QIAGEN
Q4 2023 RESULTS CALL TRANSCRIPT

February 7, 2024

Sample to Insight

Q4 2023 RESULTS CALL SCRIPT:

OPER: Hello and thank you for standing by. Welcome to our call to discuss results for the fourth quarter and full-year 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 me note that we are going to have an Analyst and Investor Day on June 17 in New York. An invitation to the event will be going out in the next few weeks, but please mark this in your calendars.

And also 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, February 7, 2024.

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 come to you today reporting another solid year, and a strong performance in the fourth quarter.

Amid the dynamic macro-environment, our teams continued to execute, delivering solid sales and installed base growth.

This is a further testament to how our strategy of balance and focus has positioned our portfolios well to expand our leadership in both Life Sciences and Molecular Diagnostics.

Let me go through the key messages for today as we dive into the details:

First, we exceeded our outlook for net sales and adjusted EPS for the fourth quarter – and achieved our full-year outlook.

Net sales for the fourth quarter were 503 million dollars at constant exchange rates, which exceeded our outlook for at least 500 million dollars.

Our non-COVID base business delivered one of the top performances in the industry with 8% CER sales growth over the prior year fourth quarter. This was driven by ongoing strong demand for consumables that accounted for over 85% of total sales.

Net sales for the full year were 1.97 billion dollars at constant exchange rates, and this was on point for our sales outlook for 2023. Our non-COVID sales also grew 8% CER for the year over 2022.

Adjusted earnings per share for the fourth quarter were 55 cents CER, above the outlook for at least 53 cents CER. For the full year, adjusted diluted EPS were 2 dollars and 9 cents CER and above the outlook for at least 2 dollars and 7 cents CER.

As a second key message, our teams executed well to deliver growth and build value in our portfolio, achieving some important milestones in our pillars of growth.

Sample technologies capped the year with 6% CER growth in non-COVID related sales and over 1,500 new automation systems placed in the market in 2023.

The QuantiFERON latent TB test reached more than 400 million dollars of annual sales for the first time, and also had three consecutive quarters of sales above 100 million dollars during the year.

The QIAstat-Dx syndromic testing platforms grew 7% CER in non-COVID sales for the full year and passed several key milestones.

Over one million cartridges were shipped in 2023, and driven by double-digit CER sales growth outside the U.S. Globally, full-year sales of meningitis and G.I. panels doubled compared to 2022. In addition, the fourth quarter saw the highest number of quarterly placements for the year,and bringing the total number of cumulative placements to over 4,000 systems.

The QIAcuity digital PCR systems also performed well, delivering double-digit full year sales growth at constant exchange rates and met the milestone of over 2,000 cumulative placements.

As a third message, we again delivered a high level of profitability as we remain dedicated to investing into R&D.

The adjusted operating income margin rose to 28.0% in the fourth quarter even as we continued to invest in expanding menus and driving innovation in our portfolio, with about 9% of sales going into R&D.

And as a last point, we have initiated full year 2024 outlook taking into account the volatile macro environment against the solid trends of our non-COVID business.

For 2024, we have set an outlook for at least 2 billion dollars of sales at constant exchange rates, and for adjusted EPS of at least 2 dollars and 10 cents CER. Roland will give you more details on our outlook assumptions later in the call.

Before I hand over to Roland, I would like to welcome our two new members to our Supervisory Board. In March, Eva van Pelt will be joining the Board bringing with her extensive experience in the industry. Most recently Eva served as Co-CEO of Eppendorf Group a privately-held German Life Sciences company, and held previous positions with Siemens, Accenture, Hitatchi Data Systems and Leica Microsystems.

In April, Bert van Meurs will also be joining the board. Bert is currently a member of the Executive Committee at Royal Philips N.V. of the Netherlands where he is leading their Image Guided Therapy business as well as the Precision Diagnosis division. We are pleased to have Bert's industry experience but also his knowledge of operating in the Netherlands. They will be a valuable addition to our diverse Board and we are looking forward to their contributions.

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

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 fourth quarter and the full year, and then share some views on our outlook for 2024.

As you saw in our press release, net sales for the fourth quarter of 2023 were 509 million dollars, up 2% from the year-ago period, even against the substantial decline in COVID-19 revenues. We saw modestly positive currency movements against the U.S. dollar, so this helped sales at actual rates.

Consumables and related revenues led the performance, rising 10% CER for non-COVID product groups.

Sales of instruments declined 2% CER for the non-COVID product groups in the fourth quarter of 2023, a signal of the conservative spending environment for capital sales.

At the same time, we achieved some important milestones for placements - especially for QIAstat-Dx and QIAcuity - as we continued to see good placement trends for reagent rental agreements with multi-year consumables contracts.

Overall sales for the full year showed a decline of 8% against 2022, reflecting the drop-off in COVID-19 testing while we delivered 8% CER growth in the non-COVID portfolio that represented over 90% of total sales in 2023.

Looking at the non-COVID growth for the year at 8% CER, this included the strong performance from QuantiFERON growing well above our target rate for at least 10% CER, while also having to absorb the volatility in our OEM business. Taking out both of these factors, non-COVID sales were still up 7% CER in 2023 over 2022.

Among our four product groups, the first is Sample technologies, and this represents about one-third of total sales. For the non-COVID products, these sales rose at a mid-single digit CER rate for both Q4 2023 and the full year over the same periods in 2022.

Our second product group, Diagnostic solutions also represents about one-third of sales and delivered mid-single digit CER sales growth in 2023.

Within this product group, the QuantiFERON TB test continued to capture growth from conversion of tuberculin skin testing to modern blood testing, and finished an outstanding year with

24% CER growth over 2022 and achieving more than 400 million dollars for the first time.

For the QIAstat-Dx system for syndromic testing, sales faced some headwinds from COVID-19 testing, but saw underlying non-COVID sales rising at a solid single-digit CER rate.

Results for NeuMoDx, our integrated clinical PCR testing platform, also reflected the significant headwinds from the high level of revenues from COVID-19 testing in 2022.

In the third group, which involves PCR / Nucleic acid amplification products, sales declined 1% CER in the fourth quarter. This was much better than the overall trend during the year, with sales for 2023 down more than 20% compared to 2022.

As we have been mentioning, the reason for the sharp drop-off in these sales in 2023 has been the volatility in orders from our OEM third-party customers that use our reagents for their own products.

An important driver in the PCR/Nucleic acid product group is QIAcuity, our group of digital PCR platforms. Here we saw dynamic growth during 2023, as our teams exceeded the goal for at least 70 million dollars of annual sales. This growth was driven by increasing consumables pull-through along with new placements, especially in the biopharma sector.

Genomics / NGS is our last product group. This includes our QIAGEN Digital Insights bioinformatics business and the QIAseq consumables portfolio designed for use with any third-party next-generation sequencer.

The QDI business had another solid performance in Q4 and for the full year, delivering double-digit CER growth in 2023 over 2022.

In terms of sales on a geographic basis, the Americas delivered mid-single digit CER growth in the fourth quarter of 2023 in terms of total sales, with non-COVID product group sales rising 9% CER over the fourth quarter of 2022.

We also had a similar trend on a full-year basis, with sales for non-COVID product groups rising 10% CER over 2022 on the back of solid growth in QuantiFERON as well as in the Life Sciences portfolio driven by QIAcuity.

The Europe, Middle East, Africa region grew at a double-digit CER pace for both the fourth quarter and the full-year when excluding COVID-19 headwinds. In terms of non-COVID sales, the top-performing countries for the fourth quarter included France, Germany, Italy and the United Kingdom.

In the Asia-Pacific / Japan region, sales in the fourth quarter were also affected by COVID-19 headwinds from 2022. They were also modestly lower over the year-ago period for the non-COVID product groups as well.

This was due to a double-digit CER sales decline in China, where macro-driven demand was weaker than expected in the fourth quarter.
For the full year, China sales declined at a low-single digit CER rate over 2022, but this was more than offset by higher sales in the rest of this region, especially South Korea and India.

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

For the fourth quarter, adjusted operating income rose 6% to 142 million dollars from the fourth quarter of 2022, as we also generated higher operating income on a reported basis over the year-ago period.

This led to an adjusted operating income margin of 28.0% for the fourth quarter, up from 27.1% in the same period of 2022.

We delivered this improvement despite the adjusted gross margin falling to 65.7% in the 2023 quarter, a decline of about 1.3 percentage points from the fourth quarter of 2022. This was due to an adverse change in product mix as well as a low utilization level for some manufacturing capacity that we have built up to support new product launches. We expect the gross margin to improve as we build up sales in these newer products.

In terms of R&D expenses, these remained at a high level at 9% of sales, and unchanged from the fourth quarter of 2022. This was also in line with our 2023 goal for investments at a 9-10% rate.

Sales and marketing expenses benefited from improvements in greater focus and efficiency in customer engagement, especially through digital channels. These expenses were 23.1% of sales in the fourth quarter of 2023, down about 1.4 percentage points from last year.

General and administrative expenses were also less than in the fourth quarter of 2022, falling to 5.6% of sales compared to 6.4% a year ago.

For the full year, the adjusted operating income margin was 26.9% of sales compared to 30.6% in 2022, supporting again the high level of R&D investments while absorbing investments into commercialization. We also faced a lower adjusted gross margin for the year at 66.4% of sales compared to 67.7% in 2022, and again for the reasons outlined earlier.

To close out the income statement, adjusted EPS for the fourth quarter was 55 cents at constant exchange rates, and above the outlook for at least 53 cents CER.

For the full year, adjusted EPS was 2 dollars and 7 cents at actual rates, while results at constant exchange rates were two cents better at 2 dollars and 9 cents due to some adverse currency trends against the U.S. dollar on a full-year basis.

As we have mentioned before, a key factor in 2023 was the non-operating income benefits to interest income due to the significantly higher interest rate environment compared to 2022.

Turning to cash flow, the trends in 2023 reflected the lower levels of sales and net income compared to 2022 as we move beyond the pandemic.

Operating cash flow was 459 million dollars for 2023, while free cash flow was 310 million dollars.

Beyond the impact of lower sales and profitability, we are in a period of higher working capital requirements.

This is due to our decision to maintain a relatively high level of inventories in light of the challenging geopolitical and macro environment. We want to ensure that QIAGEN can provide products to customers around the world without disruptions.

This trend is also reflected in the ongoing high level of inventories in the balance sheet.

Continuing with the balance sheet, our liquidity position was about 1.1 billion dollars at the end of 2023, and this compares to 1.4 billion dollars at the end of 2022.

Taking into consideration the recent synthetic share repurchase, in which we returned about 300 million dollars to QIAGEN shareholders, our leverage ratio would be about 1.1 times net debt to EBITDA compared to 0.6 times at the end of 2023, and to 0.5 times at the end of 2022.

Keep in mind for 2024 that we have about 600 million of debt reaching maturity, and this builds on having repaid about 400 million dollars of debt during 2023 from existing cash reserves.

We are reviewing other ways to deploy cash within our disciplined allocation strategy, which has proven its value over the last decade.

Given our healthy balance sheet and strong cash flows, we want to continue creating value by investing internally in the business - as you see with our announcement about the multi-year investments in the QIAGEN Digital Insights business - as well as through targeted acquisitions that complement our portfolio.

I would now like to hand back to Thierry.

THIERRY BERNARD: Thank you, Roland.

Now let me take a moment to go over some of the progress our teams have made in advancing our portfolios.

First of all, we continue to build on our leading position in Sample technologies with portfolio expansion and installed base growth.

Our portfolio expansion activities are focused on key growth areas such as microbiome and liquid biopsy.

It is in these areas that our deep expertise gives us significant differentiation. This quarter we have again expanded our best-in-class microbiome portfolio with the launch of the RNeasy PowerMax Soil Pro Kit for isolating RNA from challenging soil samples rich in PCR inhibitors.

While you have heard companies in our industry talking about challenging trends in instrument demand, our teams have still made significant progress in the last year in placing new platforms.

At the end of 2023 there are now over 14,400 cumulative placements of the QIAcube family of instruments and over 5,700 cumulative placements of EZ1 and EZ2 - both are popular solutions for low-throughput sample prep automation.

For higher throughput, there are now over 3,300 cumulative placements of our flagship QIAsymphony platform. The upgrade for this platform is in development and will include new onboard connectivity elements and additional features to even better enable high-demand high-volume applications such as liquid biopsy.

In diagnostic solutions, we continue to see strong global expansion of our products while also facilitating growth through partnerships.

You may have seen the recent announcement on our expansion in the Middle East - this includes an agreement for the

QuantiFERON latent TB test to be used in Oman's new screening program where over 800,000 people will be tested over a span of two years. This represents the healthy trends we are seeing in the increase in global latent TB testing and the conversion from the old tuberculin skin test to modern blood-based testing.

We have also signed an agreement with the Ministry of Health in Saudi Arabia to support their public health and infection control initiatives. In addition to the development of their new national latent TB screening program using the QuantiFERON TB test, this includes an effort to eliminate meningitis through the WHO program using the QIAstat-Dx platform.

This represents another good example of how syndromic testing is being employed more and more to detect meningitis - in fact, we saw the highest quarterly sales yet for the QIAstat-Dx meningitis panel in the fourth quarter of 2023.

Through our companion diagnostics program, QIAGEN and Myriad Genetics entered into a collaboration to provide NGS and digital PCR solutions to pharma companies for development of cancer tests. This adds to the over 30 active partnerships we have with pharma companies where we are one of the only companies to offer development of assays based on all three modalities - PCR, NGS and digital PCR.

In PCR / Nucleic acid amplification, we have launched new kits and software updates for QIAcuity digital PCR systems to expand capabilities in pharma, biopharma and food and drug safety. The new kits ensure precise quantification, increased sensitivity and cost-efficiency for applications specifically used by these customers. While the software update further equips QIAcuity to be especially well-suited for labs that must meet GMP standards by helping to automate the critical task of documentation for reporting and audit trails.

In our NGS / Genomics product group, we have recently entered into a strategic partnership with Element biosciences to offer NGS workflows on their AVITI System. This follows our strategy to offer platform-agnostic NGS consumables and bioinformatics. In this way, QIAGEN has been systematically partnering with sequencing platform providers to enable the use of QIAGEN's QIAseq library prep kits and validated panels, as well as QIAGEN Digital Insights solutions, on a large range of sequencing instruments.

With regards to our QDI bioinformatics business, we have made the decision to accelerate our own investments into this area with the goal of expanding this leading portfolio into new geographic regions and market segments.

This investment is planned over the next five years and will support new product launches and additional expansion of the knowledge bases that power our QDI solutions. Also planned is extension of the use of AI and augmented molecular intelligence, as well as a new solution for rapid NGS analysis in clinical labs.

So you can see we continue to build value in our portfolio with a strategy that is leveraging our strong global footprint, deep network and innovation through expertise.

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

ROLAND SACKERS: Thank you, Thierry.

Let me now provide more perspectives on our outlook for 2024 and also for the first quarter.

As noted earlier, we have set an outlook for at least 2.0 billion dollars of sales in 2024 at constant exchange rates. This reflects total growth of at least 2% CER, and includes about one percentage point of headwind as we overcome the last group of COVID-19 sales from the first half of 2023.

This means that we are expecting at least 3% CER growth from the non-COVID portfolio.

In terms of how we see the year developing, like others, we are anticipating a more muted start to the year with a return to solid mid-single-digit CER growth in the second half.

Additionally, we are closely monitoring dynamic macro trends and geopolitical risks across the globe as to how they could impact our industry.

For China, we continue to take a cautious view and expect a modest single-digit CER decline in total sales for the year. The environment is not showing any signs of improvement. At the same time, this is not a market to ignore. We continue to implement our two-pronged strategy by commercializing the QIAGEN branded portfolio directly as well as offering a local brand produced in China.

As we take a step back from 2024, our convictions remain strong about the mid-term growth prospects for QIAGEN in the markets that we serve. This is a topic we will address in our Analyst and Investor Day planned for June 17 in New York.

In terms of profitability, we have set our outlook for adjusted EPS of at least 2 dollars and 10 cents at constant exchanges rates.

For the adjusted operating income margin, we are planning for an improvement of at least one percentage point for full-year 2024 from the 2023 level at 27% of sales while continuing to invest in the business to support our business.

This includes the investments into the QDI business in 2024, as we plan to add more than 50 new positions, launch a series of new products and expand our global presence. We see these multi-year investments helping to accelerate growth in this profitable business.

As we noted in the quarterly report, we anticipate significant pressure on non-operating income, and that these factors represent about 10 cents of headwind for 2024 results compared to 2023. First, adjusted net interest income is expected to be between 25 and 27 million dollars for 2024. This is half the 2023 level at 55 million dollars. The decline is due to the fact that we have lower cash on our balance sheet, along with expectations for modestly lower interest rates during this year compared to 2023.

The second factor involves our expectations for an adjusted tax rate at about 19-20% in 2024. This is up from 18% in 2023. The increase is due to higher profits shares in higher-tax jurisdictions, as well as as countries taking action to implement the OECD initiatives known as Pillar Two. The Netherlands implemented this at the end of 2023.

As for currency movements, and based on rates as of January 31, we expect a neutral impact on full-year net sales, but for an adverse impact of about one cent per share on adjusted EPS results.

Moving to the first quarter, our outlook is for net sales of at least 455 million dollars CER. Keep in mind that this will still be a period with significant COVID sales in 2023. Adjusted earnings per share are expected to be at least 44 cents per share, also at CER.

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 have delivered another quarter of meeting or beating our outlook. We exceeded our outlook for the fourth quarter for both net sales and adjusted EPS. We also achieved our full-year 2023 sales outlook driven by top-tier growth in our non-COVID portfolio. Our performance in 2023 shows the relevance and power of our portfolios to customers around the world - and impact of our strategy.

- Second, throughout 2023 our teams continued to execute on our goals to build value in our portfolio - meeting key milestones on sales growth, and solid installed base expansion. This includes over 1,500 sample preparation instruments, over 700 QIAstat-Dx platforms, and over 700 QIAcuity newly placed in 2023 - all fueling strong consumables growth going forward.

- Third, we again delivered a high level of profitability, while also maintaining our commitment to disciplined capital deployment - as you saw with the ongoing high level of R&D investments in 2023, the multi-year investments planned for QDI and the 300 million dollars recently returned to shareholders.

- Lastly, we have announced an outlook for 2024 that demonstrates the strength of our portfolio amid a challenging macro environment.

While we acknowledge a shift in the first part of the year, this takes into account the more subdued market demand in the first half given the current conditions, such as lack of visibility on funding and conservative spending in labs going into election year in many countries.

But we expect a marked improvement as the year unfolds as we return to a strong mid-single-digit CER sales growth profile in the second half.

This sets up QIAGEN for solid mid-term sales growth and improving profitability. We are indeed well-positioned to continue delivering a compelling growth profile in our industry.

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.