

NeoGenomics Q4 2020 Conference Call Script

Doug VanOort

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

Joining me for this call are a number of Management Team members from our Fort Myers headquarters, including Kathryn McKenzie, our Chief Financial Officer, Rob Shovlin, President of our Clinical Division, Bill Bonello, President of our Informatics Division, Doug Brown, our Chief Strategy and Corporate Development Officer and Charlie Eidson, our Manager of Investor Relations.

Joining on the call via phone from California is Dr. Larry Weiss, our Chief Medical Officer and Director of R&D and George Cardoza, President of our Pharma Services Division.

Also joining us this morning is Lynn Tetrault who is serving as Lead Director of our Board of Directors. Lynn and I were members of our Board's special CEO Succession Search Committee, and she is available to help address questions about CEO Succession.

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

Charlie Eidson

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

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

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

Doug's Comments

Thank you Charlie.

For today's call, I'll briefly review some Quarter 4 and Full Year 2020 highlights, Kathryn McKenzie will provide a more detailed review of the financial results, and I'll then share our current thinking about opportunities in 2021.

I'll conclude by commenting on this morning's other exciting announcement about our CEO succession plan. We will then have time for Questions and Answers.

Full Year and Quarter 4 Performance

General Review of 2020

2020 was a remarkable year for NeoGenomics, and one that obviously no one could have anticipated or prepared for. When we reflect on the year, we take pride in how the NeoGenomics team responded and excelled in the most challenging operational environment, and dynamic market, perhaps any of us have lived through.

In times of great challenge, our character and resilience is tested. Our NeoGenomics employees passed the test. They kept a laser focus on performing their essential work for cancer patients despite all that was going on around them. They showed up for work in our Labs, continued to process specimens, and delivered high-quality results for physicians and patients we serve.

There are people across America and around the world who deserve our appreciation, and our NeoGenomics team is clearly among them. I want to start this call by recognizing their great effort and dedication to saving lives.

While our labs remained fully capable of processing a high volume of tests, that volume of tests was affected by the pandemic. Many patients were reluctant or unable to see their oncologist or participate in oncology clinical trials throughout most of the year. Yet even in this year of great challenge our total revenue grew 9% year over year and we are ready for growth to accelerate as the pandemic subsides.

There is good reason to be confident in a return to higher rates of growth in our core business. Our business recovered nicely in the second half of the year, and we saw a direct correlation between higher core test volume levels at times of lower incidence rates of COVID-19 cases.

In addition, in January we achieved relatively strong growth in geographic areas that were under less restrictive measures while we saw negative growth in areas like California and the Northeast where more restrictions were in place. Our Midwest, Southeast, South Central, and Florida regions combined for 10% volume growth during the month of January, giving us confidence in future nationwide volume levels we may achieve when the entire country is more open.

Our Pharma Division grew 30% in 2020 despite the disruptions, and our informatics division generated more revenue in the fourth quarter of 2020 alone than it did in all of 2019. Demand for our products and services is strong and we are hopeful that increased vaccinations and lower incidence rates will quickly allow us to return to higher rates of core oncology growth as this year unfolds.

Our fastest areas of growth continue to be Next Generation Sequencing, Pharma services, and Informatics. Interestingly, these product and service offerings were minimal in size just five years ago. As we close the books on 2020, these three growth drivers account for nearly 1/3rd of NeoGenomics core revenue.

Even in a disruptive year, and despite maintaining a full-volume cost infrastructure for the entire year, we remained profitable and finished 2020 with \$35 million of adjusted EBITDA.

We are proud of these financial results. We are equally proud that even in these most trying times, we have strengthened our competitive position in the oncology marketplace. We made significant investments in growth – both organic and inorganic.

We acquired the oncology assets of Human Longevity in La Jolla, California, made a minority investment and established a strategic partnership with Inivata, and launched or modified over 60 internally developed tests.

We also re-allocated precious resources to quickly build a Covid-19 PCR laboratory in our Carlsbad facility, and performed over 550,000 tests to do our part to help America battle the pandemic.

And, perhaps most importantly, we continued to invest in our culture and organization. We worked hard to support our team members through the difficult times we have all endured, positioning the company for continued success.

We know that our value as a company starts with our employees and our culture and we see a demonstration of that value in customer satisfaction survey scores. Our net promoter scores continued to increase in 2020, even during the pandemic, and our Clinical Division Net Promoter score reached an all-time high at 66. This bodes well for future organic growth.

Review of Fourth Quarter

Let's turn our attention now to the Fourth quarter. The final Quarter of 2020 was a good one for NeoGenomics. Fourth quarter revenue increased 18% year-over-year to a record \$126 million.

Importantly, fourth quarter year-over-year growth in our core oncology business was nearly 10%. You may recall that Third Quarter growth was due almost entirely to Covid-19 PCR testing services, with core clinical revenue actually down. In the Fourth quarter, for the first time since the pandemic began, we saw year-over-year growth in all three of our core divisions.

Our Clinical division grew core oncology revenue 5% year over year in Quarter 4 driven by Next Generation Sequencing volume growth of 23%. Pharma services revenue was up 43% to the highest quarter on record. Our sizable investments in this area are paying off as this segment is growing quickly and now represents over 16% of Core oncology revenue.

Covid-19 PCR testing revenue declined nearly 50% on a sequential basis in Quarter 4 as demand for our services lessened in lieu of a proliferation of rapid tests and increased PCR testing capacity. We believe that excess PCR capacity currently exists in the country, significantly reducing our role as an overflow COVID testing laboratory.

In the fourth quarter, core Clinical test volumes increased 5% year-over-year. While next generation sequencing services grew nicely, we continued to drive growth in other testing modalities with particular strength in FISH testing.

While it is good to see our test volumes growing again, the pandemic continues to affect our ability to acquire new customers as most Sales team members remain unable to be actively in the field. And frankly, maintaining strong turn-around-time service levels was a challenge for us as we experienced volume volatility and a variety of supplier disruptions. However, our customer retention rates remained extremely strong and we believe that our fourth quarter volume growth reflects a slight increase in clinical market share.

Our Pharma Services segment, which includes Informatics, had record revenue, bookings and ending backlog in the Fourth Quarter. With over \$48 million in new signed contracts, our backlog of signed contracts now stands at \$209 million, an increase of over 60% from one year ago.

In Pharma Services, we continue to benefit from our domain expertise in oncology, an increasing global footprint, our global alliance with PPD which includes our new China lab, investments in NGS including whole exome sequencing, and our positioning as a companion diagnostics partner to BioPharma. We now have greater than 40 active Companion Diagnostic projects in place and our portfolio continues to grow.

Our growing list of products and services for the world-wide BioPharma industry, including Informatics, is increasingly in demand. The Pharma business is stronger than it has ever been and is well-positioned to fuel our overall corporate growth rate as it continues to become a larger share of our revenue mix.

Doug transitions to Kathryn

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

Kathryn's Comments

Thank you Doug.

Fourth Quarter Review

As Doug highlighted, overall revenue grew 18% year-over-year to \$126 million.

Importantly, our Core Oncology revenues increased 10% year-over-year, driven by strong growth in NGS, Pharma services and Informatics. COVID-19 PCR testing contributed

\$9mm of revenue, down from \$17 million in Quarter 3. Clinical Division revenue excluding COVID-19 testing, returned to growth with a 5% increase over 2019.

Clinical Division revenue-per-test of \$369 was nearly flat from \$370 in the 4th Quarter of 2019, and is up 3% sequentially from last quarter. While there is continued modest reimbursement pressure, this is offset by a favorable change in the mix of test volume and improved results from billing and reimbursement initiatives. The favorable product mix is driven by Next Generation Sequencing and FISH testing services which are growing at much higher relative rates. For all of 2020, revenue per test was \$363, down about 1% from \$366 for full year 2019.

As Doug mentioned, Pharma Services revenue increased 43% year-over-year to a record \$19 million in the fourth quarter, and grew over 30% to \$62 million for the full year. Research related revenue continued to show strength and while clinical trial volume increased during the quarter, we have not yet fully returned to pre-pandemic rates. Our ability to drive value for our clients through companion diagnostic programs is evident in our over 40 active projects in our pipeline. Pharma sponsors increasingly are interested in our Informatics products and that also is a growth accelerator. Record bookings for the quarter of \$48 million led to a year-end backlog of \$209 million. We are very optimistic about the strength of this business as we look forward to 2021 and beyond.

Gross Margin

Overall gross margins improved approximately 250 basis points sequentially in the fourth quarter to 45.6%, reflecting a continued recovery in both clinical and pharma revenues on a largely fixed cost COGS infrastructure.

Gross Margin for the year was 41.8%, which reflects the significant impact of the pandemic, primarily during the second quarter of 2020. As we have discussed before, our gross margin rate includes certain longer-term margin investments. Particularly in our Pharma division, we have capacity that we have not yet fully grown into in many of our locations, including La Jolla and our international laboratories. These investments support the continued growth of our bookings and backlog and are in line with our long-term strategic priorities.

Operating Expenses

Operating expenses increased \$4 million year-over-year to \$52 million and included investments in and support for informatics, new facilities, including in La Jolla and international expansion. We also had higher technology expense to support these initiatives as well as our COVID-19 testing services, and higher sales and marketing expense. The increases were partially offset by significantly reduced travel.

Adjusted EBITDA

We achieved a record level of Adjusted EBITDA of \$18 million in Q4 driven by a recovery in our core oncology businesses and relatively high EBITDA margin contribution from COVID-19 PCR testing.

Balance Sheet

Turning to the balance sheet, we exited Quarter Four with \$296 million in cash and marketable securities, which excludes an additional \$22 million in restricted cash

designated for construction of our new state-of-the art laboratory and global headquarters in Fort Myers, Florida. We have since added to this cash balance with our financing in January and now have over \$800 million in cash and marketable securities.

Days Sales Outstanding

Quarter 4 DSOs remain strong at 78 days.

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

Kathryn transitions to Doug

Thank you Kathryn.

2021 Outlook

Lingering Impact of the Pandemic

As we look ahead, we remain highly confident in the strength of our core oncology business and long-term growth opportunities. In fact, we are more confident than ever before.

Post-pandemic, we believe that growth in our core business will recover steadily back to our longer-term Clinical volume growth targets of “mid-teens”. We believe our Pharma segment growth will exceed our previous long-term 20% revenue growth target.

There is, however, significant uncertainty about the short term and the pace of recovery from this pandemic. Because of the unpredictable pace of the oncology market’s return to full recovery, we have decided not to reinstate formal 2021 financial guidance yet. We will resume formal guidance when we feel comfortable that the uncertainties surrounding the pandemic will allow us to guide more confidently.

Notwithstanding that short-term uncertainty, we anticipate that Quarter 1 will generate mid-single digit revenue growth in our clinical and pharma businesses. For the first few weeks of this Quarter, Clinical test volume was flat compared with the prior year, but last week’s severe weather caused significant disruptions in test shipments to our Labs. We expect our pharma services segment to continue to be strong, with Quarter 1 year-over-year growth exceeding our 20% long-term revenue goal.

We expect daily volumes in our clinical business to improve every month now as we exit the pandemic. With vaccinations on the rise and daily COVID cases on the decline, we are anticipating that oncology testing volumes will track, and maybe exceed, historical growth rates in the second half of 2021.

Our business development professionals in clinical, pharma and informatics are very excited to be able to visit with their customers again and work on their pipeline of new potential accounts.

I must say that our Management team is quite excited about that environment, and we are actively preparing for it. I'll share some of our 2021 initiatives that will position NeoGenomics not only for volume recovery, but also for strategic leadership in the oncology market.

Planning for 2021

Our Leadership team has been planning and positioning the company to take full advantage of our opportunities in a post-pandemic environment.

These first several weeks of 2021 have been as busy as I can recall. In early January, we executed a public financing in the equity and convertible debt markets. Both transactions were oversubscribed and the outcome was quite successful as we raised over \$500 million in net proceeds. This capital raise allows us to be in a more competitive position as we assess M&A opportunities in the oncology market that will be able to advance our strategic priorities. In addition, we announced a strategic collaboration in precision medicine with Parexel and our Informatics division and we believe there are many other future opportunities like this one out there.

As many of you are aware, the M&A market is very active – in the first two months of 2021 alone there have been several transactions. Other opportunities may also be available.

We have a long history of M&A success with Clariant, Genoptix and recently with the La Jolla Oncology business of Human Longevity. We want to build on that success in 2021.

Many of you are aware that we have an option to purchase Inivata, a company with novel technology that is developing a minimal residual disease or MRD test that has shown to be highly sensitive. While no decisions have been made, that partnership is progressing very nicely and we are very encouraged by our diligence on the RaDaR assay for minimal residual disease.

2021 Initiatives

We also are investing in areas that will build on our foundation and support sustainable organic growth rates as well as inorganic strategic growth. We have established our goals and objectives for 2021 and aligned processes and incentive plans as we've done now for over a decade.

This year, in addition to a focus on world-class culture, we will be working hard on further differentiating NeoGenomics based on strong service levels. Our Net Promoter Score is high, and our customer retention rates are very strong – but we want to make them even better.

Turn-around-time is important for patients and clients. NeoGenomics has traditionally had industry leading Turn-around-time. Whether it's liquid CtDNA or tissue-based testing, we want to be the best in our industry.

We are also moving faster on innovation. We recently introduced a world-class RNA fusion assay, and are working on a number of very advanced NGS panels and rapid tests. We believe these offerings will have the capability to save lives by informing precision therapy selection and monitoring residual disease so that it can be treated earlier.

2021 will be an exciting year for NeoGenomics.

CEO Succession

And that leads me to the next topic - CEO Succession.

The Board of Directors and I have been discussing CEO succession for a number of years. We're pleased that the company has grown nicely, and the team is deeper and stronger than it's ever been. We believe the company is well positioned competitively, and has enormous opportunities to grow well into the future.

I've had the honor and privilege to lead NeoGenomics now for twelve years, and I believe that this is the right time for a transition personally and for the company.

After a thoughtful and deliberate Succession and CEO Search process, we're very excited to have Mark Mallon serve as NeoGenomics' next CEO. Mark brings a great experience in health care. He spent 24 years as a senior executive at AstraZeneca, and, recently as CEO of Ironwood Pharmaceuticals, where he led the financial transformation of that company.

We issued a press release this morning that provides some detail about Mark's very successful career and track record. Rather than repeat that, I thought it might be more helpful if I described why the Board and I are so confident that Mark will be a great CEO for NeoGenomics.

First, Mark has deep and broad operational experience. He has demonstrated that through a track record of disciplined execution and growth in both the U.S. and globally. That experience is very important in leading NeoGenomics into the future.

Mark also has a keen intellect, and impressive strategic strengths. He is intrigued with NeoGenomics competitive and strategic positioning. He will see great opportunities to continue to drive growth in our clinical, pharma, and informatics businesses.

And importantly, Mark is a Leader who is a great fit for NeoGenomics culture. He has an authenticity and deeply rooted values that align with ours. He is a developer of people and teams and culture, which is critical to our continued success.

I was heavily involved in the CEO selection process, and interviewed many impressive people. Mark stood out as being an outstanding fit for our company, and I'm truly confident in his ability to lead NeoGenomics in this exciting market for oncology diagnostics.

I'm personally excited about Mark becoming our next CEO, and I'm looking forward to working closely with him in my role as Executive Chairman. In that role, I will continue to serve as Chairman of the Board of Directors and work to ensure a smooth transition.

Mark will officially join NeoGenomics on April 19th and he is looking forward to meeting with our terrific team of employees and the great Investors and Analysts that have believed in NeoGenomics, and continue to do so.

Conclusion

I'll conclude our formal remarks by saying that while 2020 was challenging for us operationally and strategically, it was truly a remarkable year for NeoGenomics. We are very proud of our team and of our performance and our commitment to our vision, our values, and most importantly to patient care.

We have tremendous opportunities ahead. Oncology diagnostics is a more exciting place to be than ever before. Advances in science and technology – both in improved diagnostics and a proliferation of oncology therapies are increasing survival and enhancing quality-of-life for cancer patients around the world.

Our leading position in the market is proving to offer significant, sustainable competitive advantages, and we are working to make that competitive position even stronger as we pursue our vision to become the world's leading oncology diagnostics company.

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 two so that we may hear from everyone and still keep within the hour allotted for this call.

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

Closing Remarks (Doug)

As we end the call, I'd like to recognize the approximately 1,714 NeoGenomics team members around the world for their dedication and commitment to building a world-class oncology diagnostics company.

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