QUIDEL THIRD QUARTER 2018
CONFERENCE CALL SCRIPT
Tuesday, November 6, 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 Third 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 third 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 November 6th, 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, November 6, 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 nine months ended September 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. Then, we'll open the call to your questions.

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

DOUG BRYANT

Thank you Ruben, and good afternoon everyone. We have several things to talk about, so let's get started.

The integration of the Triage assets is going well, and Karen's integration team is making tremendous progress on many fronts. Among several achievements for this quarter, one I would like to highlight is our efforts in support of our commitment to quality. We've recently incorporated Quidel's Quality Management Software at the

Summers Ridge facility, and have built a multi-language Technical Support Center in Europe to address the needs of our EU customer base.

On the facility side, we continue to work through our opportunities across our supply chain and manufacturing processes, improving product yields, reducing scrap, and increasing plant productivity. As a result, we are on track to reach $11 million in run rate synergies by the end of the year. With the incorporation of the BeNeLux area as well as four other countries around the globe, we are close to having three-quarters of the acquired business off TSAs and under our control, with an expectation to be near 80% by the end of year. By March 1st, 2019, we expect to remove China from the TSA, and to have all facets of that business under our control. 95% of the overall acquired business would then be under our complete control. Again, tremendous progress.

In terms of the financial performance of the acquired businesses, I would say it's going well and ahead of our initial expectations. Revenue for the Triage and Beckman BNP Businesses was $65.3 million dollars for Q3, which exceeded the $60 - $62 million dollars we expected from the businesses after Q1, but less than the $69 million dollars we saw in Q2. However, the business grew 4% from the prior year, in-line with our

expectations for the back half of this year. North America revenues were up 3% over the prior Q3, driven by 19% growth in BNP. Rest of World revenue was up 5%, driven by 7% growth in the triage business. Overall, China was up 32%, and Europe was down 15% over the third quarter of 2017, due to two factors: first, higher than normal inventory levels in the prior third quarter as a result of promotions run by Alere prior to the closing of the transaction; and second, the margin effect of shifting to a distributor model from direct selling in certain key EU countries. Again, the Cardiac Immunoassay segment is exceeding our expectations, and we expect Q4 2018 Cardiac revenues to be equal or higher than Q3; therefore $270 million in Cardiac revenues for the year that we had previously suggested, looks to be within range, which is a considerable improvement from our original forecast of $250 million dollars in 2018 made during our Analyst Day event in April. So, in a nutshell, so far, so good. It looks like we can more reliably predict how well we will do in Q4, and for this year, and have more confidence in our ability to grow revenue in the mid-single digits in 2019 and in 2020.

With regard to the Danaher litigation, Beckman filed a motion for summary adjudication that is scheduled to be heard on December 7, 2018. We still view Beckman's claims as meritless, and in opposition to Beckman's long-standing strategy of honoring the Supply Agreement

with its previous partners – Alere and Biosite – over the last 15 years. We continue to feel confident in our position, and plan to vigorously defend the validity of the Supply Agreement.

Moving on to the legacy Quidel business, we performed nicely there as well, with 2 of the 3 product categories, Molecular and Specialized Diagnostic Solutions, showing growth in the quarter. The Rapid Immunoassay category was marginally off, only $1.1 million dollars lower versus the prior year quarter, as distributor orders did not catch up with significant growth in outsales of Influenza products throughout the quarter. Specifically, outsales of Influenza products were up 19% in Q3 over the prior year quarter. Inventories in the distribution channel are below Q3 2017 levels, such that any patient driven flu demand will likely require distributor re-ordering in December, which we often see in a typical influenza season.

In the quarter, we also received 2 FDA approvals: a Solana molecular assay for the diagnosis of Pertussis and Parapertussis for moderately complex labs, and our easy-to-use, CLIA-waived Sofia 2 Lyme Whole Blood test that provides a Lyme diagnosis in as few as 3 minutes from a fingerstick blood sample, and can be run in physician offices, urgent care centers, and retail clinics. The Sofia 2 Lyme assay is creating new

placement opportunities for the Sofia 2 system with new customers, and driving incremental assay commitments from our existing customers, as well. Clearly, there's a lot that we've learned late in the Lyme disease season that we think will benefit our sales force in the spring.

In terms of product development, our R&D and Regulatory teams continue to execute at a nice pace, and are making progress on several platforms: Sofia 2 assays, the Savanna system, and on our next growth drivers for Triage. I don't plan to go through all the projects here on the call, but I do want to discuss progress on our Triage products in development. First, we are very pleased with the progress made on our next generation Triage Troponin assay, which we expect to launch at the end of this year in Europe. We plan to submit the CE Mark in a few days, and could be marketing the product in Europe within weeks, learning about the market's receptivity to the test, and further refining our US regulatory and commercial strategy. Our second-generation Triage Toxicology test was submitted to the FDA at the end of September, and we plan for a Q2 2019 launch. We believe that this test could be a $30 million dollar-plus opportunity for us. Both products are expected to be modest revenue growth drivers for us in 2019.

On the Savanna side, development continues. We expect to have several assays launched in 2020. The time-line for initial product introduction in Europe in 2019 and commercialization in the U.S. is tight as it has been; however, we are aware of no showstoppers at this stage. We did show Savanna last week at AMP, and as expected, customers are clearly intrigued by the form factor and capabilities of the system.

Overall, we had a solid quarter, and are making progress on many fronts. We still expect to achieve revenues for the year of greater than $520 million dollars, with a gross margin profile approaching 60%, which is an improvement over our expectations announced during our Analyst Day in April. Our integration team is executing on the integration plan, our commercial organization is fully engaged, our Research and Development network is focused on bringing new products to market. In short, our company is well-positioned to be successful as we close out the year and move into 2019.

Randy....?

RANDY STEWARD

Third Quarter Financial Results

Thank you, Doug. Good afternoon everyone. As we reported earlier today, total revenues for the third quarter of 2018 were $117.4 million dollars, as compared to $50.9 million dollars in the third quarter of 2017. The significant increase in revenue was driven by the $65.3 million dollars in incremental revenue from the acquired Triage and BNP Businesses, which grew 4% in the quarter. This increase was slightly offset by lower Rapid Immunoassay product revenues, which were $35.4 million dollars in the third quarter of 2018, as compared to $36.5 million dollars last year. The decrease was mostly due to a $1.5 million dollar decline in Influenza revenues over the third quarter of 2017. In the quarter Sofia rapid immunoassay revenue was up 8% to $21.2 million dollars while QuickVue revenue decreased 16% to $13.1 million dollars.

Cardiac Immunoassay revenues, at $65.3 million dollars, grew 4% from the third quarter of the prior year. For the first nine months of the year, Cardiac has grown at a rate of 7% over the same period in 2017. We continue to be pleased with the performance of this product category, and it speaks well to our integration efforts.

Revenue in the Specialized Diagnostic Solutions category increased 5 percent in the third quarter to $12.3 million dollars, primarily due to higher Complement revenue in the U.S.

Our Molecular Diagnostic Solutions category increased 60 percent in the quarter to $4.5 million dollars due to an 88% growth in Solana revenue.

Gross Profit in the third quarter of 2018 increased $40.0 million dollars, the result of the incremental Cardiac Immunoassay revenue from the acquired Triage and BNP Businesses. Gross margin in the third quarter of 2018 was approximately 59 percent, as compared to 58 percent in the third quarter of 2017. Net of amortization of intangibles, the legacy Quidel business gross margin was 61%, the Triage gross margin was 57%, and the Beckman BNP Business gross margin was 66%. We are starting to realize margin improvement in the Triage products, the result of our manufacturing initiatives to improve yields and reduce scrap, improve direct and indirect labor efficiency, and improve alignment of the manufacturing support functions.

R&D expense increased by $5.6 million dollars in the third quarter as compared to the same period last year. This increase is due to the

incremental expense associated with the Savanna molecular diagnostic platform, as well as increased spend in the Triage business. As Doug mentioned, at the end of the third quarter, we submitted the new Toxicology panel to the FDA, and are within a few days of submitting the new Troponin assay for CE Mark. We believe that our R&D expense is tracking to our expectations, and estimate that for the year the R&D spend will be in the range of $54 million dollars to $55 million dollars.

Sales and Marketing expense was $26.5 million dollars in the quarter, an increase of $12.9 million dollars, as compared to the third quarter last year. This increase was largely due to incremental personnel costs associated with the global nature of the cardiovascular business. For the full year 2018, we expect Sales and Marketing expense to be in the range of $108 million dollars to $110 million dollars, 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 $4.0 million dollars in the quarter, primarily due to the build out of our global support teams in Galway, Ireland and Shanghai, China. We also incurred increased compensation costs and professional fees. We estimate at this time that G&A expense for the year will be between $43 to $44 million dollars.

Acquisition and Integration costs in the third quarter were $2.5 million dollars, driven by integration activities associated with the Triage and BNP businesses. Doug already mentioned the Quality initiatives that are underway, the transition of approximately 80% of the acquired business to our control by year-end, and that we are tracking to expectations with regard to capturing an annualized $11 million dollars in cost synergies as we exit 2018. I just want to reiterate that the entire Quidel team has done an excellent job of helping build Quidel's global footprint, capturing the revenues associated with the TSAs, and unlocking the synergies at the Summers Ridge facility.

In August, we completed the refinancing of our Senior Credit Facility. At that time, the Term Loan outstanding balance of $83.2 million was rolled into the new Revolving Credit Loan. This refinancing reduced the interest rate by 75 basis points, increased the borrowing capacity from $25 million to $175 million, removed the requirement to prepay the facility in advance of the Convertible Notes, and provided more flexibility with the covenant requirements. Due to the refinancing, we recorded a non-cash $1.3 million loss on extinguishment of debt related to previously capitalized financing costs. For the nine months, as a result of the early payments on the Term Loan and the modification of the

Credit Agreement, we have recorded $6.0 million dollars in non-cash losses on extinguishment of debt pertaining to the Senior Credit Facility.

Interest expense for the quarter was $4.8 million dollars, and includes $1.0 million dollars relating to the Convertible Senior Notes, $1.2 million dollars relating to the Senior Credit Facility, and $2.3 million dollars relating to the deferred consideration associated with the purchase of the BNP business.

In the quarter, we recorded a small income tax benefit. The abnormal effective tax rate this year is due to higher discrete tax benefits for excess stock-based compensation expense, and the impact of the Company's full valuation allowance on U.S. earnings. 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 any reversal of the valuation allowance.

As of September 30, 2018, the company had $38.7 million dollars in cash on the balance sheet, $58.5 million dollars in principal amount outstanding relating to the Convertible Notes, and $83.2 million dollars outstanding on the Revolving Credit Loan.

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.