MODERATOR: Welcome to the NeoGenomics fourth quarter and full-year 2023 financial results conference call and webcast. At this time, all participants are in a listen-only mode. Please note this call is being recorded, and an audio replay will be available on the company's website. Kendra Sweeney, vice president of investor relations, you may begin your conference.

KENDRA SWEENEY: Thank you, John. Good afternoon, everyone, and welcome to the NeoGenomics fourth quarter and full year 2023 financial results call. With me today to discuss the results are Chris Smith, chief executive officer, and Jeff Sherman, chief financial officer. Additional members of the management team are available for Q&A including Vishal Sekhri president of advanced diagnostics, Warren Stone president of clinical services, Melody Harris, president of enterprise operations, and Ali Olivo general counsel and head of business development.

This call is being simultaneously webcast. We will be referring to a slide presentation that has been posted to the investors tab on our website at ir.neogenomics.com. Starting on slide two, during this call, we will make forward-looking statements regarding our anticipated future performance. We caution you that such statements reflect our best judgment based on factors currently known to us and that actual events or results could differ materially.

Please refer to our most recent forms 10-K, 10-Q, and 8-K we filed with the SEC to identify important risks and other factors that may cause our actual results to differ materially from the forward-looking statements. The forward-looking statements made during this call speak only as of the original date of the call, and we are under no obligation to update or revise any of these statements.

During this 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 an alternative to the 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 afternoon. I will now turn the call over to Chris Smith, chief executive officer of NeoGenomics.

CHRIS SMITH: Hey, thanks, Kendra. And welcome everyone. Thanks for joining us this afternoon to go through our fourth quarter and full year financial results. As always, I really want to begin with our mission and vision statement because it's what motivates our company and our teammates on a daily basis.

Our mission at NEO is to save lives by improving patient care, and we just had our global sales meeting at the end of January and many of our teammates shared how cancer has impacted them or their families and how we're making a difference in their lives. It's always a great reminder of why we do, what we do and I'm so proud of the impact we're having on patients and local communities we serve.

Now, let's move to slide 4 and get into the fourth-quarter highlights. As you can see, we had another strong quarter growing revenue 12% over prior year to 156 million. Clinical services revenue increased 20%, driven by strong volumes across all our modalities and another increase in revenue per test. As a highlight, NGS grew in excess of 40% and now represents over 25% of our clinical revenue.

The strong growth in clinical services helped to mitigate the expected lower revenue in ADX due to a strong comparable in ADX in Q4 of 2022 as well as macro conditions in pharma sector and margin optimization initiatives that we took in 2023. From an adjusted EBITDA perspective, our progress has outpaced our internal plans. We achieved positive EBITDA in the third quarter of 2023, and significantly improved again this quarter. Adjusted EBITDA was up 900% as compared to Q4 last year to a positive $9 million. Adjusted gross profit was $73 million, representing a 46.7% margin, an improvement of 225 basis points compared to Q4 2022.

Turning to slide 5 for the full year 2023 results revenue was up 16% versus prior year to $592 million driven by penetration in the community oncology market, higher volumes, a shift to higher margin modalities and improvements in revenue cycle management. Adjusted gross profit was $264 million, representing adjusted gross margins of 44.7% and adjusted EBITDA was positive $3 million for the full year, an improvement of $51.5 million or 107% versus prior year.

Now, on slide 6, I'm pleased that the fourth quarter continued the trend that we've seen throughout 2023 of consistent sequential improvement in revenue, adjusted gross profit, and adjusted EBITDA. Notably, our revenue growth has been strong each quarter of the year. We built a momentum of reaching positive adjusted EBITDA in Q3 and carried that into Q4. We believe that we've laid a solid foundation for growth in 2023, and expect that momentum to continue as we move throughout 2024.

Let's move on to slide 7. As you may recall, at the beginning of the year, we laid out our four focus areas for 2023. They included profitably growing the core business, accelerating advanced diagnostics, driving value creation, and enhancing our people and culture. The more time I spend in the business, the more impressed I am with our unique competitive position in the marketplace with a breadth of cancer tests our operational capabilities and passionate teammates that lead our business every single day.

We are a leader in oncology testing with significant share of patient test volume in the US. Our deep relationships with community pathologists and oncologists provide us an advantage in the market and our focus on oncology testing has allowed us to develop extensive patient databases and relationships and we view ourselves as a collaborative partner to pathologists, oncologists, hospitals and biopharma companies we serve.

Beyond these market conditions, it's the strong execution by our teammates that enable us to deliver such strong quarterly and full-year results to our stakeholders. Our teammates are the foundation of our company and we have strengthened our team throughout the year with key hires at all levels of the organization, including sales, lab operations, corporate functions.

These new hires joined a highly talented group of individuals of varying backgrounds and experiences who contribute to our distinguished culture that reflects our commitment to diversity, equity, and inclusion. And this afternoon, I'm going to focus on our three financial priorities.

We continue to properly grow our core business as we execute on our commercial strategy, protect, expand and acquire which has contributed to our strong volume growth, increased AUP, and improved mix. Execution of this strategy enabled us to serve more than 600,000 patients during the year. Our continued improvement in turnaround time has contributed to at or above market growth rates across all modalities.

In addition, the mix shift towards higher value modalities and tests has supported the delivery of yet another quarterly improvement in revenue per test. Over the last 18 months, we have doubled the size of our sales force, increasing coverage and penetration. We also introduced NEO access and NEO seek software solutions to support providers in their clinical decisions and inform patients with upfront benefit checks as well as to identify patients who may be biomarker eligible for new therapies or a clinical trial.

As a result of our increased coverage clinical support and patient centric mentality, we maintained our customer experience leadership in the market with a 3 point improvement in net promoter score, which is now at 70. Within our advanced diagnostic division, which includes pharma services, informatics and R&D, we continue to focus on acceleration of innovation in R&D.

ADX gross margins improved 368 basis points over Q4 of 2022. We built a robust product development roadmap to maintain a competitive position in solid tumor therapy, selection, MRD and HEME with the goal to gain market share in solid tumor and maintain our leadership position in HEME. On the R&D front we launched 12 new or upgraded assays across heme and solid tumor in 2023.

Within informatics, we announced a collaboration to advance HEME research and AI solutions with a data set that covers over a million patient lives across more than 1,000 oncology clinics. The progress and innovation was displayed throughout the year as we presented new data at several conferences.

We are focused on driving value creation from a financial perspective, and we are pleased that we have delivered even further margin expansion in Q4 with efficiencies driving enhanced operating leverage. Our enterprise operation team has delivered yet another quarter progress and turnaround time ending the year with 28% improvement over Q4 of 2022. We have now completed the consolidation of three international labs primarily into our Cambridge, UK location.

Earlier this year, we kicked off our LIMS project that will bring all of our prior acquisitions that were utilizing separate LIM systems onto one platform, which will further enable our digital transformation strategy. We have now completed the first phase of user requirements and expect to begin to see the benefits of LIMS in the back half of 2024.

Before I hand it over to Jeff, I do want to address the ongoing litigation regarding radar. It's our policy not to comment on ongoing litigation. However, I will say that NEO is committed to serving cancer patients with MRD testing, and we believe that we have several viable pathways to accomplish that. We've appealed the preliminary injunction to the Federal Circuit and have been granted an expedited hearing, which will occur on March 29. We intend to vigorously pursue the appeal.

In addition, we have moved for an administrative stay and a stay pending appeal from the Federal Circuit court. That briefing was completed February 20th. Now let me turn the call over to Jeff to review our Q4 and full year financials in more detail. Jeff.

JEFF SHERMAN: Thanks, Chris, and good afternoon, everyone. I'll begin with a little more detail on our operating results for the quarter. As Chris said, we continued the year with revenue experiencing double-digit growth over prior year. Fourth quarter revenue was 156 million, a 12% increase over the prior year and a 2.4% increase from Q3 '23.

Revenue growth was driven by growth in clinical test volume, a continuing shift to higher value tests and improvement in revenue per test-driven by business mix and revenue cycle improvements. Adjusted EBITDA improved 900% from prior year to positive $9 million. Q4 marks the fifth consecutive quarter that adjusted EBITDA increased from prior year. We generated significant operating leverage as revenue favorability flowed through to the bottom line, with over 60% of revenue growth flowing to adjusted EBITDA.

Looking at slide nine, clinical services revenue of $130 million was an increase of 20% year over year, driven by a 13% improvement in revenue per test and a 6% increase in volume. The growth in optimization of our sales force, along with the effective execution of the commercial strategy, resulted in higher volume growth.

Turning to slide 10, average revenue per clinical test increased by 13% over prior year to $441 representing an improvement for the 11th consecutive quarter versus prior year as we maintained focus on higher value tests and revenue cycle management initiatives. As we shared with you in the past, NGS is a strategic priority and accounts for over 25% of our total clinical revenue for the year. New NGS portfolio additions and the focused effort of our sales team continued to fuel accelerated NGS growth.

Turning to slide 11, as we forecasted on prior quarterly calls, advanced diagnostics revenue declined 17% over the prior year in Q4 but was up 5% sequentially to 26 million. ADX revenue did grow each of the first three quarters of 2023 versus 2022. However, Q4 of 2022 was an unusually strong ADX quarter with revenue growth of over 40% versus prior year.

The expected decline in revenue was partially due to macroeconomic conditions and pharma R&D spend as well as our decision to rationalize our global testing sites and low-margin contracts. The focus on profitability and margin growth is driving performance in ADX, with adjusted gross margins expanding by 368 basis points versus the prior year.

Similar to our clinical strategy in 2023, we are expanding our ADX sales organization in 2024 to further accelerate profitable growth and expect to see benefits from this initiative as the year progresses. Looking at the income statement on slide 12, adjusted gross profit increased 17.8% over prior year and adjusted gross margin was 46.7%, an improvement of 225 basis points over the fourth quarter of last year.

Adjusted EBITDA was positive $9 million and $11 million or 900% improvement versus prior year. These significant improvements were driven by both higher gross profit and disciplined cost management, which highlight the operating leverage in the business. Regarding operational expenses, sales and marketing expense was 18.1 million.

As we continue to increase our commercial investment, G&A was 59.8 million, and R&D expense was 7.1 million. Turning to the balance sheet on slide 13, we ended the fourth quarter with cash and marketable securities of 415 million. We continue to make good progress in diligently managing our cash and are focused on accountability and disciplined oversight of operating expenses. Cash flow from operations was a positive $18 million in the quarter, an improvement of 21.5 million or 583% from Q4 of '22.

Now, let's view our full year 2023 financial results. Starting on slide 15, for the year, we increased revenue by 16% over prior year, driven by increases in test volume, revenue per test and NGS revenue and clinical services. Adjusted gross profit increased by 27.5% to 264 million as a result of higher revenue and effective cost management. Adjusted EBITDA improved 51.5 million versus prior year due to improvements in revenue and gross profit.

Looking at the balance sheet on slide 16, we ended the year with cash and marketable securities of $415 million, cash flow from operations improved $64 million or 97% from 2022. This strong performance in reducing our cash burn provides us with multiple avenues to address our upcoming convertible notes due in 2025. We expect to provide more clarity on our near-term maturities on our Q1 2024 financial results call.

Now, turning to our 2024 outlook. We continue to see strong revenue growth and an increase in product mix and are very encouraged by our new and updated tests, which provide higher operating leverage to the bottom line. We have made the necessary and appropriate investments in our teammates to ensure that we have a world-class group of people who are aligned with our mission of serving patients and saving lives. As we continue to build this business brick by brick, I am more confident in our future than ever.

Moving on to slide 18. For the full year 2024, we expect revenues of 650 to 660 million, representing 10% to 12% growth, and adjusted EBITDA to be in a range of 21 to 24 million, representing 600 to 700% growth. In summary, 2023 represented a strong year of execution and financial performance, which positions us well to continue the momentum in 2024. We will continue to invest in growth initiatives, including investments in Salesforce optimization and expansion in our clinical and ADX businesses and increasing investments in R&D product and business model innovation to further enhance our menu of tests.

In addition, we will be making targeted investments and operating efficiencies, including automation and consolidating our multiple LIM systems into one consolidated platform over the next 24 months. These investments will drive long-term margin growth in the future and are reflected in our annual adjusted EBITDA guidance range.

Based on our cost structure, the revenue growth in 2024 will drive operating leverage, and our adjusted EBITDA growth will exceed our revenue growth. And we anticipate the seasonality of our business to be reflected in each quarter of 2024, therefore, we expect revenue to be down sequentially in Q1 '24 in a range of 148 to 151 million, representing 8% to 10% growth over prior year, and expect our strategic initiatives to drive a higher growth rate as the year progresses.

Based on our strong performance in 2023 and our confidence in our strategic initiatives in 2024 and beyond, we are increasing our long-range revenue growth target in outlying years from 7% to 9% to 10% plus and our core business excluding MRD.

CHRIS SMITH: Thanks Jeff. I'm very proud of our team's Q4 and full-year progress, including the strong revenue growth of 16% for 2023 and significant improvement in adjusted EBITDA and cash flow from operations. We saw meaningful progress in the execution on our strategic priorities, and therefore were able to reach the high-end of our raised guidance. Our guidance for 2024 and beyond reflects our confidence in our business. We believe we're well on our way to becoming the leading cancer testing information and decision support company.

We will continue to build on the foundation we have laid over the past several quarters to deliver long-term sustainable growth. I'm excited for our teammates and our customers and most of all for the patients we serve on a daily basis. Thanks for taking time to connect with us today. I'll throw it back to the operator.

MODERATOR: Thank you. At this point, we will open the line for questions. The company asks that each person limit their questions to one so that we may hear from everyone within the hour allotted for this call. If you would like to ask a question, please press star one on your telephone keypad.

A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. All participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

OK, and the first question comes from Alex Nowak with Craig-Hallum. Please proceed.

MAN: Hi Alex.

ALEX NOWAK: OK, great. Good afternoon, everyone. Hey. Congrats on the results. I'm sure there's going to be a lot of questions on the call around the guidance and digging into it but I guess I want to ask one around the FDA and LBT and the potential of FDA coming out and issuing final rules. You know depending on the definition of an LDT NEO could have a wide variety in its portfolio. So I'm just curious what-- you talked a little bit in the past but what does the team internally doing now just in case the FDA does decide, hey, we're going to move forward and issue a final rule?

CHRIS SMITH: Yeah, thanks for that. Look I mean, obviously we, like other companies in our sector, are watching that closely. We're on the ACLA board and so I think we've seen it coming. Look, I would say a couple of things. I would say our progress or our focus on this started probably 18 months ago when we came together as a management team, and we started bringing in people who come from regulated backgrounds.

So if you think about the folks on this call, the three division presidents myself Jeff, all of us come from FDA-regulated backgrounds. I think we started to build the quality system that way. We moved to one quality system. We took all the acquisitions and moved them to one. All of our R&D projects are now under design control. So we've kind of been starting to operate believing this is coming.

That being said, there's still a lot to unfold once a ruling comes out. I think there's a lot of people in the industry who wonders if it's constitutional. But from our perspective, we think it's probably not-- if it's probably win. And it looks like even if all these things occur, companies are going to have 3 to 3 and 1/2 years to get prepared. So we feel very confident in our ability to manage that as it comes on.

Look, a lot will depend on what is grandfathered and what is not. But I think we feel really good about our position in the marketplace. And we think for companies like us, it could end up becoming a competitive advantage.

ALEX NOWAK: All right. Thank you so much.

MODERATOR: The next question comes from David Westenberg with Piper Sandler. Please proceed.

CHRIS SMITH: Hi, David.

DAVE WESTENBERG: Thank you for-- hey. Great, great job, guys. So I really like the update on the-- if I heard it right, you updated the long-term plan to 10% growth. Can you talk about specifically, because that's a big 150 basis points at least swing there, so what specifically is happening versus that long-term growth plan where you feel confident that this is not just trend, this is multiyear and long-term. And that's assuming I heard that correctly.

CHRIS SMITH: Yeah, you did. I mean, Jeff put it in there at the end. I'll-- it's some of the best news and it was like right at the end, I'll say something and then maybe I'll have Jeff comment more. But look, I think when we gave long-term guidance in April of last year, we were pretty new management team. And I think as we've come together and now had well over a year under our belts, we understand the levers to pull in the business much better, we understand the market significantly better, we understand things around revenue cycle, management, and accelerated growth and where the gaps are in the products.

And so we guided this year for '24 10% to 12% but what we're seeing in that core business, just because of the market dynamics the market growth our leadership position the things that we can do, we feel very confident in that 10 plus number. But do you want to--

JEFF SHERMAN: Yeah. So I would add to that. We've made multiple comments about adding salesforce people to our team. And then salesforce optimization, we're really focused on how do we help them be more efficient. And so we actually think we can get a lot of operating leverage just through technology and back office support for our salespeople both in our clinical team, and in our ADX team.

And so I think that's another big component. We've been growing faster than the market across all modalities. We have a strong focus on NGS and are clearly seeing positive results there. So I think our view is our confidence level has increased based upon our performance in 2023. As well as Chris said the team overall just getting more comfortable with our teams, with our position in the market and where we're investing dollars to raise our long-term growth target to that 10% plus.

CHRIS SMITH: Yeah, and David, I'd say the other one. I mean, if you look at NGS, especially solid tumor, we're incredibly under indexed, and you can see that business is growing rapidly. And that market is still relatively penetrated but growing double digits. So I think there are a lot of factors that we feel really good about where we are from a physician perspective.

DAVE WESTENBERG: Great, that's a great segment and my second one because I think you're launching into Liquid. So could we expect an accelerated timeline into Liquid or like a market traction just given what you're doing right now in hematological malignancies, and then you transfer that into solid tumor which is bespin going really fast.

CHRIS SMITH: Let me-- obviously a lot going on, but you know that sits in the R&D group with Vishal. And under development, Vishal do you-- anything you want to share just kind of what we're doing with Liquid and some of the products that we've disclosed.

VISHAL SEKHRI: Yeah, Dave. Thanks for your question. So on the Liquid side we will plan to launch CT-PSA for Liquid biopsy going into 2024, probably towards the second half of 2024, but we'll accelerate on the clinical side also that we're looking into. But I do think there is a place for Liquid on both the pharma and the clinical side, which will see an acceleration in terms of penetration into that market. Especially on the pharma side, in particular, because we're hearing a lot from pharma companies that they just don't have enough tissue to spread along with all the testing they want to do, but this really gives them the opportunity to choose both Liquid or solid from that perspective.

CHRIS SMITH: Yeah. And you'll probably see that in pharma in late half of the year and then moving into clinical in 2025, early '25.

VISHAL SEKHRI: Yeah 2025.

DAVE WESTENBERG: Awesome. Great job on the quarter.

CHRIS SMITH: Thank you, Dave.

MODERATOR: Up next, we have Puneet Sodha with Leerink partners. Please proceed.

PUNIT SODHA: Hey, guys. Chris, thanks for taking the questions.

CHRIS SMITH: How are you doing?

PUNIT SODHA: I'm good, thanks, Chris. I'll wrap my question into two questions into one. You know obviously, again, congrats on the LRP increase here. Maybe can you elaborate what is the clinical volume growth that we ought to think about in that long-term guide. I mean at one point, NeoGenomics used to grow that number at 15% growth, but I know the mix has changed today, there's more NGS in here. So maybe could you elaborate on that.

And then how should we think about the AUP and the clinical volume growth. This year, in 2024, the AUP has continued to ramp throughout the year for clinical in '23 so just wondering how should we think about that for '24. Thank you.

CHRIS SMITH: Yeah. Maybe I'll take a little bit of that and then throw it to Jeff. But look, the way we think about our business is really a portfolio effect. And so if you think about it, we really we have informatics, we have pharma, we have clinical. And obviously, when we look at building out both this year's guidance and next-- outlying year's guidance we've taken to account all those factors. We have not broken down specifically the units or the AUP.

I will say, though, on the AUP, two things significantly are driving and Jeff will give you more, but one is our mix, right. We're selling a lot more NGS. But the other thing is we think we have a lot of runway on revenue cycle and just the amount of-- when you look at this industry as a whole, I think it's woeful in its ability to get paid for the work that it's doing. And I think where our team is really becoming masterful is identifying those levers, which is probably 15 different levers within that group. But, Jeff, do you have anything else more on what you're dealing with?

JEFF SHERMAN: I mean, we haven't disclosed specific and we didn't when we gave original guidance didn't disclose volume or AUP. But I think, as Chris said, given our positioning on both our clinical sales force and execution, as well as our anticipated additions on the ADX side, we certainly feel good that we're going to achieve that revenue growth.

I think on the revenue per test or AUP as Chris said, there's a few things driving that. In the quarter, that NGS mix, I said this last quarter, is driving over 60% of the increase in AUP. So just the NGS volume continue to accelerate is driving meaningful upside in revenue per test. And you can see that stepping up throughout the year in 2023.

And then the other factors as Chris also said were revenue cycle specific initiatives. The first is on just getting paid for the work we're doing. A lot of specific initiatives to drive that. We saw good improvement in that in 2023. And then there's also the pricing side where we're having some success in getting price increases as well where that hasn't historically been a strength of ours.

So again, I think the way I think about the revenue side is we have volume drivers, we have mix drivers, we have pricing drivers, and we have RCM drivers, and they're going to hit at different intervals and different paces throughout the year. But the overall combination of those is going to get us to our revenue growth over time.

PUNIT SODHA: Got it. Helpful, guys. Thank you.

CHRIS SMITH: Thank you.

MODERATOR: OK, the next question comes from Matt Sykes with Goldman Sachs. Please proceed.

CHRIS SMITH: Hey Matt.

MATT SYKES: Hey, good afternoon. Hey guys. How are you doing? Congrats on the quarter. Maybe just following up on Punit's question, but focusing on the mix side of it. Obviously, the NGS mix you guys have talked about, and that's driving a lot of that.

But I'm just wondering in terms of as you think about the runway for mix shift, there's clearly probably customer groups where it was easier to switch them into NGS or market the NGS to them. Does mix shift get harder you think over the course of this year and into '25 or do you just see a lot of runway and lack of awareness where you're able to continue to drive that mix shift over time.

And then just my second part just quick one for Jeff. Just any views on the gross margin outlook for '24 within that guide?

CHRIS SMITH: Yeah, thanks, Matt. Look I think when you look at this business, one of the things that we really like is we've gotten to know the business well is that we're very under-indexed both on NGS as a total percentage of revenue for the company as well as in solid tumor. And if you think there's going to be some earnings calls that come up in 90% of the revenue is NGS. And so I think we believe very strongly I think in that ability on that mix shift.

I'd say the second big one is I think you could argue this year should be better because of our increased focus going to oncology. The community oncologists versus just the hospitals and the pathologists and expanding that sales force there and to be able to go out and spend time. And, look, one of our lever points is that we're the market leader in heat and really using that to be a door opener for us for solid.

But maybe-- and I probably shouldn't even say as much I did. Warren's here. But maybe Warren give more, maybe more color.

WARREN STONE: Yeah. Because I think everything that you said I agree with 100%. I mean, we've communicated that right now, the ratio is roughly 25% of the business. I think as that ratio increases, certainly it gets marginally harder. But I wouldn't discount the fact that we launched new products last year, it was probably mid-year by the time we were starting to see some traction take place. So looking to benefit from the annualization of those new products that were launched in last year, particularly those, the NGS related.

So that's one that certainly will provide opportunity for us. And then, as Chris said, the continued penetration into the community oncology segment, which is where we've invested a lot of incremental sales resources into is another reason why we believe we can drive growth in NGS, which will support that mix shift.

CHRIS SMITH: Jeff, do you want to take the--

JEFF SHERMAN: Yeah. Then on the margin side, you know, Matt I would look at adjusted gross margins increasing in a range of 150 to 175 basis points over the next year, over 2024.

MATT SYKES: Great. Thanks, guys. Thank you.

MODERATOR: Up next, we have Andrew Breckman with William Blair. Andrew, please proceed.

CHRIS SMITH: Hey, Andrew.

ANDREW BRECKMAN: Hey guys. Good afternoon. Hey, Chris. Thanks for taking the question. Maybe on the inorganic front, you know, I guess as you guys are making progress here on increasing profitability, can you just talk about balancing that dynamic with your appetite for adding to the bag here over time? Any considerations that we should be thinking about? Thanks.

CHRIS SMITH: Yeah Andrew I got to tell you I missed the very first thing you said. What?

ANDREW BRECKMAN: Inorganic.

CHRIS SMITH: Oh, inorganic growth. OK sorry. I missed that. Yeah, look, I think it's a unique scenario when a company looks at accelerating growth and how much do you put on the bottom line versus how much do you invest. Look, we believe that this business has a very unique opportunity to grow low double digits on revenue and mid-teens plus on profitability. I think for us, we look at where we can invest the dollars that we think are going to give a long-term ROI.

So we spend a lot of time, as a leadership team, talking about what these initiatives are and when are we going to strategically invest in them. So, for example, this year one of the big ones is LIM, last year a big one was expanding the clinical sales force. So we believe that you can have that balance. Like Jeff always says, it's not either, or it's and. And I think our view is that we want to grow revenue fast, gross margins faster and grow and operating profit fastest and I think we run our business to do that.

So I think we feel really good about that balance. But Jeff, do you want to give it from a financial perspective?

JEFF SHERMAN: Yeah I think-- I think the other thing that gives us confidence is just our capital structure as well and our ability to really significantly change our cash burn and actually position ourselves for actually starting to produce cash in 2025. So I think having the clear path to being adjusted EBITDA positive for all of '23 and certainly we expect for '24.

And then really, it's an investment. I think rigor and discipline in that we have used over the last 12 months on where are we going to be investing dollars and how are we doing that in a strategic fashion over time to drive the business. And I think, as Chris said, clearly with having ROI projects that are going to pay for themselves over time. And I just think we've had a lot more rigor and discipline in the process, which gives us confidence in the investments we've made.

ANDREW BRECKMAN: OK. Thanks, guys.

MODERATOR: Up next, we have Mark Massaro with BTIG. Please proceed.

CHRIS SMITH: Hey, Mark.

MARK MASSARO: Hey, Chris. How's it going?

CHRIS SMITH: Good.

MARK MASSARO: Yeah. Congrats on the quarter. Lots of great progress on the clinical side. I guess my question is more on pharma services. I know, you know, your predecessors talked a lot about pharma services and informatics. And there is a large precision oncology company out there that's monetizing big data with some pretty sizable revenue.

So I'm just curious. You guys are doing a great job just growing revenue and profitability. Maybe just give us an update on how you see the pharma services business shaping out, how you can monetize some of the big data, and maybe just give us a sense for how you're thinking about the growth of that business going forward.

CHRIS SMITH: Yeah, thanks. Look I think-- when we came in, I mean, I think the first thing is we made a very conscious decision that that business had a lot of pieces to it that were not profitable. And so our focus was, and we've talked about this and the whole company, but especially in pharma, let's get the house in order. And let's get this gross margin moving. And you can see that we've had great progress in there.

I think when we think about the pharma business, though, we do believe it's kind of the tip of the spear from a technology perspective because the pharma companies go well in front of clinical on new innovations and new technology. And we saw that, for example in MRD. So we believe it's a place to be. But before we could start accelerating growth, we had to get the baseline right, and that's what '23 was all about.

And now you heard that Jeff, one of our-- you know last year we spent a lot of money and time expanding the clinical sales force. We're expanding now the pharma and the informatics sales force because we feel like there's great growth opportunities there but we felt like we had to, kind of right the ship first.

On informatics, we have significant points of data because of the patients that we test. And I think as Vishal-- and I'll let Vishal step in and maybe talk more about the informatics. But I think as Vishal and Melody come together and look at the things that we can do, there is runway, but there's a lot of work to do. And I think that the company, you're probably referring to, it was not our top priority but it's becoming more of a priority.

But I think for us again, it's about the portfolio. We've got to be able to perform in clinical and all of ADX. If you want to talk more about, especially, informatics and the data.

JEFF SHERMAN: Yeah I think as we look at the data that we have within the company, one of the nice things about what NEO has is data across all of our modalities whereas others maybe will have it primarily in NGS. But as we grow our NGS product portfolio, our data will also grow at the same time. So, what we can get to in a couple of years is going to be much different than where we are today in terms of our data offerings as a whole.

And on top of that, the LIMS investment that we're doing, which will allow us to structure the data in the right way, will also make us successful for the informatics side. So all together, the next couple of years, we still have a long way to go there. I mean, I think we have to build in the right steps. But how we're building it is more important right now for the next year and getting in two years out as to what we can do with that data from where we are today.

MARK MASSARO: Sounds good. Congrats on the progress.

CHRIS SMITH: Thanks Mark.

MODERATOR: The next question comes from Mike Maton with Needham and company. Please proceed.

CHRIS SMITH: Hey, Mike.

MIKE MATON: Hi, guys. Just wanted to ask one on the limbs project. So you mentioned you can start to see some of the benefits of that in the second half. So just curious what those benefits could be. I mean, is it margins, is it per turnaround time, is it market share or all of the above?

CHRIS SMITH: Yeah, look. I think there's a lot-- it's probably all the above. But Melody is on the call as well. Melody, you want to take that initially, and then Jeff maybe can talk about financial stuff. But Melody.

MELODY HARRIS: Yes. I think, first and foremost, Mike, it's really around operational efficiency and productivity in the lab. So I think we're expecting to see a lot of pickup with regard to leverage there because we currently are on multiple different systems, and, obviously, that causes a lot of cutting and pasting and things like that we're hoping to eliminate.

But as far then Bijal mentioned the ability to use our data better, it's really an overall enterprise digital architecture that we're working and LIMS is the start of that. But we're also leveraging various platforms for better connectivity to our patients, better connectivity to EMR, better connectivity into our billing systems and our back-end ERP, and the LIMS system is really the big driver for all of that for us. Jeff comments on the cost structure.

JEFF SHERMAN: Yeah. And I would add one other thing as well. I mean, it will give us just better visibility from a client service perspective on where our tests are in the process and allow for really self-service on where tests are in the process. So I think it helps our client communication and giving them up-to-date on where we are with the testing process.

And then we are making capital investments that will have some operating expenses with that over the next two years. So, we have factored in those operating expenses into our guidance. And again, I think this is one of those investments that is going to pay long-term dividends. We'll start seeing it on the gross margin side, as Melody noted, from an efficiency standpoint. And I think, over time, it could have topside benefits as well as we improve our client service.

CHRIS SMITH: Yeah, and maybe Warren, you can talk to this. But look, we're spending probably as much on the customer experience component as we are on the LIMS as far as digitization. And it's interesting. I think in this business for us to ultimately get to where we want to go, we got to win on customer experience, and we got to win on the ability to serve the patient. And I think, do you want to just give what we're doing on the digitization and the platform?

UNIDENTIFIED CO. REPRESENTATIVE: Yeah, certainly.

CHRIS SMITH: That's going to tie to LIMS.

UNIDENTIFIED CO. REPRESENTATIVE: Yeah. So, building on what Andy said in terms of LIMS being this, sort of, foundational element for us to start a digital transformation, this is providing the building blocks for us, and additionally, we're investing in what we're calling a digital front door to our JAD customers, which will be the platform for self-service. It'll be the platform to allow customers to track the status of tests in real-time, something that is certainly missing today.

And ultimately, it will allow us to increase stickiness to those customers, which is an important element from our protect expand acquire commercial strategy. So something else that we look to expect to see value in the latter part of 2024.

CHRIS SMITH: Thanks.

MIKE MATON: Great. Thanks.

MODERATOR: OK. Our next question comes from Mason Parayko with Stephens Inc. Please proceed.

CHRIS SMITH: Hey Mason.

MASON PARAYKO: Hey, guys. Thanks for the question here. So for the ADX business you had called out, you framed it up in previous quarters the headwinds that you'd be facing rationalizing some testing sites, low-margin business as well as you're facing some macro conditions. So I guess the question is, could you, kind of, break out, I guess, how much of an impact each of those two buckets have. And as we look ahead into this year, when do you think we start to lap, kind of, rationalizing that low-margin business going forward? And really, how are you thinking about accelerating growth in this business this year?

CHRIS SMITH: Yeah, why don't I take it up front, and then Vishal you know can pick it up. I mean, we made that decision, but those contracts took some time. So I think you'll start to see that piece start to kick in probably in the second half of the year. We haven't broken out where the impact is. But I think even more importantly, Vishal maybe talk about strategically all the things that your team is doing. In other modalities just NGS and why that's still relatively new and why you give confidence in the acceleration of the growth.

VISHAL SEKHRI: Yeah if you look at what pharma is coming up to us for, right. We are still investing heavily in modalities, what do I call our traditional modalities like IEC. That's not going anywhere from an oncology pharma perspective. That's our bread and butter. But as we launch new products in the NGS side in particular, and we're seeing that trend.

And as Chris mentioned, usually what we see in pharma is a movement and moving towards technologies three to five years ahead of clinical. We're already seeing that trend moving from FISH as an example to NGS, we didn't have the right products until we launched them last year. So we're starting to see that movement into more and more usage cases in NGS, which also have higher AUPs, for that matter.

So, we're also investing in our BD team. We invested a lot in the clinical side from a sales perspective, we're investing now on the ADX side and, rebuilding that BD team and making sure that we have the tools and expertise that will allow us to grow in 2024.

CHRIS SMITH: Maybe talking about Liquid biopsy because that's going to be a big product for you guys late in the year.

VISHAL SEKHRI: Yeah. And Liquid biopsy is something that we get approached by from pharma all the time is we do a lot of tissue testing right now, which is what we've built our business on. But on the Liquid side, especially for solid tumor, and as Chris mentioned earlier, we're very much under-penetrated on the solid tumor side because we didn't have the right product mix.

And now we're launching our liquid biopsy CGP, which will allow us to make that offering to pharma where they don't have tissue to give to us for samples that have been sitting around 3/5/10 years old from clinical trials that have been completed. So we're able to go back and actually try and get some of that business with our new offering that we're planning to launch this year.

MASON PARAYKO: That's helpful. Thanks, guys.

MODERATOR: Up next, we have Andrew Cooper with Raymond James. Please proceed.

CHRIS SMITH: Hey Andrew.

ANDREW COOPER: Hey guys. Thanks for the time. Maybe just first focusing on price for a little bit here or AUP, I should say. Can you just give a sense for how much more runway is there in that 40% of the increase that's come from RCM and price. Or maybe asked another way, what can we expect that to contribute on a yearly basis once mix is stabilized or in the scenario where on an apples to apples basis we think about mix being stabilized?

CHRIS SMITH: Yeah. Go ahead.

UNIDENTIFIED CO. REPRESENTATIVE: Without I mean without getting into granular specifics, we said earlier NGS was driving about 60%. We are still seeing mix improvement in other aspects of the business, which is driving a component of AUP our revenue per test as well. I think in terms of the initiatives, we think pricing is a multi-year opportunity for us. And we also think the revenue cycle initiatives that are just increasing the amounts where we're getting paid for what we expect to be paid is a multiyear opportunity.

So I think we have, excuse me, we have multiple year opportunity to continue to close the gap between what we're expected to be paid, and what we are being paid. And again, as I've said in prior calls, it is multifaceted. I mean, there are some other clearly identifiable areas of prior authorizations or medical necessity or medical records that we're dealing with.

And then there's the payer policy aspects which are a little bit harder particularly with the larger panel tests. And so as some of the biomarker legislation gets improved gets approved and states over time, that will also help close the gap for specific tests, where we may not be getting reimbursed today or where we're not being reimbursed fully. So again, I think there's a lot of different areas that we have identified that we have teams working on to close that gap and see a multi-year runway.

ANDREW COOPER: OK, great. And then maybe just one more. On the LRP update obviously great to see maybe just any context for what that does or doesn't do to the EBITDA margin expectations that you laid out back in April. And whether that number can be a little bit higher for '26 or maybe how we think about even beyond that time frame where adjusted EBITDA margins might go in the event of that little bit faster revenue growth.

UNIDENTIFIED CO. REPRESENTATIVE: Yeah, so what we said almost a year ago was we expected EBITDA margins to be in the mid to high teens by 2027. Obviously going towards the higher end of-- going to above the high-end of that range you know I think will help accelerate that. I don't know that it changes meaningfully when we achieve that mid to high teens but it could pull it forward I think a period of time. And also just our ability to generate operating leverage off that revenue growth I think will help the adjusted EBITDA growth over time as well.

We initially said we expected to be adjusted EBITDA a positive in 2024. Obviously we achieved that in 2023, so again, almost probably pulling forward somewhat a year on that front. So I think as we look at our ability to generate operating leverage on the revenue growth, it clearly will benefit our long-range plan from an adjusted EBITDA and adjusted gross margin basis.

CHRIS SMITH: Yeah, Andrew. I think as we, like I talked about earlier, as we've seen the levers and the ability to pull multiple ones to get leverage and pull through on this business, you saw this year the significant amount of our growth drop into the bottom line. And so I think that we-- that's enhanced, kind of, our confidence in some of these things.

Now we still have things like value capture program, where we want to go get anywhere from $10 to $15 million a year. We want to improve gross margins and get gross margin leverage by 100 basis points every half. I mean, all those are fundamental, but I think now, like when you think about Melody on her side on the operations, she now has the detailed plans in place, and we can see that. So I think it just has given us a greater sense of confidence in our ability to deliver it.

ANDREW COOPER: OK. I'll stop there. Thanks again guys.

CHRIS SMITH: Thanks.

UNIDENTIFIED CO. REPRESENTATIVE: Thanks.

MODERATOR: The next question comes from Derik Debruin with Bank of America. Derik, please proceed.

CHRIS SMITH: Hey Derek.

JOHN KIM: Hey good afternoon. You have John Kim for Derek here. I'm going to try to ask this one more time. Great to hear the 2024 guide and the update on the long-term guide here. Any other details that you could share on what the split is going to be between the clinical services and advanced diagnostics? I think you previously talked about how the clinical services would be a bigger portion of the sales but, yeah would be helpful to know any additional thoughts that you might have.

JEFF SHERMAN: Yeah we have, as Chris said earlier, we really view it as an overall portfolio, and we guide on a portfolio basis. So, we haven't broken out that individually. We do expect both of them to grow in the year. We just haven't broken it out and don't plan on breaking it out in our guidance.

JOHN KIM: Gotcha. And I did want to ask about the patent infringement ruling against Radar that was in December. Any expectations as to-- I know it's not included in the guidance, so not expecting any financial impact there on the top line or the bottom line. But any expectations in terms of when you think this might get resolved or like, if it comes to getting rid of it what impact that could have on the bottom line.

JEFF SHERMAN: Yeah, I'm going to let Ali address the legal questions, but two quick points. So our guide does not include any Radar in it number one. But number two, we do believe MRD is important. So I'll just put that, and then I'll throw it to Ali to let her walk through how the legal side is going.

ALI OLIVO: Sure. We don't have any visibility to the timing. What we know is that we've requested expedited-- an expedited hearing, and we've been granted that expedition, and the hearing was, as Chris said, on March-- is scheduled for March 29th. And so various factors contribute to the Federal Circuit court of Appeals timing on a decision, including whether or not the decision is precedential, whether there's a dissenting opinion on the panel of three judges.

We have also made a motion for a stay pending the appeal. And that motion was fully briefed, like Chris said, as of today. And so timing on that is within a couple of weeks. And that's, sort of, what we know in terms of timing on the appeal.

As far as the infringement matters in district court, those are ongoing and are in the discovery stage. The North Carolina case has been set for trial in March of 2025, and the Delaware case has been set for trial in October of 2025.

JOHN KIM: Appreciate all the color. Thank you.

MODERATOR: So again, if you have a question or a comment, please indicate so by pressing star one. Up next, we have Tejas Savant with Morgan Stanley. Please proceed.

TEJAS SAVANT: Hey, guys. Good evening.

CHRIS SMITH: How are you doing?

TEJAS SAVANT: I just wanted to push on that similar line of questioning there. I was curious, Chris, in terms of the comments you made in your prepared remarks about your options available here, right. Can you give us a sense for how quickly you could pivot to perhaps a new version of Radar as a workaround for the litigation? And that's something we've seen other peers in the industry resort to in relatively short order. And I was curious if that was an option that you were actively exploring at the moment as well.

CHRIS SMITH: Yeah, Tejas, thanks. Look, I would say that we're actively exploring all options around MRD with the first situation that we believe venomously about our position from a legal. So I mean, obviously, that's where we're going. That being said, we have been in development for additional MRD products beginning probably 12 months before this even started. So, I would say that that's been ongoing.

And I would say with us, we believe like a lot of the products that we're trying to bring to market, we think there's an incredible need from a patient perspective, especially for products that continue to improve sensitivity. And I would say that Vishal and the team in R&D operate with an incredible sense of urgency. But, you know, it's not just from a technology perspective, but it's from an IP perspective that they're looking at it from a commercialization perspective. But we haven't given any timelines, just that we're operating with a sense of urgency on it.

TEJAS SAVANT: Got it. Fair enough. And then, just one quick follow-up for me on the biomarker bill. Can you lay out, Chris, what proportion of your tests you think could benefit from incremental commercial payer coverage here, given even the states that have currently passed the legislation?

CHRIS SMITH: You want to take that one?

WARREN STONE: I don't think-- so very clearly where we believe the value will come is on any NGS test, which is a panel of 50 or larger genes. That's where today reimbursement from a third-party payer perspective is quite limited. So that's where we see the benefits. In terms of, I think, what portion of our business that is cetera, that's something we actually haven't commented on.

CHRIS SMITH: Yeah. And one of the things we'll talk more about some of the strategic priorities in '24 when we get together after Q1, but one of them is to launch our NEO comprehensive 2.0, which is a significant larger panel. And so obviously that will be an important tool for us.

TEJAS SAVANT: Got it. That's helpful. Appreciate the time, guys.

CHRIS SMITH: All right, thanks.

WARREN STONE: Thanks.

CHRIS SMITH: Take care.

MODERATOR: The next question comes from Dan Brennan with TD Cowen. Please proceed.

CHRIS SMITH: Hey, Dan.

DANIEL BRENNAN: Hey thanks for-- hey good morning, Chris. Or good afternoon, excuse me. Maybe just a question back to the Liquid offering. Any color on what type of reimbursement we can expect? And how should we think about framing the opportunity from a revenue potential perspective?

CHRIS SMITH: You want to take that talk a little bit about what's going on in the market.

JEFF SHERMAN: Yeah. So the good news here is that there is reimbursement that's established similar to what you see with the tissue test. And we expect something from a reimbursement perspective, at least for Medicare, would be in the similar dollar amount as what we see on the tissue side of things with potential for higher depending on what kind of status we get on this.

But the reality is that we're also seeing NCCN guidelines get updated at the same time, and you saw that on the lung space in late 2023, where it changed from tissue not being available, especially in lung cancer, to tissue or liquid being done at the same time or with independent of each other.

So, I think you're seeing the guidelines are changing, and that also helps with the whole reimbursement story and the clinical adoption, of course, especially in the community-based setting. So, I think having a Liquid offering that is widespread is going to be critical for us for commercial growth.

DANIEL BRENNAN: Great. And then maybe just sticking with NGS clinical market volumes, probably growing north of 30. Just wondering, you know, for your volume growth, how much if we're thinking about the market growth versus converting your customers from, say, legacy tests to NGS, could you just give us a sense of maybe-- I know you're not going to distill the exact numbers for each but I'm just wondering how far along your customers are, and is that a big driver for you that you're, kind of, bringing forward some of these more community hospitals and doctors towards NGS? Thank you.

CHRIS SMITH: Yeah I'll let Warren take it but remember, we have three distinct strategies that we focus on. And really, from a field compensation perspective, they're incentivized on all of them. Do you want to talk a little bit about what's going on?

WARREN STONE: Yeah. I think there's a couple of dynamics that are taking place. Certainly we've got customers that may not be using NGS today using a different modality that we're moving into NGS, that's the first kind of motion.

Second is, we have a number of smaller gene, single gene, and smaller panels that are available, and these will be moving customers to larger panels. And then obviously, we have the dynamic of customers, which haven't been near customers in the past that are now-- we're now addressing. And this is particularly relevant in the community oncology setting.

So those are the three areas where we see growth from an NGS perspective. And it really plays into, with our commercial strategy, which again, it's around protecting existing customers, but secondly expanding share of wallet where we drive various sort of gap analysis strategies to identify which customers to target with different NGS offerings, which could be one of those three. Not using NGS, moving to NGS, or using a single or small panel into a larger panel. And then thirdly, it's the acquire elements of our commercial strategy, which is gaining new customers, which haven't been supporters of NEO in the past.

CHRIS SMITH: And that third one is obviously the toughest. Getting new customers, but it's, by far, the biggest opportunity where we just hadn't been spending time until starting about 12 months ago, which is those community oncologists.

DANIEL BRENNAN: Great. Thank you.

CHRIS SMITH: Thank you.

MODERATOR: We have reached the end of the question-and-answer session. And I will now turn the call over to Chris Smith for closing remarks.

CHRIS SMITH: OK, thank you. Look, I just appreciate everybody taking the time to get together and get some more color on what's going on inside the business. We, kind of, talked about the state of the business and I think we feel incredibly good about where the business is and where the business is heading. I think we're ahead of where we thought the early plans were being.

And I think as we continue to go forward each quarter, we'll try to give you more insight into the business and how we continue to build this long-term sustainable growth. Again thanks for your time today and take care.

MODERATOR: This concludes today's conference, and you may--