Good morning. I’d like to welcome everyone to NeoGenomics’ Second Quarter 2018 conference call.

Joining me from our Fort Myers headquarters is Sharon Virag, our Chief Financial Officer, Rob Shovlin, President of our Clinical Services Division, George Cardoza, President of our Pharma Services Division, and Bill Bonello, Vice President of Strategy, Corporate Development and Investor Relations.

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

Bill Bonello

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 it back to Doug, I want to let everyone know that we will be making a copy of our transcript 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

Thanks Bill.

For today’s call, I will briefly review some key Quarter 2 highlights and then turn the call over to Sharon for a more detailed review of the financial results. After that financial review, I will provide some additional commentary on our 2018 growth initiatives and some of the investments that we are making to drive both near-term and long-term growth.
Let’s begin with the Quarter 2 highlights.

**Quarter 2 Performance**

We are pleased with Quarter 2 results. Our fundamentals are strong and our growth prospects are very encouraging.

In the Clinical Services Division, our volume growth rate was once again in the mid-teens, with solid growth across all test types. Revenue per test stabilized and was consistent with Quarter 1. We continued to gain market share and expand our Managed Care coverage, and our sales pipeline is strong.

Our Pharma Services Division revenues grew over 20% compared with last year, and we signed a record $27 million of new contracts for future work. At the end of Quarter 2, our Pharma Services Division backlog was up 95% year over year and currently stands at more than $90 million.

Profitability also improved as we gained leverage, with gross margin up 120 basis points versus last year. We continued to drive cost per test lower compared with last year, and productivity increased again to record high levels of performance. Importantly, service levels continued to be outstanding and we achieved record high levels of customer satisfaction.

Adjusted EBITDA was in line with our expectations for the quarter. During Quarter 2, we invested more in our sales and marketing programs, and continued to pursue FDA approval for our large multi-gene next generation sequencing panel. We remain confident in our full year guidance for Adjusted EBITDA.

Cash collections also remained strong during the quarter. For the first half of the year, cash provided by operating activities was four times higher than last year, and our Accounts Receivable balance improved once again with Days Sales Outstanding dropping 10% from the level reported at the end of Quarter 2 last year.

We had a number of other important developments during the quarter.

- In early June, we announced a global strategic partnership with PPD. NeoGenomics will be the preferred oncology testing lab for PPD in the US and around the world.

- During the quarter, we significantly increased our capacity in Pharma services by moving into a much larger, new, state-of-the-art laboratory facility in Houston Texas. We also expect this new facility will help accelerate our Clinical Division growth in the State of Texas.

- On June 25th, we announced that we had redeemed all remaining 6.9 million shares of Series A Redeemable Preferred Stock from General Electric for approximately $50.1 million. In less than 30 months since completing the Clarient acquisition, we have redeemed 100% of the $110 million preferred stock issued in conjunction with the deal, at a total redemption cost of just $105 million, using our borrowing capacity and internally generated cash flow.
• Finally, we are pleased to announce that we have entered into a national agreement with Cigna Corporation to become a participating in-network provider for all Cigna health insurance products, effective August 1st of this year.

At this point, I would like to turn the call over to our Chief Financial Officer, Sharon Virag, for a more detailed review of second quarter financial results.

Doug transitions to Sharon

Thanks Doug.

Second quarter Review

Before I begin, I would like to remind everyone that we adopted ASC 606 effective January 1, 2018. As part of that adoption, we have restated 2017 results. Hence, the year-over-year comparisons that we discuss will include the adoption of ASC 606 for both periods.

Our second quarter revenues were $67.7 million, a 9% increase from last year. After adjusting for the sale of Path Logic, total revenue grew by nearly 12% year over year. Clinical genetic testing revenue increased 10% to $59.5 million and Pharma Services revenue increased 22% to $8.2 million.

Clinical genetic testing volume increased 14% year-over-year. Importantly, this growth was balanced across modalities with double-digit growth in Flow Cytometry, FISH, and IHC and more than 20% growth in molecular testing. Excluding high levels of PD-L1 test volume, which has now flattened out, test volume growth rates accelerated in Quarter 2.

Average Revenue per Clinical Genetic Test was $318, a 3.6% reduction from the prior year, but stable with the first quarter of this year. The year-over-year decline resulted primarily from changes to Medicare reimbursement and regulation.

Gross profit increased by $3.2 million to $30.5 million, up 12%, from the prior year. This increase represents a 58% contribution on the $5.5 million of revenue growth. Gross margin improved by 120 basis points year over year to 45.1%. This improvement was driven by the divestiture of PathLogic, and a 4.5% decrease in clinical Cost per Test as a result of increased automation and the benefit of increased economies of scale. Gross margin was reduced by the significant additions to Pharma lab capacity in Europe and in Houston.

G&A expenses increased by $2.5 million, or 16% year over year, to $21.0 million. Approximately $1.8 million of this increase is related to one-time, non-recurring costs associated with the relocation of our Houston facility. These moving expenses are counted as Non-GAAP adjustments in our calculation of adjusted net income, adjusted EBITDA and adjusted EPS. Sales and Marketing costs increased by $1.5 million to $7.7 million due to the expansion of our sales force and additional marketing initiatives.
Second quarter GAAP net income attributable to common shareholders was $5.9 million compared to a net loss of $2.2 million in the second quarter of 2017, and Diluted Income per share was $0.07 versus a loss of $0.03 in the prior year. The year-over-year increase is primarily attributable to a one-time gain on redemption of preferred stock, partially offset by the Houston moving expenses.

We believe that in order to compare the net income related to the true operations of the Company on a more consistent basis across periods, it is appropriate to adjust GAAP net income or (loss) available to common shareholders to exclude certain non-cash items and, if applicable, one-time costs. We refer to this measure as “Adjusted Net Income” and on a per share basis, “Adjusted Diluted Earnings per Share”, and we have included a table with how these are calculated in our earnings release.

Adjusted EBITDA was $10.1 million, an increase of 4% year-over-year. As Doug mentioned, EBITDA growth was consistent with our internal forecast, but substantially lower than we would expect to see in a more typical quarter. The lower growth is attributable to the timing of growth investments as well as slightly lower than normal growth in our Pharma Services revenue caused by a temporary short-term disruption in project revenue as the Houston lab was off-line during part of the quarter.

In the second quarter, Adjusted Net Income was $4.5 million compared to $3.5 million in the prior year. Adjusted Diluted EPS was $0.05 per share versus $0.04 per share in Quarter 2, 2017.

As Doug mentioned, cash collections were quite strong in the quarter. DSO decreased 9 days year over year, and one day sequentially to 82 days.

We ended the quarter with $9.4 million of cash and $138.5 million of total debt, including capital leases. During the quarter, we completed a $30 million expansion of our senior credit facility and drew $10 million on our revolver.

At the end of June, we redeemed 6,864,000 shares of Series A Redeemable Preferred Stock from General Electric for approximately $50.1 million. This redemption allowed us to take advantage of a pre-payment discount, avoid future, dilutive paid-in-capital dividends, and significantly simplify our accounting. It also had the effect of reducing our Adjusted Diluted Shares outstanding by approximately 8%. We have now redeemed 100% of the Preferred shares. The redemption was funded by the $30 million increase in our term debt and approximately $20 million of cash on hand and borrowing on our revolver.

We finished the second quarter with 1,063 full-time equivalent employees, contract doctors, and temps, versus 1,023 as of March 31, 2018, and 982 as of June 30, 2017.

We are maintaining our full year guidance for revenue and Adjusted EBITDA. We continue to expect Revenue to be in the range of $260 to $272. We continue to expect Adjusted EBITDA to be in the range of $39 to $43 million. As detailed in our Press Release, we are adjusting our guidance for GAAP and Adjusted Net Income and EPS to reflect redemption of the preferred shares and interest expense arising from our debt refinancing.
Our press release this morning includes a more comprehensive summary of our 2018 guidance, including EPS and Adjusted EPS ranges and a reconciliation of non-GAAP measures to GAAP.

I will now turn the call back over to Doug to provide some additional commentary on our 2018 growth initiatives.

**Sharon transitions to Doug**

Thank you Sharon.

Before we begin the Question and Answer segment of the call, I would like to highlight five important drivers for near-term and long-term growth and profitability.

First, our strong Pharma Services backlog is an important driver of revenue growth. We have more than $90 million of signed contracts in our backlog, and we expect approximately 70 percent of this backlog to convert to revenue over the next three years, including approximately 50% over the next 18 months. Our Pharma Sales team is performing at a very high level, and we are just beginning to add to our Sales capabilities outside the U.S.

Second, we expect that our new Partnership with PPD will help drive growth, and we are extremely pleased to have established this global strategic alliance. PPD is one of the largest contract research organizations in the world, with a significant expertise in oncology trials and an outstanding reputation. Our shared objective is to provide a seamless and fully-integrated global pathology and molecular testing solution to PPD’s pharmaceutical and biotech clients. As part of the agreement, we will be opening NeoGenomics laboratories in both Singapore and Shanghai. These labs will be located in PPD facilities but independently operated and managed by NeoGenomics. We are delighted to partner with PPD, and expect this important strategic alliance to accelerate already strong growth prospects in our Pharma services business. We are hoping to generate run rate revenue of at least $10 million from this alliance by the end of 2019 and believe that the longer-term potential is greater than that.

Third, we are excited about our newly signed contract to be a national participating in-network provider with Cigna. Up until now, we have not been included in the Cigna network. This out-of-network status has negatively impacted volume, growth, and revenue per test. This new contract will allow us to better serve existing customers, add additional customers, reduce billing complexity, and improve our revenue per test relative to what we are paid today as we expect more of our testing to be covered and actually reimbursed.

An important fourth area of growth relates to our FDA initiative. As we have discussed on previous calls, we are in the process of seeking FDA approval for a large, multi-gene, next generation sequencing panel. Earlier this year we filed our presubmission documents and we have a presubmission meeting with the Agency in August. Seeking FDA Approval for a laboratory test is new for us, and we are working hard to understand and meet the requirements of the FDA. We believe that an FDA approved Next Generation Sequencing test offering will benefit both our Pharma Services and Clinical testing Divisions, by further differentiating us from other oncology labs, driving improved reimbursement for our multi-panel test, and increasing our attractiveness to pharma companies for clinical trials involving companion diagnostics.
A fifth area of revenue growth is our initiative to “bend the curve” for reimbursement by taking proactive measures to address revenue per test. We are at the size and sophistication where we have the tools to better analyze our reimbursement experience, identify areas where we are being significantly underpaid, and implement a plan for improvement. These activities may include securing coverage for non-covered tests, improving our billing process to avoid denials, and working denials more effectively when they do occur. We are also evaluating our fee schedules to identify tests that are not appropriately priced.

We also believe that the headwinds of the past 7 years are softening somewhat. Structurally, Medicare represents only about 15% of our payer mix today compared with nearly 45% 7 years ago, and we believe many of CMS’s most significant Physician Fee reimbursement reductions are behind us. As an example, we were pleased that the draft 2019 Physician Fee Schedule recently-released by CMS is, for the first time in a long while, not expected to result in an overall level of reduced reimbursement for NeoGenomics in 2019.

In summary, we are excited about the near-term and long-term growth opportunities available to us. As demographics are changing and the incidence rates of cancer continue to increase, cancer testing and treatment is advancing at a rapid rate and is increasingly saving the lives of patients. We are pleased to play an important role in this vital segment of our healthcare system, and believe that our services are creating value for patients, employees, customers, and for our investors.

I will now hand the call over to Bill Bonello to lead us through Q&A.

**Transition to Bill for Q&A**

At this point, we would like to open it up 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 bill.bonello@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)**

Before we end the call, I would like to recognize the approximately 1,000 NeoGenomics team members around the US for their dedication and commitment to building a world-class cancer-genetics testing 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.

Good bye.