QUIDEL FIRST QUARTER 2018
CONFERENCE CALL SCRIPT
Wednesday, May 8, 2018
2:00 p.m. PT/ 5:00 p.m. ET

OPERATOR:

Ladies and gentlemen, thank you for standing by.

Welcome to the Quidel Corporation First 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. 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.

Our first 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 May 8th, 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, May 8, 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 months ended March 31, 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 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. We had another extraordinary quarter, and are positioned well to achieve all our targets and expectations for 2018. As I'll describe shortly, revenue for both our legacy Quidel products and the acquired Triage and BNP businesses was ahead of what we had anticipated. Sofia 2 was an absolute hit, and we placed as many analyzers on 3-year contracts as we could make in the quarter, enlarging our Sofia installed base to over 31,000 analyzers globally. Sofia has truly become a flagship product for us, and a highly

leverageable asset as we continue to expand our menu of immunoassays for the Sofia platform, and as the movement of patients away from traditional healthcare provider settings continues. Solana placements and revenue grew nicely in the quarter, as well. And finally, our R&D teams continued to make impressive progress. Most notably, the Savanna team achieved its most critical milestone in the quarter, locking down the design of the multiplex cartridge that will enable the delivery of unique and highly desirable content and capability to the Point of Care Molecular segment. Based on where we are at this stage, I think that we can confidently say that Savanna will be Quidel's second flagship product.

Total revenue for Q1 2018 was $169.1 million, a 130% increase from the first quarter of the prior year, driven by an incremental $68.4 million dollars from the acquired Triage/BNP Businesses that closed on October 6th; and an additional $27 million dollars in growth from the legacy Quidel businesses, about 37% higher than in Q1 2017. The $68 million dollars in the acquired businesses was about $6 million dollars higher than we were expecting due to strong growth in the U.S. And the $27 million-dollar delta in legacy revenue was largely Influenza, at $24 million, which includes molecular Influenza sales, as well. As I mentioned during our Analyst Day presentation in Chicago, our

Strategic Intent has long been to build a broader-based diagnostic company that delivers revenue and margin more consistently. In support of our Strategic Intent, I outlined three main objectives for 2018. First, we will cultivate organic growth through continued effort and investment in our Sofia and Virena immunoassay, Solana and Savanna molecular, and Triage cardiovascular and toxicology programs. Second, we will continue to integrate the acquired businesses, realize the synergies we have modeled, at minimum, and pay down debt. Third, we will execute an evolving plan that, through a combination of organic growth and M&A will get us to $1 billion in annual revenue in the not-too-distant future, while leveraging our existing infrastructure and growing our costs at a much slower rate.

Let me comment briefly on our efforts to grow organically as well as where we are with respect to integration of the Triage and BNP businesses.

Clearly we had a great quarter, as did other companies with Influenza-related products of all sorts. While our QuickVue product was temporarily off-market awaiting FDA clearance due to the new re-class guidelines, for most of the quarter, Quidel was shipping four products to our customers, each of which performed very well. Sofia Influenza

sales led the way of course, with obvious growth in the market, noticeable gains in market share, and assisted by conversions from our visually read QuickVue product, a brand that has remained incredibly sticky, as we saw in the quarter. Solana Influenza and Lyra, our PCR Influenza assay, also saw noticeable gains in revenue and share. Often overlooked as it is assumed, even by us internally, is our supply chain and manufacturing leverage and competency, which proved hugely beneficial, as at times, it appeared as though we were among a select few companies that could consistently supply product. Moving forward, we are adding a sixth fully automated manufacturing line, with the capacity of up to 30 million additional Sofia test cartridges per year, as we believe that the market for rapid Influenza testing will continue to grow over the longer term.

In terms of product development, we're making consistent, steady progress at the same fast-paced rate Quidel has become known for. We recently launched a moderately complex Lyme assay for Sofia 2, and we received CE Mark for both Sofia Legionella and Sofia Strep Pneumo for use on Sofia 2. Work on CLIA waiver for Sofia 2 Whole Blood Lyme is ongoing and we hope to launch this summer in the U.S. Sofia 2 Vitamin D, CLIA waived is also further down its development path, and we're making great strides with Sofia Strep 98, and Sofia

RVP, among several others in the pipeline. We expect to add a couple more Solana assays shortly while we begin to shift more molecular assay development effort and investment to the Savanna platform.

Integration of the Alere assets is going extremely well. The team we've assembled to manage this project is motivated, highly skilled, and diligent. There are many action items to be accomplished, but we know what to do, and it's getting done. The cooperation, know-how and assistance we're getting from our Abbott counterparts, who have clearly done this before, should be noted as well, as they've clearly made it easier than it could have been. There are a few milestones worth tracking from an external perspective. Our efforts to pay down debt in the near term is a big one, and Randy will provide color there. Our control of order to cash and the sales and distribution processes for big chunks of the business is another. In that regard, the U.S. is done, we expect Europe to be finished in August, and we expect to be live in China by January 2019. And of course, numerous other smaller countries are finished and/or are in process at this time. We did set up a shared service center in Galway, Ireland, with the facility scheduled to begin supporting EMEA personnel in mid-June and EMEA customers in August.

And finally, I recognize that there's interest in the ongoing Danaher claim that the agreement that has been in place for many years with Beckman to distribute BNP kits for use on their analyzers was somehow anticompetitive and so I'll provide a brief update on the proceedings. As we have said before, we filed our demurrer to the claim in February, and we expected the judge to rule on it sometime in May, as is the normal process and sequence of events. I've said that our filing was a standard practice, and that rarely would a judge rule in our favor at this stage. The hearing was held on Friday. It went exactly as anticipated and the demurrer was dismissed by the judge. We expected this outcome, as the demurrer is more of a legal process-type hearing. The most important outcome from Friday's hearing in our view was that a trail date has been set for August 30, 2019. With that said, our views of our legal position remain unchanged and we are confident in our legal position as we have continued to learn more in engaging experts and as we move through the discovery process.

At no time in the history of Quidel has the company been as poised to meet the demands of customers in the traditional diagnostic segments in which it has competed, or as poised to meet the demands for testing where patients are increasingly headed. Many had speculated that testing for routine and chronic conditions would ultimately move closer

to patients who would demand efficiency and convenience. We are just beginning to see evidence of that trend, and Sofia, with its data management capabilities, is proving to be a valuable diagnostic tool in a growing number of alternate site settings. With the impending launch of Savanna, Quidel will have another valuable diagnostic tool in the emerging POC segment, and I will predict, another flagship product.

In summary, great quarter. Great start to what will be another great year. We're enthused and motivated.

Randy....?

RANDY STEWARD

First Quarter Financial Results

Thank you, Doug. Good afternoon everyone. As we reported earlier today, total revenues for the first quarter of 2018 were $169.1 million dollars, as compared to $73.7 million dollars in the first quarter of 2017. The 130 percent increase in revenue was driven by the $68.4 million dollars in revenue from the acquired Triage and BNP Businesses, as well as a very robust Influenza season.

Rapid Immunoassay product revenues increased 40% to $80.7 million dollars in the first quarter of 2018. Within that category, Sofia product revenue increased 131 percent to $58.1 million dollars. Sofia is clearly the driver of the Rapid Immunoassay category, and continues to deliver growth, primarily from Flu, but also from Strep A and RSV, due to the over 31,000 instrument placements in the field. As expected, QuickVue product revenues decreased 34% to $21.4 million, largely due to the continued emphasis to convert customers over to the Sofia platform. The Influenza rapid immunoassay revenue split was $51.2 million dollars from Sofia versus $9.5 million dollars from QuickVue. Across all categories, Influenza revenue increased 59% in the quarter to $64.6 million dollars, and $131.5 million dollars on a trailing twelve month basis. Also within this category, Strep revenue was up 12% over the prior year quarter, and for the trailing twelve months was $39.7 million, an increase of 14%. RSV was up 3% in the quarter, and up 20% on a ttm basis to $11.1 million.

Cardiac Immunoassay revenues, at $68.4 million dollars, represented the revenue contribution of the acquired Triage and BNP Businesses. The category overall grew 13% from the first quarter of 2017. Triage revenue was $39.3 million, and grew 12% from the first quarter 2017.

Beckman BNP revenue was $29.2 million, a 15% increase over first quarter 2017. For the Triage business, US revenue increased 14%. Asia Pacific grew 18%, EMEA grew 2%.

For the Beckman BNP business, the revenue growth mainly came from the U.S., which is encouraging.

As you may recall, we achieved our objective in the fourth quarter of last year in building out our international commercial team, as well as the realignment of our U.S. commercial team, in order to properly support the acquired businesses. We initially commented we thought it would take us the first 6 months of the transaction to stabilize the business. We are quite pleased that our Cardiac Immunoassay products achieved first quarter growth over the prior year. While we are encouraged at this point, it's still early, and we will need to report several more quarters in order to understand the drivers of the underlying growth in Cardiac.

Revenue in the Specialized Diagnostic Solutions category increased 14 percent in the first quarter to $14.9 million dollars, led by 9% growth in our Virology products due to the heavy respiratory season, and 16% growth in our Specialty products.

Our Molecular Diagnostic Solutions category increased 65 percent in the quarter to $5.1 million dollars due to a 178% growth in Solana revenue.

Gross Profit in the first quarter of 2018 increased $57.8 million dollars, mostly the result of the incremental Cardiac Immunoassay revenue from the acquired Triage and BNP Businesses and the profit generated from the increased Influenza sales. Gross profit margin in the first quarter of 2018 was approximately 63 percent, as compared to 66 percent in the first quarter of 2017. Amortization of intangibles reduced the Q1 2018 consolidated gross margin by 2 percentage points, and the Triage/BNP inventory step-up of fair value reduced the total gross margin by an additional 2 percentage points. Net of acquisition-related one-time costs and amortization of intangibles, the legacy Quidel business gross margin was 72%, the Triage gross margin was 53%, and the BNP Business gross margin was 65%.

R&D expense increased by $4.7 million dollars in the first quarter as compared to the same period last year. This increase is due to the increase in projects and personnel associated with the acquired Triage business. As stated on our Analyst Day presentation, we continue to

believe our R&D expense in 2018 should be within the range of $50 million to $52 million.

Sales and Marketing expense increased by $14.3 million dollars in the first quarter of 2018, as compared to the first quarter of 2017. 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 between $100 million to $110 million, 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 $3.4 million dollars in the quarter, primarily due to acquisition-related costs and stock compensation expense.

In the first quarter, interest expense was $7.9 million dollars, of which $2.6 million dollars relates to our convertible senior notes, $2.5 million dollars relates to our senior credit facility and $2.8 million relates to the deferred consideration associated with the purchase of the BNP business. Of the $7.9 million dollars, $3.5 million dollars relates to the cash portion of the interest expense. The non-cash components include the $2.8 million related to the BNP deferred consideration, $1.3 million

for the accretion of our convertible senior notes, and $0.3 million for the amortization of debt issuance costs on our senior credit facility. We also recorded a loss on extinguishment of debt of $4.6 million related to the $100.0 million early payment on the Term Loan and the extinguishment of $70.2 million in aggregate principal of the Convertible Senior Notes in exchange for our common stock.

In the quarter, we recorded income tax expense of $4.7 million dollars. We continued to book a full valuation allowance against our net deferred tax asset value due to three years of cumulative losses. 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.

The share count we use in calculating fully diluted shares outstanding has changed in the first quarter, due to the convertible senior note exchange transactions. Due to the settlement with certain holders of the convertible notes entirely with common stock, the accounting rules stipulate that we now must assume that the remaining convertible note balance of $97.1 million will be exchanged for common stock. In the quarter, the $70.2 million convertible note exchange increased the

outstanding shares by approximately 2.4 million shares. The potential shares issuable from the remaining outstanding convertible notes, if converted, is an incremental 3.0 million shares. In total then, for the quarter, we are reporting fully diluted shares outstanding of 41.9 million shares. We continue to represent that, on a go-forward basis, the convertible notes may be settled in cash, or a combination of cash and shares of common stock.

Net income for the first quarter of 2018 was $34.0 million dollars, or $0.86 per share, as compared to net income of $14.3 million dollars, or 42 cents per diluted share, for the first quarter of 2017. On a non-GAAP basis, net income for the first quarter of 2018 was $54.3 million dollars, or $1.29 per diluted share, as compared to net income of $15.3 million dollars, or 45 cents per diluted share for the first quarter of 2017.

As we mentioned on our Analyst Day in April, we took several steps in the quarter toward improving our capital structure. In January, the company sold the Summers Ridge property for net consideration of $146.6 million. As a result of this 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 $10.0 million balance on its Revolving Credit Facility. The remaining portion of the sale/leaseback proceeds, plus cash on the balance sheet, were used in April to pay the first annual contingent and deferred consideration payment to Abbott of $48 million. As a result of the prepayment on the Term Loan, the Company wrote off approximately $3.0 million of unamortized debt issuance costs. Also in the quarter, Quidel exchanged approximately $70.2 million in aggregate principal amount of the Convertible Senior Notes for approximately 2.4 million shares of the Company's common stock. As a result of the exchange, the Company recorded a $1.6 million loss on extinguishment for the write off of previously capitalized transaction costs and transaction fees for the exchange transaction. Quidel's Convertible Note balance currently stands at approximately $97.1 million. As a result of these transactions, plus the first quarter term note amortization payment, Quidel's total principal balance on its debt as of March 31, 2018 was $244.2 million. With this significant reduction in debt, plus the exceptional first quarter earnings, our leverage ratio, excluding the netting of cash is now below 2 times. As a result, our LIBOR spread was reduced by 50 basis points. As of today and after the first annual installment payment to Abbott, the company has $87 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 a great quarter, we're off to a great start, 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.