improve both product quality and yields at the Summers Ridge facility, and see several opportunities there. We have a flurry of activity, and are seeing good progress. We now feel confident in achieving a $10 million run rate in annualized synergies by the end of 2018, with more in annualized run rate synergies beyond 2018.

And finally, with regard to the Danaher claim, we are confident that the agreement is enforceable. It's not about helping customers, increasing competition or improving the product. In our view, this is simply about Danaher wanting to improve its margins, and that's understandable. In the meantime, we believe strongly in our position and are prepared to vigorously defend our right to sell the Triage BNP assay exclusively on the Beckman platforms, and will do so for as long as it takes.

Randy?

RANDY STEWARD

Thank you, Doug.

As we have stated previously the historical information provided in this 8-K are special purpose combined financial statements and are not intended to be a complete representation of the financial statements and financial position of the Triage and Beckman Coulter BNP businesses. The combined statements of assets acquired and liabilities assumed do not include certain assets and liabilities, such as cash, trade receivables, trade payables and accrued liabilities because the products acquired were not accounted for in a separate legal entity or subsidiary, and stand-alone financials have not previously been prepared. As it relates to the Statement of Revenues and Direct Expenses, indirect costs such as corporate overhead and support, interest expense and income, and income taxes are not included in the special purpose financial statements. Revenues are recorded consistent with Quidel's revenue recognition policy. Cost of Sales includes the material, labor and production overhead to manufacture the products. Research and Development includes the personnel costs, outside service and clinical study costs in support of the Triage development projects. Sales and Marketing expenses are recorded mostly as a percentage of revenue since Alere's global commercial team supported all the Alere products, as there was not a dedicated sales team just selling the Triage and BC BNP products.

The revenue split between Triage and BC BNP business was approximately $147 million and $99 million respectively for the twelve months ended December 2016, and $109 million and $82 million respectively for the nine months ended September 2017. For the twelve months ended December 2016, net revenues in excess of direct expenses was $75.6 million, and adding back depreciation and amortization the number would be $103.7 million. Net revenues in excess of direct expenses for the nine months ended September 2017 was $59.4 million, and with the add back of depreciation and amortization the number would be $80.2 million. Please remember these numbers do not include all costs associated with a stand-alone business entity.

Pro-forma Statements

For the pro forma combined balance sheets, we reported the historical results for Quidel, added the Triage and BNP businesses per the historical financials, and made adjustments to reflect the impact of the acquisition as if the transaction occurred on January 1, 2016. Included in the notes to the financials, Note # 2 provides a preliminary purchase price allocation which is a good summary of the assets acquired and liabilities assumed.

Inventory was marked up by approximately $17 million to step up the inventory balance to fair value at the opening balance sheet date. This amount will be expensed in the P&L over the next two quarters. This is a one-time non-cash event, and will be included in our GAAP EPS numbers.

Also on the pro-forma balance sheet we have recorded $147.3 million in assets held for sale. This represents the current preliminary estimated value of the Summers Ridge campus based on a potential sale/leaseback transaction. We are in final negotiations with a third party and are optimistic that we will consummate a transaction within the next 30 days at approximately this value.

In the liability section, we have recorded the BC BNP contingent and deferred consideration based on a probability weighted net present

value calculation.   The contingent consideration payments are over a five year period at $8 million per year and the deferred consideration payments are over a six year period at $40 million per year.
On the pro-forma combined consolidated statements of operations for the year ended December 2016 and nine months ended September 2017 please note that we are reporting all the amortization expense in one line item on the statement of operations. This is to conform the reporting of the amortization expense to the historical Quidel reporting.

The R&D expenses record the direct expenses of the businesses in support of their R&D initiatives and do not have any significant pro-forma adjustments.

In Sales and Marketing, there are two adjustments to the historical results. First, freight expense is recorded in S&M versus cost of sales, and second, amortization expense is being reclassified to the amortization line on the statement of operations.

G&A expenses include the direct and indirect expenses of Quidel, and only the direct expenses of the Triage and BNP business relating to sales and use tax and trade receivable bad debt. If we were to include in G&A our estimates of all the corporate support functions, this expense would increase the G&A expense by an estimated $8 million to $10 million.

Interest expense for the twelve months ended December 2016 was approximately $37 million and is based on the capital structure for Quidel after the completion of the transaction. Approximately $10 million relates to the convertible debt, $13 million relates to the senior credit facility we incurred as a result of this transaction, $10 million is the interest amortization of the deferred consideration and approximately $3 million relates to debt issuance costs. The cash interest expense would be approximately $6 million on the convertible debt based on the 3.25% coupon rate, and $13 million on the senior credit facility.

The Provision for income taxes is based on the combined entities and a global legal entity structure. For 2016 the pro-forma effective tax rate was approximately 21% and for 2017 it is estimated at approximately 24%. This rate assumes the global tax structure was in place as of January 1, 2016. We also assumed a U.S. statutory rate of 35%.

As stated previously we are optimistic we will close the sale/leaseback transaction on our Summers Ridge facility within the next 30 days. The net sale proceeds are estimated at approximately $147 million. We currently plan on applying approximately $110 million of the proceeds toward the senior credit facility, and the remaining cash would be applied toward the April 2018 contingent and deferred consideration payment. The $110 million debt pay down would reduce our interest expense by approximately $6 million per year, and add approximately that same amount in annual operating expenses.

We remain on target to achieve our previous estimates on synergies: $10 million in annual cost savings as we exit 2018. We believe one-time costs to achieve these first year synergies will be approximately $8 million in 2018.

Starting with the Q4 2017 financial results we will allocate amortization expense to the appropriate line item, either Cost of sales or Sales and marketing. Based on our initial allocation of the purchase price to intangible assets and including the legacy Quidel amortization we are estimating that the total annualized amortization expense will be approximately $28 million of which $20 million will be recorded in sales and marketing and the remainder will be in cost of sales.

Going forward, we initially estimate that our consolidated gross profit margin to be in the range of 58 – 60%. This would include the amortization expense of approximately $8 million, as well as the operating costs associated with the sale/leaseback transaction of approximately $6 million.

R&D spend in 2018 will be in the range of $50 million to $52 million and incorporates some synergy cost opportunities.

S&M spend, with consideration of approximately $20 million in amortization, should be in the range of $100 million to $105 million.

G&A expenses, when incorporating all the appropriate corporate overhead costs should be approximately 7-8 percent of revenue.

Our initial estimates for 2018 Capital expenditures is approximately $25 million, and with this Capital spend, depreciation for the combined entities is estimated at $18 million to $19 million in 2018.

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. Take care, everyone.

OPERATOR

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