



Q1 2024 RESULTS CALL TRANSCRIPT

April 30, 2024



Q1 2024 RESULTS CALL SCRIPT

OPERATOR:

Hello and thank you for standing by. Welcome to our call to discuss results for the first quarter of 2024.

At this time, all participants are in a listen-only mode. Please note that this call is being recorded and will be made available on QIAGEN's website. I'd like to introduce your host, John Gilardi, Vice President of Corporate Communications and Investor Relations at QIAGEN. Please go ahead.

JOHN GILARDI:

Thank you, operator, and a welcome to all of you who are joining us for this call. We appreciate your interest in QIAGEN.

Our speakers are Thierry Bernard, our Chief Executive Officer, and Roland Sackers, our Chief Financial Officer.

This call is being webcast live and will be archived on the investors section of our website at www.qiagen.com. You can also find a copy of the quarterly results press release and presentation on our website.

We will begin with remarks from Thierry and Roland, followed by a Q&A session.

Before we start, let me note again that we are going to host a Capital Markets Day on June 17, and the event will be held at the New York Stock Exchange. An invitation to the event has already been sent, and information is available on our website. You can also attend this event online.

Let's now go over our safe harbor statement.

The views expressed during this conference call and the responses to your questions represent the views and perspectives of management as of today, April 30, 2024.

We will be making statements and providing responses to your questions that convey our intentions, beliefs, expectations or predictions for the future.

These forward-looking statements fall under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

They involve risks and uncertainties, and actual results may differ materially from those suggested by these forward-looking statements.

Factors that could influence results are mentioned in our filings with the U.S. Securities and Exchange Commission.

These filings are available on the SEC's website and also the QIAGEN website. QIAGEN disclaims any intention or obligation to update any forward-looking statements.

Additionally, we will refer to certain financial measures not prepared following Generally Accepted Accounting Principles or GAAP.

All references to EPS refer to diluted EPS.

You can find a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measure in our press release and presentation.

Now I would like to hand over the call to Thierry.

THIERRY BERNARD:

Thank you, John.

Hello and good morning, good afternoon or good evening depending on where you are in the world, and thank you for joining us.

We are pleased today to report another solid quarter in which our teams focused on execution and delivered results ahead of our plans.

Despite the cautious capital spending environment among our customers, our results show we are on track to achieve the goals for 2024 and building momentum.

Let me share our key messages with you:

First, our results for the first quarter of 2024 were ahead of the outlook, as we worked through the final quarter of pandemic headwinds.

We achieved net sales of 462 million dollars at constant exchange rates, which was ahead of the outlook for at least 455 million dollars CER.

This represented a 5% decline from the first quarter of 2023.

Sales were down 1% CER for the non-COVID product groups.

Recurring consumables sales continued to account for more than 85% of total net sales, a signal of the durability of our sales base.

One of the highlights was the 5% CER growth of our Diagnostic solutions product group. This confirms the resilience of our portfolio mix as we saw double-digit sales growth for the QuantiFERON TB test and the QIAstat syndromic testing systems amid solid placements.

Adjusted earnings per share were \$0.47 at constant exchange rate and ahead of our outlook for at least \$0.44 CER.

As a second key message, our teams executed on our “Balance and Focus” strategy and delivering growth in many pillars.

This creates a foundation for us to build momentum during the year.

QuantiFERON once again delivered a strong quarter with 11% CER sales growth fueled by positive demand trends in all regions. The first quarter also marked another quarter with net sales above 100 million dollars.

Sales of QIAstat-Dx were up 21% CER. We saw a high level of demand in panels for both respiratory as well as non-respiratory testing, while we continued to see a solid trend in terms of instrument placements. Our teams are working collaboratively with the FDA to get a final decision on the Gastrointestinal panel submission.

The digital PCR system QIAcuity also delivered solid double-digit CER growth with strong expansion in consumables and an ongoing high level of instrument placements. We are pleased to see the increasing demand for our differentiated technology. A key driver of consumables growth has been the expansion of applications for use on QIAcuity, particularly for biopharma applications to support pharma R&D and new drug discovery.

Sample technologies sales were clearly impacted by the COVID headwinds, and also by weaker demand trends in China.

For this product group, we anticipate better year-on-year trends during the rest of the year, and continue to expect low-single-digit CER growth for 2024. Particularly noteworthy in the first quarter were higher sales of automated consumables for use on QIASymphony, QIAcube Connect and EZ2.

NeuMoDx sales were below our expectations for the quarter of 2024. As we have noted before, we are reviewing strategic options and plan to have a decision by our Capital Markets Day in June.

As a third message, we saw an ongoing high level of profitability with a 25.7% adjusted operating income margin.

This compares to 25.6% in Q1 2023 as our teams realized efficiency gains, particularly in administrative functions, while QIAGEN made investments into R&D and commercialization initiatives.

The progress in the first quarter shows how our teams are determined to deliver on our target for an adjusted operating income margin of at least 28% for the year.

And as a last point, we are reaffirming our full-year 2024 outlook.

Our plan is for 2024 net sales of at least 2.0 billion dollars at CER and adjusted EPS of at least 2 dollars and 10 cents, also at CER.

Like others we are closely monitoring macro trends, focusing on our goals for 2024 and building confidence in delivering on this guidance.

Now I would like to hand over to Roland for a review of our financial results.

ROLAND SACKERS:

Thank you, Thierry.

Hello everyone. Thank you as well from me for joining our call.

Our results for the first quarter were ahead of our goals and show QIAGEN is building momentum.

Net sales of 459 million dollars declined 5% at actual rates, and also 5% at constant exchange rates despite some modest pressure on results due to the strengthening of the U.S. dollar.

Consumables and related revenues had to absorb the COVID headwinds from 2023, and this led to the 4% CER decline over the year-ago period.

Instrument sales declined 9% CER, reflecting the challenging environment for capital purchases. At the same time, we saw good placement trends for QIASymphony, QIAcuity and QIAstat-Dx systems.

Among the four product groups, Diagnostic solutions led the performance. Here again we saw double-digit gains for QuantiFERON and QIAstat-Dx, while our Personalized Healthcare business also delivered single-digit improvements over the first quarter of 2023.

In Sample technologies, as mentioned earlier, we were pleased to see higher consumables sales for automated kits. The results for sample technologies take into consideration that we along with other companies had larger price increases at the start of 2023. This year, the price increase was more in line with historical levels of a low-single-digit increase. Additionally, we faced COVID-19 headwinds with an underlying sales decline at a modest low-single-digit CER rate. We are anticipating improved growth trends during the year as we launch marketing initiatives to highlight the differentiation of our portfolio.

Additionally, the decision by Congress for essentially flat federal funding for Life Sciences research in the U.S. budget was in line with our planning, and this outcome provides customers with clarity on budgets.

In PCR / Nucleic acid amplification, the QIAcuity digital PCR system continued on a solid trajectory, delivering solid double-digit CER sales growth over the first quarter of 2023.

Key drivers have been the expansion of consumables sales, particularly to biopharma customers, along with ongoing high level of instrument placements. We anticipate better trends in this product group as the year progresses.

In Genomics / NGS, sales were unchanged from the first quarter of 2023. We saw higher sales of universal library prep kits for use with third-party next-generation sequencers.

Sales in our QIAGEN Digital Insights bioinformatics business were slightly lower for the quarter due to the timing of a large customer contract. But we continue to see solid demand trends for this business and continue to expect sales growth above 10% CER for 2024.

Among the regions, sales in the Americas reflected the impact of COVID headwinds. Results benefited from improving demand for QuantiFERON, QIAstat-Dx and QIAcuity consumables.

The Europe, Middle East, Africa region saw sales decline 2% CER over the first quarter of 2023, but underlying results rose at a single-digit CER rate excluding the pandemic headwinds.

Among the top countries were France, Switzerland and the United Kingdom. Our regional expansion in the Middle East helped these results.

In the Asia-Pacific / Japan region, sales in China declined at a double-digit CER rate, reflecting the macro challenges in this market that are not showing signs of improving. However, at the same time, we saw improved results in India and South Korea and continue to see dynamic opportunities in targeted emerging markets.

Let's now review the rest of the income statement.

The adjusted gross margin was 67.1% of sales, modestly lower than the first quarter of 2023 as we work on increasing efficiencies after a period of capacity utilization expansion in recent years.

For the first quarter, adjusted operating income declined 5% to 118 million dollars from the first quarter of 2023, in line with the decline in sales.

We focused on investing in R&D and delivered an improvement in the adjusted operating income margin to 25.7% of sales compared to 25.6% in the year-ago period.

To close out the income statement, adjusted EPS was 46 cents for the first quarter, while results at constant exchange rates were 47 cents and ahead of the outlook for at least 44 cents. The adjusted tax rate at 20% was at the high end of the outlook, while the average diluted share count at 226 million was also in line with our expectations.

Turning to cash flow, the trends at the start of 2024 have been very positive. Operating cash flow nearly doubled to 133 million dollars over the first three months of 2023, with significant improvement of working capital management and inventory management as well as collection of accounts receivables.

Free cash flow rose nearly 1.5 times over the level in the first quarter of 2023 to 97 million dollars, while at the same time we saw a slight increase in investments in Property, Plant and Equipment as we continue to transition into our new enterprise resource planning environment.

We are paying particular attention on measures to ensure a high level of cash conversion while maintaining adequate supplies to provide products to customers around the world without disruptions, especially in light of the current macro trends and logistical challenges.

Continuing with the balance sheet, our liquidity position was about 893 million dollars at the end of the first quarter of 2024 compared to 1.1 billion dollars at the end of 2023. This level includes the 300 million dollars of cash paid out for the synthetic share repurchase in January, which removed about 6.8 million shares outstanding.

As a result, our leverage ratio at the end of the first quarter stood at 0.9 times net debt to EBITDA compared to 0.6 times at the end of 2023. As a reminder, we have about 600 million dollars of debt reaching maturity in September.

Given our healthy balance sheet and strong cash flows, we want to create value through our capital allocation policy that has served us well.

We continue to invest organically into the business, while also reviewing various targeted bolt-on acquisitions that would complement our portfolio.

The share repurchase at the start of 2024 is also a signal of our views about the valuation of QIAGEN, and our commitment to increasing returns.

I would now like to hand back to Thierry.

THIERRY BERNARD:

Thank you, Roland.

Now let me take a moment to go over some of the progress our teams have made in advancing our portfolio.

First of all, we are strengthening our strong position in Sample technologies - the first step in lab processes to gain access to DNA and RNA.

Key expansion areas involve new kits to support customers in areas such as microbiome and liquid biopsy. These areas are increasingly becoming critical to Life Sciences research and are in the early stages of clinical applications.

Let me start with the launch of the PAXgene Urine Liquid Biopsy set, which offers a new non-invasive approach to collect cell-free DNA from urine. This technology holds potential for detecting minimal residual disease, such as in cancer patients, and improving the identification of therapeutic targets and patient monitoring for disease progression.

QIAGEN has a long-standing commitment to helping improve health for people around the world.

QuantiferON for latent TB screening continues to be a key element in the global fight against tuberculosis, which remains a leading cause of death.

Recent TB outbreaks in the U.S., such as in Chicago and San Diego, underscore the urgent need for robust screening measures. These outbreaks, particularly among immigrant populations and in areas with already high TB incidence rates, highlight the importance of proactive screening initiatives. This is why we continue the conversion to modern blood-based testing from the old skin test - and the majority of the market worldwide and in the U.S. is available for conversion.

In March, our global awareness event to support World TB Day was a success with over 3,000 participants, underpinning the significance of collaborative efforts in raising awareness.

Additionally, we announced a new partnership with the International Panel Physicians Association to reinforce our commitment to TB screening.

Together with the IPPA, a non-profit organization focused on improving migrant health, we are jointly promoting the use of IGRA technologies like QuantiferON for screening immigrants as young as two years old.

This is part of our efforts to enhance early detection and support the U.S. target of eliminating domestic TB cases by 2050.

As part of our commitment to the global fight against TB, which remains the world's leading infectious disease killer, we recently launched a QIAseq panel that enables whole-genome sequencing of TB samples. This breakthrough will enable real-time epidemiology of TB outbreaks - a critical need for TB surveillance and control.

Another important development was the launch of new software for QIAstat-Dx. This upgraded version enables remote access to the system from other devices and allows healthcare professionals to gain faster access to results and collaborate more efficiently. For QIAcuity, we are expanding the utility of our digital PCR systems for use in cancer research and oncology testing. Our teams recently launched new kits for use in enabling better cancer detection through deeper simultaneous analysis of EGFR and BRAF mutations that has not been possible with other tests. These mutations are found in many cancer types, and the kits are designed to reduce the incidence of false positive results.

In our QIAGEN Digital Insights bioinformatics business, we have launched an AI-driven knowledge base for advancing drug discovery among our pharma and biotech customers. This database is built on vast sets of biomedical literature and scientific sources, and can extract causal relationships between genes, diseases, drugs and biological entities from genomic data. This new software will help our customers to better understand disease mechanisms and identify new drug targets.

Across our portfolio, you can see that QIAGEN is developing breakthroughs addressing important customer demands – as we together harness the power of biology that is impacting our daily life.

Now back to Roland for more details on our outlook.

ROLAND SACKERS:

Thank you, Thierry.

Let me now provide more perspectives on our outlook for 2024 and also the second quarter.

The start to the year shows that we are building momentum to achieve our full-year outlook for at least 2.0 billion dollars of sales at CER. This represents at least 2% CER growth from the 1.97 billion dollars in 2023, and also at least 3% CER growth in the non-COVID portfolio.

The plan for 2024 remains on track. Like others, we expect a more muted start and a return to solid mid-single-digit CER growth in the second half.

We continue to expect growth in the QuantiFERON TB test of at least 10% CER, while also expecting double-digit CER sales improvements from QIAcuity and QIAstat-Dx. Our QIAGEN Digital Insights business is also set to deliver growth at a double-digit CER pace for the year as well.

In terms of profitability, we have reaffirmed our outlook for adjusted EPS of at least 2 dollars and 10 cents at constant exchanges rates.

The key profitability driver is our expectation to reach at least 28% adjusted operating income margin for 2024, and up at least one percentage point from 27% in 2023. This reflects our commitment to operational efficiency while investing in R&D and new product development and commercialization.

As for currency movements, and based on rates as of April 26, we expect a neutral impact on full-year net sales, but for an adverse impact of about one cent per share on adjusted EPS results.

For the second quarter, we have set an outlook for net sales of at least 495 million dollars CER and adjusted earnings per share of at least 0.52 cents per share, also at CER.

I would like to now hand back to Thierry.

THIERRY BERNARD:

Thank you, Roland.

Let me provide a quick summary before we move into the Q&A session:
We are on track to achieve our goals for 2024.

Our execution on our "Balance and Focus" strategy, and anchored by our Pillars, has been instrumental in navigating these uncertain times.

The anticipated decline in sales for the first quarter was less than our initial expectations, and the results demonstrate the effectiveness of our strategic initiatives.

In this quarter, we are particularly pleased with the double-digit sales growth in QuantiFERON, QIAstat-Dx and QIAcuity. This is a testament to the strength and resilience of our diversified portfolio led by 85% of sales from highly recurring consumables.

We were pleased with the good level of profitability. Our teams are committed to delivering on the full-year adjusted operating income margin target of at least 28%. Efficiency initiatives are helping to create more flexibility and enhance our effectiveness across the organization.

All of these actions will position QIAGEN for solid mid-term growth as we deliver higher sales and improvements in profitability.

And let me take this opportunity to personally invite you to attend our Capital Markets Day event on June 17 at the New York Stock Exchange.

This will be an opportunity to meet with our leadership team and learn more about our strategy to deliver our mid-term ambitions for improving sales and profitability. Looking forward again to seeing you all in person.

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

JOHN GILARDI:

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.