QUIDEL FIRST QUARTER 2018
CONFERENCE CALL SCRIPT
Tuesday, August 7, 2018
2:00 p.m. PT/ 5:00 p.m. ET

FINAL

OPERATOR:

Ladies and gentlemen, thank you for standing by.

Welcome to the Quidel Corporation Second Quarter 2018 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 2018 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 7th, 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 7, 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 six months ended June 30, 2018. 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 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 Ruben, and good afternoon everyone. There are many positive things to report on this quarter. Let's get started.

In terms of the integration of the Alere assets, we achieved the two key milestones for the quarter that we said we would. We officially opened the shared services center in Galway in June and currently have a staff of 20 people employed in functions such as IT, Finance, Legal, Customer Support and Technical Support. And as planned, we went

live on August 1 in Europe without a hiccup. European orders are now through our global ERP system, and distributed from our 3PL warehouse in the Netherlands, we're out from under our TSA's with Abbott for order-to-cash and distribution in those countries. The last milestone - the last major piece of the business to be integrated - is China, which we expect to move over in early 2019. And finally, in terms of synergies, we are confident in $11 million in cost reductions as we exit 2018, with potential upside depending on how quickly inventory at the older higher cost sells through the channel. At this point, we are anticipating a bit better gross margins in 2018 for the overall business than we had originally forecasted, due in large part to improvement in manufacturing yields for the Triage products.

During the quarter, we used $60.0 million in cash to pay down a portion of the initial $255 million term loan that we used to finance a part of the Alere asset transaction. At the end of the quarter, the outstanding balance was $83.2 million. In addition, we entered into separate, privately negotiated Exchange agreements with a small number of holders of our Convertible Senior notes. We exchanged roughly $38.6 million in principal amount of the Notes for 1.3 million common shares. The remaining principal of the convertible bonds is now $58.5 million dollars, down from the initial $172 million dollars. In summary, since we

closed the transaction in October of last year, we have de-levered significantly, and have reduced our risk.

In terms of the performance of the acquired businesses, I would say it's going reasonably well. Revenue for the Triage and Beckman BNP Businesses, at $69.9 million dollars, exceeded expectations. The U.S. is holding steady, consistent with our model, and ex-US, notably China, is doing well. In the quarter there was favorable timing of orders that occurred in a few smaller countries that are likely not reproducible, that should not necessarily be included in our run rate. Based on all the ins and outs, I think that we are comfortable in saying that our run rate for the businesses in aggregate is about $67 million dollars a quarter at this point, a bit better than we had in our deal model.

The legacy Quidel business performed nicely as well, although influenza fell off quite quickly, at least relative to Q2 2017, when higher positivity rates and testing persisted through April. This setback of $4.5 million dollars in revenue, although not wildly significant, would have been hard to solve for in previous years, given the large contribution to profitability of our influenza products. In the new Quidel, this is obviously now less of an issue.

Our Solana and Eye Health products grew in the quarter, up $1.3 million dollars and $1.2 million dollars, respectively, versus the prior year quarter. In addition, the launch of Sofia 2 is going well, with more than 10,000 instruments shipped, although in fairness that number includes filling the backorder that was created due to the confluence of a couple events: the significant prevalence of influenza in Q1 and the FDA reclass of rapid flu tests. And we recently replaced a number of analyzers in the field to facilitate a software enhancement for Virena users. Absent an uptick created by the launch of new Sofia assays, the annual rate of Sofia 2 analyzers is probably 8,000 instruments per year.

In terms of product development, our R&D teams continue to work and deliver at a nice pace. We have 19 development programs in phases 1 through 4, and 13 programs that we're exploring in Phase 0. We don't have enough time to review everything that we're working on, but I will highlight the three larger potential growth drivers. First, we made significant progress with Strep 98 in the last few months. Our confidence in our ability to develop and manufacture a Sofia Group A Strep assay that exceeds a sensitivity of 98% relative to culture - while maintaining a high specificity - is now quite high. Clinical trials are planned to be held during the next respiratory season, with our submission to follow in Q2 2019, and approval in time for a launch in Q4

2019. We continue to believe that the market opportunity for a rapid confirmatory GAS assay is large and likely to be meaningful for us over our five-year planning cycle. Second, we are also encouraged by the performance data we are seeing thus far with our next generation Triage Troponin assay, which we expect to launch at the end of this year in Europe. And third, we showcased many of our products, including some in development, at the AACC in Chicago. I think the new form factor of Savanna and the new, smaller cartridge design was a big surprise for many who visited the booth. We continue to hear that there is a big gap in the molecular space that the Savanna menu of affordable, smaller syndromic panels, as well as individual assays, will address nicely, and look forward to introducing the product in Q4 2019 in Europe and in the first half of 2020 in the U.S.

I should also mention that we had a couple FDA submissions under active review during the quarter. Sofia Whole Blood Lyme is awaiting CLIA waiver pending the FDA's review of follow-up studies that were performed. We hope for clearance in August (a little later than planned), and are ready to go from a marketing perspective. We believe that this has the potential to be a nice growth driver for us in the U.S., with growth driven largely by our introduction of a CLIA waived assay. And, after addressing questions through the quarter, Solana

Pertussis/Parapertussis was recently cleared. The addition of parapertussis makes the assay unique, and we do have interest in pediatric hospitals, although in fairness this is more of an opportunistic, regionalized market in parts of the U.S. that are not appropriately immunizing children.

In summary, we had another nice quarter, a quarter that reflected the continued progress we're making. We said at our Analyst Day earlier in the year that we expected to achieve revenues for the year of $520 million dollars, with a gross margin profile in the high 50s. Two quarters in, allowing for some variability in Q4 to account for the timing of the respiratory season, I am comfortable in saying that we will do slightly better than that, given better visibility to the performance of the acquired businesses. And finally, to the many Quidel employees on the call, or who will listen to the webcast later, thanks for everything that you do to make us successful. We know that there are so many things that need to be done, especially at the moment, but you're getting them done, on time, and your work is appreciated. There has never been a greater time to be at Quidel, thanks to your efforts.

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 2018 were $103.2 million dollars, as compared to $38.3 million dollars in the second quarter of 2017. The significant increase in revenue was driven by the $69.9 million dollars in incremental revenue from the acquired Triage and BNP Businesses. It is rewarding to realize the benefits of the hard work and efforts by our integration and commercial teams in a very short time period. Our integration continues to be on track. As illustrated by the second quarter Triage and Beckman BNP revenue, we are well down the path of completing our commercial team integration.

Rapid Immunoassay product revenues decreased to $16.7 million dollars in the second quarter of 2018, versus $22.0 million dollars in the prior year. Within this category, Sofia product revenue decreased from 7.9 million dollars to $5.1 million dollars and QuickVue product revenues decreased 27% to $10.1 million dollars. The Rapid Immunoassay revenue decrease was mostly due to a $4.5 million-dollar decline in Influenza revenues over the second quarter of 2017, as demand for

Influenza and respiratory diagnostic products softened in Q2 following the exceptionally strong flu season in the first quarter. This can be seen in our Distributor inventory levels, which declined significantly in the second quarter from Q118 levels. Compared to 2017, inventory levels were relatively constant overall. Triage inventory levels are in line with prior quarters.

Cardiac Immunoassay revenues, at $69.9 million dollars, exceeded internal expectations for the second consecutive quarter. Triage grew 1% from Q2 of last year to $38.3 million dollars, led by growth in AsiaPac and EMEA regions. The Beckman BNP business grew 6% from the second quarter of 2017 to $31.5 million dollars, led by growth in the US, AsiaPac and EMEA regions. Our integration efforts truly have been key to the success that we're seeing internationally.

Revenue in the Specialized Diagnostic Solutions category decreased 3 percent in the second quarter to $12.7 million dollars, primarily due to lower Complement revenue in the U.S., mostly driven by timing of orders.

Our Molecular Diagnostic Solutions category increased 22 percent in the quarter to $3.9 million dollars due to a 103% growth in Solana

revenue. We maintain our internal expectations of achieving total molecular revenue greater than $20.0 million dollars for the full year.

Gross Profit in the second quarter of 2018 increased $38.8 million dollars, the result of the incremental Cardiac Immunoassay revenue from the acquired Triage and BNP Businesses. Gross profit margin in the second quarter of 2018 was approximately 56 percent, as compared to 49 percent in the second quarter of 2017. Net of amortization of intangibles, the legacy Quidel business gross margin was 48%, the Triage gross margin was 59%, and the Beckman BNP Business gross margin was 67%.

R&D expense increased by $5.7 million dollars in the second quarter as compared to the same period last year. This increase is due to the incremental expense for the Triage and Beckman BNP Businesses, for the development of a Toxicology panel and Troponin assay, as well as increased investment for the Savanna molecular diagnostic platform. We do anticipate an incremental increase in our R&D spend for the back half of the year, and now estimate that our R&D expense in 2018 should be in the range of $54 million dollars to $55 million dollars.

Sales and Marketing expense increased by $14.5 million dollars in the second quarter of 2018, as compared to the second quarter of 2017. This increase was largely due to incremental personnel costs associated with the international Triage business. For the full year 2018, we expect Sales and Marketing expense to continue to be in the range of 20-21% of revenues, 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 $4.7 million dollars in the quarter, primarily due to additional costs associated with the Triage and BNP Businesses, one-time cost associated with the change in fair value of acquisition contingencies of $0.7 million dollars, increased compensation costs and legal fees.

Acquisition and Integration costs in the second quarter were $4.9 million dollars, driven by integration activities associated with the Triage and BNP businesses. As Doug mentioned, on August 1st, we converted our European business onto Quidel's global ERP system. This was a significant milestone in our integration initiatives and time line. And, we are still tracking to our annualized $11 million dollar cost synergies as we exit 2018. Those synergies will be realized through 1)

manufacturing yield improvements, labor efficiencies and scrap reduction; and 2) elimination of redundancies in some of our functional organizations.

In the second quarter, interest expense was $6.8 million dollars, of which $1.5 million dollars relates to our Convertible Senior Notes, $1.9 million dollars relates to our Senior Credit Facility and $2.6 million dollars relates to the deferred consideration associated with the purchase of the BNP business. Of the $6.8 million dollars, $2.6 million dollars relates to the cash portion of the interest expense. We also recorded a loss on extinguishment of debt of $2.4 million dollars related to the $60.0 million-dollar early payment on the Senior Credit Facility and the extinguishment of $38.6 million dollars in aggregate principal of the Convertible Senior Notes.

In the quarter, we recorded income tax benefit of $5.8 million dollars. We continued to book a full valuation allowance against our net deferred tax asset value due to three years of cumulative losses. Within the quarter and year-to-date, we continue to realize a significant discrete income tax benefit from stock compensation expense. 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

before consideration for discrete tax items and the reversal of the valuation allowance.

From a balance sheet perspective, in the quarter we reduced debt by an additional $98.6 million dollars, and by 280.6 million dollars in the first half of the year. As of June 30, 2018, our leverage ratio was below 1.5X, and the company had $38.7 million dollars in cash on the balance sheet.

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.