

NeoGenomics Q3 2020 Earnings Conference Call Script

Doug VanOort

Good morning. I'd like to welcome everyone to NeoGenomics' Third Quarter 2020 conference call.

Joining me from our Fort Myers headquarters with social distancing precautions in place are Kathryn McKenzie, our Chief Financial Officer, Rob Shovlin, President of our Clinical Services Division, George Cardoza, President of our Pharma Services Division, Bill Bonello, President of our Informatics Division, Doug Brown our Chief Strategy and Corporate Development Officer and Charlie Eidson, our Manager of Investor Relations.

Joining the call via phone from California is Dr. Larry Weiss, our Chief Medical Officer and Director of R&D.

Before we begin our prepared remarks, Charlie Eidson will read the standard language about Forward-Looking Statements.

Charlie Eidson

This conference call may contain forward looking statements, which represent our current expectations and beliefs about our operations, performance, financial condition, and growth opportunities. Any statements made on this call that are not statements of historical fact are forward-looking statements. These statements, by their nature, involve substantial risks and uncertainties, certain of which are beyond our control.

Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual outcomes and results could differ materially from those indicated in the forward-looking statements. Any forward-looking statement speaks only as of today, and we undertake no obligation to update any such statements to reflect events or circumstances after today.

Before turning the call back to Doug VanOort, I want to let everyone know that we will be making a copy of our prepared remarks for this morning's call available on the investor relations section of our website shortly after the call is completed. We also want to let everyone know that we are going to limit the number of questions to two per person in order to give more people a chance to ask questions within the one hour that has been allotted for this call.

Doug VanOort's Comments

Thank you Charlie.

This morning, I will begin by commenting on Quarter Three results, including some encouraging market trends we are seeing in our core business, and then will provide a high level review of key strategic areas of investment. Kathryn will then provide a more detailed review of the financial results.

Following Kathryn's review, George Cardoza will provide some in-depth commentary around our growth investments within Pharma services, and Doug Brown will make some comments about our strategy and other investments. I'll make some closing comments before opening it up for Questions and Answers.

Quarter Three results

NeoGenomics reported record revenue and Adjusted EBITDA in Quarter Three as we rebounded strongly from a very challenging second quarter.

Revenue grew 44% sequentially, and 20% year-over-year, to \$125 million. Encouragingly, we gained significant momentum in our Core Oncology business throughout the quarter. In our Core Oncology business, revenue grew 28% sequentially and 4% year-over-year.

COVID-19 PCR testing revenue added 16% to revenue growth during the quarter as we worked around the clock to develop and provide high-quality COVID testing to help with the shortage of U.S. capacity in July and August.

The rebound in our Core Oncology business, which is somewhat "V" shaped in its trajectory, occurred in both our Clinical and Pharma services Segments. In our Clinical Oncology business, revenue improved 28% compared with last quarter to approximately the same as last year despite a very challenging environment. Revenue in our Pharma Services Segment also grew 28% from last quarter, while reporting its highest revenue Quarter ever, growing 38% on a year-over-year basis.

While we are pleased by the sequential rebound in Quarter Three, we are also encouraged by the clear and continuing momentum we saw within the quarter in our core Oncology businesses. Both our Clinical oncology business and our Pharma segment continued to grow throughout Quarter Three and ended the Quarter much stronger.

In our Clinical Oncology business, test volume improved throughout the quarter as average daily test volume increased nearly 10% from the month of July to September. The positive momentum has continued into the first three weeks of October with daily test volumes up approximately 8% over September.

Next Generation Sequencing test volume growth was particularly strong in Quarter Three, growing faster than overall Clinical volume. Test volume growth also improved for this product line as the Quarter progressed. The positive momentum in Next Generation Sequencing testing has continued in October, with daily test volumes approximately 30% higher than last year. Next Generation Sequencing revenue currently represents nearly 20% of our total Clinical Division revenue.

In the Pharma Services segment, the rebound we experienced in Quarter Three was driven by a momentum shift and strengthening as clinical trial activity began to resume. The majority of our clients reopened clinical trial sites, and revenue from clinical trials accelerated nicely as the Quarter ended. We also saw the start of new clinical trials which is something we did not see in Quarter Two. Pharma "research-related" services have remained strong all year, and informatics-related revenue has been extremely strong.

Intra-quarter trends were also positive in the Pharma Services segment. In fact, September was the largest revenue month on record for the Pharma Services division.

Although Pharma revenue was affected by the pandemic, demand has remained strong and steady throughout the this year as we continued to sign new contracts for future work.

That strong demand continued in Quarter Three as we signed \$35 million of new business in the quarter. These Pharma contracts included a wide range of our products and services - from whole exome sequencing to informatics – and covering geographic locations from the U.S. to Europe to Singapore and China. As of September 30th, our backlog of signed contracts stood at \$185 million representing 57% year-over-year growth, and a new high water mark.

Also of note, this is the second quarter in a row where Pharma Services represented greater than 15% of our total Core Oncology revenue. Just 5 years ago, we had essentially no Pharma Services business. Since that time, we have continually and systematically built this business to be competitively well positioned. We expect this business segment to demonstrate faster growth rates and to represent an even greater percentage of total Core Oncology revenue in the fourth quarter. George will share some of our recent investments to add capabilities for future growth in a few minutes.

The promising recovery in our Core Oncology business, along with a significant contribution from COVID-19 PCR testing, significantly improved profitability. In fact, Quarter 3 Adjusted EBITDA of \$17 million was our most profitable quarter on record.

Remarkably, the recovery in profitability occurred despite significant change and disruption to our business. Like many other companies, the extensive workplace protections and work-from-home measures we put in place had an effect on productivity.

We also invested to retain our people and reward their efforts to keep our Labs open 24/7. We feel very good about our decision to retain all of our employees through what hopefully were the darkest days of the pandemic, and now are in hiring mode again as Core Oncology test volumes regain strength.

During the second and third quarters, we invested considerable resources to set up a high-quality, high-capacity COVID-19 testing lab, and continued to invest in Pharma services infrastructure and Next Generation sequencing laboratory and commercialization efforts.

No question, Quarter Three was operationally challenging as a result of the pandemic that we are all dealing with. But, overall, we are pleased with the company's performance. While we are not yet at Core Oncology testing volume levels which we budgeted at the beginning of the year, we are encouraged by our recovery in Quarter Three. We are more confident every day that we are on a steady path towards growth levels consistent with our historical long-term guidance.

Doug VanOort transitions to Kathryn

I will now turn the call over to Kathryn McKenzie, our Chief Financial Officer, to discuss some of the details of Quarter Three financial results.

Kathryn's Comments

Thank you Doug. And Good Morning everyone.

Third Quarter Review

As Doug highlighted, overall revenue grew 44% sequentially and 20% year-over-year to \$125 million.

Clinical Division revenues increased 17% year-over-year, boosted significantly by the contribution from COVID-19 PCR testing. Clinical Division test volumes, excluding COVID-19 testing, increased 2% year-over-year and improved month-to-month as the quarter progressed.

Clinical Division revenue-per-test was \$359, down 3% year-over-year and up 2% sequentially. Our year-to-date revenue per test of \$361 is 1% below our full year 2019 revenue per test of \$366 and consistent with our long term guidance of a 1-3% revenue per test decline annually.

Pharma Services revenue increased 38% year-over-year to a record \$17 million. Clinical trials work rebounded nicely during the quarter and research related revenue continued to show strength. With volumes returning in pharma, a record level of backlog at \$185 million, and continued success on the sales front, we are very optimistic about the strength of this business as we look forward to Q4 and beyond.

Gross Margin

Overall gross margins improved approximately 1,100 basis points sequentially to 43%, reflecting a strong recovery in both clinical and pharma revenues on largely fixed cost COGS infrastructure.

Operating Expenses

Operating expenses increased 5%, or \$2 million, year-over-year to \$47 million due to investments in informatics, additional insurance premiums, and the acquisition of HLI – Oncology, which we like to refer to now as NEO LaJolla. The increases were partially offset by significantly reduced travel, and decreased trade show and marketing expenses.

Adjusted EBITDA

We achieved a record level of Adjusted EBITDA of \$17 million in Q3 driven by a strong recovery in our core businesses and a contribution from COVID-19 PCR testing.

Balance Sheet

Turning to the balance sheet, we exited Quarter Three with \$284 million in cash and marketable securities, which excludes an additional \$32 million in restricted cash designated for construction of our new state-of-the art laboratory and global headquarters in Fort Myers, Florida.

During the quarter, we also funded our second of two \$12.5 million investments in Inivata. This completes the funding of our minority shareholder investment in Inivata that we announced earlier this year.

Days Sales Outstanding

DSOs decreased 16 days sequentially to 76 days. As expected, Quarter Three DSOs reflect the reversal of the unusual timing of revenue experienced during the second Quarter.

Guidance

As a reminder, we withdrew our full year 2020 financial guidance on April 9th, 2020, in light of the COVID-19 pandemic. While we have experienced recovery in recent months and are encouraged about that trajectory, we recognize that uncertainty remains given the potential for a resurgence in COVID-19 cases in the United States and abroad and the potential downstream impacts.

I will now turn the call back over to Doug VanOort.

Kathryn transitions to DVO to introduce George Cardoza

DVO

Thank you Kathryn.

Now, I'd like to introduce George Cardoza. As many of you know, George has been a senior Leader at NeoGenomics for 11 years, having served as our Chief Financial Officer, and for the last 3 years as President of our Pharma Services Division. For perspective, Revenue for Pharma Services during this past Quarter is 3.5 times higher than it was in the first Quarter of 2017, and we are excited about our future prospects. George will review some strategic investments and opportunities in Pharma Services.

George Cardoza's comments

Thank you Doug.

I'm excited to have the opportunity today to discuss our Pharma Services business. The strategic investments we've made in recent years, together with additional planned investments, have helped us create a differentiated platform for continued growth.

Three big areas of investment we would like to discuss are our international expansion initiatives, our acquisition of HLI Oncology in early January, and investments we've made in our testing infrastructure.

International Expansion

Over the course of the last few years, we have invested to expand internationally - bringing up a lab in Switzerland in 2017 and opening an Asia Pacific lab in Singapore in 2019. The Singapore lab was opened in conjunction with our Strategic Alliance partner

PPD Inc., and, earlier this month, we announced plans to expand our partnership and open a lab in Suzhou, China, which will add capabilities to service Greater China-based clinical trials. This lab is slated to be operational in 2021, and we are very excited about the growth potential in the Greater China market as well as our ability to support global clinical trials with activity in Greater China. This global expansion has proved critical for us to participate in certain RFP's for important global clinical trial work.

Along with increasing our global laboratory footprint, we have been fortunate enough to identify and add incredible sales and management talent in Europe and Asia Pacific that are proving instrumental to our growth strategy. The importance of our international strategic investments can't be understated and the strong new bookings numbers we have been able to post in recent quarters, despite a global pandemic, is strong evidence that our strategy is the right one.

HLI Oncology Acquisition

We would also like to update you on the acquisition we completed earlier this year. On January 10th we announced the purchase of the Oncology Division of Human Longevity Inc. in La Jolla, California. Human Longevity built a beautiful lab in La Jolla and invested in a broad range of molecular technologies, including an impressive display of Next Generation Sequencing horse-power with a focus on Whole exome sequencing.

While the lab was attractive to us, the opportunity to add a talented Molecular team was also a major factor in our purchase. This acquisition of talent is key for two reasons; 1) development of new sequencing tests and platforms is attractive to Pharma clients for both research and Companion Diagnostic development; and 2) development of customized testing solutions purpose-fit for unique clinical trials and patient populations.

As with any integration, we had to transition this business from platforms utilized by Human Longevity company-wide to the NeoGenomics infrastructure and platforms. We're pleased to say that on September 1st the team met this goal and HLI Oncology has been fully integrated and is now serving as our primary Pharma Services Molecular lab.

One of the key capabilities that the Human Longevity team brought to NEO was whole exome sequencing. We have been successful in leveraging these capabilities with our broader reach of Pharma sponsors. With the increasing interest in broader panels and tumor mutational burden, our whole exome sequencing offering and bioanalytic capabilities provide Pharma sponsors a stronger solution than what can be derived from smaller panels.

Modern oncology drug development continues to select for smaller groups of patients defined by unique molecular modifications, and our pharma clients now ask for a much larger range of molecular targets. Small, focused panels are no longer sufficient for many of our Pharma clients. As the price point of whole exome sequencing continues to fall, Pharma sponsors are increasingly showing a preference for looking at 19,000 genes rather than just 300.

Our team in La Jolla has been extremely busy working on proposals from our Sales team and we've signed several contracts in our current backlog based on their work. While we

anticipated that the acquisition would be a temporary drag on our gross margins in 2020, we remain very excited about our La Jolla business, which we're actually not calling Human Longevity anymore. We do believe we have a very bright future for Neo La Jolla and this will also be a growth accelerator for us.

Our Testing Infrastructure

As we have discussed on prior earnings calls, in the back half of 2019, we determined that our Pharma business had reached sufficient scale, along with our anticipated growth, where the timing was appropriate to invest in a Pharma dedicated testing infrastructure. While we anticipated the temporary pressure on margins due to dis-economies of scale, the decision to decouple pharma project testing is expected to pay off for both Pharma Services and Clinical, and service levels in both divisions should benefit over the long-term.

While the timing of the COVID-19 Pandemic has delayed the rebound in margins from playing out as quickly as we would have liked, we continue to believe we are in a great position to benefit from our investment. Our backlog has never been higher at \$185 million, and new bookings in recent quarters have well outpaced revenue. Our move to build out a Pharma dedicated infrastructure has put us in position to continue our rapid growth trajectory and high service levels without putting pressure on our clinical division in the process.

Overall, we believe the strategic pharma investments that we have made in recent years have been the right ones. We also believe that our Pharma business is stronger than it has ever been and that we are well-positioned to capitalize on a robust environment for oncology therapy development. We've also seen numerous instances where projects from our Pharma Services Division help to become new tests which accelerate growth in our Clinical Division.

I will now turn it back over to Doug VanOort.

George Transitions to DVO to introduce Doug Brown to review Key Investment Areas

DVO

Thank you George. We're obviously excited about our Pharma Services opportunities, and you can see our investments are starting to pay off.

Now, I'd like to introduce Doug Brown. As many of you know, Doug joined NeoGenomics in February as our Chief Strategy Officer, and has recently also become responsible for Investor Relations. Doug has been a close Advisor to NeoGenomics for a number of years, and is adding a lot of value to our Strategic process. Doug will review some of our other strategic areas of investment.

Doug Brown's comments

Thank you Doug.

Prior to joining NeoGenomics, I had spent many years as an external advisor to the company. Over those years, as an outsider looking in, I was always very excited about the company's strategy and its opportunities for growth. Now on the inside and after working with the team for nearly a year, I see more growth opportunities for NeoGenomics than ever before.

And we are investing in these growth opportunities to increase our competitive position and drive outsized rewards for our investors. Today I would like to discuss specific areas of investment for strategic growth which include Informatics, strategic marketing initiatives, liquid biopsy testing including our relationship with Inivata, and our research and development priorities. Then Doug VanOort will wrap it up with a brief update on our new laboratory and global headquarters being constructed right here in Fort Myers.

Informatics

The decision last year to invest in a formal Informatics strategy and our dedication to creating value from our existing oncology testing data is already paying off. Informatics is now one of the most exciting growth areas in our company. Bill Bonello, President of Informatics, now leads a team of 30 professionals focused on this offering for our clients. Early commercial efforts continue to be encouraging and we are finding a growing number of real world use cases for our data. Given our optimism for the business, we now have plans to make additional hires in Informatics – hires to the commercial team, product team, and operations team.

Strategic Marketing Initiatives

Earlier this year, we significantly enhanced our Marketing capabilities by hiring our new Chief Marketing Officer, who brings considerable Pharma experience in Precision Medicine, having led product launches for two novel cancer therapies. We've already built a much stronger marketing team, and have been developing a number of exciting marketing initiatives. We view investment in these initiatives as highly strategic and we plan on updating investors on their impact over the coming quarters.

Liquid Biopsy & Inivata

While we are still in the early innings of Liquid Biopsy at NeoGenomics, we are excited about having launched our comprehensive suite of tests in the middle of this year. Initial feedback from physicians on the high quality of our offerings has been encouraging and we believe that adoption will continue to increase steadily over time.

Our coordination and partnership with the talented team at Inivata has been strong. We feel great about our minority investment and will continue to monitor progress on the uptake of the InVision First - Lung test and the development progress of the company's promising minimal residual disease or "MRD" pan-cancer monitoring assay as we consider exercising our option to purchase Inivata.

R&D Priorities

In addition to exploring external partnership opportunities including our collaboration with Inivata, we continue to invest in our own internal research and development activities. We are currently validating a new RNA-based fusion assay for solid tumors, employing state-of-the-art technology, which we believe will be superior to DNA-based assays. We

will also be validating new fusion assays for hematologic neoplasms using probes already built into our current assay.

Our NGS-based FDA submission is going well, and we will soon be initiating active validation studies. Finally, we soon hope to be developing a rapid AML NGS-based assay, as well as an NGS-based MRD assay for AML

And one other note regarding opportunities - aside from these specific investment areas I have outlined today, I can assure you that my role as Chief Strategy Officer keeps me very active in assessing inorganic opportunities for growth at NeoGenomics. Our strong competitive position as the leading somatic oncology testing company in the country puts us very much on the industry radar as a strategic partner or buyer of strategic assets.

I will now turn it back to Doug VanOort.

Fort Myers Laboratory and Headquarters

Before we conclude our prepared remarks, we want to update you on our Fort Myers laboratory and global headquarters construction – which is coming along well. We remain on track for completion by Quarter 3, 2021. We continue to see the facility, which will triple our current lab footprint in Fort Myers and house a state-of-the-art molecular lab, as a differentiator for our company.

Summary and Looking Ahead

The strategic investments that we just highlighted are core to our growth strategy and we remain committed to delivering on what we believe is enormous potential. We look forward to providing quarterly updates on our progress.

Transition to Charlie Eidson for Q&A

At this point, we would like to open the call for questions. Incidentally, if you are listening to this conference call via webcast only and would like to submit a question, please feel free to email us at charlie.eidson@neogenomics.com during the Q&A session and we will address your questions at the end if the subject matter hasn't already been addressed by our call-in listeners. As mentioned at the beginning of this call, we would like to ask each person to limit their questions to two so that we may hear from everyone and still keep within the hour allotted for this call.

Operator, you may now open up the call for questions.

Closing Remarks (Doug VanOort)

As we end the call, I'd like to recognize the approximately 1,680 NeoGenomics team members around the world for their dedication and commitment to building a world-class oncology diagnostics company.

On behalf of our NeoGenomics team, I want to thank you for your time in joining us this morning. For those of you listening that are investors or are considering an investment in NeoGenomics, we thank you for your interest in our Company.