QUIDEL SECOND QUARTER 2021
CONFERENCE CALL SCRIPT
Thursday, August 5, 2021
2:00 p.m. PT/ 5:00 p.m. ET

OPERATOR:

Ladies and gentlemen, thank you for standing by.

Welcome to the Quidel Corporation Second Quarter 2021 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, our Chief Financial Officer, Randy Steward and our VP of Finance, Kristin Caltrider.

Our second quarter 2021 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 August 5th, for a period of 24 hours.

Please note that this conference call will include forward-looking statements within the meaning of Federal securities laws. Forward-looking statements, by their nature involve material risks, assumptions and uncertainties. In particular, our expectations and assumptions around the COVID-19 pandemic impact and response on our business, results of operations and financial condition and that of our suppliers, customers and other business partners are highly uncertain, continuously evolving, and unpredictable. Many possible events or factors could affect our future financial results and performance, such that our actual results and performance may differ materially from those in the forward-looking statements. For a discussion of such factors, please review Quidel’s most recent annual report on Form 10-K, including the section titled “Risk factors”, 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, August 5, 2021. 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 six months ended June 30, 2021. 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 take your questions.

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

DOUG BRYANT

Thank you, Ruben. And welcome to everyone on the call. We really appreciate your time and interest in Quidel.

I want to start by recognizing the entire Quidel team for their tireless dedication and skill. The past 18 months have been a grueling test of all our systems and teams -- from our R&D and clinical teams, to our production floors, to our supply chain and all other functions including HR, finance, regulatory affairs, sales and marketing, legal, business development, and international. Not only have they met the pandemic test, they aced it.

Our product platforms and offerings have never been more robust. Our productivity is up across the board. And our market penetration is deeper and wider than ever before. From high-complexity labs, to healthcare facilities, point-of-care locations and direct to consumers at retail and online, the Quidel name -- our branded assays and analyzers -- are accessible and sought after. The net effect has been transformational for our company and positions us exceptionally well for long-term revenue and earnings growth. So, to all my colleagues at Quidel, I say, "Thank you!"

Turning to the second quarter of 2021, you will see from the press release that, while revenue is down 12% versus the prior year quarter, the pace of our business remains impressive with revenues of $176.6 million. We'll unpack all the numbers in a moment, but what stands out to me as the leading indicators of the quarter, relative to our long-term strategy, are the following:

- We delivered solid 24% growth in our core business.
- We further broadened our installed base of Sofia® analyzers.
- Demand for our SARS products continued, with Quidel shipping over 8 million tests in the quarter across all platforms.
- And we established a strong beachhead for COVID testing in the retail segment.

The implications of each will extend well beyond a single quarter.

Please recall that, in Q2 of last year, we saw a significant rise in COVID-19 and influenza revenue that largely resulted from the onset of positive COVID-19 cases in North America, the emergence of testing for COVID-19 and the introduction of our Lyra and Sofia COVID-19 products. We were early to market with molecular testing and the first to market a rapid antigen test. Demand was high and competition was limited.

By contrast, in 2021, there was essentially no flu season, and the market for SARS antigen testing has become much more competitive. As a result, while demand for COVID-19 tests in Q2 of this year was still present, and perhaps stabilized, revenue was lower when compared to the surge in orders we saw in 2020. But if you drill down a bit further, you will see that the top-line numbers obscure the underlying strength of our Rapid Immunoassay business.

In Q2 of this year, we sold 6.6 million SARS Antigen tests, as compared to 3.1 million tests in the second quarter of last year. We saw a significant shift in product demand: we shipped fewer Sofia SARS Antigen assays to the professional market, and saw significant demand for our QuickVue SARS Antigen tests (4.8 million tests), which weren't available in Q2 2020. Of course, our QuickVue tests are priced lower, coming in during the quarter at an average of just under $6 per test,

which explains the resulting lower revenue for the category. Quite frankly, we'll accept that gladly, because over the course of a year, we've succeeded in democratizing testing and pushing the boundaries of access beyond the professional point-of-care setting to include retail and at-home testing. We're quite proud of that achievement and believe it's the forward edge of a broader home-testing trend that will continue to drive earnings over the long haul.

Now let's look at our core business -- excluding COVID-19 and influenza products. We were up 24% to $91.5 million dollars, as compared to $74.0 million dollars in the second quarter of 2020, as we began to see a return to normal testing for cardiovascular, Strep A, and our microtiter businesses. Growth of our core business is important going forward as we strive to maximize the utilization of our Sofia instrument placements, adding new assays, such as our suite of gastrointestinal assays, and expanding into new segments within diagnostics. We envision leveraging our rapidly expanding platforms to broaden our footprint and create a demand funnel for a wide variety of future tests and diagnostic products that can be employed by hospitals, physicians, urgent care centers, pharmacies, retail and other institutions.

One recent success of note is that, on June 11, we received EUA for our miniaturized, AI-enabled Sofia® Q device. Sofia Q will make access to our Sofia® tests easier and more affordable for professional point-of-care customers. Longer-term, it could create a retail pathway for our full

portfolio of Sofia® tests for influenza, RSV, Strep and other conditions. So, the combination of our expanded installed base (and continued demand) for our Sofia and Sofia 2 instruments with the expected adoption curve of Sofia Q, positions us favorably to be the brand of choice for addressing the coming flu, Strep and respiratory disease seasons -- and whatever else comes along.

At the start of the call, I noted the terrific work of our R&D, Operations, and Clinical teams. During the quarter, they continued to advance Savanna, our multiplex molecular diagnostic analyzer, which we believe could be our next flagship product. We recently received the CE Mark, we are building out our instrument and cartridge manufacturing, and expect to launch in Europe in the fall, with U.S. clinical trials expected to begin toward the end of the year. Once approved, Savanna will enable professional customers to analyze up to 12 pathogens or targets, plus controls, in a single assay run in fewer than 25 minutes. This makes Savanna a perfect fit for testing in hospitals, moderate-complexity labs, physician offices, urgent care clinics and other point-of-care locations. As I've said before, customer feedback is fantastic, and I am confident Savanna will be a big part of our quarterly discussions in the future.

Let's turn now to the subject that has been a big part of our discussions over the previous five quarters -- COVID-19. While we are actively working to expand our diagnostic platforms and product mix in other areas, COVID-19 testing remains a significant near-term opportunity.

You've probably seen our announcement with the state of Delaware to provide testing to students and faculty. It is a testing-as-a-service model that we have replicated in other states as well. We also are pursuing a variety of other opportunities with schools, employer groups selling in select U.S. and ex-US markets and evaluating other non-traditional markets. While we expect to close more accounts with employers, and have several promising partnerships in the pipeline, they involve a good deal of blocking and tackling and are hard to predict or value, especially when guidance from CDC and the landscape of COVID testing seem to evolve daily. The most recent example includes warnings from public health officials that vaccinated people can become infected and spread the highly transmissible Delta variant of COVID-19 appears to be a near-term driver for more masking... *and* testing -- especially as schools and offices look to reopen in the fall.

Regarding the Delta variant, I can report that preliminary studies confirm that Quidel's rapid antigen tests are effective in detecting the Delta variant. We are continuously monitoring the COVID-19 mutation situation, as well as monitoring other circulating strains as the global pandemic continues to evolve. While our ability to pick up the Delta variant positions us to capture market demand for symptomatic, asymptomatic, and at-home testing, at the same time, any uptick in testing to detect the Delta variant will likely be tempered by continued competition and pricing volatility. So, I can't give you much guidance on

where all this could go beyond what I've shared in the past: for the moment, we expect to achieve revenue of $20-$25 million dollars per month from our SARS-related rapid antigen and molecular diagnostics business. But if there's market upside for testing, I should point out that we do have a premier portfolio of testing solutions and a highly capable sales and distribution team. We are certainly well-positioned to compete for whatever opportunity presents itself.

Last week, we announced that we are transitioning our Beckman BNP Business to Beckman Coulter, concluding the ongoing litigation that followed our purchase of the business from Alere in October 2017. This agreement is a major step forward for both companies. For Quidel, it eliminates an uncertainty, locks in the economic benefit for the duration of the contract, and lets us focus on expanding our core businesses and executing on our longer-term strategy. It eliminates market risk and creates a stable cash flow stream for the remainder of the existing BNP supply agreement term. As a reminder, we purchased the asset for $280 million dollars in 2017 (to be paid over 6 years), and have now secured annual payments of between $70 - $75 million dollars per year through 2029. So, we are quite happy with the outcome and the ROI. It's a win-win for both Quidel and Beckman.

Lastly, I'd like to talk about M&A. I can't reiterate enough that, with respect to acquisitions, strategic *fit* is very important to us. We continue to actively look at opportunities within our funnel, or as I've said before,

we're kissing a lot of frogs. The headline here is that our cash position remains strong, we're looking, and stand ready to deploy capital to further strengthen our product portfolio should the right opportunity present itself.

So, to wrap up, the second quarter of 2021 proved to be another very solid quarter and an important step forward in our long-term game plan. We have fielded a powerful mix of products and partnerships and are benefiting from the tailwinds of macroeconomic trends. When we add in the talents and spirit of our team, it gives us every confidence that Quidel will deliver continued growth and success as we advance diagnostics to improve human health.

Randy?

RANDY STEWARD

Second Quarter Financial Results

Thank you, Doug. Good afternoon everyone. As Doug stated, we had a solid quarter, and we continued to make good, steady progress on executing on our longer-term goals and strategy.

As reported, total revenues for the second quarter of 2021 were $176.6 million dollars, compared to $201.8 million dollars in the second quarter of 2020. Foreign currency had a positive impact of $2.8 million dollars in the quarter. The decrease in revenue was due to lower influenza revenues, a shift in SARS product mix, as well as price reductions for

some of our SARS products. Influenza revenue was down in the quarter because there was no flu season in early 2021. Influenza revenue in the quarter was $1.6 million dollars versus $18.7 million dollars in the second quarter of last year. Included in the influenza revenue number for this quarter was $300 thousand dollars in ABC revenue. This combo product was not yet available in the second quarter of 2020. We will be reporting Sofia ABC with flu moving forward. Total SARS revenue in the quarter from all products was $83.4 million dollars as compared to $109.0 million dollars last year.

Rapid Immunoassay product revenues were $60.1 million dollars in the second quarter of 2021. Within this category, Sofia products were $27.5 million dollars, of which $23.7 million dollars were attributed to Sofia SARS Antigen sales. QuickVue product revenue in the quarter was $32.0 million dollars, of which $28.6 million dollars were attributable to the QuickVue SARS tests.

With regard to demand, distributor inventories for Sofia Antigen were 62% lower than Q1 2021, and distributor inventories for Sofia ABC were 11% lower than in Q1 2021. As of the end of the quarter, we had very little QuickVue inventory with our distribution partners.

For the Cardiometabolic Immunoassay business, revenue increased 32% and was $71.7 million dollars in the second quarter of 2020, split, $36.0 million dollars from the Triage business, and $35.7 million dollars

from the Beckman BNP business. On the part of Triage, growth came from our Shortness of Breath panel as well as BNP and other assays. Year-over-year growth was led by the U.S. and China markets, and similar to the performance last quarter, growth came from all geographies.

Revenue in the Specialized Diagnostic Solutions category decreased $1.4 million dollars in the second quarter to $10.4 million dollars, driven by a decline in sales of our cell culture respiratory products, due to a non-existent respiratory season.

Our Molecular Diagnostic Solutions category decreased $20.7 million to $34.5 million dollars, and our Lyra SARS-CoV-2 products were $27.2 million dollars of the total. Solana revenues grew to $6.5 million in the quarter. Solana SARS-CoV-2 assay generated $4.0 million dollars of the $6.5 million dollars in the quarter.

Gross Profit in the second quarter of 2021 decreased to $106.2 million dollars, and gross margin was 60% of revenue for the three months ended June 30, 2021. This compares to gross profit of $148.8 million, and 74% gross margin for the three months ended June 30, 2020. The decreased gross profit and gross margin were driven by a shift in product mix, from selling primarily Sofia SARS in the professional segment, to selling large volumes of less profitable QuickVue and selling proportionally more of the less profitable core products, as well. One-time costs associated with expediting product and supply chain

challenges added an incremental four percentage points to our cost of sales in the quarter. The majority of these costs are not anticipated to continue into the back half of the year. Based on the projected product mix, we're estimating gross profit margins in the mid-60's for the next 2 quarters.

On the spend side of the business, we continue to invest in R&D and specifically our Savanna platform. We are also spending in support of our longer-term initiatives, such as new Sofia assays that can leverage our large installed base of instruments, next-generation platforms and Sofia Q, to name a few. In the second quarter, R&D expense was $22.6 million dollars, a large portion of which was focused on Savanna instrument and cartridge development. We're still expecting R&D expense for the full year to be approximately $100 million.

Sales and marketing expense for the second quarter increased $10.5 million dollars to $38.1 million dollars, with the biggest driver being higher marketing and advertising spend associated with the launch of our QuickVue At Home OTC COVID-19 Test. [The incremental marketing spend was approximately $6 million dollars higher than in the same period last year.] We also realized increased travel and meetings costs as COVID-19-related travel restrictions ease. For the back half of the year, we will continue to invest in Sales & Marketing as we develop more partnerships and increase marketing dollars in support of our

broad product portfolio, as well as promoting other markets that can significantly broaden our customer base.

As it relates to the provision for income taxes for the quarter, we recorded $2.6 million in income tax expense resulting in an effective tax rate of 12%. The tax provision this quarter is impacted by lower pre-tax earnings for the quarter relative to the anticipated annual pre-tax earnings, as well as tax benefits from excess stock-based compensation. We are currently estimating a full year effective tax rate between 20% - 21%, excluding any potential impact of legislation, which remains uncertain.

As of the end of June, we had $593.2 million in cash and cash equivalents. In the quarter, the company invested $130.3 million dollars in capital expenditures, and for the full year, we are expecting to spend approximately $250 million dollars on Capex, net of the the NIH-RADx reimbursement. Also, in the quarter, we spent approximately $103 million dollars to repurchase about 960,000 shares. Also, relating to capital deployment in April, we made our annual $48 million-dollar payment to Abbott for the Alere assets, and have a remaining balance of only $88 million dollars on our deferred and contingent consideration to be paid over the next 2 years.

As Doug mentioned earlier, we announced an agreement with Beckman Coulter on the Beckman BNP Business, and I'd like to add a few more

details. As consideration for the arrangements, Quidel will receive from calendar year 2022 through 2029 a minimum annual payment of $70 million dollars (with amounts of $17.5 million dollars payable quarterly), and a maximum annual payment of $75 million dollars. The additional $5 million-dollar payment is dependent on sales volume by Beckman and Quidel of Beckman assays. Such minimum and maximum payments will be pro-rated for 2021. The minimum payment is not dependent on sales of the Beckman assays. The proration for 2021 is based on the period commencing on the date of the initial transition to Beckman, through December 31, 2021. The initial commercial transition is expected to be completed by the first of September of this year. Quidel will continue to provide Beckman services in connection with the business, including continued supply to Beckman of the Quidel antibody used in the manufacture of the BNP assay. The payments under the Master Agreement are expected to be EPS and Cash Flow neutral to the existing supply agreement through 2029. Quidel's reported EBITDA under the Master Agreement is expected to be similar to the EBITDA derived from the Beckman BNP Business prior to entry into the Master Agreement. The Beckman payments will be recorded as product revenue in Quidel's financial statements.

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 an excellent second quarter, and we're in good shape to achieve our growth objectives over the next few years. Thanks again for being on the call.

OPERATOR

Ladies and gentlemen, we thank you for your participation, and ask that you please disconnect your lines. Goodbye.