QIAGEN
Q1 2017 CONFERENCE CALL TRANSCRIPT

May 3, 2017

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JOHN GILARDI: Thank you, and we appreciate you taking the time to join us today for this conference call.

Our speakers today are Peer Schatz, the Chief Executive Officer of QIAGEN, and Roland Sackers, the Chief Financial Officer. Also joining us is Dr. Sarah Fakih from our IR team.

(SLIDE 2: FORWARD LOOKING STATEMENTS)

JOHN GILARDI: On slide 2, you see the Safe Harbor statement explaining that the discussion and responses to your questions on this call reflect management's view as of today, May 3, 2017.

We will be making statements and providing responses to your questions that state our intentions, beliefs, expectations, or predictions of the future and these constitute forward-looking statements for the purpose of the Safe Harbor provisions. These statements involve risks and uncertainties that could cause actual results to differ materially from those projected. QIAGEN disclaims any intention or obligation to revise any forward-looking statements. For more information, please refer to our filings with the U.S. Securities and Exchange Commission. We will also be referring to certain financial measures not prepared in accordance with generally accepted accounting principles. You can find a reconciliation of these figures to GAAP in the press release and the presentation for this call.

With that, I would like to now hand over to Peer.

(SLIDE 4: Q1 2017 OVERVIEW)

PEER SCHATZ: Thank you, John, and I would like to welcome you to this conference call.

QIAGEN has made a good start to the year as evidenced by our performance in the first quarter of 2017, and this reaffirms our confidence in achieving our full-year goals for strong gains in adjusted sales and adjusted earnings.

These results reaffirm our progress in expanding QIAGEN's position as the global leader in Sample to Insight solutions for molecular testing. We are capitalizing on our competitive advantages, in particular our ability to support more than 500,000 customers worldwide along the continuum from basic research to clinical healthcare.

First, as you can see in the press release and our presentation, **we delivered on our financial targets for the first quarter**. Adjusted net sales rose 6% at constant exchange rates, and this was ahead of our guidance for 4 to 5% CER growth, while adjusted earnings were 22 cents per share CER when excluding the restructuring charge, and this was at the high end of our guidance for 21 to 22 cents CER.

Second, we are capturing growth opportunities across our Sample to Insight portfolio. Our performance in 2017 is an important step toward achieving the mid-term goals that we announced in November at our investor day. We are committed to generating a 7-9% CER compound annual growth rate in sales from 2016 to 2020, as we accelerate the expansion of this portfolio, and for adjusted earnings per share to grow at a 12% CER or faster compound annual growth rate over the same period.

Among the most important areas of our portfolio, the QuantiFERON latent TB test is on track for achieving more than 25% CER sales growth in 2017. Our strong conviction is based on the ongoing market conversion to QuantiFERON as the modern gold standard for latent TB testing in the U.S. and Europe, along with recent national tender wins in the Middle East and Asia.

We are also pleased with the customer demand for the GeneReader NGS System, which is the only truly complete Sample to Insight solution for labs wanting to take advantage of powerful and highly accurate next-generation sequencing technology.

A key milestone was the recent AMP Global conference in Berlin, where new independent studies highlighted the system's strong analytical performance and ease of use.

Our engagement in NGS goes far beyond GeneReader, and we have seen robust double-digit CER growth in sales of our solutions that can be used by customers alongside any NGS sequencer. The foundation is our leadership in sample technologies, our advanced assay development capabilities, resulting in the industry's highest performing gene panels and the seamless integration into our bioinformatics franchise, which is by far the market leader in this emerging market.

As a last point, in January we announced the acquisition of OmicSoft, a privately held company in the U.S. that offers tools enabling customers to analyze and manage very large NGS data sets. The integration has been going very well, and we look forward to expanding OmicSoft beyond the research setting to other customers.

Third, we are reaffirming our outlook for 2017 along with our commitment to increasing returns and creating greater value. On a full-year basis, we continue to expect adjusted net sales to grow about 6 to 7% CER as we build momentum during the course of the year. We also continue to expect a significant improvement in profitability compared to 2016, with a 2017 target for adjusted earnings per share of about one dollar and 25 cents to one dollar 27 cents at constant exchange rates, and this is excluding the anticipated 3 cents of restructuring costs for the year.

As a signal of our conviction, we announced plans in mid-2016 to return 300 million dollars to shareholders by the end of 2017. During the first quarter, we completed the first tranche with the return of about 245 million dollars through the synthetic share repurchase, and this reduced the share count by about 4%, and we intend to complete the remaining balance of our commitment this year.

I would now like to hand over to Roland to review the financial performance for the first quarter.

(SLIDE 5: Q1 2017 FINANCIAL REVIEW)

Roland Sackers: Thank you, Peer.

Good afternoon to those of you in Europe and good morning to those of you in the U.S. I would like to review our financial performance for the first quarter, and I will also later review our guidance for the second quarter and for the full year.

As Peer mentioned, QIAGEN performed very well in the first quarter in terms of sales and adjusted earnings, and we were particularly pleased with the solid increase in free cash flow, which rose 46% to 44.2 million dollars over the first quarter of 2016.

For the first quarter of 2017, adjusted net sales rose 6% at constant exchange rates, and were up 3% at actual rates to 308.3 million dollars. At the start of this year, we had expected about two percentage points of currency headwinds, but it was slightly more and rounded to three points.

We are referring to adjusted net sales due to the acquisition of OmicSoft, and this is in line with how we have presented bioinformatics deals in the past to fully reflect the revenue contributions.

So, in terms of total CER adjusted net sales growth, a full three percentage points came from organic business expansion, while another three points of contributions came mainly from the acquisition of Exiqon, which was acquired in June 2016, and to a much lesser degree from the OmicSoft acquisition in January.

The expected decline in U.S. HPV test sales created a very strong one percentage point of headwind, so total underlying sales growth was 7% CER. Our expectations are still for about one percentage point of headwind on a full-year basis, and for the U.S. HPV sales to be well below 2% of total sales in 2017.

Moving down the income statement, the adjusted gross margin was 70.5% of sales. This was an increase of one percentage point from the same period in 2016, due mainly to a higher percentage of sales from consumables. We also had incremental benefits from bringing the manufacturing of the QuantiFERON-TB test in-house to our site in Maryland.

Adjusted operating income was 63.8 million dollars before the pre-tax restructuring charge of 3.8 million dollars. This means the underlying adjusted operating income margin rose to 20.7% of sales, and this was an increase of 2.4 percentage points from the level of 18.3% in the first quarter of 2016.

This reflects the impact of our targeted investments in the first half of 2016 to enhance growth opportunities, as well as the initial benefits from cost savings generated from the recent efficiency initiatives. On an adjusted basis, Sales and Marketing as well as Research and Development investments were lower as a percentage of sales compared to the first quarter of 2016, while General and Administration expenses were up about 2%.

Moving further down the income statement, adjusted diluted earnings per share excluding the restructuring charge were 22 cents at both actual rates and constant exchange rates. These results included about two cents per share for the charge. The share count was 234.9 million for the first quarter of the year, which was in line with the assumption we had given for about 234 million. The adjusted tax rate was 18% of sales when excluding the charge, and this was higher than our assumptions for about 17%.

(SLIDE 6: Q1 2017: CUSTOMER CLASSES)

Roland Sackers: I would now like to provide you with an overview of the performance among the product categories and our four customer classes.

Among the product categories, we saw strong trends in consumables and related revenues, which includes sales of our kits as well as bioinformatics. These sales rose 7% CER and provided about 89% of sales. Instrument sales declined 3% CER in the first quarter, and this was due to cautious purchasing trends among customers in the Pharma and Academia customer classes. At the same time, we saw instrument sales grow in Molecular Diagnostics, and at a double-digit CER pace in Applied Testing. We were very pleased with the outstanding placement rate for the QIAsymphony automation system, which tracked ahead of the strong placement level in the first quarter of 2016. Our teams also saw good momentum for the GeneReader NGS System.

Before I got into a review of the performance, we reviewed the classifications of customers in early 2017. As a result, the allocation of customers representing about 1% of total sales were shifted between the customer classes for the years 2016 as well as 2017. Therefore, the impact on the growth rates for 2017 should not be material.

So among the four customer classes, sales of our products to Molecular Diagnostic customers rose 3% CER, and were up 6% CER when excluding the headwinds from lower U.S. HPV test sales.
The Life Science customer classes rose 8% CER in aggregate, led by the 21% increase in Applied Testing sales that were driven by the uptake of new Human ID / Forensics solutions launched last year.

In Pharma, we continue to have a modestly positive outlook on growth trends, and this was underscored by sales rising 8% CER in the first quarter of the year. We saw double-digit CER growth in consumables and related revenues, and this more than offset lower instrument sales.
In Academia, we saw some positive trends among customers in the U.S., while customers in Europe continued to show an ongoing cautious sentiment. Sales rose 3% CER in the first quarter thanks to higher consumables sales against weaker instrument sales, as the Asia-Pacific / Japan and Europe Middle East Africa regions grew, while the Americas were largely unchanged on a year-on-year basis.
As a last point, the acquisitions of Exiqon and OmicSoft supported the performance in all of the customer classes.

(SLIDE 7: Q1 2017: GEOGRAPHIC SALES)

Roland Sackers: I would now like to review our performance across the regions in the first quarter of 2017.The fastest growth came in the Asia-Pacific and Japan region, where sales rose 10% CER, led by double-digit CER expansion in South Korea.

In the Europe Middle East Africa region, sales rose 7% CER. Even though we continue to take a more cautious view on Life Science funding in this region, sales in the first quarter of 2017 were helped by overall improving Life Science trends in Germany and the United Kingdom. We also saw double-digit CER growth in Turkey, and this helped to overcome slower growth trends in the Middle East, which were affected by the timing of national orders.

The Americas region showed 3% CER growth in the first quarter, and grew at a faster 6% CER pace when excluding U.S. HPV headwinds thanks to double-digit CER gains in Brazil along with sales improving at a single-digit CER rate in the U.S. and Mexico.

As a last point, we had ongoing good growth trends in the top 7 emerging markets, which were up 15% CER for the first quarter and provided 14% of sales.

(SLIDE 8: Q1 2017: BALANCE SHEET AND CF)

Roland Sackers: I would now like to provide an update on our financial position. Our balance sheet remains very healthy and has enabled us to increase returns while supporting the business expansion with targeted M&A opportunities.

During the first quarter of 2017, we completed the synthetic share repurchase, which involved returning about 245 million dollars to shareholders and reduced the total number of shares by about nine million. We also completed the acquisition of OmicSoft in January, and these two factors were the key drivers in the leverage ratio rising to 1.7 times net debt to adjusted EBITDA, and this reflects the synthetic share repurchase and OmicSoft acquisition at the beginning of 2017.

Group liquidity stood at 273 million dollars, and this is more than adequate given our strong cash flows. We may decide to raise funds during this year with some longer-dated debt offerings and take advantage of the low interest rate environment in Europe and the U.S. These funds would also help to support some upcoming refinancing activities with shorter-dated maturities.

As I mentioned before, we had improving cash flow trends in the first quarter, with cash flow from operating activities rising 24% to 60.2 million dollars. Keep in mind that this was after cash outflows of about 20 million dollars related to the efficiency initiatives started in 2016.

This strong performance helped to support the 46% increase in free cash flow to 44.2 million dollars. Also supporting the increase in free cash flow was the reduction in the purchases of property, plant and equipment, and this reduction was in line with the expectations provided to you.

We continue to pursue a disciplined capital allocation strategy to support the business expansion through targeted acquisitions while also increasing returns through share repurchases.

Our view continues to be that QIAGEN's shares are undervalued, and we see repurchases as one of the ways to create value.

I would like to now hand back to Peer for a strategy update.

(SLIDE 9: SUMMARY ON SAMPLE TO INSIGHT)

PEER SCHATZ: Thank you, Roland.

I am now on slide 9 to give you an overview of key developments within our Sample to Insight portfolio during the first quarter.

Following the recent boost in support from international guidelines, the QuantiFERON latent TB test is rapidly expanding its leadership as the modern gold standard for latent TB testing and has expanded its position as the solution of choice for large tenders around the world. Also during the first quarter, new studies reaffirmed clinical utility of this test and suggested additional clinical benefits that are driving further awareness and the need for TB screening to prevent spreading of this deadly disease.

For the GeneReader NGS System a number of new and independent validation studies were introduced at the AMP Global conference in Berlin and the system continues to gain momentum.

As Roland has already highlighted, we saw very strong QIAsymphony system placements in the first quarter, and we are on track to reach our target for more than 2,000 cumulative placements at the end of this year.

I would now like to review some selected highlight areas in more detail.

(SLIDE 10: QUANTIFERON)

PEER SCHATZ: I am now on slide 10 to review the progress being made with QuantiFERON-TB, the world's leading interferon gamma release assay for detecting latent tuberculosis.

Among recent developments, new independent studies suggested extended clinical utility and applications for QuantiFERON-TB Gold, the FDA-approved third-generation version of this test. Furthermore, studies also supported additional clinical value of the CD8+ technology that forms the basis of QuantiFERON-TB Gold Plus, the fourth-generation version of this test that was launched last year in Europe and overall more than 60 countries and that was recently submitted to the FDA.

Among the studies, a milestone study in The Lancet Respiratory Medicine demonstrated for the first time the potential to use the quantitative QuantiFERON-TB Gold test results to assess the risk for young children to progress to active TB.

Additionally, two studies were presented in the European Respiratory Journal and the Journal of Clinical Microbiology that support the increased clinical relevance and accuracy of the combined readouts of the CD4+ and CD8+ technology markers in the fourth-generation version, and also the significantly enhanced potential to monitor disease progression to active TB.

The ability to measure these types of risk for progression could represent a very important new dimension to the clinical utility of this test, and studies are under way on this topic.

While QuantiFERON-TB is widely approved by regulatory agencies and also reimbursed, we continue to gain important new reimbursement support, such as just a few weeks ago in France.

(SLIDE 11: GENEREADER)

PEER SCHATZ: On slide 11, I would like to update you on the recent developments of the GeneReader NGS System, our complete Sample to Insight next-generation sequencing solution for clinical research panel testing.

In April we gained important momentum for the system through strong support of a number of third party validation studies that were introduced at the AMP Global Congress on Molecular Pathology in Berlin.

Five independent studies from prestigious institutions such as the Dartmouth-Hitchcock Medical Center and Cornell Weill were presented, and highlighted the strong analytical performance, accuracy and flexibility of the GeneReader system and as strong performance data is now being confirmed by third parties, we will share some of the performance metrics with you later in the call.

One of the key advantages of GeneReader's fully integrated NGS workflow is the ability get up and running with new systems and also new assays very quickly. We recently launched a program called "NGS Live in Your Lab in 30 Days".

This program ensures that customers have the complete Sample to Insight workflow fully operational – including full validations – and ready for routine use in their lab within 30 days of installation. This compares to the typical four to nine months required for the implementation of other systems.

(SLIDE 12: GENEREADER MARKET)

PEER SCHATZ: To help you better understand the power of the fully integrated Sample to Insight GeneReader workflow, we wanted to take this opportunity now about a year after launch to provide additional context on the NGS market and our overall value proposition.

However, it is critical to first scope the market, because the concrete and distinct needs of the target segments will define the roster of performance criteria.

Within the overall NGS market clinical research represents about 20% of the overall market and is a segment with a superior growth potential fueled less by large panels, exomes or whole genome sequencing but rather by the fast-growing market for targeted gene panel testing.

This specific market segment, clinical research panel testing, is very different to other market segments. The average lab has about 10 samples per week or about 500 samples per year, and there are many of them that have limited sample volumes. So larger systems that have tens or hundreds of gigabytes of data output would either require the lab to wait weeks until enough samples are accumulated and then run them in batches or be forced to run batches far below the minimum efficient sample load, thereby driving up the cost of processing.

The GeneReader NGS System was purpose-built for a targeted competitive positioning in this highly attractive clinical research market and seamlessly executes on all the critical demands of this market, showing you why clinical customers are responding so favorably. Through its customer-centric design and flexibility, we can address the needs of this market very well and with a superior competitive profile – and generate very attractive consumable throughputs.

(SLIDE 13: GENEREADER BALANCE SHEET)

PEER SCHATZ: I am now on slide 13 to provide additional insights into the performance of the GeneReader NGS System at the level of individual key parameters that represent critical factors for clinical customers in their decision-making process.

We are very pleased that the market has recognized the value of our sample to insight value proposition. While we and our customers are focusing on that integrated value, you can see that the individual parameters are such that we could compete on most of the technical specifications such as Q-scores and read length as well.

When you consider that competing systems have seen many iterations of performance upgrades, we can note that we have not only caught up very quickly, but now lead on key performance parameters such as accuracy of results – and expect a further steep improvement curve going forward as well, and see next improvements across all areas such as output and speed.

We have chosen a very targeted segment, and are delivering a very targeted value proposition that is meeting the requirements of our customers in a unique way.

Leveraging our deep expertise and capabilities in clinical testing solutions, we are helping customers to achieve maximum actionability from NGS and we will continue to set new standards for the use of NGS in the clinical setting.

(SLIDE 14: DIFFERENTIATED TECHNOLOGIES)

PEER SCHATZ: I am now on slide 14 to highlight selected product launches in our Sample to Insight portfolio for the Life Sciences, which are propelling our presence in exciting and fast growing fields of research.

Liquid biopsy remains a key differentiator in cancer and other clinical research applications. We continue to set the pace for the industry in unlocking insights from easily accessible samples such as blood by improving our gold standard sample technology kits, as well as broadening our automation offering with new automated solutions for ultra-sensitive isolation of circulating cell-free DNA on our compact and highly robust benchtop EZ1 automation system, an instrument system which was part of a PMA approval process and of which thousands are already in the market.

Turning to microbiome analysis, MO BIO technologies are now fully integrated with our core sample technologies, creating the most comprehensive microbiome portfolio available for difficult sample types. Together with our universal NGS and microbial bioinformatics solutions, these technologies are being brought together to form efficient Sample to Insight workflows.

Our universal NGS offering was strengthened by the launch of the QIAseq micro RNA Library Kit, which enables the next evolution in NGS RNA discovery by reducing PCR and sequencing bias on the basis of unique molecular indices technology, a higher number of sequencing reads, greater multiplexing and hence more accurate datasets.

With that, I would like to hand over to Roland.

(SLIDE 15: FULL YEAR 2017 OUTLOOK)

ROLAND SACKERS: Thank you, Peer.

As mentioned earlier, based on the good start to the year, we are reaffirming our full-year guidance for 2017 and are taking an increasingly positive view toward the goals we have set.

We continue to expect about 6 to 7% CER sales growth for the full year. This is based on about 5 to 6 percentage points of organic growth and about 1 percentage point of combined sales from the Exiqon acquisition, which will become organic after the second quarter of this year, and the OmicSoft acquisition that was completed in January.

For adjusted EPS, we continued to expect underlying adjusted earnings of about one dollar 25 cents to one dollar 27 cents per share excluding the restructuring charge, and again also at constant exchange rates. This target represents a significant increase from the underlying 1 dollar 11 cents per share for 2016. This outlook also includes some initial contributions from the efficiency initiatives and about 3 cents of benefits from the commitment to return 300 million dollars through buybacks during this year.

This full-year guidance is also based on an anticipated 18% adjusted tax rate, and excludes the expected 3 cents of dilution from the after-tax costs of the restructuring charges in 2017.

In terms of currency impact, based on rates as of April 30, we continue to expect pressure of about two percentage points on the full-year CER sales growth target, and about two cents per share on the full-year adjusted EPS guidance at CER rates.

You can find further information on our latest currency expectations for 2017 in the appendix of this presentation.

(SLIDE 16: Q2 AND FY 2017: OUTLOOK/ASSUMPTIONS)

ROLAND SACKERS: I am now on slide 16, and you will find detailed information on our guidance and related assumptions for the full year, and also for the second quarter of 2017.

In terms of adjusted net sales, for the second quarter we have set a target for about 5-6% CER growth. This is based on about three to four percentage points of organic growth and about two percentage points from the Exiqon and OmicSoft acquisitions.

Our guidance for adjusted diluted EPS in the second quarter of 2016 is about 28 to 29 cents per share at constant exchange rates, and this excludes about four million dollars of pre-tax, or about one cent after-tax, of costs related to the restructuring charges planned for this year. So we expect the vast majority of these restructuring charges to be done in the first half of this year.

Also for the second quarter, the adjusted tax rate is expected to be about 18%, and we expect a further drop in the weighted average share count to about 232 million due to having a full quarter year-on-year impact of the synthetic share repurchase.

In terms of currency expectations for the second quarter, based on rates as of April 30, 2017, we anticipate about two to three percentage points of headwind on adjusted nets sales at actual rates and up to about one cent on adjusted diluted EPS.

With that, I would like to hand back to Peer.

(SLIDE 17: SUPERVISORY BOARD)

Peer Schatz: Thank you, Roland.

I would also like to update you on an addition to the Supervisory Board with the appointment of Dr. Håkan Björklund, who joined as a member in March. This means we now have eight members in the Supervisory Board, and six of the members have been appointed since 2011. This is a further signal of the active evolution of the Board over the last few years. Also, five of the eight Supervisory Board members are based in the United States – and by the way, four of the seven executive committee members are also based in the U.S.

Dr. Björklund brings an extensive international and life sciences background to QIAGEN through his current role as Operating Executive at Avista Capital Partners, as well as his previous roles as CEO of the global pharmaceutical company Nycomed, a great success story, and as a Regional Director at Astra and President of Astra Draco, which are now both part of AstraZeneca. He also currently serves as Chairman of the Board of Swedish Orphan Biovitrum AB, which is a publicly listed Swedish biotech company.

Dr. Björklund has built a strong reputation for shareholder value creation through these roles, and also previous roles as Chairman of the Board of Directors of Lundbeck A/S, plus as a Member of the Board of Directors of Alere Inc., Coloplast A/S, Atos Medical AB and Danisco A/S.

Our next Annual General Meeting will be in June, and all current members of the Supervisory Board are expected to stand for re-election.

(SLIDE 18: SUMMARY)

Peer Schatz: I would now like to provide a quick summary before we move into Q&A.

Let me review what we have announced:

- First, we had a good start into 2017, and this reaffirms our confidence in achieving our full-year goals for strong gains in sales and adjusted earnings.

- Second, we are capturing growth opportunities across our Sample to Insight portfolio, and we are moving ahead on our strategy to strengthen QIAGEN as a differentiated leader in supporting customers along the continuum from basic research to clinical healthcare.

- And as a last point, we are reaffirming our full-year guidance for 2017 as our teams execute on actions to deliver strong growth in sales and adjusted earnings this year, complemented by our commitment to value creation for shareholders and disciplined capital allocation.

With that, I'd like to hand back to the operator for the Q&A session. Thank you.

JOHN GILARDI: With that, I would like to close this conference call and thank you for your participation. If you have any questions or comments, please do not hesitate to contact us. Thank you.