

# QIAGEN

## Q3/2021 AND 9M RESULTS CALL TRANSCRIPT

November 4, 2021



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## Q3/ 2021 and 9M RESULTS CALL TRANSCRIPT

OPER: Ladies and gentlemen, thank you for standing by.

Welcome to our call to discuss results for the third quarter and first nine months of 2021. At this time, all participants are in a listen-only mode. Please be advised 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, and welcome to our call.

The speakers today are Thierry Bernard, the Chief Executive Officer of QIAGEN, and Roland Sackers, the Chief Financial Officer. Also joining us is Phoebe Loh from Investor Relations.

Please note that this call is being webcast live and will be archived on the investors section of our website at [www.qiagen.com](http://www.qiagen.com).

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JOHN GILARDI: Today we have an updated format for this call. We have decided to streamline the prepared comments and ensure more time to address your questions. So we will first have some remarks from Thierry and Roland summarizing our results, and then move into the Q&A session.

A presentation with details on our performance is available on the IR section of our website, along with the third quarter release. We will not be showing the slides during this call.

Before we begin, let me cover as usual our safe harbor statement. This conference call discussion and responses to your questions reflect management's view as of today, November 4, 2021.

We will be making statements and providing responses to your questions that state our intentions, beliefs, expectations or predictions of the future. These constitute forward-looking statements for the purpose of the safe harbor provisions under the Private Securities Litigation Reform Act of 1995.

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, which are also available on our website.

We will also be referring to certain financial measures not prepared in accordance with generally accepted accounting principles or GAAP. Additionally, all references to earnings per share refer to diluted EPS.

A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measure is available in our third quarter press release as well as the presentation that are both available on our website.

I would like to now turn over the call to Thierry.

THIERRY BERNARD: Thank you, John.

Welcome to our conference call today and thank you to everyone for joining.

Before I begin, I would like to first acknowledge the efforts our teams are continuing to make around the world as they balance the volatile demand for COVID-19 testing solutions with the return of regular business.

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Our teams around the world have done an excellent job of effectively managing the shifting demand as the pandemic has progressed and they have responded quickly to the ever changing needs of the market. It is through the ongoing dedication of all our QIAGENers that we have delivered another quarter of strong results.

Now on to our key messages for today.

**First, we delivered a solid quarter with strong sales growth and adjusted EPS.**

Net sales grew 10% at constant exchange rates to 535 million dollars, and this was well above our outlook for sales to be at the same level as in the third quarter of 2020.

Our results were driven by better-than-expected sales in COVID-19 product groups and strong trends in non-COVID demand.

In the past we have seen these product groups inversely related - as COVID testing increased, demand for products used in regular research and testing decreased. However, in the third quarter this year we saw strong demand for QIAGEN solutions across both areas. Variant surges and diverse levels of vaccination have contributed to uneven recovery trends across the globe and we are seeing mixed demand coming from the various regions.

As we move through the pandemic, and COVID testing demands remain volatile, we are focused on executing on the sustainable growth of sales in our non-COVID product groups. So we are very pleased with the 17% CER growth delivered by these groups in the third quarter. These results are again proving that QIAGEN remains relevant - but not dependent - on COVID-19 testing.

Adjusted earnings per share were unchanged in the third quarter compared to the year-ago period at 58 cents at both CER and actual rates. This was above the outlook for 52 to 53 cents per share CER.

For the first nine months of 2021, sales grew 25% at constant exchange rates. Sales were up 28% at actual rates to 1.67 billion dollars due to positive currency movements of about 3 percentage points against the U.S. dollar.

Non-COVID product group sales grew 27% CER as demand continued to grow steadily throughout the year.

Adjusted EPS for the first nine months of 2021 came in at 1 dollar and 88 cents per share at CER and 1 dollar and 91 cents at actual rates.

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**As a second message, our five pillars of growth continue to perform well as we make good progress on our 2021 ambitions.**

In Sample technologies, substantial demand for non-COVID sample preparation consumables delivered mid-single digit CER growth in the third quarter. This builds on our long-standing leadership in this important first step in any molecular biology lab process.

We continue to expand our portfolio of consumables and are launching new instruments to drive sustainable sales in this area.

A great example is the EZ2 Connectfully automated sample preparation platform that we are planning to launch later this year.

The QIAcuity digital PCR systems are being used in a growing number of applications, in particular in surveillance for the COVID-19 pandemic. Customer response for these systems remains high as we work to further expand our application menu.

QuantIFERON-TB, our leading test for modern latent Tuberculosis, led our five pillars with 48% CER growth over the same quarter of the prior year and we are very confident in our target of at least 255 million dollars in sales for the full year 2021.

As planned, our teams have just launched the QIAreach QuantIFERON-TB test. This break-through test enables modern TB testing in low-resource areas, allowing expansion of QuantIFERON-TB to critical high-burden countries around the globe.

Demand for QIAstat-Dx syndromic testing systems and NeuMoDx core lab PCR platforms remains high, especially for respiratory testing as multiplex tests are being increasingly utilized for diagnosing influenza-like illnesses as we move into the flu season.

In response to a rising demand for low-plex testing, we have just released the QIAstat-Dx Respiratory 4 plex CE-IVD test to aid in identification of the common seasonal respiratory infections influenza A/B and RSV combined with SARS-CoV-2.

For NeuMoDx, we have just received a U.S. government grant to increase production of COVID-19 test consumables at our Ann Arbor site.

All of our five pillars of growth delivered solid sales in the third quarter and are on track to deliver on our sales targets for 2021. They are all well-positioned for future growth as they not only serve the continuous need for COVID-19 research and testing but also enable important non-COVID related discoveries and diagnostics.

We continue to execute on a robust pipeline of menu expansions and new product launches which put us on a strong trajectory to build additional value in our portfolios.

**As a third message, we maintained a solid level of profitability in the third quarter and strong cash flow growth during the first nine months of 2021.**

We are moving forward with investments to accelerate our pillars of growth that are strengthening our growth prospects.

**Our final key message relates to our full year outlook. We have upgraded the 2021 sales outlook to reflect the stronger-than-expected results for the third quarter.**

This is still consistent with what we said in July when we removed the volatility of COVID testing demand from our 2021 sales outlook. We are increasingly confident in our full year target for over 20% CER growth in non-COVID product groups, and preparing for solid growth beyond the pandemic.

I would now like to hand over to Roland

ROLAND SACKERS: Thank you, Thierry.

Hello and thank you as well from me for joining this call.

Let me begin by walking you through our sales in more detail.

As Thierry mentioned, non-COVID product group sales grew strongly at 17% CER to 376 million dollars. These sales were supported by improving customer demand across all regions, especially for QuantiFERON-TB, Sample technologies, and NGS / genomics products.

COVID-19 product group sales declined 4% CER to 159 million dollars over the year-ago period, but nonetheless saw strong sales from ongoing demand for respiratory testing in Europe and other areas outside the U.S. This was supported by solid growth for OEM reagents and enzymes as well as the QIAprep& solution.

In the third quarter, double-digit CER gains in consumables and related revenues more than offset a modest decline in instrument sales which faced a challenging comparison to the 2020 quarter that included significant demand for COVID testing.

And now to give more detail by product group, Sample technologies declined 6% CER against a very strong third quarter in 2020. Here mid-single-digit CER growth in non-COVID products offset lower year-over-year sales for COVID-19 testing.

Diagnostic solutions had another quarter of excellent sales, growing 35% CER over the same quarter of 2020. This was led by QuantiFERON sales which grew 48% CER.

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Diagnostic solutions sales were also supported by continued demand for the QIAstat-Dx syndromic solution and ongoing expansion of NeuMoDx systems for core lab PCR testing.

We saw continued recovery in regular testing activities in the third quarter and that includes our oncology business. Sales of precision medicine assays and revenues for companion diagnostic co-development projects grew at a double-digit CER rate.

In the PCR / Nucleic acid amplification product group, sales grew 2% CER over a pandemic-driven third quarter of 2020. Higher sales of consumables and placements of QIAcuity digital PCR more than absorbed a decline in other instrument sales in this group.

Genomics / NGS grew at 44% CER and driven by robust sales in our universal next-generation sequencing consumables for both Life Sciences and Molecular Diagnostics applications. QIAGEN Digital Insights delivered sales growth of more than 20% CER for our bioinformatics solutions - notably with a double-digit CER gain in clinical applications.

On a regional basis, the Americas delivered 9% CER growth. These results were driven by 19% CER growth in the U.S., which was led by QuantiFERON-TB and more than 30% CER growth in the PCR / Nucleic acid amplification and Genomics / NGS product groups.

In the EMEA region, sales grew 6% CER influenced by ongoing demand for COVID-19 testing solutions. Growth in this region was led by double-digit CER gains in the United Kingdom, Italy and Switzerland.

The Asia-Pacific / Japan region experienced strong demand with regional sales growth of 20% CER over the third quarter of 2020, a period when we saw lockdowns in many of these areas. Sales in China rose 16% CER based on improving trends for non-COVID products. Japan, Australia and South Korea also contributed higher sales.

Moving down the income statement, the adjusted gross margin declined to 66.6%, or about three percentage points below the third quarter of 2020. This decline included an inventory markdown of 6.2 million dollars for COVID-19 antigen tests. We did not adjust for this markdown.

Research and development expenses rose to 9% of sales from approximately 7% of sales in the prior year, as we continue to make significant investments into the test menus for QIAstat-Dx,

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NeuMoDx and QIAcuity instruments and across all of our five pillars of growth.

Sales and marketing as well as general and administrative expenses were largely unchanged as a percentage of sales compared to the year-ago quarter.

I would also like to note that while we have experienced some effects of global supply chain disruptions, our teams have secured safety stocks and secondary suppliers where needed. So we have not seen any significant constraints up to this point, but are closely monitoring the situation.

Operating income rose to 132 million dollars in the third quarter of 2021 from 45 million dollars in the prior year. Keep in mind that the 2020 results included 104 million dollars of expenses for the discontinued tender offer.

Adjusted operating income declined 3% to 165 million dollars from 170 million dollars in the third quarter of 2020.

This was due to the increase in research and development expenses during the third quarter of 2021 as we focused efforts on test menu expansion. As a result of these efforts, we saw a decline in adjusted operating income margin to 30.8% of sales from 35.2% in the year-ago period.

Reported EPS was 57 cents per share CER in the third quarter of 2021, and this included a 30 million dollar gain on the sale of milestone-related shares received from Invitae Corporation as part of their purchase of our minority investment in ArcherDx. This entire gain is excluded from adjusted results.

Adjusted EPS was also unchanged at 58 cents per share. I want to note that these results included an adverse impact of about 2 cents per share related to the inventory markdown.

Turning to cash flow trends for 2021, we saw dynamic performance in both operating and free cash flow in the first nine months of 2021.

Operating cash flow increased 134% to 441 million dollars from 188 million dollars in 2020. This reflects higher net income and adjustments from non-cash items. Operating cash flow included a decrease in operating assets and liabilities primarily due to increased inventories to meet the increase in demand and decreases in accrued and other liabilities and accounts payable. Results in 2021 also included cash paid for income taxes of 97 million dollars compared to 32 million dollars in the year-ago period.



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Also, the prior-year period included total cash payments of 119 million dollars for costs related to the discontinued tender offer and 50 million dollars of cash payments for restructuring activities that were initiated in late 2019.

As for free cash flow, we saw a 198% increase to 302 million dollars in 2021 from 101 million dollars in the year ago period.

This increase absorbed higher investments in purchases of property, plant and equipment in 2021, primarily to expand production capacity for our pillars of growth at sites in Europe and the United States.

This solid cash flow will enable us to further invest into our pillars of growth while also seeking to increase returns to shareholders, and on this point we just completed a 100 million dollars share repurchase program at the end of October.

As discussed earlier, we are upgrading our full-year outlook to reflect the higher-than-expected sales for the third quarter for COVID-19 product groups coupled with an increase in ongoing strong demand for non-COVID solutions.

For the full year, net sales are now expected to grow at least 15% CER and adjusted EPS to reach at least 2 dollars and 48 cents per share, also at CER.

Based on exchange rates as of November 1, 2021, currency movements against the U.S. dollar are expected to create a positive impact of about two percentage points on net sales growth and about two cents per share on adjusted EPS.

These expectations take into account continued investments into our five pillars of growth during the remainder of 2021 to further accelerate profitable growth beyond the pandemic in the coming years.

I would like to now hand back to Thierry.

THIERRY BERNARD: Thank you Roland.

So let me provide a quick summary before we move into the Q&A session:

- First, our teams delivered another solid quarter with strong sales growth and adjusted EPS – this was due to better-than-expected sales in COVID-19 product groups and strong trends in non-COVID demand. Our teams continue to execute and deliver on our commitments.

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- Second, our five pillars of growth are performing well and we are on track to achieve our 2021 sales targets. Many of our pillars of growth are in early phases of their life cycle with a solid runway of sustainable growth ahead.
  - Third, QIAGEN has a strong level of profitability and a healthy cash flow in 2021, and this is providing resources to invest in our business while at the same time, increasing returns to shareholders. We are looking for investments that create value and are aligned with our strategy.
  - And, as a last point, we have upgraded the full-year 2021 sales outlook to reflect the stronger-than-expected third quarter results and are moving ahead with conviction about the strengths of our portfolio.

With that, I'd 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.