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[00:00:00.33] Good day ladies and gentlemen and welcome to the NeoGenomics second quarter 2022 earnings call. At this time, all participants have been placed on a listen only mode, and the floor will be open for questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, Lynn Tetrault. Ma'am, the floor is yours.

[00:00:19.95] Thank you, Mike. And 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 Pharma Services Division and President of Inivata, and Charlie Eidson, our Director of Investor Relations.

[00:00:45.32] 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.

[00:00:57.35] Before we begin our prepared remarks, Charlie will discuss the Forward-Looking Statements and Non-GAAP measures used on this call.

[00:01:04.97] 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 of 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 on 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.

[00:01:48.32] In addition, during the 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 to be 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.

[00:02:23.36] 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.

[00:02:45.93] 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.

[00:03:01.32] 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 15 and we are thrilled that he is taking over as our company's next leader. We will then have time for questions and answers.

[00:03:33.20] 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 Catalysts, and continue to move RaDaR forward.

[00:04:12.79] 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, a 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.

[00:04:47.52] 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.

[00:05:03.07] In addition to recruiting a new CEO, we made excellent progress toward addressing priority number two and 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 skill set 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.

[00:05:48.60] Just last week with the endorsement of Chris Smith, we confirm 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.

[00:06:17.26] 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.

[00:06:48.16] 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.

[00:07:24.53] 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 the syndication. And we are hopeful that we will receive coverage for CRC in the coming months.

[00:07:51.97] 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-negative breast study that was orally presented at ASCO and concurrently published in the Journal of Clinical Oncology showcased RaDaR combination of elite sensitivity and specificity for this indication.

[00:08:20.65] 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 find several opportunities in the coming quarters. I will now turn the call over to Bill Bonello who will review quarter two financials.

[00:09:00.83] Thank you, Lynn. 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.

[00:09:22.28] Volume growth continues to be impacted by the dynamics that we discussed in our last earnings call. These factors include-- 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 to improve our lab operations and we are starting to make progress in both areas.

[00:09:54.09] 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.

[00:10:29.86] 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 lifecycle of a project. Well, we will increase our emphasis on near-term revenue growth, we will also continue to build out our backlog of large clinical studies and companion diagnostic opportunities.

[00:11:18.13] 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.

[00:11:29.46] GAAP gross margin was 35.1%. Adjusted gross margin, which excludes Inivata related non-cash amortization expense was 39%. 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're pleased to report that gross margin improved 225 basis points sequentially as we were able to leverage higher volume and AUP.

[00:12:09.36] Well, we're 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 part of Project Catalyst, and we believe that we can continue to drive gross margin improvements over time as these projects are completed. We have been able to pass through 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.

[00:12:44.50] We're also pleased to report that on July 25, we officially moved our last clinical testing operation from our previous Fort Myers lab to our new facility.

[00:12:57.99] Operating expenses increased $8 million year over year to $84 million. The primary driver of this increase is 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 to be a leading assay for minimal residual disease and recurrence testing.

[00:13:26.37] Reducing G&A expense is another area of focus for Project Catalyst and we've already identified a number of opportunities to reduce costs. G&A expense decreased $7 million

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

[00:13:52.38] 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.

[00:14:10.56] I would like to spend a little time discussing our outlook for the remainder of the year. 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. And we will do so again today.

[00:14:30.78] We continue to view 2022 as a rebuilding year where our primary focus is to improve our current product offering, drive operational efficiencies, generate clinical evidence in support of RaDaR, and lay a foundation to support sustainable, profitable growth over time. From a seasonality standpoint, Q2 is typically our strongest quarter of the year thus, it's possible that 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 or modestly greater than what we reported in Q2. We continue to expect to see improvement in Q4.

[00:15:28.72] 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.

[00:15:55.05] 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.

[00:16:24.23] 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.

[00:16:59.49] 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.

[00:17:13.51] 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.

[00:17:31.84] 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 part of a larger panel. This early readout may have made sense that one time for one particular customer, but this process had been scaled to become our standard procedure.

[00:18:10.10] As technology has evolved, not only has that early readout become less impactful, but we're 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.

[00:18:39.55] 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 backend 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 to 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.

[00:19:24.42] 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's 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 10 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.

[00:20:03.67] 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.

[00:20:37.55] Chris also served as CEO of Cochlear, a publicly traded med-tech company, from 2015 to 2019. During his tenure, Chris oversaw a 35% organic improvement in annual revenue and increased profitability.

[00:20:53.07] In addition to his proven success and 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.

[00:21:24.62] 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.

[00:21:45.01] Thanks, Lynn. I'll keep my comments brief, but I did want to introduce myself and echo the excitement from my side. As a clear market leader in the cancer testing and information market, NeoGenomics has a critical role to play in the lives of millions of cancer patients. Given the company's long standing relationship with community pathologists and oncologists, I believe Neo remains ideally positioned to bring world class cancer care to where it's needed most. Strategically, I see meaningful value in combining strong clinical business with pharma service capabilities, informatics information, and Inivata's liquid biopsy technology platform.

[00:22:22.60] Just as important, the genomics is a company that puts the patient first and has a very mission-driven culture. The ability to be part of a company in the oncology space was such an important mission was central factor in my decision to join. As I joined NeoGenomics officially on Monday, I plan to spend the next few months out in the market with customers, patients, and our teammates both in laboratories and in the field to gain a deeper understanding of the flow of our business. And I'm excited to get started. I'll now turn the call back over to Lynn who conclude her prepared remarks.

[00:22:57.01] Thank you, Chris. In summary, 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 on Monday. We have a compelling strategic position in the cancer diagnostics market and we are positioned well for improving execution under new leadership.

[00:23:26.90] 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 and the leadership team during this transition. And now I'm 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 of NeoGenomics. I will now hand the call over to Charlie Eidson to lead us through Q&A.

[00:24:00.51] At this point we would like to open up the call for questions. Incidentally, if you are listening to this conference call audio webcast only and would like to submit a question, please feel free to email us at charlie.eidson@neogenomics 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 each person to limit their questions to one so that we may hear from everyone and still keep within the one hour allotted for this call.

[00:24:29.01] Operator, you may now open up the call for questions.

[00:24:32.67] Ladies and gentlemen, the floor is now open for questions. If you have any questions or comments, please press star 1 on your phone at this time. We ask that while closing your question, you please pick up your handset if listening on speakerphone to provide optimum sound quality. Please hold while we pull for questions.

[00:24:51.76] We do have our first questioner, and it comes from Brian Weinstein from William Blair.

[00:25:01.05] Chris Smith still listening, welcome aboard. And to mean I heard a deep sigh of relief from you. It sounds like a weight has been lifted off of your shoulders. So congratulations to you on completing this process.

[00:25:13.87] We'll have higher level questions at some point, but really wanted to dig into a little bit of the near-term dynamics here. So when we look at clinical testing on the unit side, obviously down year-over-year, can you just, and maybe sequentially, can you talk about just what's going on that you're seeing in terms of market dynamics there.

[00:25:39.60] We've heard from other companies that there may have been a little bit of a weakness in the second quarter in terms of volumes in the space. Are you guys seeing anything on that front or is this continue to be more NeoGenomic specific. And if you can talk also about on the ASP side, obviously a nice tick up there. Was there anything one time in nature any look backs or anything like that that benefited you and how should we think about ASPs going forward. Thanks, guys.

[00:26:08.19] Thanks, Brian. I'm going to ask David to comment on the first part of the question and then Bill will comment on ASP.

[00:26:13.02] All right. Great. Thanks, Lynn. Thanks for the question.

[00:26:14.91] Yeah. So I mean there's no doubt that volume has not come back as we had expected following COVID. So I think that there probably is some hangover there. But I think that most of what we see impacting our volume is really internal and it's really around the operational service levels that we continue to work on to improve as well as the offering for NGS and the move to more comprehensive panel. So not discounting a hangover from COVID, but we believe that that volume decline is mostly in our control and our parts of the business that we're actively trying to improve on.

[00:26:51.24] Thanks, David. Bill.

[00:26:52.53] Yeah. Thanks for the question, Brian. We're really pleased with what we're seeing on the AUP side and we are absolutely getting benefits from the efforts that our strategic reimbursement team has taken in terms of improvements in our overall pricing. As we look forward, we do think we should continue to have some modest benefit from the price increase that we put into effect at the beginning of July that takes a while to flow through. And so AUP is always going to bounce around a little bit from quarter to quarter, but in general, we feel confident that this is a relatively sustainable level.

[00:27:49.86] Our next question comes from Alex Nowak from Craig-Hallum.

[00:27:55.87] And then Chris welcome to NeoGenomics. I was hoping we could touch on RaDaR. Can you maybe expand a bit on why the resubmission here to MolDx. X And then regarding these recurrence tests, there's now two tests out in the market with two different indications. One's got adjuvant decision making and the other has got both adjuvant decision making and recurrence monitoring. So what is the anticipated label I guess for RaDaR with a tumor informed approach when you're going after MolDx curvature.

[00:28:25.08] Thanks, Alex. I'll ask Vishal to take those questions.

[00:28:27.61] Thanks, Alex. So with the resubmission to MolDx colorectal, we had some discussions with them and they asked for some additional information around our whole exome sequencing data which we were able to provide and that's what led to the resubmission. And we're quite confident based off our ongoing discussions with them that we have met the criteria for the approval through MolDx. And we'll find out in the next couple of months obviously on this.

[00:28:54.66] In terms of the other assays which are on the market, we feel that we're well positioned from a clinical perspective, not just in colorectal but as we go through other cancer types like breast cancer and lung cancer looking at both-- looking at recurrence, looking at monitoring, neoadjuvant, and so on we believe that the value of the RaDaR technology will shine in especially in those indications as well.

[00:29:20.81] Excellent. Thank you.

[00:29:23.25] We now hear from David Westenberg from Piper Sandler.

[00:29:27.80] Hi. Thanks for taking the questions and congrats to Chris and Lynn, and the whole team here. I'm just actually as a real softball here, but I am curious on terms of the team.

[00:29:40.32] Have you made all the hires that you have expected to make? Is there any seats still that you need to do. And do you feel comfortable with the layers below management that you really have the solid team in place and we're looking at a Neo that's stable steady at a good customer service orientation that we've always thought it to be. Thank you.

[00:30:06.25] Thanks, David. So firstly I would say as I said in the prepared remarks that I think we have added significant talent to the team. And so the senior team as of now, those roles are filled and we have a really motivated, I think, and committed team.

[00:30:26.31] That said, we have obviously Chris Smith joining on Monday and he needs to get in and learn the business, get to know the team, and determine what the needs are for the company going forward. So we want to give him space and time to do that. But he appreciates the great leaders we have on the team. And as I mentioned, has met all of them on the executive team.

[00:30:45.21] In terms of the bench strength below, we have continued to add some great leaders as well over the past number of months. And I feel really good about those additions. I think as with any company, we can always continue to strengthen. I would expect that as Chris comes in, he will want to put his own imprint on the business and look to where we can strengthen certain capabilities in the organization. So I think you can take confidence that we are stable, we have a really committed group of leaders at all levels, and will continue to strengthen that going forward.

[00:31:20.24] Our next question is Puneet Souda from SVB Securities.

[00:31:25.77] Hi, guys. Thanks for taking the question. So just one on pharma for me and then just briefly on NGS. On pharma, it was a bit softer versus the strong backlog that we have seen before.

[00:31:38.11] So could you elaborate a bit what's happening in that part of the business. And also on NGS contribution in the quarter what can you provide us there. And wondering if the ASP uptick was, part of it, was NGS contribution. Maybe just talk to us about the share shift dynamics in NGS that you have talked about in the prior quarter as well. Thank you.

[00:32:06.41] OK. I'll ask Vishal to comment on the first part and then and then Dave.

[00:32:09.68] OK. So on the pharma backlog, it continues to grow, which is great for us and we see positive growth there. We are seeing some softness on the revenue conversion. And that's something that we're addressing. A lot of it we believe right now it has to do with the sample makeup from the different clinical trials that we're getting and we're been looking at this in a lot of detail and addressing it. So that's where we see from bookings to revenue conversion, that's something that we're addressing.

[00:32:40.52] So for NGS, I mean, we continue to see that we have the value in a more comprehensive panel. So I'll start with that since our Q1 call we have evaluated and identified a few solutions on a broader panel and continue to validate those for future launch.

[00:32:59.80] Our current state, our NGS is not at the rate of the market, but we are seeing some growth there. And from an AUP perspective or ASP perspective depending on your acronym, we actually are seeing favorable mix and NGS as part of our offering mix is actually driving some of the ASP, AUP favorability.

[00:33:26.48] Got it. Thanks guys.

[00:33:28.90] We now have Dan Brennan from Cowen.

[00:33:32.83] Great. Thanks. So multi-part I wanted to follow up on the NGS. So could you just give us a sense of your core clinical business as you've talked about it as a high single digitype growth. Just wondering since you've begun to talk about this NGS impact more beginning last quarter, where are you seeing the biggest impact on your base business IHG flow fistula molecular and is that high single digits still appropriate.

[00:33:59.08] And then maybe I'm just wondering on the second half outlook, Bill if I'm doing the math right, it looks like you're implying Q4 maybe down low single digits to now maybe as much as like high single digits on a revenue basis. Is that fair and why would that degree of decline occur. Thanks.

[00:34:16.31] OK. Thanks, Dan. I'll have Dave comment on the first part of the question.

[00:34:20.21] Yeah. So when we take a look at the core business and modalities, I mean, we are below where we think the market rates are for those modalities. We don't-- there is an NGS part of that for sure, but we think that the majority of the volume decline is back to the two main things that we've talked about before, which is our operational challenges in the lab as well as the offering for NGS.

[00:34:47.09] And I don't think we comment on specific modalities. So I'll just keep it general like that. But we do think that there is growth in the core when we get the lab operations back to where we have them historically.

[00:35:02.74] Thanks, Dave. Bill.

[00:35:04.00] Yeah. Thanks, Dan. I think we can walk through offline the specifics, but I don't think it's necessarily our expectation that Q4 would be down on a year-over-year basis. We did say on the call that on a sequential basis Q3 could be down sequentially relative to Q2 because Q2 was our strongest quarter of the year.

[00:35:36.40] Our next questioner is Andrew Cooper from Raymond James.

[00:35:41.85] Hey. Thanks for the question and welcome Chris as well. Maybe just a high level one thinking about the financials a little bit. I don't think Bill you commented on the prior comment about EBITDA break-even exiting 23. And I know historically you said EBITDA would improve quarter over quarter. And it sounds like now thinking about 3Q that's not necessarily the case. So I guess maybe just walk through some of the moving parts there whether that 2023 exit rate is still on the table and how we should be thinking about the pathway to improving profitability through the 18-month Project Catalyst program.

[00:36:18.22] Thanks, Andrew. I'll ask Bill to comment sure.

[00:36:21.78] So let me start with the Q3. That's simply a function of if we do see a sequential decline in revenue, it wouldn't be typical or atypical then to see that pressure flow through on the profitability standpoint. So that's just normal calendarization. We do continue, as I said on the call, to expect to derive an improvement as we move into Q4 and some of these catalyst initiatives take on more of a hold.

[00:36:54.54] In terms of 2023 profitability, that is absolutely what we have been working towards or exiting 2023. But obviously we have a new CEO coming in on Monday, and he's going to want to take a look at the business and think about the places that we need to make investments and think about the trade offs between cost improvement and accelerating growth. And so I think at this point we just don't want to commit to any 2023 metrics.

[00:37:31.23] OK. Thanks.

[00:37:33.47] We're hearing from Mark Massaro from BTIG.

[00:37:38.06] Hey, guys. Thanks for the questions. And Chris welcome to NeoGenomics.

[00:37:43.04] Maybe a couple more on the precision oncology MRD slide, I guess can you expand a little bit essentially what you're thinking about in terms of actually this is on the therapy selection side. In terms of expanding to broader panels, I know in the past you've talked about looking to be perhaps more competitive with other larger labs in the space on the DNA RNA side. So can we expect a broader tissue based test to be launched later this year. And then I also want to ask on liquid. And then finally, have you seen any uptake in the envision first lung product.

[00:38:29.86] OK. Thanks, Mark. I'll ask Dave first comment.

[00:38:32.98] Yeah. So as we mentioned at the Q1 call, I mean, we have evaluated-- we do recognize the need for the broader panel and we are validating actually a couple of candidates right now. So I don't know that I want to say, by the end of the year or early next year as a timing but we are actively validating candidates for a more competitive offering.

[00:38:57.81] IVFL.

[00:38:58.77] Yeah. So IVFL we are seeing modest growth on small numbers. And part of the activity right now with IVFL is actually gearing up for RaDaR as well. So it's the same lab that we're running both of them in or will be running both of them in. So IVFL is showing modest growth, but we are also gearing up for RaDaR as well operationally.

[00:39:25.84] OK. Thank you.

[00:39:28.76] Our next questioner is Derrick De Bruin from Bank of America.

[00:39:35.14] Hi. Good morning. Thank you for taking my question. And welcome Chris as well.

[00:39:40.57] Just to follow up. So just to clarify, I mean, does that imply-- does your guidance then imply pharma services being not growing in the back half of the year? I mean, if your ASPs are stable and yet you're still expecting to see 4Q growth in clinical services to the extent, so going back to Dan Brennan's question. I mean, are you expecting pharma services to be down in the back half?

[00:40:09.64] Thanks, Derrick. I'll ask Bill to respond.

[00:40:11.65] Yeah. So a couple of things we tried to provide you some guardrails I want to be crystal clear that we haven't issued any official guidance for where we'll be. And at this point, I don't think we're going to get into discussing specifics of the individual business lines.

[00:40:34.45] As you saw our pharma services revenue was down in the first quarter of the year and it was down again in the second quarter of the year, we are taking a number of actions to try and accelerate that growth. But it doesn't necessarily mean that we'll be effective at achieving those outcomes in time to impact the third and fourth quarters of the year that's yet to be determined. We're confident that we can grow over the long term. But we really want to shy away from giving any short term guidance.

[00:41:13.77] Thank you. We now have Tejas Savant from Morgan Stanley.

[00:41:20.85] Hello. This is Yuko on for Tejas. Thank you for taking our questions. First Lynn, based on your conversations with Chris is the view that the company needs to commit-- is the view the company needs to commit to an accelerated portfolio pivot to newer NGS models or is the mandate here to take a more conservative approach that focuses on near-term profitability with slower pivot to NGS over time.

[00:41:45.24] Thanks for the question. First of all, Chris hasn't started yet. So I want to make sure that we give him ample time to get into the business, learn it, and come up with his own perspective on the business.

[00:41:55.42] I would say as of right now, we continue to be very committed to an NGS product offering that will be competitive in the marketplace and continue to invest in those areas that are going to deliver value over time. So stay tuned for more from Chris as he gets into the business.

[00:42:14.19] OK. Understood. And then as a follow up, some of your industry peers are reporting delayed decision to commit to a project and some cases also reducing the number of projects that enter the pipeline. With efforts underway now to secure more earlier stage preclinical business to convert more quickly, are you seeing that as well?

[00:42:33.91] Now. Let me allow Vishal your comment on that.

[00:42:35.47] Yeah. I mean, we definitely are seeing delays. But the later stage project in terms of enrollment and the oncology space in particular because of still getting out of the COVID side of things. However, we do know that opportunities are there to get these samples and from the

early stage trials and we get that conversion going of to revenue. So that's where our focus is starting to become a continuing actually but also accelerating in that space.

[00:43:02.65] Thank you.

[00:43:05.28] We now have David Delahunt from Goldman Sachs.

[00:43:10.19] Yes. Great to hear Chris is starting Monday, looking forward to working with him again. On RaDaR, any additional color you can give on how we should think about volume and how do you anticipate the mix of clinical versus biopharma.

[00:43:24.00] Thanks, David. I'll ask Vishal to comment. So volume wise, we're not going to provide exact guidance on exact numbers there. But I think from the interest that we have seen at ASCO on the pharma side it's been extremely positive.

[00:43:38.58] ASCO I would say was where with the plenary session the standing ovation and the data that was shown across multiple cancer types in particular, we can really say that the RaDaR technology it works across multiple cancers and we'll have value there. And Pharma is recognizing that. So our goal is to get some of these deals signed over the next couple of quarters and announce those. On the clinical side I'll pass it to David.

[00:44:03.90] Yeah. So thanks, Vishal. On the clinical side, I mean, we're gearing up for the MolDx assuming a positive result from the resubmission with MolDx and we'll look hopefully within the fourth quarter pending a positive feedback to launch it into the market. And we know we're geared up, we have the precision medicine manager, the sales reps that we had planned for this year already. We've already completed training previously and now we're actually doubling down and refreshing the training. So we're ready to go when the MolDx is approved.

[00:44:40.07] Great. Thanks, guys. With the question is Mike Maton, Needham.

[00:44:47.61] Yeah. Good morning. Thanks for taking my questions. I want to ask about this. You built this new lab and you've gone through this transition and it sounds like-- it's from the old one into the new one sounds like that's mostly done.

[00:44:59.55] But how much did that transition-- how much is that factored into the service level challenges you've had as well as the gross margin declines that you've seen. Is that-- has that been a factor in the fact that you're now fully in the new lab. Should that lead to improvement on some of those issues?

[00:45:20.06] Thanks, Mike. I want to have Bill address that question. Yeah. So Mike, I don't think that the of duplicative operations or redundant operations really impacted our service levels in a meaningful way that probably wasn't one of the contributors. Certainly it had an impact on our gross margin and our costs were not quantifying that, but it will be one of the factors that could allow us to see gross margin improvement into the future.

[00:45:55.68] OK. Got it. Thanks.

[00:45:58.88] Our next questioner is Mason Carrico from Stephens Incorporated.

[00:46:04.24] Hey, guys. Thanks for taking the question. Maybe just one quick one on Pharma Services here. You provide any additional color on biopharma demand for RaDaR, maybe what type of projects you're seeing the most demand for and how do these timelines for RaDaR projects in terms of going from backlog to revenue compared to the average timelines of projects that you guys currently have in your backlog.

[00:46:30.67] Yeah. So with RaDaR and particular with pharma, what we're seeing is more interest initially on the early stage side, which should then get the revenue conversion happening faster. But our goal obviously with RaDaR is to also look at this to later stage trials. And that now with the data out at ASCO we're also seeing more interest in that.

[00:46:51.83] So the initial focus early stage trials, faster revenue recognition, and then in the future will be on the more in the later stage trials. That will be phase II, phase III trials.

[00:47:01.65] Got it. Thanks guys.

[00:47:08.05] There are currently no further questions in the queue. At this time, I would like to direct the floor back to Lynn, our host for final thoughts.

[00:47:24.09] Thank you. 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. Thank you.

[00:47:57.05] Thank you ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time. And have a wonderful day. Thank you for your participation.