



MDxHealth

Second Quarter 2022 Earnings Call

August 2, 2022

C O R P O R A T E P A R T I C I P A N T S

Michael McGarrity, *Chief Executive Officer*

Ron Kalfus, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Vivian, *BTIG*

Thomas Vranken, *KBC Securities*

P R E S E N T A T I O N

Operator

Good day, ladies and gentlemen, and welcome to the MDxHealth August 2, 2022 Business Update.

As a reminder, this conference call is being recorded.

Before we begin, I'd like to remind everyone that the Company will make forward-looking statements during today's call, whether in the prepared remarks or during the Q&A session. These forward-looking statements are subject to inherent risks and uncertainties. These risks and uncertainties are detailed in the risk factors section of the Company's filings with the Securities and Exchange Commission, specifically in the Company's Annual Report on Form 20-F filed with the SEC on April 25, 2022, and in subsequent filings.

At this time, I'd like to turn the conference over to Mr. Michael McGarrity, Chief Executive Officer of MDxHealth. Please go ahead, sir.

Michael McGarrity

Thanks, Sarah. Thank you, all, for joining us for an exciting update for MDxHealth.

With me today is Ron Kalfus, Chief Financial Officer.

As we announced today in our press release, MDxHealth has acquired the Oncotype GPS business from Exact Sciences. We consider this a transformative acquisition that serves as the next step in our disciplined process to build a world-class business focused in urology. The acquisition further demonstrates our steadfast focus on building a leading growth company with an exceptional team in place to execute across all operating disciplines. We are committed to our strategy to build value for all of our stakeholders, including patients, customers, employees, and shareholders. We are confident that this transaction positions MDxHealth to uniquely serve our newly combined customer base with the most comprehensive menu of precision diagnostics for urology and prostate cancer.

I would like to thank Kevin Conroy and the Exact Sciences team for their continuing partnership through this transaction. We believe that the equity investment that Exact Sciences is making in MDxHealth reflects their confidence that we will be excellent stewards to the thousands of Oncotype GPS patients and customers.

For understanding and to characterize the strategic fit with our current menu, Select mdx and Confirm mdx, Oncotype GPS or Genomic Prostates Score, as it is widely known, is a multi-gene expression assay designed for men diagnosed with localized prostate cancer to help guide treatment decisions. The Oncotype GPS test was developed, clinically validated and studied collectively in over 9,000 patients. The test analyzes prostate cancer gene activity to predict disease aggressiveness and to help refine risk assessment. The test provides clinically actionable information for both patient and clinician when active surveillance may be an appropriate decision, as well as risk estimates to help inform treatment decisions for higher-risk patients.

Ron will comment on the structure of the transaction and our preliminary mid-year results, but first let me comment on the strategic rationale of this acquisition. As we have communicated, even amidst the headwinds of reimbursement timing for Select mdx and the impact of patient flow from the pandemic, which are now both turning to tailwinds. We have been unwavering in our belief and confidence that MDxHealth is now the most focused company in the prostate cancer urology market backed by the following.

Our offering of Select mdx, Confirm mdx, Oncotype GPS, all included in the National Comprehensive Cancer Network or NCCN guidelines. Coupled with our Resolve mdx, which will be the new brand name for our urinary tract infection test. All share two key attributes.

One, a clear and compelling set of published data and demonstrated clinical validity and utility.

Two, a broad set of customers that have adopted these tests for clinically actionable disposition of patients in the diagnostic pathway of prostate cancer and infectious disease.

Our focus is further backed by a best-in-class channel into urology with a now expanded field organization of over 70 sales reps, managers, strategic account managers, and medical science liaisons; a world-class laboratory that will now serve as the most comprehensive menu partner to our urology and pathology customers; one lab that partners with urology practices for the broadest and highest-quality customer and patient experience in the industry; a significant and strengthened key opinion leader network that brings in the best of the Oncotype GPS reputational excellence.

We are excited to welcome the commercial team from the Exact Sciences Urology Business to the MDxHealth family. We have worked diligently with the exact team to ensure a transition that will capitalize on customer coverage and growth leverage of our combined teams. We will be transferring the laboratory operations from the Exact Redwood City location to our laboratory in Irvine over the coming months, and have worked closely with both teams to again ensure a seamless transfer and integration.

Also, not to be lost, it is our very positive growth in the first half of 2022 for MDXL with preliminary revenue up 22%, while sequential quarterly revenue grew 13%.

I will comment further on our view forward. But first, let me turn the call over to Ron for a review of our preliminary revenue results for Q2 and first half, and additional comments on the acquisition? Brian.

Ron Kalfus

Thank you, Mike.

First, as Mike noted, we are pleased to report that preliminary revenues for the second quarter of 2022 were \$6.9 million, representing a 22% increase from the same period last year. That brings our total preliminary revenues for the first half of 2022 to \$13 million, which represents a 21% increase over the first half of 2021. Mike will comment shortly on our updated guidance for the second half of 2020 on both our core MDxHealth business, as well as the Oncotype GPS business.

Turning to the acquisition of the Oncotype GPS business. Total purchase price to be paid for the Oncotype business is up to \$100 million, \$30 million in the form of an upfront payment, and up to \$70 million in earn-outs payable through the middle of 2026 and tied to Oncotype GPS revenue. It should also be noted that of the \$30 million upfront payment, \$5 million will be funded through an equity investment in MDxHealth by Exact Sciences.

As part of this transaction, we have also secured a new debt facility of up to \$70 million within Nevada's Capital Partners. Half of that amount, or \$35 million, has been drawn at closing and applied to both the upfront payment to Exact Sciences as well as to repay our previous debt facility, Krios Capital in the amount of €9 million. The remaining \$35 million of this debt facility is available for us to draw down at our discretion in two or more tranches starting in mid-2024. The (Inaudible) debt facility is a five-year loan carrying an interest rate of prime plus 4.25% and has four years of interest-only payments. Complete details of both the Oncotype GPS acquisition, as well as the (inaudible) debt facility were provided in our press release earlier today. This concludes my brief overview of our preliminary results in transaction.

I'll now turn the call back to Mike. Mike?

Michael McGarrity

Thanks, Ron.

In addition to today's update on the acquisition, I would like to note that as previously announced, we expect that the recent issuance a final LCD covering the indication for our Select mdx test, will support payment from Medicare and drive revenue growth beginning in Q3.

Accordingly and as a follow-up to my initial comments, I would like to provide visibility to our business and guidance for the remainder of 2022. We are increasing our core MDxHealth guidance to \$27 million to \$29 million for 2022, up from our previous guidance of \$25 million to \$27 million, representing projected growth of 21% to 30% over prior year 2021.

In addition, we are initiating revenue guidance for the acquired Oncotype GPS business of an estimated \$13 million for the five-month period from August to December 2022. This provides the basis for our total full year revenue guidance for 2022 of between \$40 million and \$42 million. It should also be noted that we expect the acquisition of the Oncotype GPS test, coupled with our Select mdx and Resolve mdx test revenue to all be accretive to gross margin. As we move through Q3 and Q4, we will continue to gather additional payer coverage experience and we plan to begin to break out revenue by product in 2023.

As a final note on our revenue guidance, we billed over 3,000 UTI tests in the first half of this year and are beginning to establish assumptions on ASP and revenue that will continue to contribute to our growth going forward. We are confident that our assumptions on strategic fit and focus of our now expanded sales organization and customer base are well-founded and consistent with our diligence on the market and landscape.

Finally, we believe that our current and expanded menu will drive standardization by urology practices to MDxHealth, supported by our earned reputation for excellence in service, accuracy and turnaround time.

Before I close, I'm also happy to announce that we have re-branded and updated our website and company presentation, all of which went live today, reflecting our confidence and excitement for the future of MDxHealth. We believe our focus on execution over the last three years has resulted in: a restructuring of our sales team and operating discipline across all functions; a doubling of our menu offering; support from the highest-quality U.S. and European investors with our recent IPO in listing on NASDAQ; medicare coverage for the Select mdx indication with the recent final LCD; launch of a novel UTI or Urinary Tract Infection test, which is now being adopted into our urology target customer base, where 20% of the 10 million cases present annually; expansion of our best-in-class sales channel with our acquisition of complementary reps from Exact Sciences; the potential of our monitor test in development for men under active surveillance to further improve and advance the prostate cancer diagnostic pathway; finally, our clear emergence as a leader in the industry focused exclusively on our urology patients and customers, while broadening opportunities for partnership and business development.

As we look forward, MDxHealth is committed to being a growth company as demonstrated by our consistent focus on execution and now strategic acquisition that we are confident will again serve as the foundation for value creation for all of our stakeholders, including patients, customers, employees, and shareholders.

Thank you for your interest in and support of MDxHealth.

Now I'll turn the call back over to Sarah for questions.

Operator

Thank you. Our first question will come from Tracy Massaro with BTIG.

Vivian

Hi guys, this is Vivian (phon) on for Mark (phon). Thanks for taking the questions. You mentioned your sales force head count of 70 reps. Can you just remind us how many reps you acquired from Exact Urology's salesforce? Are the Exact reps just learning of this now or have they had any time to sign a contract with MDx? When do you expect to train these new reps under the MDxHealth umbrella? Thanks.

Michael McGarrity

Yes, Vivian. My comment was we now have combined—we're expecting to have 70 total people in the field between reps, managers, strategic account managers, and medical science liaisons. We will be bringing over representatives in each of those categories. The majority would be sales representatives. I won't comment on specific communications between and amongst the two companies' employees. But yes, we're really excited that we think we're going to have not only the best-in-class menu, but a channel that's really built, and I think through our restructuring with John Bellano on our team here, for the best talent, leadership, execution. We expect that to be advanced with the new people coming on board.

Vivian

Perfect, and maybe one for Ron. Can you share why you decided to raise debt as opposed to issuing equity to help finance the deal? Thanks.

Ron Kalfus

Yes, Vivian. We're looking to capitalize growth in the most opportunistic way that we can. We viewed this facility and partnership with Innovadis (phon) as really giving us all the optionality for our path forward for growth. There's additional capacity under the facility at our discretion. We believe that the timeline of the

interest-only period matches with the earn out. We viewed it as an ideal structure based on our current balance sheet and the way we want to execute on our growth to support the acquisition, which we think is the key to driving both revenue, profitability, and the balance sheet.

Vivian

Got it. That's it for me. Thanks for taking the question.

Michael McGarrity

Thanks, Vivian.

Operator

We'll now hear from Thomas Vranken with KBC Securities.

Thomas Vranken

Hi this is Thomas. Thanks for taking my question and congratulations on the very nice transformational acquisition. Just maybe two quick questions from my side.

The first question is whether you could provide some sentiment on the current patient base, how large it is, and to which extent that the test is recurring so how often can patients reuse the test over time?

Then secondly, if you could also speak a bit about what the impact would be on your internal pipeline of tests being developed as you were also working on a test there? Thank you.

Michael McGarrity

Thomas, thanks. Thanks for staying up late as usual. We think the customer base is very complementary. That was a big part of the strategic rationale. When we look at our sales reps today and our business, we know Oncotype GPS in the market and vice versa. The combination really makes sense from a street sales rep perspective, as well as from a complementary menu offering to our customers. We know where our customers match up. We have customers, large urology group practices that maybe don't—have not adopted Oncotype and vice versa. That's where we see real leverage to bring those together.

One key point here is, if you think about our menu prior to the acquisition, we have our Select test, which is after elevated PSA prior to initial biopsy. We had our Confirmed test, which was after initial biopsy from a negative result. Now we have the Oncotype, which is after initial biopsy to a positive biopsy result to better characterize that patient for active surveillance or intervention. We really believe our mission was to be able to take a patient from elevated PSA all the way through the diagnostic pathway. Today we took a big step to doing that.

To your second part of your question, the next and final step would be what we have that I commented on in development, which is our Monitor test, which we're contemplating to be a liquid biopsy test for patients in active surveillance, for annual monitoring and as an alternative to annual biopsy, which is a challenge for all the reasons associated with healthcare economics and patient compliance. Yes, we did have a test in development called AS-MDx. This is—replaces that. We think it's the right investment from a time, revenue pickup, and market adoption.

Operator

Mr. Thomas, was there anything further?

Thomas Vranken

Those were my questions. Thank you.

Michael McGarrity

Thanks, Thomas.

Operator

That will conclude the question-and-answer session. Mr. McGarrity, I'll turn things back over to you for any additional or closing remarks.

Michael McGarrity

I have none other than to thank everybody for participating. I know we have a couple analysts that's very busy day, evening, and time, and we will be following up with them as well. But thanks for your time and interest, everybody.

Operator

That will conclude today's conference call. Once again, thanks, everyone, for joining us. You may now disconnect.