

NeoGenomics Inc.

4Q23 results and FY'24 guide ahead; LRP raised to >10%; RaDaR hearing on 3/29

Reiterate Rating: NEUTRAL | PO: 18.00 USD | Price: 14.70 USD

Upside 4Q results with sales 2% ahead of Street

NeoGenomics (NEO) reported upside 4Q'23 results, including sales of \$156mn (vs BofAe/Street \$154/153mn). Core clinical test volume was up +6% y/y (vs BofAe/Street (Visible Alpha) +7/5%), while the average revenue per test grew +13% y/y (vs. BofAe/Street expectation of +12%). Advanced Diagnostics (ADx) was roughly in line with BofAe/Street. Blended GM increased 250bps to 43.5% (vs BofAe 41.5%). Adj EBITDA was \$9mn vs BofAe/Street \$3.6mn, and the Adj. EPS were +3c vs BofAe/Street 0c/-3c.

'24 guide 4% ahead; Medium-term growth raised to >10%

NEO's initial FY'24 guide was better than expected, with sales of \$650-660mn (+10-12% y/y growth) (vs BofAe/Street \$640/632mn) and Adj. EBITDA of \$21-24mn (vs BofAe/Street \$21/16mn). While Mgmt. did not break out the contributions from Clinical Services and ADx, both are performing well after going through a period of portfolio optimization and laboratory rationalization and are expected to contribute to '24 growth. Notably, NGS portfolio (grew >40% in 4Q and now is >25% of sales) is expected to be the main driver of pricing in 2024. Given the last few quarters of outperformance, Mgmt. also raised the medium-term growth to >10% (vs prior 7-9%).

More details on RaDaR injunction; Hearing on 3/29

During the call, Mgmt. provided additional details on the ongoing litigation regarding RaDaR, its tumor-informed cancer recurrence assay. After receiving an injunction in Dec '23 ([see our thoughts on NTRA vs NEO here](#)), NEO has since appealed the decision. While there is an expedited hearing coming up 3/29, Mgmt. cautioned that the timing of the final decision could vary. In the meantime, RaDaR continues to be excluded from the guide, representing an upside to the numbers.

Update estimates on solid results and guide

We raise estimates given the better-than-expected 4Q results, '24 guide, and long-range plan update. NEO has made good progress in revamping its core business, but we think that this is already largely priced into shares. Also, RaDaR injunction remains an overhang on the stock. As such, we reiterate our Neutral rating and \$18 PO.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.56)	(0.12)	0.02	0.16	0.35
EPS Change (YoY)	-107.4%	78.6%	NM	700.0%	118.8%
Consensus EPS (Bloomberg)			(0.09)	0.10	0.41
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	735.0x	91.9x	42.0x
EV / EBITDA*	NM	610.0x	88.4x	43.5x	25.8x
Free Cash Flow Yield*	-5.2%	-1.6%	1.1%	2.8%	3.6%

* For full definitions of *IQmethod*SM measures, see page 4.

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	-0.05	0.02
2025E EPS	0.07	0.16
2026E EPS	NA	0.35
2024E EBITDA (m)	21.0	24.0
2025E EBITDA (m)	40.9	48.9
2026E EBITDA (m)	NA	82.5

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Stock Data

Price	14.70 USD
Price Objective	18.00 USD
Date Established	29-Dec-2023
Investment Opinion	C-2-9
52-Week Range	11.03 USD - 21.22 USD
Mkt Val (mn) / Shares Out (mn)	1,876 USD / 127.6
Free Float	98.6%
Average Daily Value (mn)	13.01 USD
BofA Ticker / Exchange	NEO / NAS
Bloomberg / Reuters	NEO US / NEO.OQ
ROE (2024E)	0.2%
Net Dbt to Eqty (Dec-2023A)	13.1%
ESGMeter™	Medium

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Timestamp: 20 February 2024 09:46PM EST

iQprofileSM NeoGenomics Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-6.3%	-2.4%	-2.0%	-0.9%	0.5%
Return on Equity	-6.6%	-1.5%	0.2%	2.1%	4.3%
Operating Margin	-25.8%	-12.2%	-9.4%	-5.5%	-1.0%
Free Cash Flow	(97)	(31)	21	52	68

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	25.8x	4.3x	2.3x
Asset Replacement Ratio	0.9x	0.8x	0.9x	0.9x	0.9x
Tax Rate	17.8%	38.1%	25.0%	22.0%	22.0%
Net Debt-to-Equity Ratio	9.8%	13.1%	15.5%	6.3%	-2.9%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	510	592	659	713	772
% Change	5.2%	16.1%	11.4%	8.2%	8.3%
Gross Profit	188	245	282	318	357
% Change	0.1%	30.2%	15.5%	12.5%	12.4%
EBITDA	(48)	3	24	49	82
% Change	NM	NM	589.8%	103.3%	68.6%
Net Interest & Other Income	47	48	65	66	67
Net Income (Adjusted)	(70)	(15)	2	21	46
% Change	-113.4%	78.7%	NM	861.6%	122.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(70)	(15)	2	21	46
Depreciation & Amortization	35	37	41	42	43
Change in Working Capital	(32)	(25)	(13)	0	(10)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	1	26	27	28
Capital Expenditure	(31)	(29)	(35)	(37)	(39)
Free Cash Flow	-97	-31	21	52	68
% Change	-6.6%	68.3%	NM	153.5%	30.1%
Share / Issue Repurchase	13	5	30	28	29
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	438	415	393	474	571
Trade Receivables	120	131	135	137	148
Other Current Assets	48	50	52	54	55
Property, Plant & Equipment	102	92	96	98	100
Other Non-Current Assets	1,032	992	992	992	992
Total Assets	1,740	1,681	1,668	1,755	1,866
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	90	96	89	92	95
Long-Term Debt	535	538	538	538	538
Other Non-Current Liabilities	117	105	105	105	105
Total Liabilities	742	740	732	736	739
Total Equity	998	942	936	1,019	1,127
Total Equity & Liabilities	1,740	1,681	1,668	1,755	1,866

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Healthcare Technology & Distribution

Company Description

NEO is the largest provider of oncology testing services in the US, delivered through a national network of cancer-focused testing labs in the US. NEO also has a Pharma Services business with global presence in the US, Europe and Asia.

Investment Rationale

Although we are positive on NEO's product offerings, see demand for oncology testing increasing, and believe that the company has the potential to deliver double-digit organic revenue growth in the long term, we are more cautious in the near term as the company faces a number of commercial and operational headwinds.

Stock Data

Average Daily Volume

884,879

Quarterly Earnings Estimates

	2023	2024
Q1	-0.09A	-0.06E
Q2	-0.05A	-0.01E
Q3	0A	0.02E
Q4	0.03A	0.07E

Price objective basis & risk

NeoGenomics Inc. (NEO)

Our \$18 PO (price objective) is based on an EV/Sales multiple of about 4x our 2024 revenues estimate. This multiple is still a discount to NEO's median two-year forward EV/Sales multiple over the last five years of about 6x but in line with the weighted average of a blended peer group of national labs, specialty diagnostics companies, and CROs (contract research organizations).

Downside risks to our PO are commercial, market, regulatory, data privacy, lower test volume growth, greater than expected pricing headwinds, revenue volatility due to uncertain timing of biopharma backlog conversion, market challenges related to COVID-19, competition, slower-than-expected update of new products, and technology.

Upside risks to our PO are better core test volume growth, faster uptake of new products, higher test pricing, and the potential acquisition of the company

Analyst Certification

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US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin



US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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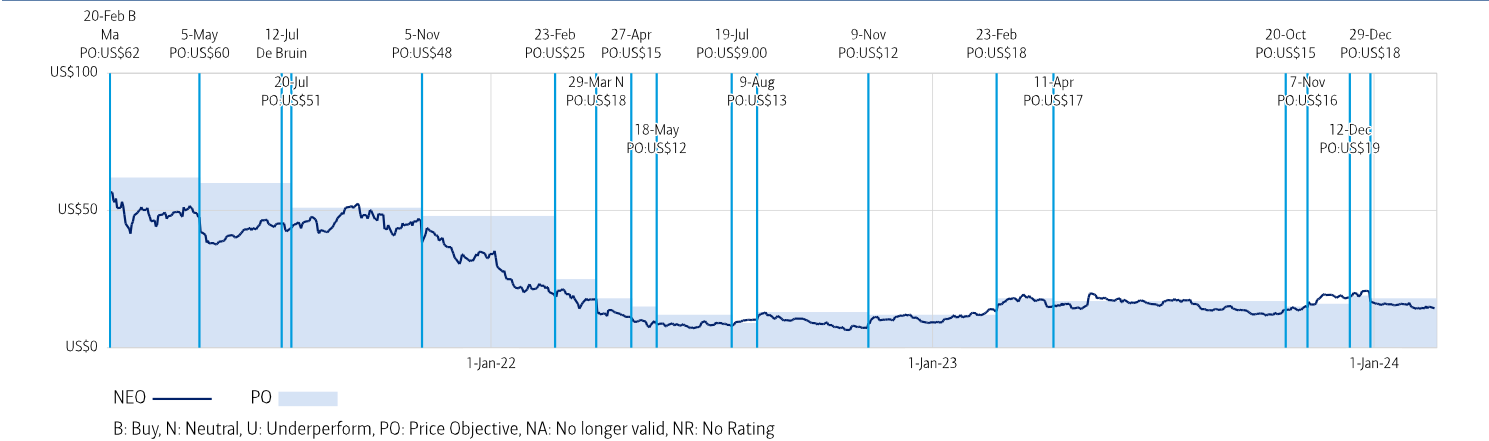
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NeoGenomics (NEO) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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