**NeoGenomics Q4**
**2017 Conference Call Script**

## Opening Remarks

The conference call operator announces the Quarter 4 2017 conference call for NeoGenomics, Inc. and turns it over to Douglas VanOort, the Chairman and Chief Executive Officer of NeoGenomics.

## Doug VanOort

Good morning. I'd like to welcome everyone to NeoGenomics' Fourth Quarter 2017 conference call.

Joining me from our Fort Myers headquarters is Steve Jones, our Executive Vice President, George Cardoza, our Senior Vice President and Chief Financial Officer, Bill Bonello, our Treasurer and Director of Corporate Development, Rob Shovlin, President of our Clinical Services Division, Kathyrn McKenzie, our Vice President of Finance and Principal Accounting Officer, and Jessica King, our Director of External Reporting.

Dr. Maher Albitar, our Senior Vice President, Chief Medical Officer and Director of R&D, is joining us from our Aliso Viejo lab in California.

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

## Steve Jones

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**

Thank you Steve.

I'd like to briefly review our Quarter 4 performance, comment on some underlying trends in our business, and share with you our key plans for 2018. Let's begin with our financial performance.

**Quarter 4 Financial Performance**

NeoGenomics fourth quarter performance was very good, and we are especially pleased with the underlying growth momentum in our business.

Consolidated Revenue of $67.8 million was up 12.1% from last year's fourth quarter. Adjusting for the sale of PathLogic, revenue increased by 15%.

We grew test volume in our Clinical Division by a very strong 18.7%, and the product mix was healthier. Our Sales team is getting back to it's former levels of high productivity, and obviously we're winning market share.

Pharma Division revenue increased by 69% compared with last year's fourth quarter. We had reported large gains in the backlog of signed contracts in previous quarters, and although revenue conversion can be uneven from quarter to quarter, we're pleased to have had many projects convert to revenue in Quarter 4. Our backlog of signed contracts increased once again and ended the year 81% higher than last year.

We also were able to drive better profitability on those revenue increases. Adjusted EBITDA reached a record-high $10.5 million. This improvement in profitability was achieved despite lower price-per-test, as we lowered cost-per-test once again by over 10% and our laboratory employees operated at record levels of productivity.

Although we had strong levels of cash collection, the record-high Adjusted EBITDA included elevated bad debt expense as we made sure that some billing challenges experienced earlier in the year are behind us. Importantly, we ended Quarter 4 with net accounts recievable, expressed in terms of Days Sales Outstanding for our Clinical Division, at their lowest levels since mid 2016.

All in all, fourth quarter financial performance was very strong, and we are pleased to see the positive underlying fundamentals we told you about during our last call bear fruit in improved financial results.

**The Positive Fundamentals**

I'd like to comment now on some of those underlying fundamental dynamics affecting our business and start by reviewing our Clinical Division.

Clinical Volume growth and product mix

Fourth quarter volume growth of nearly 19% was, by far, the best of the year. Importantly, that growth was more balanced with accelerating momentum in our core testing disciplines.

As we explained previously, NeoGenomics has performed much of the country's PD-L1 testing ever since that biomarker was identified as a companion diagnostic test in the fourth quarter of 2016. While our high level of PD-L1 testing resulted in higher overall volume growth earlier in the year, at an average price of about $100 per test, PD-L1 testing did not result in much higher revenue, and it drove very little profit growth.

When we analyze fourth quarter volume growth trends excluding PD-L1, we see that growth in our core test areas excluding PD-LI was up nearly 17% compared with a year ago. This reflects a more successful balanced commercial sales effort.

Clinical Division Sales Team efforts and Productivity

We reported in last quarter's call that our sales force is once again focused on winning new business. In fact, their efforts yielded the highest levels of quarterly growth of the year for Molecular, FISH and Flow Cytometry testing. Our strategy to offer a "one stop shop" for all oncology testing needs is paying off, as new clients are requesting many tests in our comprehensive service offering.

Our Sales team is confident, experienced, and well trained. We recently added 5 talented people to our sales team and now have 50 people focused on sales efforts across the country for our Clinical Division.

The Sales team's efforts were aided by over 3 dozen new managed care and strategic partnership agreements signed during 2017, and these helped us to continue to gain new hospital clients across the country.

In addition, we are adding capacity to meet customer expectations with the construction of a small Lab in Atlanta Georgia focused primarily on providing rapid turnaround flow cytometry services to clients in that area.

We believe that our market share gains are based on our scale, our test offering which we believe is the most comprehensive test offering for oncology in the industry, and our focus to consistently deliver high levels of service.

Service Levels and Customer Retention

The high levels of service are evidenced by very strong response rates and scores from our regular customer surveys. They are also demonstrated by very high levels of customer retention.

In our recent analysis of customer retention, we found that our overall customer retention rate during the past year was 97.5%. And about half of the number of lost customers was due to either our decision not to provide services, or to their retirement or acquisition. Adjusting for loses within our control, customer retention is nearly 99%. Of course, even one customer loss is unacceptable to us, and our teams are working to get those few lost clients back.

Pharma Services Growth

Let's turn our attention now to the Pharma Services Division. Once again, we reported a record quarter in this Division, with revenue up 69% year-over-year to $8.7 million.

The health of this business is also demonstrated by $18 million of newly signed contracts during the quarter and ending backlog up 81% to $67 million.

The Pharma Services business is strategically important to us for a variety of reasons. It gives us a window into what new oncology drugs the leading, most innovative Pharma and Biotech companies are developing. And it allows us to partner with those innovators as we discover and test new biomarkers to help them with their drug development programs.

These advances will also help fuel growth in our Clinical Division as those drugs are approved and put into clinical practice. In addition, this business diversifies our company into another high-growth market segment.

As a result, we are investing and building th Pharma Services business by adding capacity. As promised, we opened our first European Lab in November located just outside of Geneva Switzerland in Rolle. And we are now in the process of constructing a new Lab in Houston Texas to replace an older facility that came to NeoGenomics as a result of the Clarient acquisition.

**Challenges**

Clearly, we have very strong growth momentum and many opportunities in both our Clinical and Pharma business units. However, there are challenges in any business and NeoGenomics is no exception. One of our continuing challenges has to do with reimbursement in the Clinical Division, and this year there are several issues we are dealing with.

PAMA

Our entire industry is dealing with reimbursement headwinds as a result of the implementation of PAMA in 2018. In our case, with less than 30% of our test mix subject to the Clinical Lab Fee Schedule, the effect of this particular headwind is relatively minor and is expected to be less than a $1 million impact amounting to less than 0.4% of Clinical revenue.

PFS

Many of our tests, specifically FISH, Flow Cytometry, and Immunohistochemistry, are reimbursed by CMS using the Physician Fee Schedule. Based on new reduced rates for certain Immunohistochemistry and Flow Cytometry tests in 2018, we expect the impact from the Physician Fee Schedule changes to be less than $2 million amounting to less than 0.7% of Clinical revenue.

Prior Authorization

On our last call, we discussed the potential impact of increasing requirements by certain payers for "prior authorization" of test orders. We have set up ordering and billing processes to deal with this new requirement and, at this time, do not see a major impact on test volume or reimbursement levels as a result of this requirement.

14 Day Rule

Another very recent reimbursement challenge is caused by changes in the so called "14 day rule". This long-standing rule required non-hospital reference Labs like NeoGenomics to bill hospital clients directly, instead of Medicare, for any laboratory test performed within 14 days of sample procurement in a hospital setting.

Under the new rule in effect for 2018, certain molecular pathology tests performed in hospital outpatient settings are now excluded from this 14 day rule and non-hospital reference labs such as NeoGenomics can bill Medicare directly for these tests.

Although details of this new rule are quite complex, the implication is that NeoGenomics will now bill Medicare for many single gene molecular tests that have historically been billed to hospital clients.

We believe this is a poor policy change by CMS as it does the opposite of policy shifts of recent years, and will result in less accountability for ordering and additional cost to the government. However, a few smaller Labs lobbied for this change and it was enacted even despite concerns expressed by NeoGenomics and the American Clinical Lab Association.

While difficult to estimate exactly what this impact will be, we expect greater complexity and confusion among clients, and difficulty collecting for some newer and innovative molecular tests. Based on the information we have available today, we estimate the impact of recent changes to the 14-day rule to reduce reimbursement by about $2.5 - $3 million in 2018, or approximately 1.0 – 1.25% of Clinical revenue.

Coverage Determinations

There are also other potential reimbursement challenges for NeoGenomics and other labs in our industry caused by other proposed Medicare coverage determinations, but these rule determinations are not final, are ambiguous, and are potentially harmful to patient care. Cancer patients are among the most vulnerable patients, and getting access to key test results quickly is critical to get the right treatments and the best chance in their fight to survive. We are keeping a close watch on these potential coverage limitations and commenting along with many in our industry.

In total, we expect that known reimbursement headwinds will impact approximately 2.0 – 2.5% of clinical revenue. While reimbursement has been, and continues to be a challenge for us and other industry participants, this reimbursement reduction is consistent with our previously disclosed expectations.

Mitigating Circumstances

Fortunately, only about 15% of our total 2017 revenue was billed to Medicare, as approximately 65% of our bills were sent directly to Hospitals under our individual contracts with them. Contracting directly with Hospitals is a more preferable solution and situation for us.Our Hospital clients deal directly with the cancer patients, they clearly see the value in the testing we provide for them, and they pay for what they order.

**2018 FOCUS**

I will conclude my prepared comments by sharing with you our plans and expectations for 2018.

World-class Culture

As a purpose-driven and values-based company, one of our critical success factors is to continue building a world-class culture. In 2018, we are focusing on significant initiatives to further develop the careers of our teammates, and to create even better teamwork and rewards for high performance.

Uncompromising Quality

We are also focusing even more of our attention this year on providing uncompromising Quality to our clients. Our initiatives here will require leadership and training for all employees. As we believe that high Quality leads to lower cost, our process focus and automation initiatives are intended to lower cost per test by at least 5-7% and to, once again, raise the bar on productivity.

Exceptional Service and Growth

Our third area of focus in 2018 is about growth. We intend to engage clients in a process to further set ourselves apart from our competitors with exceptionally high levels of client satisfaction. We also are focusing on reimbursement and legislative initiatives to deliver profitable growth. We expect to invest $4-5 million in a variety of mid-to-long-term growth initiatives.

2018 Summary

Our plans for 2018 are expected to generate growth rates for both the Clinical and Pharma Divisions that are consistent with our long-term financial goals of mid-teens volume growth in our Clinical business, 20+% revenue growth in our Pharma business, and with 25% to 35% incremental EBITDA contribution on our company-wide growth.

Clearly, the demand for complex oncology testing in this exciting era of Precision Medicine continues to increase. As the market-leading full-service, oncology-focused laboratory, we are uniquely positioned to meet that demand, and we are aggressively pursuing our growth opportunities. We remain confident in our ability to grow and to build an even more exciting business.

I'll now turn the floor to Steve Jones to review fourth quarter results in more detail, and then Bill Bonello will review our 2018 guidance.

**Doug transitions to Steve.**

**Steve's Comments [STEVE, SPEAK SLOWER THAN YOUR NORMAL CADENCE]**

Thanks Doug.

**Fourth Quarter Review**

Fourth quarter consolidated revenues were $67.8 million, a 12.1% increase from last year. After adjusting for the sale of Path Logic, total revenue grew by 15% year over year. Clinical genetic testing revenue increased 9.8% and Pharma Services revenue increased 69.2%.

Average Revenue per Clinical Genetic Test was $338, a 7.6% reduction from the prior year.

Consolidated gross profit increased by $5.9 million, or 21.6%, from the prior year. This increase represents more than 80% of the incremental $7.3 million of revenue growth from the prior year. Gross margin improved by 380 basis points from the prior year to 48.9%, the highest level since the second quarter of 2014. This improvement was driven by a 10.9% decrease in clinical Cost per Test as well as a 750 basis point increase in our Pharma Services gross margin from the prior year.

As mentioned in the press release, consolidated SG&A expenses decreased by 1.5 million, or 5%, from last year, because 2016's fourth quarter included a $3.5 million non-cash impairment charge to write-off certain intangible assets. Excluding the effects of this 2016 impairment charge, SG&A expenses increased by $1.9 million, or 7.2%, which was driven by a $2.0 million increase in bad debt versus the prior year.

Total bad debt in Quarter 4 was $5.6 million, but for those of you who look at such things closely, I am pleased to report that write-offs in Quarter 4 were only $2.9 million. Thus, we were able to increase our allowance as a percentage of gross receivables up to 18.5%.

On a full year basis, bad debt expense increased by $6.8 million to $18.6 milllion, or 7.2% of total revenue, from 4.9% in 2016. For context, we estimate that approximately half of this increase in bad debt was the result of the Clarient integration, and that the overall level of bad debt will decrease in 2018.

Adjusted EBITDA was $10.5 million, an increase of $2.4 million, or 28.9%, compared to 2016's fourth quarter. This increase in Adjusted EBITDA represented 32.2% of the incremental $7.3 million of revenue growth from the prior year.

Fourth Quarter GAAP net income available to common shareholders was $2.3 million compared to net loss of ($14.2) million in the fourth quarter of 2016, and Diluted Income per share was $0.03 versus a loss per share of ($0.18) in the prior year. However, as mentioned in the press release, Quarter 4 2017 net income includes a $3.1 million tax benefit in connection with the Tax Cuts and Jobs Act and Quarter 4 2016 net income includes a $3.5 million impairment charge and a $3.9 million charge associated with the refinancing of our bank debt.

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.

In the fourth quarter, Adjusted Net Income was $4.4 million compared to $4.4 million reported in the prior year. And Adjusted Diluted EPS was $0.05 per share unchanged from the $0.05 per share reported in Quarter 4 2016.

We finished the fourth quarter with 1,009 full-time equivalent employees, contract doctors, and temps, versus 977 as of September 30, 2017, and 969 as of December 31, 2016. The majority of the increases were additions to laboratory personnel to deal with increased testing volumes.

As many of you know, I have had an operating role at NEO since 2002, and that 14 months ago I begin a process to transition my day-to-day duties to other team members. Over the next 6-8 weeks, I will be handing off my duties as Director of Investor Relations to Bill Bonello, our Vice President and Director of Corporate Development, who will take over this role in April. After that time, I will remain as a part-time consultant and Board member.

I would like to take this opportunity to thank each and everyone of our NEO employees and clients for their outstanding dedication and support in building one of the premier cancer testing labs in the United States. I feel incredibly blessed to have been part of the team that grew the company from $90,000 in revenue in our first year to over $258 million in just 15 years. It has also been a highhonor to work with investors and analysts over this period. I know I speak for all our employees and board members when I say that we are deeply appreciative of your confidence and support of our vision. Indeed, we couldn't have done it without you.

Since Bill will be taking over this role shortly, we felt it was appropriate to have him present the 2018 guidance and answer any questions that may arise, and thus, I will now turn the floor over to Bill.

**Steve transitions to Bill**

Thanks Steve. Let me briefly review the 2018 guidance we issued this morning.

For 2018, we expect Revenue to be in the range of $260 to $272 million. This guidance reflects the adoption of ASC 606. Under this new accounting standard, all bad debt expense will be accounted for as a reduction to revenue where it was previously reported separately as expense in the general and administrative section of our income statement. As a result, we expect the adoption of ASC 606 to reduce reported revenue by $15 to $16 million in 2018. Now that the issues related to the Clarient billing integration are behind us, this level of expected bad debt represents a 16-17% decrease from 2017 levels.

Our 2018 Revenue guidance equates to 10% to 15% growth over 2017, on a pro forma basis, assuming adoption of ASC 606 effective January 1, 2017 and excluding the contribution of Pathlogic for all of 2017.

For 2018 we expect Adjusted EBITDA to be in the range of $39 to $43 million, which equates to year over year growth of 13% to 24%, excluding the 2017 EBITDA deficits from Pathlogic. Importantly, the adoption of ASC 606 will not have a material impact on Adjusted EBITDA.

We would remind everyone that Revenue in our Pharma Services division can vary considerably from quarter-to-quarter. We do expect that Pharma Services Revenue and Gross Margin will be lower in Q1 than in Q4, though still up on a year-over-year basis.

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 hand it back to Steve to lead us through Q&A.

**Transition Back to Steve 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 sjones@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.

**Question and Answer Session**

**Closing Remarks**

Before we end the call, I would like to recognize Steve Jones for his great work and dedication to NeoGenomics over the past 15 years. Steve started at NeoGenomics when the company had zero revenue, and we give him a lot of credit for creating the company we have today. Steve will continue to help us as a Consultant and Board Member, so we're not letting him go far.

I also want 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, and let you know that our first quarter 2018 earnings call will be on or around May 1, 2018, which will be our first quarter under the new ASC 606 accounting rules. 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.