

# QIAGEN

## Q4/2019

### CONFERENCE CALL

### TRANSCRIPT

February 5, 2020



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JOHN GILARDI: Thank you, and welcome to our conference call.

The speakers today are Thierry Bernard, the Interim CEO of QIAGEN, and Roland Sackers, the Chief Financial Officer. Also joining us is Phoebe Loh from our IR team.

Please note that this call is being webcast live and will be archived on the Investors section of our website at [www.qiagen.com](http://www.qiagen.com). A copy of the press release is also available in the same section.

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**(SLIDE 2: FORWARD LOOKING STATEMENTS)**

JOHN GILARDI: Before we begin, let me cover our Safe Harbor statement. The discussion and responses to your questions on this call reflect management's view as of today, Wednesday, February 5, 2020.

We will be making statements and providing responses to your questions that state our intentions, beliefs, expectations or predictions of the future. These constitute forward-looking statements for the purpose of the Safe Harbor provisions. These statements involve risks and uncertainties that could cause actual results to differ materially from those projected. QIAGEN disclaims any intention or obligation to revise any forward-looking statements. For more information, please refer to our filings with the U.S. Securities and Exchange Commission.

We will also be referring to certain financial measures not prepared in accordance with generally accepted accounting principles. You can find a reconciliation of these figures to GAAP in the press release and the presentation for this call.

I will now turn the call over to Thierry.

**(SLIDE 4: Q4 2019 SUMMARY – THIERRY)**

THIERRY BERNARD: Thank you, John.

Let me begin by welcoming all of you to our conference call.

Our performance for 2019 shows that QIAGEN exceeded the updated outlook that we had set for fourth quarter sales growth and delivered on full-year sales growth, and we exceeded the targets set for adjusted earnings.

As we go through this period of change at QIAGEN, we continue to focus on attractive growth opportunities across the continuum from Life Sciences to Molecular Diagnostics. At the same time, we are realistic about our challenges that began in mid-2019 in Asian markets, particularly China, as well as the decline in revenues from companion diagnostic co-development due to the changes in our clinical NGS strategy, announced in October.

As for 2020, we have announced a balanced outlook that sets out realistically ambitious goals that capitalize on growth opportunities in our Sample to Insight portfolio, while also addressing the challenges that carry over from 2019.

**As a first key message, net sales for the fourth quarter of 2019 were 413.5 million dollars and rose 4% at constant exchange rates, and this was ahead of our outlook for 3% CER growth.**

Adjusted earnings per share were 48 cents at constant exchange rates, and also on a reported basis. This was also above our outlook for 45 to 46 cents per share.

**As the second key message, we delivered on the sales outlook for the full year 2019, and also exceeded the target we had set for adjusted EPS.**

Net sales were 1.53 billion dollars, and rose 4% at constant exchange rates against our target for growth at this same rate. The drop in companion diagnostic co-development revenues related to our strategic decisions in NGS cost us about one percentage point of incremental growth. Adjusted EPS was 1 dollar 43 cents per share, and 1 dollar 46 cents at constant exchange rates. This was better than the outlook we had set for 1 dollar 43 cents to 1 dollar 44 cents per share at constant exchange rates.

The reported results included a pre-tax charge of 302 million dollars on operating results for the measures we announced in October regarding our decision to stop internal development of NGS instruments in light of the new partnership with Illumina.

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We have also advanced other efficiency measures during the last few months, and this helped to increase the adjusted operating income margin to 27.6% of sales.

**As a next key point, we made good progress during 2019 on improving our Sample to Insight portfolio.**

As you saw in our press release from early January, we reached a new milestone with more than 2,500 cumulative placements of the QIAAsymphony automation system. This has become a steady and consistent growth engine for QIAGEN, in particular as an anchor of our leadership in sample processing, and we plan for 200 new placements in 2020.

Although we saw a slowdown in the fourth quarter in QuantiFERON TB test sales, which was due mainly to adverse trends in the Asia-Pacific region, the test had full-year sales growth of 10% CER for 2019. A key development in the fourth quarter was the U.S. regulatory approval of this assay for use on DiaSorin's LIAISON systems, which had received European clearance in 2018.

Our portfolio of products for use in next-generation sequencing achieved the goal for 180 million dollars of sales in 2019, supported by the third consecutive year of double-digit CER growth in our bioinformatics business, which is now known as QIAGEN Digital Insights.

**As a last key message, we provided our outlook for 2020 in the press release last night.**

Net sales are expected to grow about 3-4% CER for the full-year. As I mentioned earlier, we have set targets that balance growth opportunities in our portfolio with challenges, in particular the ongoing weakness in our China business and expectations for a further reduction in revenues from companion diagnostic co-development due to the changes in our next-generation sequencing strategy. At the same time, we expect the expanding menu for QIAstat-Dx to drive further placements, and the FDA approval on the DiaSorin workflow to translate into a good conversion of QuantiFERON TB testing in the U.S. Finally, we also believe that our universal NGS portfolio will deliver double-digit growth in 2019 as we expand our offering.

Adjusted EPS is expected to be about 1 dollar 52 cents to 1 dollar 54 cents per share at CER, as we continue to improve operating efficiencies and maintain our strategy for disciplined capital allocation.

I would now like to hand over to Roland.

**(SLIDE 5: Q4 2019 FINANCIAL REVIEW – ROLAND)**

ROLAND SACKERS: Thank you, Thierry.

Good afternoon to those of you in Europe and good morning to those of you in the U.S. I would like to go over our key financials for the fourth quarter and full-year 2019.

Net sales in the fourth quarter of 2019 were 413.5 million dollars. This was a 4% increase at constant exchange rates, and above our outlook for about 3% CER. Sales growth on a reported basis was 3%, and this was due to some modest adverse currency headwinds, coming from a combination of currencies including the Euro, Turkish Lira and South Korean Won.

For the full-year of 2019, net sales were 1.53 billion dollars, rising 4% CER over 2018. On a reported basis, sales growth was 2%, absorbing about two percentage points of currency headwinds.

Moving down the income statement, the adjusted gross margin rose nearly two percentage points to 71.6% of sales in the fourth quarter of 2019 from 69.8% in the year-ago quarter, supported by the solid performance of our higher-margin consumables business with 7% CER growth.

For the year, the adjusted gross margin was 71.0% compared to 70.7% in 2018, which remains at a strong level, especially as we are supporting multiple new product launches.

Adjusted operating income in the fourth quarter rose 16% to 138.6 million dollars, showing significant improvement over the same period in 2018, in part due to the savings generated by the change in orientation of our NGS strategy and targeted efficiency programs. These included discontinuation of our own NGS instrument development programs, which freed up about 30 million dollars on a full-year run rate, which is partially being reinvested.

The adjusted operating income margin was 33.5% for the fourth quarter of 2019, up from 29.6% in the prior-year period.

For full-year 2019, adjusted operating income rose 5% to 421.8 million dollars from 403.3 million dollars in 2018. This resulted in an adjusted operating income margin of 27.6% for 2019 compared to 26.9% in 2018.

Adjusted earnings per share in the fourth quarter of 2019 were 48 cents at constant exchange rates, and they were also 48 cents on an actual basis. This was well above our outlook for 45 to 46 cents at CER.

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For the full-year, adjusted earnings per share were one dollar and 46 cents at CER, and the adverse currency headwinds reduced this by three cents to one dollar and 43 cents on an actual basis.

As we mentioned earlier, we announced in October that restructuring charges would be taken primarily in the third and fourth quarters of 2019.

The vast majority of these charges were an outcome of our new partnership with Illumina and our decision to discontinue development of future NGS-based instruments. Other charges were taken as part of a decision to shift our production organization into a regional structure, and also to expand activities at our QIAGEN Business Service centers in Poland and the Philippines.

As a result of these initiatives, we took a pre-tax restructuring charge of 24.9 million dollars on operating income for the fourth quarter of 2019. This means we took a total charge of 301.8 million dollars on operating income in results for 2019. The majority of this charge – or about 68% - involved non-cash charges primarily due to the decision to discontinue NGS instrument development.

In terms of cash flow, operating cash flow declined for 2019 to 330.8 million dollars compared to 359.5 million dollars in 2018. Among the key factors were cash payments for the restructuring initiatives and higher tax payments, in part to settle tax audits for prior years that were accrued for in the past.

Excluding the cash restructuring payments for the measures announced in October 2019, operating cash flow was 368 million dollars.

Investments in property, plant and equipment were also higher in 2019, rising to 117.9 million dollars from 109.8 million dollars in 2018. This was mainly due to investments to build up manufacturing capacity to support new product launches. As a result, free cash flow declined to 212.9 million dollars in 2019 from 249.7 million dollars in 2018.

Moving to the balance sheet, at the end of 2019, our leverage ratio stood at 1.6 times net debt to EBITDA. This was slightly higher than the level of 1.4 times at the end of 2018. We continue to see QIAGEN as having a very healthy balance sheet, which can absorb more leverage to support business expansion initiatives as well as share repurchase programs aimed at increasing returns.

**(SLIDE 6: Q4 2019: PRODUCT TYPE, CUSTOMER CLASS AND REGIONAL SALES – ROLAND)**

ROLAND SACKERS: I would like to now review sales results based on our two product categories, our customers in the Life Sciences and Molecular Diagnostics, and our geographic regions.

In terms of product categories, sales of consumables and related revenues rose a strong 7% CER to 364 million dollars in the fourth quarter and represented 88% of sales. This was largely in line with the trend for the full-year 2019, with sales up 6% CER to 1.35 billion dollars and representing 89% of sales.

Instrument sales, on the other hand, were down 16% CER to 49 million dollars in the fourth quarter of 2019, and represented 12% of total sales. For the full-year, instrument sales were down 5% CER in 2019 to 172 million dollars and represented 11% of total sales.

The sales decline was expected, and was due to our decision to strategically change the orientation of our GeneReader NGS System, and also due to reduced revenues from third-party instrument service contracts. At the same time, we are seeing good trends in reagent-rental agreements, where instruments are placed with consumables contracts in lieu of capital equipment purchase. This should translate into solid gains in consumables sales in the future.

In the Molecular Diagnostics customer class, sales for the fourth quarter of 2019 rose 3% CER to 198 million dollars, and represented 48% of total sales. Here we saw mid-single-digit CER gains in consumables and related revenues, but also a double-digit CER decline in instrument sales.

As we mentioned earlier, a key negative factor was the 2019 decline in revenues from companion diagnostic co-development projects for pharma companies. These revenues fell 54% CER to 9 million dollars in the fourth quarter of 2019. Excluding these specific revenues, Molecular Diagnostics sales were up about 10% CER in the fourth quarter.

For the full-year 2019, Molecular Diagnostic sales were up 4% CER and also represented 48% of total sales. The growth was weighed down by a 27% CER decline in companion diagnostic co-development revenues to 42 million dollars. Excluding these specific revenues, Molecular Diagnostics sales were up about 7% CER for 2019.

The Life Sciences customer classes saw ongoing solid trends in the fourth quarter, with sales rising 4% CER to 216 million dollars and representing 52% of total sales. For the year, Life Science sales were up 5% CER in 2019 to 789 million dollars and also represented 52% of total sales.

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Within the Life Sciences, sales to Pharma customers rose 5% CER in the fourth quarter on mid-single-digit CER growth contributions from consumables and related revenues, and in particular benefited from the expansion of our universal NGS portfolio. Sales in the Academia / Applied Testing customer class were up 3% CER.

I would like to now review the results in our three geographic regions.

The Americas region led the performance in the fourth quarter of 2019, rising 7% CER to 180 million dollars and representing 44% of sales. The U.S. delivered growth in line with the region, supported by double-digit CER gains in Mexico. For the year, the Americas grew 5% CER, reaching 722 million dollars and providing 47% of total sales.

The Europe Middle East and Africa region rose 5% CER to 146 million dollars in the fourth quarter, and represented 35% of total sales. We saw improving trends in a number of Western European countries – in particular France, the United Kingdom and Germany – and also solid trends in Turkey. However, we saw double-digit CER declines in Italy and Switzerland. The drop in Italy was related to the change of the TB distribution strategy in Italy in Q4 2018 to DiaSorin.

For the full year, sales in the region were up 5% CER to 487 million dollars and were 32% of total sales.

The ongoing decline in China, as well as a significant slowdown in Japan in Molecular Diagnostics, were the key reasons for the Asia-Pacific Japan region showing a 4% CER decline in sales to 87 million dollars for the fourth quarter of 2019. As you may recall, aside from the discontinuation of our China GeneReader joint venture, we also had issues when some of our distributors saw a slowdown in payments coming in from their own customers in hospitals and laboratories. During the fourth quarter of 2019, we put monitoring plans in place to address this issue.

For the year, growth in the Asia Pacific Japan region slowed to 2% CER, reaching 314 million dollars and representing 21% of sales.

I would like to now hand back to Thierry.

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**(SLIDE 7: SAMPLE TO INSIGHT PORTFOLIO UPDATE – THIERRY)**

THIERRY BERNARD: Thank you Roland.

I would like to now give you an overview on the portfolio updates for the fourth quarter.

Building on our collaboration with DiaSorin, we received FDA approval in November 2019 for the automated workflow of the QuantiFERON-TB Gold Plus test on DiaSorin LIAISON systems in the U.S. This workflow offers streamlined laboratory automation for latent TB screening and supports further conversion from tuberculin skin tests to modern blood-based QuantiFERON technology. We see this as the best large-scale solution available for latent TB testing.

Our companion diagnostic co-development business with pharma is going through a tough period due to the change in our NGS strategy, but we continue to attract a lot of business based on our track record in creating PCR-based tests and an industry-leading platform. As a recent win, we entered a strategic agreement with Amgen to develop tissue-based companion diagnostics for their investigational cancer treatment to identify patients with cancers that have the KRAS G12C mutation. This agreement focuses initially on companion diagnostics for non-small cell lung cancer but allows for further development of tests for Amgen's other clinical development programs.

In another partnership, we have expanded our collaboration with LabCorp regarding their use of QIAGEN Digital Insights solutions. The agreement now includes an extension of their current QIAGEN Clinical Insights license with our Human Gene Mutation Database in order to improve identification and interpretation of genetic variants within inherited diseases. This expansion builds on the existing seven-year relationship between the two companies to develop, introduce and support new diagnostic tests.

In the area of portfolio expansion, we have launched the new QIAseq Multimodal Panels to complement our existing universal NGS solutions, which can be used with any sequencing platform. This is currently the only solution that can be used to extract, enrich and sequence DNA variants and RNA fusions, as well as to assess gene expression, in a single workflow from a single sample.

In support of both NGS and PCR applications, we have launched an upgraded version of the GeneGlobe design and analysis hub. This combines curated knowledge with content-based assays and analysis. It also provides a tool to life-science

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researchers for the complete cycle of biomarker target exploration, custom panel configuration and ordering, as well as data analysis and planning of follow-up experiments.

In bioinformatics, the integration of N-of-One is now complete and QIAGEN Digital Insights has expanded this selection of services to Europe. QCI Precision Insights now includes EMSO guidelines and EMA approved oncology drugs and is available in Europe for molecular pathologists, oncologists, and medical geneticists.

QIAstat-Dx has made good progress as a platform offering fast, cost-effective and flexible syndromic testing. Just over a year after launch in the European market, and just over half a year in the U.S., we are about to reach 1,000 total cumulative placements.

Also showing solid placement rates is the QIAcube Connect platform, providing automated sample preparation to serve the lower-throughput needs of laboratories. QIAcube Connect was launched in early 2019 and has already reached over 660 placements. This platform is the next generation of QIAGEN's widely used QIAcube instrument, which had over 8,000 placements.

Indeed, the consistent growth of QIAsymphony and QIAcube Connect underscore the strength of our sample preparation technology portfolio.

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**(SLIDE 8: FULL-YEAR 2020 LIFE SCIENCES LAUNCH – THIERRY)**

THIERRY BERNARD: Moving into 2020, we have some key new products that we expect to complement existing portfolios and contribute to our topline this year.

A notable opportunity is our entry into digital PCR. We are on track for a mid-2020 launch of our novel instruments, which will be branded as QIAcuity. During pre-launch previews, we have received positive feedback from customers and have even taken the first orders.

These fully integrated digital PCR workflows will be supported by hundreds of QIAGEN assays, and are designed to deliver key advantages for one of the fastest-growing areas in the life sciences industry. Our unique nanoplate technology has been created to offer a cost-effective way for labs to have faster and easier access to this technology.

We are seeing a positive initial market response. Interest in early access is running high, and the first order is already in place from a major U.S. pharma company. The features of our QIAcuity solutions will meet the needs of current digital PCR users and enable us to accelerate conversion from the much larger quantitative PCR market.

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**(SLIDE 9: FULL-YEAR 2020 MOLECULAR DIAGNOSTICS LAUNCHES – THIERRY)**

THIERRY BERNARD: In Molecular Diagnostics, QIAstat-Dx is having a growing impact in the syndromic testing market. We will continue to drive growth in the installed base with the release of two new panels in 2020. The gastrointestinal panel, already marketed in Europe, was submitted to the FDA in December and is expected to launch in the U.S. this year. In Europe, the meningitis panel is on track for commercial launch in the first half of 2020. Each menu addition adds value for more customers by delivering capabilities for additional indications.

In the QuantiFERON-TB franchise, we are ready to support expansion of modern TB testing into low-resource, high-burden areas with the release of QuantiFERON-TB Access. This new system is designed to advance tuberculosis control in areas with limited infrastructure using a device that avoids the need for cold chain, a computer or a continuous power supply. QFT Access is expected to launch in the second half of 2020 as a CE-IVD solution, adding to QuantiFERON-TB's momentum.

And now I will hand it back over to Roland.

**(SLIDE 10: Q1 and FY 2020 OUTLOOK – ROLAND)**

ROLAND SACKERS: Thank you, Thierry.

I would like to now review our outlook for 2020 and for the first quarter of the year.

As noted earlier, our outlook for 2020 calls for net sales growth of approximately 3-4% CER.

The sales outlook takes into consideration overall growth in QI-AGEN's Sample to Insight portfolio, partially offset by significant headwinds from an anticipated double-digit CER decline in companion diagnostic co-development revenues due to the new orientation for our NGS strategy. The outlook also takes into consideration expectations for lower sales in China in the first half of 2020, mainly due to the slowdown in orders from distributors that began in mid-2019 and the end of the China NGS joint venture announced in 2019. While we are seeing an increase in global demand for solutions that can be used for the coronavirus testing, we have not included it in our outlook for 2020 given the uncertainties and disruptions at this time to overall business trends in China.

Furthermore, this outlook does not take into consideration any future acquisitions, including the potential acquisition of the remaining stake in NeuMoDx for approximately 234 million dollars through the option that expires in mid-2020.

Our outlook for adjusted diluted EPS is 1 dollar 52 cents to 1 dollar 54 cents CER per share, with growth over 2019 at a significantly faster pace than sales growth. We intend to invest some of the savings from stopping the NGS instrument development programs into the business, but also let some drop through to improve operating profitability.

As for currencies, based on rates as of January 31, 2020, in terms of net sales we expect a currency headwind of about one percentage point on results at actual rates. For adjusted EPS for the full year, we also expect a currency headwind of about one cent per share.

For the first quarter, our outlook is for total net sales growth of about 2-3% CER. This is driven by expectations for solid growth in the Life Sciences, along with underlying improvements in Molecular Diagnostics that are to be overshadowed by the adverse trends expected in China and from the companion diagnostic co-development revenues.

Adjusted diluted EPS is expected to be about 28 to 29 cents per share at constant exchange rates.

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In terms of currency impact for the first quarter, based on rates as of January 31, 2020, we expect headwinds of about 1-2 percentage points on net sales growth and up to about one cent on adjusted EPS.

With that, I would like to hand back to Thierry.

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**(SLIDE 11: SUMMARY – THIERRY)**

THIERRY BERNARD: Thank you, Roland.

Here is a quick summary before we move into the Q&A session:

- First, we delivered on the sales outlook for the fourth quarter and full-year 2019. Good underlying growth across the portfolio was hindered by business trends in China that began in mid-2019 and the reduction in revenues from companion diagnostic co-development projects.
- We also exceeded our targets for adjusted earnings, supported by savings generated through our change in NGS strategy and other efficiency measures.
- Additionally, we continue to have a clear focus on value creation, anchored by our commitment to disciplined capital deployment.
- As a last point, we are looking for more growth in sales and adjusted earnings in 2020, taking a realistically ambitious approach to setting targets and delivering on our commitments.

With that, I'd like to hand back to John and the operator for the Q&A session. Thank you.

**JOHN GILARDI:** With that, I would like to close this conference call and thank you for your participation. If you have any questions or comments, please do not hesitate to contact us.

Thank you.