**NeoGenomics Q2 2022 Conference Call Script**

**Lynn Tetrault**

Good morning. I'd like to welcome everyone to NeoGenomics' second quarter 2022 conference call.

Joining me for this call from our Fort Myers headquarters are Bill Bonello, our Chief Financial Officer, Dr. David Sholehvar, President of our Clinical Division, Vishal Sikri, President of our Pharma Services Division and President of Inivata, and Charlie Eidson, our Director of Investor Relations.

Joining on the call via phone are Dr. Shashi Kulkarni, President of Lab Operations and Chief Scientific Officer, and Chris Smith, our incoming Chief Executive Officer and member of our board of directors.

Before we begin our prepared remarks, Charlie will discuss the Forward-Looking Statements and Non-GAAP measures used on this call.

**Charlie Eidson**

This conference call includes forward looking statements about our 2022 initiatives, 2022 financial outlook, growth opportunities, and anticipated operating results and performance. Each forward-looking statement is subject to risks and uncertainties that could cause actual results to differ materially from those projected in such statements. Additional information regarding these risk factors appears under the heading "Forward-Looking Statements" in the press release we issued this morning and in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2021 that is filed with the Securities and Exchange Commission. The forward-looking statements made during this call speak only as of the original date of the call, and we undertake no obligation to update or revise any of these statements.

In addition, during this conference call, in order to provide greater transparency regarding our operating performance, we refer to certain non-GAAP financial measures that involve adjustments to GAAP results. The non-GAAP financial measures presented should not be considered to be an alternative to financial measures required by GAAP, should not be considered measures of liquidity, and are unlikely to be comparable to non-GAAP financial measures provided by other companies. Any non-GAAP financial measures referenced on this call are reconciled to the most directly comparable GAAP financial measure in a table available in the press release we issued this morning.

Before turning the call back to Lynn, 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 one per person in order to give more people a chance to ask questions within the one hour that has been allotted for this call.

**Lynn's Comments**

Thank you Charlie.

For today's call, I will begin by sharing an update on the state of our company and the exciting progress we have made since our last earnings call, including an update on recent leadership appointments and progress on our RaDaR assay.

Bill Bonello will then review our second quarter financial results before turning it back to me to discuss our company-wide 18-month performance improvement initiative that we have labeled "Project Catalyst". Finally, I will introduce new CEO Chris Smith who will provide his perspective on why he chose to join NeoGenomics and his plans during his first few months on the job. Chris will officially join Neo on Monday, August 15th and we are thrilled that he is taking over as our company's next leader.

We will then have time for Questions and Answers.

**General Business Review**

Since our prior CEO transition, we committed to three key priorities: hiring a permanent CEO, stabilizing the company including key additions to the executive leadership team, and developing a plan to drive improvements in our operating performance. We said that we would not stand still during this transition, and we are pleased to report that we have made considerable progress on all fronts. I am incredibly proud of the leaders and employees throughout our company. During a challenging time in our business, our people have rallied together as we welcome talented new leaders, embark on Project Catalyst, and continue to move RaDaR forward.

First and foremost, we are excited that we successfully completed the search for a permanent CEO in less than four months and that our incoming CEO Chris Smith will start on Monday. The Board prioritized four key criteria in seeking CEO candidates: diagnostic industry experience, strong cultural fit, a track record of operational execution, and a strategic growth orientation. Not only does Chris possess all of these attributes in spades, but he brings other important qualities such as prior public company CEO experience. Chris is an exceptional leader with a very strong reputation and the Board is delighted to have recruited a CEO of his caliber to lead the company. We will discuss Chris's background in greater detail when we introduce him later in the prepared remarks.

In addition to recruiting a new CEO, we made excellent progress toward addressing priority number two in stabilizing the leadership team and our workforce as a whole. We were pleased to be able to recruit industry veteran Vishal Sikri in May to serve as both President of our Pharma Services Division and President and Chief Commercial Officer of Inivata. Vishal brings a unique skillset with experience leading both more traditional pharma services businesses and highly innovative technology oriented diagnostic companies.

New leaders Dr. Shashi Kulkarni and Dr. David Sholehvar have hit the ground running since joining in March and the Board and I are pleased with the leadership and experience that each is bringing to NeoGenomics.

Just last week, with the endorsement of Chris Smith, we confirmed the appointment of Ali Olivo as General Counsel and Corporate Secretary. Ali previously served as interim General Counsel, has been with the company for three years and is a talented leader and lawyer. Together with Hutan Hashemi, a very experienced leader whom we appointed as Chief Compliance Officer in March, we have excellent oversight of our legal and compliance functions, policies and programs.

We have added some exceptional talent to our leadership team over the last six months, and the leadership team and I have prioritized visible leadership and meaningful engagement with our people at all levels. I am confident that the organization is stabilized, and that the leadership team is motivated, aligned and stronger than ever. The entire executive leadership team has met Chris personally and they are very excited to work with him as he takes the reins of our organization beginning on Monday.

Our third priority was to develop plans to improve operational performance. Since April we have worked to diagnose the causes of underperformance and have developed a plan, Project Catalyst, to drive improvements over the next 18 months. We have already taken several near-term actions that I would describe as “No Regrets” type changes that any new executive would agree are necessary. As we launch more comprehensive Project Catalyst initiatives, incoming CEO Chris Smith will be heavily involved. I will describe Project Catalyst in more detail after Bill reviews the financial results.

Before I hand the call over to Bill, I would like to update you on the progress of RaDaR which remains an important part of our future. We continue to have productive discussions with MolDx and recently resubmitted our initial submission for Colorectal Cancer last month. We believe that our latest submission meets the criteria needed to garner reimbursement in this indication and we are hopeful that we will receive coverage for CRC in the coming months.

In parallel, we are pursuing reimbursement in additional cancer types and we anticipate being able to file a second submission for Breast Cancer to MolDx in the first half of 2023. The CHiRP HR+/HER2- breast study that was orally presented at ASCO and concurrently published in the Journal of Clinical Oncology showcased RaDaR’s combination of elite sensitivity and specificity for this indication.

We continue to make progress generating evidence for RaDaR and we have several studies ongoing that we believe will further bolster our data set. We are in late stage discussions with many BioPharma companies to incorporate RaDaR into their clinical studies and are making progress with finalizing these negotiations. The buzz at ASCO for RaDaR was significant, including a plenary session highlighting the value of RaDaR across multiple cancer types that received a standing ovation, and we are confident that we will sign several opportunities in the coming quarters.

**Lynn transitions to Bill**

I will now turn the call over to Bill Bonello who will review Quarter two financials.

**Bill’s Comments**

Thank you Lynn.

## Second Quarter Review

Revenue increased 3% year-over-year to $125 million.

Clinical Services revenue increased 4% year-over-year to $106 million. Clinical test volume increased 3% sequentially, but was down 3% year over year. Volume growth continues to be impacted by the dynamics we discussed on our last earnings call, including operational challenges that are having a short term impact on customer service and an ongoing market shift from smaller, targeted panels to larger, more comprehensive offerings. We are working to upgrade our NGS product offering and improve our lab operations and are starting to make progress in both areas.

Average revenue per test increased 7% year over year to $387. Positive contributions from our ongoing strategic reimbursement efforts more than offset the Medicare rate cuts which went into effect at the beginning of this year.

Pharma Services bookings were $46 million in Q2. We ended the quarter with a backlog of $299 million which was up 6% sequentially and 26% year-over-year.

While Pharma Services revenue increased 6% sequentially to $19 million, revenue was down 4% year-over-year. We are obviously not satisfied with our current revenue conversion trends and have been taking action to drive increased revenue growth. Our sales force is placing a greater emphasis on projects with shorter revenue conversion cycles and our project management team is implementing processes to pull revenue through earlier in the life-cycle of a project. While we will increase our emphasis on near-term revenue growth, we will continue to build out our backlog of large clinical studies and companion diagnostic opportunities.

Our Informatics revenue, which is reported in Pharma Services, continues to grow at a rapid clip. We are excited about the progress of those initiatives.

### Gross Margin

GAAP Gross Margin was 35.1%. Adjusted Gross Margin, which excludes Inivata related non-cash amortization expense, was 39.0%. Adjusted Gross Margin declined 450 basis points year over year. The year-over-year decline was driven by wage inflation, higher supply costs, and increasing logistics costs.

We are pleased to report that Gross Marin improved 225 basis points sequentially as we were able to leverage both higher volume and AUP.

While we are encouraged by the sequential improvement in gross margin, we still have significant room for improvement. We have a long list of cost and process efficiency plans we are evaluating as a part of Project Catalyst and we believe we can continue to drive gross margin improvements over time as these projects are completed. We have been able to passthrough some of the higher costs that we are incurring due to inflation and

we anticipate that we will see some benefit from price increases during the second half of the year.

We are also pleased to report that on July 25th we officially moved our last clinical testing operation from our our previous Fort Myers lab to our new facility.

**Operating Expenses**
Operating expenses increased $8 million year-over-year to $84 million. The primary driver of this increase absorbing a full quarter of operating expense at Inivata, which was acquired in June of last year. Also, we have continued to make significant investments in RaDaR, supporting what we believe is a leading assay for minimal residual disease and recurrence testing.

Reducing G&A expense is another area of focus for Project Catalyst and we have already identified a number of opportunities to reduce costs. G&A expense decreased $7 million sequentially from Q1

**Adjusted EBITDA**

Adjusted EBITDA loss was $16 million for the quarter, which is a $3 million improvement from Q1.

**Balance Sheet**
Turning to the balance sheet, we exited Quarter Two with $466 million in cash and marketable securities. DSOs of 81 days represent a 4 day improvement sequentially and are consistent with our normalized range.

**Outlook**
I would like to spend a little time discussing our outlook for the remainder of the year. As a reminder, we withdrew our 2022 revenue and EBITDA guidance in March in conjunction with the departure of our previous CEO, but we did provide some guardrails on our Q1 call. We will do so again today.

We continue to view 2022 as a rebuilding year where our primary focus is to improve our current product offering, drive operational efficiency, generate clinical evidence in support of RaDaR, and lay a foundation to support sustainable, profitable growth over time.

As a reminder, from a seasonality standpoint Q2 is typically our strongest quarter of the year and it's possible Q3 revenue could come in modestly below Q2. We now expect that full year revenue will be flat to up modestly on a year over year basis. In terms of profitability, we expect the Q3 adjusted EBITDA loss to be similar to modestly greater than what we reported in Q2. We continue to expect to see improvement in Q4.

We look forward to reinstating guidance once Chris has had a chance to get his arms around the business and has a better sense of where we are headed. We currently expect to reinstate guidance when we report Q4 earnings in February.

I will now turn the call back to Lynn who will provide more details around Project Catalyst before introducing our incoming CEO Chris Smith.

## Project Catalyst Discussion

Thank you Bill.

As I mentioned, we have engaged our entire organization with the recent launch of Project Catalyst, an 18-Month plan to improve our business that will take us through the end of 2023. This initiative encompasses four key areas, or pillars, of focus – Lab Optimization, People and Capabilities, Competitive Growth and Insights and Analytics. Each pillar is led by an appropriate member of our executive leadership team.

Over the past two months, we have engaged employees at all levels to identify initiatives to drive improvements in efficiency and effectiveness in these key areas. We have identified a number of critical projects each led by an internal “change agent”. We have conducted a detailed analysis and estimated the time and net benefit associated with each initiative. The leadership team is evaluating and prioritizing the most important initiatives in order to develop project plans and determine implementation timing. Some projects are already underway, and others will kick off in the coming months.

We anticipate that the benefits from these initiatives will well outpace the $15 million benefit that we discussed last quarter. We expect to provide an updated target once Chris is a bit more settled into his new role.

While in the early stages of implementation, Project Catalyst is a significant focus for our team and we are excited about the level of engagement we have around the initiative internally. We expect progress to translate into improving performance over time and we look forward to providing future updates.

In the meantime, to better illustrate our efforts, I want to share two specific examples of the kinds of “No Regrets” changes we have already undertaken within our laboratory to improve our efficiency and margins.

One of these changes is with ancillary testing. There are instances where our process in certain tests has evolved to include an early readout from a faster turnaround time methodology on a specific gene that is later duplicated as a part of a larger panel. This early readout may have made sense at one time for one particular customer but this process had been scaled to become our standard procedure. As technology has evolved, not only has that early readout become less impactful, but we are also incurring duplicate and unnecessary costs due to running multiple tests without the corresponding ability to bill for both instances. We have already started the process of removing instances of ancillary testing from our lab processes and anticipate that the changes will improve both efficiency and margin over time while retaining our high quality.

We are also taking opportunities to introduce automation into our laboratory processes where possible and we are excited to share that we have implemented a new Cytogenetics artificial intelligence software that we expect will improve efficiency in our dry laboratory back-end analysis company-wide. While still early days in implementation we are already seeing productivity gains for sites that have gone live with the software.

We are in the process of evaluating similar tools across other modalities of testing as we look for further efficiencies.

We are excited about the progress we have made to date on project Catalyst “No Regrets” initiatives and look forward to providing future updates on our progress.

**Incoming CEO Introduction**

Shifting the discussion to the most exciting development of the call, I would like to introduce our incoming CEO Chris Smith.

Before I share a few details about Chris’ background, I want to underscore that the CEO search process was thorough and competitive, and the opportunity attracted many impressive candidates from the diagnostic industry. After prioritizing the list of interested candidates, the Search Committee interviewed nearly ten individuals, and then all Board members and our Chief Culture Officer interviewed several finalist candidates. Chris was without question our first choice and I would like to explain why.

First, Chris brings to Neo a very impressive background and a successful track record of delivery as a CEO in the diagnostic industry. He served as CEO of Ortho Clinical Diagnostics from 2019 to May 2022. During his leadership, Ortho Clinical successfully completed an initial public offering, raising $1.45 billion, and achieved accelerated revenue growth alongside improved profitability. He also successfully guided the company through a combination with Quidel that closed in May of this year.

Chris also served as CEO of Cochlear, a publically traded med-tech company, from 2015 to 2018. During his tenure, Chris oversaw 35% organic improvement in annual revenue and increased profitability.

In addition to his proven success in operational delivery, profitable growth and the creation of shareholder value, Chris stood out from the others because of his dynamic and inspiring leadership style. What especially impressed us is how mission driven and patient focused Chris is, coupled with his passion for leading through people and culture. We concluded that out of all of the candidates we met in the search process for a CEO over the past several years, Chris is far and away the best fit for the culture of Neo.

The board and I have complete confidence in Chris and we are very excited to welcome him to NeoGenomics as our next CEO. I would now like to turn the call over to Chris to introduce himself. Please note that because Chris has not officially started yet, he will not participate in the Q&A portion of this call.

**Incoming CEO Introduction**

Thank you Lynn.

I will keep my comments brief but I wanted to introduce myself and echo the excitement from my side. As a clear market leader in the cancer testing and information market, NeoGenomics has had a critical role to play in the lives of millions of cancer patients.

Given the company's longstanding relationships with community pathologists and oncologists, I believe Neo remains ideally positioned to bring world class cancer care to where it is needed the most. Strategically I see meaningful value in combining a strong clinical business with Pharma Services capabilities, Informatics information, and Inivata's liquid biopsy technology platform.

Just as important, NeoGenomics is a company that puts patients first and has a very mission driven culture. The ability to be a part of a company in the oncology space with such an important mission was a central factor in my decision to join.

As I join NeoGenomics officially on Monday, I plan to spend the next few months out in the market with customers, patients, and our teammates both in our laboratories and in the field to gain a deep understanding of the flow of our business. I am excited to get started.

I will now turn the call back to Lynn who conclude the prepared remarks.

**Lynn's Closing**

Thank you Chris.

During a challenging time in our business, our people have rallied together as we welcome talented new leaders, embark on Project Catalyst, and continue to move RaDaR forward. On the leadership front, we have added some exceptional talent over the last six months highlighted by the announcement of our incoming CEO Chris Smith who joins officially on Monday. We have a compelling strategic position in the cancer diagnostics market and we are positioned well for improving execution under new leadership.

Serving as Interim CEO of NeoGenomics has been an honor and an incredibly rewarding experience. I would like to take this opportunity to thank the Board of Directors, the leadership team and our entire organization for the terrific support you have provided to me during this transition. And now I am thrilled to resume my role as independent Board Chairwoman and to welcome Chris as our CEO. I am more confident than ever in the bright future ahead for NeoGenomics.

I will now hand the call over to Charlie Eidson to lead us through Q&A.

**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 one 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 (Lynn)**

As we end the call, I'd like to recognize the over 2,125 NeoGenomics team members around the world for their dedication and commitment to building a world-class oncology diagnostics and information 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 support and interest in our Company.