QUIDEL FOURTH QUARTER 2017
CONFERENCE CALL SCRIPT
Wednesday, February 21, 2018
2:00 p.m. PT/ 5:00 p.m. ET

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OPERATOR:

Ladies and gentlemen, thank you for standing by.

Welcome to the Quidel Corporation Fourth Quarter and Full Year 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 fourth quarter and full year 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 February 21st, for a period of 24 hours.

Please note in the earnings release that due to the acquisition of the Triage and BNP Businesses, Quidel modified its classification of product revenue in the fourth quarter of 2017 to reflect the Company's significant product categories. In association with the change, the revenues of the recently acquired Triage and BNP Businesses will be reported within the company's Cardiac Immunoassay category. Quidel's legacy immunoassay business represented by QuickVue®, Sofia®, as well as the Eye Health business will be reported within the company's Rapid Immunoassay category. The Company's legacy molecular products under the Solana®, AmpliVue® and Lyra® brands will be reported in the company's Molecular Diagnostics category. Quidel's Diagnostic Hybrids, or DHI Virology products, Thyretain, and the Specialty Products Group, which represent our Bone Health and Human Complement products, as well as other (grant/royalty) revenues, will be reported in the company's Specialized Diagnostics category.

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, February 21, 2018. 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 twelve months ended December 31, 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. For today's call I'll give you my thoughts on the fourth quarter; I'll provide some insight into the ongoing influenza season, based on our Virena data; and I'll conclude with comments on our longer term growth initiatives.

Total revenue for Q4 2017 was $114.9 million, a 118% increase from the fourth quarter of the prior year, due to 3 factors: first, the incremental $47.0 million from the acquired Triage/BNP Businesses that closed on October 6th; second, $10.2 million in incremental Influenza sales; and third, $4.9 million in incremental non-flu revenues from the legacy Quidel business.

The fourth quarter, overall, was busy and very productive for us. Driven by the market's receptivity of Sofia 2 with early read times for Sofia Influenza and connectivity to Virena, and the FDA reclassification of rapid influenza assays, Sofia placements were 8,226, our largest quarterly placement rate ever. Receiving 510(k) clearance and CLIA waiver from the FDA for Strep A+ for use on Sofia 2 was timely and helpful as well. And we received 510(k) clearance for Sofia Lyme, well in advance of the Lyme disease season this summer.

Molecular assay revenues were $4.5 million in Q4, driven mostly by Solana Group A Strep, which continues to grow. In the quarter, we received 510(k) clearances for Solana GBS, and Solana RSV+hMPV assays, bringing the number of assays available on Solana to 7.

And of course, early in the fourth quarter we closed the acquisition of the Alere assets. In that regard, the integration is going very well. To summarize our achievements thus far: we've transitioned 472 employees in the United States; we've successfully implemented Order-to-Cash within the US and 24 direct export markets; we've restructured our North American Commercial Operations to incorporate selling the Triage and BNP products; on the international side, we've hired 50 commercial employees across China, Germany, Italy, and Austria; to support our international expansion, we've also selected an EU Shared Service Center site in Galway, Ireland; locally, we completed the sale/leaseback transaction of the Summers Ridge facility, and used some of the proceeds to retire $110 million in debt; and finally, we've moved 100% of the Summers Ridge employees to buildings C and D, two of the four buildings on that campus. With respect to manufacturing, we continue to work with our third-party partner to improve both product quality and yields at the Summers Ridge facility. We believe that we are on track to reach the $10 million run rate in synergies by the end of the year, with another $10 million thereafter.

Next, let me address the extreme respiratory season and what that has meant for Quidel. I know that everyone on this call would be aware that the morbidity associated with this year's influenza A/H3N2 variant has been significant, which has resulted in a high rate of health care provider visits and millions of rapid influenza tests. If we were to look at Virena test data over the last 800 days, or about 2.5 seasons, and we

were to only look at the data from the Sofia users who were transmitting over that entire period of time, you would get a sense for how strong this season has been so far. If we were in a consumer business, I suppose that we might call this "same-store sales", and we would see in those same small number of stores at this point, a little over halfway through this season, that there is a 100% increase in Sofia influenza testing over the 2015-2016 season, and about a 50% increase in Sofia influenza testing over last season. Of course, we've also placed more Sofia instruments over the last 2.5 seasons, and at the end of the fourth quarter we were right at 26,000 Sofia placements, which is net of service replacements and a very small number of returns, with a backorder of about 700 instruments as we exited the year. We've increased manufacturing capacity, but are still shipping as many as we can make, and are still in an instrument backorder of approximately one and a half weeks. In fairness to our marketers and planners, we did plan appropriately to upgrade many QuickVue customers to Sofia 2, anticipating that we would be unable to ship QuickVue Influenza after January 12. What we did not anticipate was that several of our competitors have been unable to ship product for a significant part of the season thus far. As a result, not only did Sofia 2 shipments increase dramatically, but we are also shipping as many Sofia Influenza test cartridges as we can make. The good news is that we were able to demonstrate in a recent clinical trial that QuickVue Influenza meets the FDA reclass guidelines and it was 510(k) cleared and CLIA waived on February 13th. We are now shipping QuickVue Influenza tests as well,

which is helping with capacity issues. How much longer this demand will persist is hard to know, but our Virena data would indicate that we're a little more than halfway through the season, as influenza A positive test rates begin to decline a bit and influenza B rates are rising. Although positivity rates are still quite high, between 32% and 36%, we expect testing rates to decline quickly once the positivity rates have plateaued, which could be in the near term. In the meantime, we're still running two 10-hour shifts per day, 7 days per week in San Diego. I should add that our molecular business, although much smaller, is also benefiting from this respiratory disease season, and our Ohio molecular manufacturing facility is keeping up with demand.

And, finally let me comment briefly on product development and our pipeline. We continue to make progress on all projects, which include a number of Sofia, Triage, and molecular initiatives. Rather than spending a great deal of time on this call, I'll just remind you that we are holding our next Analyst Day event on April 3rd in Chicago, and I'm personally excited about unveiling our next generation technologies and detailing what we expect to achieve over the next 2-5 years.

In summary, there was a lot to be proud of in 2017. We have truly transformed our company: we've entered new markets, significantly grown our international footprint, and diversified our business. We continue to focus on integrating the Alere assets and unlocking synergies, as well as capitalizing on the numerous Sofia placements out

in the field. We've had a great fourth quarter and a fantastic year, and I am excited about 2018 as well.

Randy....?

RANDY STEWARD

Fourth Quarter Financial Results

Thank you, Doug. Good afternoon everyone. As we reported earlier today, total revenues for the fourth quarter of 2017 were $114.9 million dollars, as compared to $52.8 million dollars in the fourth quarter of 2016. The 118 percent increase in revenue was primarily due to the revenue from the acquired Triage and BNP Businesses. We did realize revenue growth in the other product categories, as well, Rapid Immunoassay, Molecular Diagnostics, and Specialized Diagnostic Solutions.

Rapid Immunoassay product revenues increased 35 percent to $49.1 million dollars in the fourth quarter of 2017 as compared to $36.5 million dollars in the previous year. Within this category, Sofia products grew 65 percent from the fourth quarter of 2016 to $29.0 million dollars. QuickVue product revenues were relatively flat at $19 million. Total Influenza revenue grew 44% in the quarter to $33.5 million dollars. The Influenza rapid immunoassay revenue split was $23.4 million dollars from Sofia versus $6.8 million dollars from QuickVue. Also within this category Strep revenue was up 28%, RSV was up 27%.

Cardiac Immunoassay revenues, at $47.0 million dollars, represented the revenue contribution of the acquired Triage and BNP Businesses. The performance met our expectations considering we closed on October 6th, thus one week short of a full quarter, and China revenue in the quarter was short by approximately $8 million. As discussed previously this shortfall was based on our desire to reduce the amount of inventory at China's distribution partners. In the fourth quarter we achieved our objective of ramping up our international commercial team, as well as realigning our U.S. commercial team in support of these products.

Revenue in the Specialized Diagnostic Solutions category increased 5 percent in the fourth quarter to $14.2 million dollars. We realized 7 percent growth in Thyretain in the quarter.

Our Molecular Diagnostic Solutions category increased 67 percent in the quarter to $4.5 million dollars due to a 221% growth in Solana. We continue to see strong growth within our Solana platform, and the overall Molecular category is currently tracking to exceed $20 million in 2018.

Gross Profit in the fourth quarter of 2017 increased $27.1 million dollars, mostly the result of the incremental Cardiac Immunoassay revenue from the acquired Triage and BNP Businesses. Gross profit margin in the

fourth quarter of 2017 was approximately 51 percent, as compared to 61 percent in the fourth quarter of 2016. Amortization of intangibles reduced the Q4 2017 consolidated gross margin by 3 percentage points, and the Triage/BNP inventory step-up of fair value reduced the total gross margin by an additional 10 percentage points. Net of acquisition-related one-time costs and amortization of intangibles, the legacy Quidel business gross margin was 68%, the Triage gross margin was 53%, and the BNP Business gross margin was 64%.

R&D expense decreased by $3.2 million dollars in the fourth quarter as compared to the same period last year. This reduction is mostly due to timing of project costs, as well as not duplicating the Sofia 2 instrument spend we incurred last year. As stated previously we continue to believe our R&D expense in 2018 should be in the range of $53 million to $55 million.

Sales and Marketing expense increased by $14.3 million dollars in the fourth quarter of 2017, as compared to the fourth quarter of 2016. This increase was largely due to incremental personnel costs associated with the Triage business. For the full year 2018, we expect Sales and Marketing expense to be in the range of 20% to 22% of revenue driven by the full year impact of an expanded and multi-national sales force supporting both the legacy products as well as the Triage and BNP Businesses.

G&A expense increased by $2.3 million dollars in the quarter, primarily due to acquisition-related costs and stock compensation expense.

In the fourth quarter, interest expense was $9.2 million dollars, of which $2.8 million dollars relates to our convertible senior notes, $3.6 million dollars relates to our senior credit facility and $2.6 million relates to the deferred consideration associated with the purchase of the BNP business. Of the $9.2 million dollars, $4.7 million dollars relates to the cash portion of the interest expense. The non-cash components include the $2.6 million related to the BNP deferred consideration, $1.4 million for the accretion of our convertible senior notes, and $0.5 million for the amortization of debt issuance costs on our senior credit facility.

In the quarter, we recorded an income tax benefit of $0.2 million dollars. In the quarter we continued to book a full valuation allowance against our net deferred tax asset value due to three years of cumulative losses. For the full year we realized a small income tax expense associated with local and state income taxes. With the passage of the 2017 Tax Cuts and Jobs Act, we believe our effective tax rate for 2018 should be in a range of 18% to 20% of pre-tax income without consideration for the reversal of the valuation allowance.

Net loss for the fourth quarter of 2017 was $5.1 million dollars, or 15 cents per share, as compared to net loss of $2.0 million dollars, or 6 cents per share, for the fourth quarter of 2016. On a non-GAAP basis,

net income for the fourth quarter of 2017 was $20.2 million dollars, or 56 cents per diluted share, as compared to net income of $5.8 million dollars, or 17 cents per diluted share for the fourth quarter of 2016.

As we have communicated previously, and an important step in improving our capital structure, on January 5, 2018, Quidel entered into a sale and leaseback transaction for the Quidel San Diego property on Summers Ridge Road that was acquired as part of the Triage acquisition. This asset will be identified as an asset held for sale as of December 31, 2017. The Company sold the Summers Ridge property for net consideration of $146.6 million and entered into a lease agreement with the buyer to lease two of the four buildings on the Summers Ridge campus for a term of 15 years. As a result of the transaction Quidel used $100.0 million of the net cash proceeds to pay down approximately 40% of the existing Term Loan. Also as part of this transaction the Company repaid the entire outstanding $10 million balance on its Revolving Credit Facility. So as of today, we have an outstanding Senior Credit Facility obligation of $145 million.

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 transformative year, 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.