NeoGenomics Q4 and Full Year 2021 Conference Call Script

Mark Mallon

Good morning. I'd like to welcome everyone to NeoGenomics' fourth quarter and full year 2021 conference call.

Joining me for this call from our Fort Myers headquarters are Bill Bonello, our Chief Financial Officer, George Cardoza, President and Chief Operating Officer of our Lab Operations, Doug Brown, our Chief Strategy and Corporate Development Officer, and Charlie Eidson, our Director of Investor Relations.

Joining on the call via phone are Dr. Gina Wallar, President of our Pharma Services Division, Dr. Clive Morris, President of Inivata, and Clynt Taylor, President of our Informatics Division.

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

Charlie Eidson

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

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

Before turning the call back to Mark, 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.

Mark's Comments

Thank you Charlie.

For today's call, I'll briefly review some Full Year 2021 highlights, provide updates on each of our four businesses including key 2022 initiatives, and discuss an exciting new addition to the NeoGenomics leadership team in new Executive Vice President of R&D and Chief Scientific Officer, Dr. Shashi Kulkarni. Bill Bonello will then provide a more detailed review of the financial results and introduce our 2022 financial outlook. We will then have time for Questions and Answers.

Full Year and Quarter 4 Performance

General Review of 2021

2021 was an eventful year for NeoGenomics as our teams successfully navigated a constantly changing environment and took important steps in executing our growth strategy.

I am incredibly proud of the resolve our laboratory and client service employees showed in providing excellent care for cancer patients, often under very difficult circumstances. Our teams also took on the challenge of moving Fort Myers lab operations into our new headquarters and lab facility. The majority of the move is complete, with the final stage set to occur in April. The new laboratory triples our capacity in Florida and will support our growth in the near and long term.

In 2021 our labs processed almost 1.1 million clinical tests, generated revenue from over 1,000 pharma projects ending the year with $484 million in consolidated revenue. This represents 16% year over year growth excluding COVID PCR testing revenue. These are strong results given the extraordinary environment.

During the year we also executed on two highly strategic acquisitions that we believe will boost our growth in the years ahead. Both Inivata and Trapelo are fully integrated into the organization and are proving to be strong cultural fits with NeoGenomics. I will touch on some early progress by both groups later on in my prepared remarks.

While our acquisitions are certainly exciting, the foundation of our company is our clinical business which represented more than 80% of our revenues in 2021. We have continued to strengthen our leadership position in the market, through our comprehensive menu of tests focused only on cancer, our exceptional service levels, our managed care and hospital relationships, and our partnership approach. These critical differentiating factors support new growth and drive high levels of customer retention. Our average customer account in 2021 ordered more than 250 tests during the year from us and many of our customers view us as their preferred or primary reference lab for cancer testing.

This dynamic is supported externally as a national survey of independent labs and hospitals conducted in December 2021 by Laboratory Economics named NeoGenomics as the number one preferred reference lab for cancer testing by pathologists with 25% choosing Neo as their first choice. I am also pleased to share that Neo again achieved a

Net Promoter Score Survey in excess of 60, a world class result. I want to thank our committed employees who are the key to our strong customer relationships and our track record of delivering elite service.

As we turn the page to 2022, we are confident that the formula we have used to drive market share gains for years will play out as we emerge from the pandemic. To ensure we can meet this additional demand we have expanded our lab operations staff in 2021 and will continue to do so in 2022 as needed. With that said, similar to previous waves of the COVID-19 pandemic, our clinical business was heavily impacted by the Omicron variant in January. February has been much better than January and we anticipate an even better March, but Quarter 1 to date has been challenging.

Many of the strengths I highlighted on the Clinical side of our business also apply to our Pharma Services business. Our BioPharma customers clearly appreciate our strong focus on cancer, our comprehensive service menu and our outstanding service levels. Our global footprint, and ability to launch a test through our leading clinical channel are additional reasons why BioPharmas view us as an excellent partner.

Demand throughout the pandemic across our Pharma service offerings has been strong and over the course of 2021 we booked $172 million in new signed contracts and ended the year with $267 million in backlog. Our pharma services revenue grew 29% year over year in 2021 despite COVID 19 impacts. While COVID-19 conditions have slowed our pace of converting backlog into revenue, we believe that many of these projects will convert as conditions normalize. This will put us in a great position to grow this business in 2022.

We also made progress with our global Pharma Services strategy during the year and successfully opened up a new laboratory in Suzhou, China. The demand from BioPharma customers for capabilities in China has been extremely strong. We expect that lab to be strategically important as we look to compete for global clinical trials with study arms in China and for China-based clinical studies. We believe our global network is now largely set. In 2022 will focus on filling our international labs and using the power of operating leverage to improve our Pharma Services profitability.

Our Informatics efforts continue to progress rapidly and our growth trajectory in this business has been largely unaffected by COVID-19. Our team launched a cloud-based cohort builder in January that is already getting very good feedback from BioPharma clients. We anticipate this Software as a Service tool will accelerate our sales efforts. The Trapelo Health team is also making progress on scaling next generation clinical decision support for oncologists and we anticipate launching a web-based “quickstart” version of the tool by the middle of this year. For our Trapelo clinical decision support platform, adoption by oncologists is the most important key performance indicator we are monitoring and our primary goal will be able to accelerate adoption over the course of 2022.

It’s been less than a year since we announced the Inivata acquisition and we are proud of the progress the team has made towards realizing the potential of our leading minimal residual disease and recurrence test, RaDaR. The assay’s ability to detect circulating tumor DNA in blood down to levels as low as 11 parts per million with 95% sensitivity and

100% specificity is differentiating and this is resonating with BioPharma. Our sales pipeline is robust and growing quickly and we would expect to sign our first significant clinical trials which will add to the pharma backlog over time.

Evidence generation remains a focus for the team and we have a number of patient cohorts anticipated to read out over the course of 2022, with multiple datasets expected to be published in peer reviewed journals. Earlier this month, we were pleased to announce that the LIONESS prospective Head & Neck Cancer cohort data was published in the British Journal of Cancer representing the first peer-reviewed publication for RaDaR.

In the LIONESS study, blood samples taken from 17 patients with stage three or four head and neck cancer who received curative-intent primary surgical treatment were tested using RaDaR to detect circulating tumor DNA as evidence of minimal residual disease and recurrence pre- and post-surgery. All patients had detectable ctDNA prior to surgery. In longitudinal monitoring after surgery, ctDNA was detected in five patients at levels as low as 6 parts per million with lead times ahead of clinical confirmation ranging from 108 to 253 days. In the remaining 12 patients there was no recurrence detected, indicating a 100% clinical specificity of the RaDaR assay and confirming post-operative tumor clearance.

The team has also made considerable progress on the reimbursement front and we announced two important regulatory milestones in January. First, we received CE-Mark for RaDaR which we believe will be important for BioPharma and allows us the ability to make the test available to clinics and hospital systems throughout Europe to support patient management and clinical research. Second, we achieved our goal of submitting RaDaR for U.S. reimbursement via the MolDx pathway around the turn of the year. This submission keeps us on track to commercialize the assay in the clinical market around the middle of 2022 with reimbursement in our first indication.

To summarize, we are incredibly excited about our market position and the progress we are making across our businesses toward becoming the world's leading cancer testing and information company. The attributes that have made NEO successful in the past remain as foundational drivers of growth. We've added new, differentiating capabilities that we feel will boost our growth trajectory over the coming years. I see a truly bright future ahead for NeoGenomics.

Part of working towards that bright future is adding top talent and before I pass it over to Bill, I would like to highlight an important upcoming addition to our leadership team.

Earlier this month we announced the appointment of Dr. Shashi Kulkarni as Executive Vice President of R&D and Chief Scientific Officer. Dr. Kulkarni is considered a world-renowned expert and key opinion leader in cancer genomics with a focus on the application of genomic and multi-omic technologies to improve the understanding of human disease and the precision of clinical diagnosis, prognosis, and treatment. He is also an experienced commercial laboratory leader, having played key roles in commercial laboratories at Washington University and in Baylor's partnership with Miraca Holdings. He brings a unique combination of world-class clinical, scientific, commercial, and regulatory talents to the role.

We are thrilled to have such a well-respected, global oncology genomics authority like Dr. Kulkarni leading our research and innovation teams. Dr. Kulkarni will be a vital member of our executive team, drawing on years of research expertise, clinical genomics experience, a strong network, business acumen, and a passion for innovation in precision medicine. He joins us officially on March 7th and I know he is excited to get started.

Mark transitions to Bill

I will now turn the call over to Bill Bonello, our Chief Financial Officer, to discuss some of other details of Quarter Four financial results.

Bill's Comments

Thank you Mark.

Fourth Quarter Review

Before I walk through the numbers, I wish to point out that the growth rates we site exclude prior-period revenue from COVID 19 PCR testing. We have made this adjustment to make the year-over-year comparisons more useful as we stopped performing COVID testing in the first quarter of 2021.

Fourth Quarter consolidated revenue increased 7% year-over-year to $126 million. Clinical Division revenue increased 6% year-over-year, with test volume up 2% and average revenue per test up 4%. Consistent with our experience throughout the pandemic, our volumes decline during COVID surges and then recover quickly as COVID subsides. We saw a steady volume recovery in October and November as the Delta variant receded, but saw volumes decline again in December with the emergence of Omicron.

Clinical Division revenue-per-test of $383 increased 4% from the 4th Quarter of 2020 and 2% sequentially. The Q4 improvement in revenue per test is primarily driven by billing and reimbursement initiatives which drove reimbursement that was higher than initially anticipated. Looking forward we would expect AUP to be in line with, to modestly above, our full year revenue per test of $370. For all of 2021, revenue per test increased 2% year-over-year.

Pharma Services revenue increased 13% year-over-year to a record $22 million in the fourth quarter. For the full year, Pharma Revenue increased more than 29% to $80 million. New bookings were strong once again for the quarter at $49 million leading to a year-end backlog of $267 million. Cancellations and projects classified as dormant were $21 million, primarily driven by a few larger project cancellations. We are optimistic about the strength of this business as we look forward to 2022 and beyond.

Gross Margin

Our total GAAP gross margin was 36.0% reflecting a sizable impact from Inivata related non-cash amortization. Total adjusted gross margin, which excludes non-cash amortization related to the Inivata acquisition, was 39.9%. Gross margin was impacted

by lower than typical clinical volume growth and pharma services revenue growth on our largely fixed cost COGS infrastructure coupled with both wage and supplies cost inflation. In addition, during the fourth quarter, we moved into our new Fort Myers lab facility. While this move will drive productivity and efficiency improvements, we did incur extra costs related to operating two different Fort Myers labs during the transition.

Our gross margin was also impacted by a $3.8 million reversal of prior period credits related to the Employee Retention Tax Credit, or ERTC. While we continue to believe that the company may be eligible for certain credits from the ERTC, the IRS guidance related to ERTC eligibility have evolved over the past two years leading us to conclude that a reversal of prior-period credits is appropriate unless or until we have new evidence in support of the credits.

The change in ERTC credit reduced Gross Margin by roughly 300 basis points in the fourth quarter. Excluding this prior period reversal, Fourth Quarter consolidated gross margin would have been 43.0% or essentially flat sequentially.

Omicron and inflation notwithstanding, our gross margin is not where it should be and we are taking near-term action to address our cost structure. We are also developing a long-term plan to drive step-function improvements in productivity and efficiency through automation, process improvement, product, payor and customer mix and pricing. Driving gross margin expansion is a top priority for me as I step into the CFO role and I am confident that we can return to approximately 50% gross margin, or better, over time.

Operating Expenses
Operating expenses increased $35 million year-over-year to $87 million. The increase is primary driven by the acquisitions of Inivata Limited and Trapelo Health, as well as additional investments to support growth.

Adjusted EBITDA
Adjusted EBITDA loss was $10 million in Q4. The loss is attributable to significant investments to develop and launch new assays, including our MRD assay, RaDaR, offset by contribution from the core Clinical and Pharma Services business.

The previously discussed reversal of prior period credits related to the Employee Retention Tax Credit, or ERTC, reduced adjusted EBITDA by $5.9 million in the quarter. Excluding this change in accounting estimate, adjusted EBITDA would have been a loss of $4 million in the Fourth Quarter.

Balance Sheet
Turning to the balance sheet, we exited Quarter Four with $515 million in cash and marketable securities. We believe our balance sheet positions us well to fund our growth initiatives with optionality to pursue M&A as well.

Guidance
Next I will discuss our guidance. We expect full year Revenue of of $530 million to $550 million, which equates to topline growth of 10% to 14%. We expect Adjusted EBITDA to be in the range of negative $40 million to negative $25 million.

Our guidance reflects Q1 revenue and adjusted EBITDA that is both down sequentially and lower than we would see in a typical year. As we discussed during the call, our January revenue was significantly impacted by the spike in COVID-19 cases. While we have seen a nice recovery of volume in February, the January impact is sizable enough to impact our quarterly results. Therefore, we expect Q1 revenue to be in the range of $118 million to $120 million.

From a profit perspective, we have continued to staff our lab at full capacity so that we are able to handle increases in test volume that will come as COVID incidence recedes. We are also seeing a significant impact from both wage and supply cost inflation. With these factors in mind, we anticipate that Q1 adjusted EBITDA could be in the range of negative $15 to negative $12 million.

Our view on First Quarter results is not indicative of our view of the underlying growth and profit profile of our business. We anticipate that Q1 will be a significantly outlier and expect to see growth and profitability increase as the year progresses. Our full year revenue guidance of $530 to $550 million implies a return to mid-teens revenue growth for the remainder of the year, with outsized growth in the third and fourth quarter as we begin to reap benefits from our expanded sales force. We also anticipate that EBITDA loss will decline sequentially each quarter as we realize increased revenue and leverage our fixed cost structure.

We do expect 2022 to be an outlier year in terms of adjusted EBITDA. We are making a substantial investment to support and launch RaDaR, including clinical studies to support evidence generation and publications, an increase in the size our sales force and medical science liaison team, and associated marketing costs. These expenditures will be incurred before we are able to generate significant revenue from this new product. As we look beyond 2022, we anticipate that our continued investments in RaDaR will be offset by both MRD revenue and increased profitability from our core businesses and we expect to turn EBITDA positive in 2023.

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

Transition to Charlie Eidson for Q&A

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

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

Closing Remarks (Mark)

As we end the call, I'd like to recognize the over 2,000 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.