



QIAGEN

Q3 2023 RESULTS CALL TRANSCRIPT

October 31, 2023



Q3 2023 RESULTS CALL SCRIPT:

OPER: Hello and thank you for standing by. Welcome to our call to discuss results for the third quarter and first nine months of 2023. At this time, all participants are in a listen-only mode. Please note that this call is being recorded and will be made available on QIAGEN's website. I'd like to introduce your host, John Gilardi, Vice President of Corporate Communications and Investor Relations at QIAGEN. Please go ahead.

JOHN GILARDI: Thank you, operator, and a welcome to all of you who are joining us for this call. We appreciate your interest in QIAGEN.

Our speakers are Thierry Bernard, our Chief Executive Officer, and Roland Sackers, our Chief Financial Officer. We also have Phoebe Loh from the Investor Relations team with us.

This call is being webcast live and will be archived on the investors section of our website at www.qiagen.com.

You can also find a copy of the quarterly results press release and presentation on our website. We will begin with remarks from Thierry and Roland, followed by a Q&A session.

Before we start, let's briefly go over our safe harbor statement.

The views expressed during this conference call and the responses to your questions represent the perspectives of management as of today, October 31, 2023.

We will be making statements and providing responses to your questions that convey our intentions, beliefs, expectations or predictions for the future.

These forward-looking statements fall under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

They involve risks and uncertainties, and actual results may differ materially from those suggested by these forward-looking statements.

Factors that could influence results are mentioned in our filings with the U.S. Securities and Exchange Commission.

These filings are available on the SEC's website and also the QIAGEN website.

QIAGEN disclaims any intention or obligation to update any forward-looking statements.

Additionally, we will refer to certain financial measures not prepared following Generally Accepted Accounting Principles or GAAP.

All references to EPS refer to diluted EPS.

You can find a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measure in our press release and presentation.

Now I would like to hand over the call to Thierry.

THIERRY BERNARD: Thank you, John.

Hello and good morning, good afternoon or good evening depending on where you are in the world, and thank you for joining us.

We delivered another quarter of solid results that exceeded our outlook in an increasingly volatile macro environment.

It confirms again the resilience of our portfolio. Our performance continues to be driven by our strategy of focus and balance: Focus on our Pillars of Growth and balance in serving over 500,000 customers in the Life Sciences and Molecular Diagnostics with our broad geographic presence.

At the same time, we are closely monitoring increasingly challenging geopolitical and macro environments and taking actions to reduce as much as possible the impact on our business.

We are well-positioned to finish this year in a strong position, committed to delivering solid sales growth and improved earnings in the fourth quarter as we prepare for more growth and expansion in 2024 and the years ahead.

Now let me get to our top messages:

First, we exceeded our outlook for net sales and adjusted EPS for the third quarter – driven by solid growth in the non-COVID base business and a high level of profitability.

Net sales were 470 million dollars at constant exchange rates which exceeded our outlook for at least 465 million dollars.

Our non-COVID product sales rose 5% CER, and these were supported by 10% CER growth in sales of highly recurring consumables revenues, that accounted for well over 85% of total sales. For the first 9 months of the year these sales grew 8% CER.

Overall results showed a decline of 5% to 476 million dollars, reflecting the significant drop-off in COVID-19 testing revenues from 2022.

We continue to track toward 160 to 165 million dollars of sales for 2023 in our COVID-19 product group. Remember that we had 143 million dollars of sales from this product group in 2019 before the pandemic.

In terms of profitability, adjusted earnings per share were 50 cents CER, and above the outlook for at least 48 cents CER.

As a second key message, our key pillars are driving the solid underlying performance.

To call out a few...

The QuantiFERON TB test maintained the momentum we have seen during 2023, growing 25% CER over the third quarter of 2022 and delivering the second consecutive quarter of sales above 100 million dollars. The key driver? It is clearly the strong conversion trends from use of the tuberculin skin test.

The QIAcuity digital PCR systems delivered over 40% sales growth at constant exchange rates driven by new placements and increasing biopharma consumables sales.

The QIAstat-Dx syndromic testing platforms also did well this quarter, with a combination of growth in consumables driven by double-digit CER gains in non-COVID testing and placements above the same level achieved in the third quarter of 2022.

As a third message, we continue to maintain a high level of profitability as we invest into R&D that will help drive future growth trends.

The adjusted operating income margin was 26.6% in the third quarter, and we achieved this level while investing about 10% of sales into R&D. We see these investments as an important way to create new relays of growth.

And as a last point, we are reaffirming our full-year outlook for 2023.

Our outlook remains for net sales of at least 1.97 billion dollars at constant exchanges rates, and for adjusted earnings per share of at least 2 dollars and 7 cents CER.

We are closely monitoring the increasingly volatile geopolitical and macro trends: Inflation. The war in Ukraine, and now in the Middle East. Supply chain issues. The economy in China. There are a lot of moving parts to observe in terms of macro trends.

Before I hand over to Roland, I would also like to mention a change in our leadership team.

After leading our Molecular Diagnostics business since 2020, **Jean-Pascal Viola** has been appointed Senior Vice President, Head of Corporate Strategy & Development. He remains a member of the Executive Committee.

We want to capitalize on JP's contributions to QIAGEN since 2007 and proven track record in business development.

After a rigorous selection process, I would like to welcome **Fernando Beils** as our new Senior Vice President, Head of Molecular Diagnostics Business Area and member of the Executive Committee.

Fernando joins QIAGEN after more than two decades in the Life Sciences and Molecular Diagnostics industry.

He most recently led the Genetic Testing Solutions Business at Thermo Fisher Scientific, and previously spent over two decades at Siemens, and in his last role as Global Head of the Molecular Diagnostics Business Unit at Siemens Healthineers.

We welcome Fernando to the team and are convinced his passion for innovation and customer focus will help us to achieve our ambitions.

Now I would like to hand over to Roland for a review of our results in greater detail.

ROLAND SACKERS: Thank you, Thierry.

Hello everyone.

Thank you as well from me for joining our call.

Let me first discuss our results for the third quarter and first nine months of the year, and then share some views on our outlook.

As you saw in our press release, net sales for the third quarter of 2023 were 476 million dollars at actual rates, and 470 million dollars at constant exchange rates.

We saw a modest impact from currency movements against the U.S. dollar, so sales declined 5% compared to the year-ago period, while results at constant exchange rates were down 6%. As has been the trend during 2023, this was again a quarter with a substantial decline in COVID-19 revenues.

Instrument sales led the performance, rising 1% CER, as our teams generated growth despite more conservative customer spending trends. Even in this environment we still saw solid placements of lower price-point instruments such as QIAcuity and QIAstat-Dx.

We continued to see good placement trends for reagent rental agreements. These agreements among Molecular Diagnostics customers involve placements linked to multi-year consumables contracts, and help secure future consumables commitments.

Among our four product groups, let's start with Sample technologies, which represents about one-third of total sales.

Here we had growth at a low-single-digit CER rate for the non-COVID products, and these represented nearly 90% of sales within this product group.

Overall sales declined 13% CER, and this was due to the very tough comparison against 2022 results and the drop-off this year in COVID-19 testing demand.

Diagnostic solutions, our second product group, also represents about one-third of sales.

The QuantiFERON latent TB test was the main driver, with all regions delivering sales growth of about 20% CER or better. The strong conversion trend from the traditional skin test is continuing across the world, but this is still a market that is well below 40% penetrated.

Diagnostics solutions also includes the QIAstat-Dx system for syndromic testing. These sales rose 4% CER, as non-COVID applications delivered solid growth of 16% CER which more than outweighed the COVID-19 testing headwinds from 2022.

We continue to see excellent non-COVID utilization in Europe, with underlying growth at a double-digit CER rate for non-COVID applications that represented about 30% of total sales.

NeuMoDx, our integrated clinical PCR testing platform, saw a sales decline in the third quarter. This was due to headwinds against the high level of COVID testing revenues in Q3 2022.

Moving on to the PCR / Nucleic acid amplification product group, these sales declined 25% CER in the third quarter. As we have been discussing on these calls during 2023, the reason was the sharp drop-off in sales to our OEM third-party customers that use our reagents for their own products. Excluding this factor, non-COVID sales for this product group rose at a single-digit CER rate.

At the same time, QIAcuity digital PCR continued to deliver growth above 40% CER and is tracking well toward the 2023 goal for at least 70 million dollars of annual sales. This growth is coming from a combination of increasing consumables pull-through along with solid trends in new placements.

In Q3, these levels were above the year-ago quarter, and for all three versions involving the one plate, four plate and eight plate systems.

Genomics / NGS is our last product group, and this involves our QIAGEN Digital Insights bioinformatics business and our products for use with any next-generation sequencer.

The QDI business had another solid performance with sales growth at about 20% CER in the third quarter, and maintaining a double-digit CER growth rate for the first nine months of the year.

Here we are seeing the fastest growth in our clinical applications, and complemented by double-digit growth as well in discovery and research applications.

Moving to sales on a geographic basis, the Americas again delivered growth in terms of total sales, rising 1% CER, and at a faster 4% CER rate for the non-COVID business. The key driver was clearly QuantiFERON, and supported by the sample technologies and QIAcuity portfolios, and this continued the trend seen in the second quarter.

The Europe, Middle East, Africa region grew at an even stronger pace than the Americas, with sales rate for non-COVID product groups rising at a double-digit CER rate. Among the top-performing countries for non-COVID results were France, Switzerland and the United Kingdom.

The Asia-Pacific / Japan region had a decline at a low-single-digit CER rate for non-COVID sales.

Non-COVID sales in China declined at a low-single-digit CER rate.

Let's now review the rest of the income statement.

Adjusted operating income declined 12% to 126 million dollars from the third quarter of 2022, reflecting the lower sales base due to the pandemic revenues last year.

The adjusted operating income margin for the third quarter was 26.6% of sales. Keep in mind that in the third quarter we faced currency headwinds of at least 50 basis points on the margin.

The key driver was a decline in the adjusted gross margin to 66.1% of sales. Among the factors was the lower level of capacity utilization and the change in product mix.

At the same time, we continued to make significant investments in R&D, which remained at about 10% of sales, and in line with our full-year goals.

Sales and marketing expenses benefited from improvements in the quality and efficiency of customer engagement. These expenses were 23.4% of sales in the third quarter, up from 22.9% last year on a significantly higher COVID-driven sales base.

General and administrative expenses were 6.0% of sales, and slightly lower than in third quarter of 2022 at 6.2% of sales.

To close out the income statement, adjusted EPS for the third quarter was 50 cents at constant exchange rates, and above the outlook for at least 48 cents CER, and also 50 cents at actual rates.

In terms of non-operating net income factors, we have seen incrementally higher interest income during 2023 in this high interest rate environment.

At the same time, our interest expenses have declined, and this is due to QIAGEN having repaid nearly 900 million dollars during the last 12 months of maturing debt from existing cash reserves.

Turning to cash flow, results for the first nine months of 2023 reflect the lower sales and profit levels compared to 2022.

Operating cash flow was 308 million dollars for the first nine months of the year, while free cash flow was 210 million dollars.

As we have mentioned on earlier calls for 2023, we are in a period of higher working capital requirements due to our decision to increase inventories in light of the challenging geopolitical and macro environment. We want to ensure that QIAGEN has adequate product availability to serve customers.

This is also seen in the balance sheet in terms of the increase in inventories.

At the same time, accounts receivables has been trending in a positive direction, with days of sales outstanding, or DSOs, at 54 days at the end of September 2023, and down from 58 days a

year ago. This is due to the operational improvements achieved by our receivables teams.

Continuing with the balance sheet, our liquidity position was about 1 billion dollars at the end of the third quarter, which is down from 1.4 billion dollars at the end of 2022.

As a result, our leverage ratio at the end of the third quarter stood at 0.7 times net debt to adjusted EBITDA, an increase from 0.5 times at the end of 2022.

One of the drivers for improving our leverage and capital efficiency was the decision to repay about 900 million dollars of debt from existing cash reserves as I mentioned. Of this amount, 400 million dollars of convertible notes were paid out in September.

Looking ahead, we have an additional 100 million dollars of debt reaching maturity next June and another 500 million in November 2024. Another 500 million dollars of convertible notes could require repayment in December 2025.

We continue to review ways to deploy cash within our disciplined allocation strategy that involves targeted M&A as well as share repurchase programs. Given our healthy balance sheet, we want to continue our approach to create value by investing in the business and increasing returns.

I would now like to hand back to Thierry.

THIERRY BERNARD: Thank you, Roland.

Now I would like to take a moment to run through some of the progress our teams have made in advancing our portfolios this quarter.

We continue to sharpen our focus on our Pillars of Growth and expand in our key areas of expertise to drive sustainable growth in various applications. While we are directing investments into growing our newer pillars of growth such as QIAstat-Dx, and QIAcuity - we are not complacent in our established leadership in Sample technologies and QuantiFERON. Here where we continue to expand to drive waves of growth.

First of all, in our market leading Sample technologies portfolio, we continue to make progress on automation upgrades with the recent launch of the Tissue Lyser III instrument.

This instrument is used as a key tool in sample disruption of difficult-to-isolate samples in early steps of RNA or DNA isolation, such as those involving bone, tissue or environmental samples like soil or plant matter.

The prior generation of this instrument has been cited in over 14,000 publications, and is part of a comprehensive line-up of automation that well-positions QIAGEN to answer a broad range of customer demands for sample processing.

Through the complete upgrade of our sample preparation systems, we have ensured these platforms are not only delivering state-of-the-art technology for the highest quality processing, but also modern solutions for connectivity, which is used for real-time monitoring of runs, cloud management of data and remote service monitoring.

The next update will come with the release of an upgraded version of our flagship platform QIASymphony which will onboard connectivity elements and additional features to even better enable high-volume applications such as liquid biopsy.

We also continue to leverage our deep sample prep expertise through some of the more dynamic growth applications - such as expanding our Microbiome portfolio. Our teams recently launched comprehensive workflows - the Microbiome WGS SeqSets - to enable diverse microbiome research, including gut health, soil microbiology, antibiotic resistance.

These complete kits leverage our leading microbiome DNA extraction and include library preparation for whole genome sequencing and dedicated bioinformatics.

One more notable Sample Technologies expansion is the launch of more kits in our QIAwave portfolio. The QIAwave RNeasy and multi-analyte DNA/RNA kits were added to the collection of alternative versions of the most popular QIAGEN kits which have been re-designed to use considerably less plastic and cardboard. These sustainable kit versions are part of a broader initiative to reduce our environmental footprint and achieve milestones toward our STBi validated target of net-zero by 2050.

Turning to the QuantiFERON franchise, we continue to see strong expansion into the market for these products led by the leading QuantiFERON-TB Gold Plus test for latent Tuberculosis testing.

As you saw in our results, the TB test continued to see strong demand from the continuous successful conversion from the tuberculin skin test along with our strong solution for automation with DiaSorin.

This underscores the power of QuantiFERON's differentiation in the latent TB testing market as an established proven technology with unparalleled automation options.

Our team's ongoing public health work leverages established relationships to promote the importance of test and treat strategies for eradicating deadly TB infections across the globe. This month, QIAGEN once again hosted the annual TB Summit bringing together experts, healthcare professionals, policymakers and disease survivors to discuss emerging tools and strategies for TB management.

This accredited event saw record-breaking participation with over 2,500 people attending through our webcast or in person in London. The summit works to drive significant advancements in the fight against TB and empower healthcare professionals and policymakers by providing them with the latest knowledge, insights, and best practices.

While QuantiFERON plays an essential role in the global fight against Tuberculosis, we are leveraging the QuantiFERON technology to assist in the exploration of cell-mediated immune response in oncology and autoimmune diseases.

Just recently we launched the QuantiFERON-EBV assay for research-use-only to facilitate research in building the understanding of Epstein-Barr virus infections and related malignancies.

This builds on the existing portfolio of IVD tests for monitoring CMI response and Cytomegalovirus, a Lyme disease assay and research-use-only T-cell response assays.

So you can see we are building on a strong base in our QuantiFERON franchise. We see a solid road to continued double-digit growth in the next few years by leveraging this highly-differentiated proprietary technology through well-established commercial channels.

Now back to Roland to give you more details on our outlook.

ROLAND SACKERS: Thank you, Thierry.

Let me provide more perspectives on our outlook for 2023 and also for the fourth quarter.

As noted earlier, we have reaffirmed our full-year sales outlook for at least 1.97 billion dollars at constant exchange rates.

In terms of COVID-19 sales for 2023, we continue to expect about 160 to 165 million dollars. Remember that in 2019 we had 143 million dollars of sales from products that were redeployed for use during the pandemic - and these were mainly Sample technologies for use in obtaining RNA. So we clearly see 2023 as the last full year of significant COVID-19 headwinds.

In regards to our OEM business, these sales are tracking at about 90 million dollars for the year. To frame this, the pre-COVID OEM sales were in the range of 70 million plus and we would expect this business to normalize to that level again next year.

In terms of regions, we are closely monitoring fast-changing geopolitical and macro trends around the world. We continue to have a cautious view on China, where the environment has not improved as is reflected in the results for the third quarter. We are also closely monitoring the situation in the Middle East. In that region we are actively working to support our distributors during these challenging times.

In terms of profitability, we have reaffirmed our outlook for adjusted EPS to at least 2 dollars and 7 cents at constant exchanges rates.

A significant part of our cost structure is variable which enables agility in cost management while continuing to invest in the business. This remains a top priority as we position QIAGEN to continue delivering solid growth in the mid-term.

As for currency movements, and based on rates as of October 27, we expect a negative impact on full-year net sales of about one percentage point and at least 2 cents per share negative impact on adjusted EPS results.

Moving to the fourth quarter, our outlook is for net sales of at least 500 million dollars CER. Adjusted earnings per share are expected to be at least 53 cents per share, also at CER.

As for currency movements, and based on rates as of October 27, we expect a neutral to slightly negative impact on both net sales and adjusted EPS for the fourth quarter.

I would like to now hand back to Thierry.

THIERRY BERNARD: Thank you, Roland.

Let me provide a quick summary before we move into the Q&A session:

- First, amid the ongoing volatile macro environment we delivered another solid performance in the third quarter of 2023. We achieved our outlook for both net sales and adjusted EPS with good demand for our technologies in our non-COVID base business.
- Second, these results were driven by resilient performance from our key pillars in both Life Sciences and Molecular Diagnostics. Our strengths in Sample technologies and QuantiFERON are complimented by the solid progress the teams are making in expanding our footprint in QIAstat-Dx and QIAcuity digital PCR systems.
- Third, as always, we continue to maintain a high level of profitability and are using our healthy balance sheet to create value, through organic and inorganic investments.
- And lastly, we have reaffirmed our full-year outlook for 2023.

As we move through the end of the year, we are diligently keeping an eye on the global landscape to understand how these dynamics carry into 2024.

Despite the current challenging environment, we see a solid mid-term outlook for both the Life Sciences and Diagnostics market and are well-positioned to continue to deliver sustainable growth in the coming years.

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

JOHN GILARDI: 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.