

Juliet Cunningham
Introduction & Safe Harbor

Good morning and thank you for joining us for Alere's second quarter 2015 conference call. Joining me today is Namal Nawana, our CEO and President, and Jim Hinrichs, our EVP & CFO. Both Namal and Jim have prepared remarks and then we'll open the call for questions and answers.

Our second quarter earnings release and the webcast presentation slides are available on the Investor Relations page of our website. We will also post our prepared remarks on our website shortly after the conclusion of this call. As a reminder, this conference call is being webcast live on Tuesday, August 4, 2015. The audio replay of this call will be available on our website through August 11, 2015, and our prepared remarks and earnings presentation will be posted and archived on our IR page.

Before we begin, I'd like to inform you that we may make forward-looking statements during this call, including, among others, statements with respect to future organic growth, anticipated reductions in costs, regulatory approvals, anticipated future financial and operating results, expected product developments, anticipated benefits of acquisitions, the impact of acquisitions and dispositions on earnings, and potential divestitures, including the timing and expected proceeds from such divestitures. Additional information on forward looking statements is included in the first slide to webcast presentation. Actual results and the timing of events could differ materially due to the risks and uncertainties described in our Form 10-K, Form 10-Qs and other SEC filings. We undertake no obligation to update forward-looking statements.

In addition, during this call we discuss certain non-GAAP financial measures. A reconciliation to the most closely comparable GAAP financial measures is included in our second quarter earnings release.

With that, I'd like to turn the call over to Namal Nawana, CEO and President of Alere.

Namal Nawana
CEO Overview

Thank you, Juliet, and thanks to all of you joining us for a review of our second quarter. Jim will go through our financials in detail later in the call, but I'd like to cover three key topics this morning:

- 1) Our strong second quarter financial performance,
- 2) An update on how we're executing on our overall strategy, and
- 3) Our progress and further plans on accelerating organic growth for Alere.

Beginning with our second quarter performance – as you know, the second quarter is typically the weakest from a revenue and earnings standpoint for Alere due to seasonality. I'm pleased to report that Q2 this year showed strong sequential growth despite the significant macro headwinds of \$33 million negative impact from foreign exchange and \$16 million less in seasonal flu sales compared to the first quarter of 2015. In addition, our strong operating performance delivered more than 300 basis points of adjusted operating margin improvement year over year resulting in \$0.54 of adjusted earnings per diluted share to the bottom line.

For your reference, we've included a summary table of Q2 results in our webcast presentation. I'd highlight that our Infectious Disease and Cardiometabolic businesses achieved currency adjusted organic growth of 8% and 6%, respectively. Toxicology had organic growth of -5% during Q2.

Looking at the second slide titled "Adjusted Organic Growth" in our webcast presentation, you can see that we went from negative 2.2% in Q2 2014 to positive 1.9% in organic growth by the end of 2014, and we've been on a positive trajectory ever since, achieving 3.4% adjusted organic growth in Q2 2015.

Looking at the global regions in Q2, Africa grew nearly 14% year-over-year, Latin America grew 10%, Asia Pacific grew 9%, and notably, North America grew 2%. Although Europe declined by 2% in the quarter both our Cardiometabolic and Infectious Disease businesses grew organically

and the negative growth came mainly in Toxicology and some third-party products that we have discontinued marketing.

I'd like to move now to our progress in shifting Alere's strategy and the multi-dimensional benefits of the transformation we began a year ago. By focusing on our core businesses and executing on our strategy to lead in Point-of-Care and Molecular Diagnostics – the two highest growth segments of the IVD market - we have positioned ourselves to achieve our organic growth targets.

Furthermore, in keeping with our initiative to divest non-core assets, we announced the divestiture of BBI for a total of \$164 million, including \$47 million in contingent consideration. At this stage we expect to complete the divestiture of BBI in the fourth quarter of 2015. At the same time, we acquired US Diagnostics, a leading distributor of Toxicology products. At \$60 million, this is a small tuck-in acquisition but a good one for our core Toxicology business and will be immediately accretive. We are already in the process of integrating USD and we expect to gain greater market access and synergies over time. Combined, we expect the disposition of BBI and the USD acquisition to be in the range of \$0.00-\$0.05 dilutive to 2015 earnings, depending on the timing of the BBI close.

We continue to pursue the divestiture of our other remaining non-core assets, and we have recently made solid advances in our efforts to sell our stake in TechLab. We've also made progress on selling our 50% ownership stake in Swiss Precision Diagnostics. The process has progressed well but since our last update I can report that SPD is currently working through a legal matter that is taking up management time and therefore could potentially delay timing of an eventual disposition. Our intent to divest has not changed.

Turning now to Alere accelerating growth and performance in our core business areas. I'm grateful to our teams around the world for their solid execution in Q2 and I'd like to share some of their highlights with you now. Unless otherwise noted, all growth figures are currency adjusted and exclude dispositions:

- Beginning with our Cardiometabolic business, Q2 revenue was \$214 million, or 6% year-over-year organic growth. It's great to see that kind of growth back in our largest business unit. Q2 Cardiometabolic revenue included a \$9 million increase in patient self-testing and mail-order diabetes, as well as strong contribution from global sales of Triage, cholesterol and epoc products. These increases were partially offset by a \$1 million decline in North American INRatio product sales.
 - In terms of leading geographies, Asia Pacific contributed 21% and North America contributed 5% with double-digit growth in Alere Home Monitoring and Arriva.
 - epoc sales increased by 39% year-over-year, benefitting from increased manufacturing capacity and the introduction of new analytes on the platform.
 - Afinion also had strong organic growth of 12% year-over-year during Q2.
- Our Infectious Disease business, which covers a broad range of viral and bacterial pathogens, achieved revenue of \$177 million in Q2. This represents an increase in organic growth of 8% with highly diversified sales across the entire portfolio, including \$9 million in global flu sales.
 - Strong global HIV sales increased by 17% year-over-year as our Determine and Determine Combo products continued to grow and gain market share. Other drivers included dengue at 36% growth, *C. difficile* at 13% growth, viral hepatitis at 10% growth and malaria at 5% growth.
 - Looking at global regions, Infectious Disease sales rebounded in Africa, growing 13% led by strong HIV sales. Latin America increased 15%, North America grew 10% and Asia Pacific grew 4%.
- Turning now to Global Toxicology, the business posted Q2 revenue of \$157 million, a 5% decline, primarily driven by pain management which decreased \$13 million year-over-year.
- Excluding pain management, our Core Toxicology revenue grew by 3% with the Reagents business and Employer Services businesses driving growth, with 10% and 9% year-over-year contribution, respectively.

- In our Reagents business, we received three additional 510(k) clearances during Q2, including Opiates, Cannabis and Cocaine. With these new clearances, we've added a total of seven clearances already and we have additional clearances submitted and we expect to receive those clearances this year. With this critical mass in reagents, we expect to launch these with key laboratory and trade partners later this year.
- In Employer Services, we expanded our reach to more than 3,600 e-screen-enabled clinics, adding approximately 130 new clinic partner locations. We also won additional national accounts with large employers and third-party administrators, which we are working to on-board in the third quarter.
- Finally, we had a large win in our Government business – a major mid-western state chose Alere Toxicology for a \$10 million annual “solutions” contract which combines collections, lab services and process management into a single, multi-year contract.

Now I'd like to talk about what excites me most - and that's all of the opportunity we have in front of us with our new innovations and molecular platforms.

- Starting with our molecular portfolio, Alere i is the first CLIA waived Flu A/B. With a 12-18 month advantage and a time-to-result of 15 minutes or less, we believe we are extremely well positioned to capture increased molecular share in a rapidly expanding market. We are seeing excellent sales pipeline momentum building for Alere i going into Q3, including a large hospital network win this last month. Contrary to some competitor and industry commentary, we are actively selling and shipping Alere i, as well as building inventory of our extended shelf-life product ahead of the upcoming US respiratory season.
- Following our recent FDA CLIA waiver, we are also seeing strong interest in our second Alere i assay, Strep A, which further reinforces the value proposition of the i platform. We have received FDA approval on our multi-analyte software, as well as 510k approval for a Viral Transport Media claim for flu.

- On our first quarter call, we also reported that we had received CE mark to begin marketing our Alere q platform. I am pleased to report that we've received our first multi-million dollar order for Alere q and have already shipped over half a million dollars' worth of Alere q product in Q2. With its ability to utilize both thermo-cycling and isothermal technology, we believe this product will be requisite for diseases that require high sensitivity detection with molecular accuracy in a portable instrument. While we're still in early stages, as previously communicated, we expect Alere q to build momentum in the second half of 2015 and beyond.
- In addition to our molecular launches, we're also launching an innovative new family of lateral flow respiratory tests, including a flu product for Japan. These multi-colored tests can deliver results in 8 minutes with positive results in as little as 2 minutes. With the addition of these new tests, we'll have highly competitive products for the full spectrum of needs, price points and end markets.

Lastly, I want to briefly discuss our priorities for the second half of this year. I'm very pleased with how we've executed in the first half of 2015. Disciplined operational execution has delivered consistent and significantly expanded operating margins. We will maintain that discipline going forward.

We have demonstrated a return to organic growth with now three consecutive quarters of growth and 3.4% in Q2. This is our key area of further acceleration and focus for the remainder of the year. We already have momentum in two out of three of our core business areas, namely Infectious Disease and Cardiometabolic. With pain management as a headwind, we have struggled to achieve overall growth in Toxicology, but we believe that despite that headwind, overall Toxicology can return to growth by Q4 of this year.

Our teams can access new product launches and therefore new opportunities going forward, and in particular, with our molecular products in Alere i and Alere q. Equally, each geographic region is now able to execute on a plan to achieve organic growth going forward.

I'd like to briefly take the opportunity to thank the Alere team around the globe, who together, are serving more customers and making Alere a more capable and high performing organization.

I'm confident that we're well positioned to accelerate growth in the second half of this year and maintain our established operational discipline. We re-affirm the guidance we have set for 2015 for both revenue and EPS, and with that, I'll turn the call over to Jim.

Jim Hinrichs, EVP & CFO
Financial Overview

Thanks, Namal, and good morning everyone. Today, I've got two topics to cover – first, I'll review the 2nd quarter numbers, providing color and variance drivers, and second, I'll give a quick summary of my first 100 days here at Alere with some thoughts on the opportunities that we have as a company to improve profitability. However, before I do that, I'd like to give you what I think are the three key financial takeaways from our second quarter results:

- 1) First, the second quarter came in basically as we expected – it was a very solid quarter with revenue and earnings largely in line with what we expected when we entered the quarter,
- 2) Second, organic growth accelerated from Q1 as expected and we believe that trend will continue through the year, and
- 3) Finally, the restructuring and cost base improvements that the team instituted last year are yielding measurable and visible results, and we expect that trend to continue as well, with operating expense discipline driving continued strong leverage to the bottom line through the full year.

Now, moving to the second quarter numbers, please note that I'll be discussing non-GAAP results unless otherwise specified. For comparison purposes, you'll find a full reconciliation from GAAP to non-GAAP in our second quarter 2015 press release on the Investor Relations section of our website.

Adjusted net revenue for the second quarter was \$629 million, compared to \$648 million in the prior year period. The 2.8% or \$18 million year-on-year decrease was primarily driven by negative foreign exchange impact of \$33 million and a \$13 million decrease in pain management. Offsetting these headwinds, as Namal mentioned, were strong gains in our HIV, Diabetes Services, Cholesterol and Core Toxicology businesses. Regionally, we saw very strong, double digit growth in Africa, China, Brazil and Germany that helped drive organic growth to 3.4%, up from 2.3% in the first quarter.

Professional Diagnostics revenue of \$599 million in Q2 2015 was comprised of: \$214 million in Cardiometabolic Disease, \$177 million in Infectious Disease, \$158 million in Toxicology, and \$51 million in Other revenue, consisting primarily of revenue from BBI and non-core, third-party products. The Consumer Diagnostics segment, which is mainly revenue from our SPD joint venture with Procter & Gamble, was \$25 million in Q2. License and royalty revenue was \$6 million in Q2.

From a geographic split standpoint, 55% of our revenue in the quarter was from North America, 19% from Europe, 14% from Asia Pacific and 12% from rest of world.

Looking at gross margins - adjusted gross profit was \$307 million with 48.8% gross margin in Q2, compared to 48.7% gross margin in the year ago period. While gross margins were essentially the same as last year, there were some pushes and pulls. More specifically, the biggest second quarter gross margin headwinds were foreign exchange and product mix, in particular, lower contribution from the high-margin Pain Management business. Offsetting these challenges was nice gross margin expansion in Africa and other emerging markets, as well as manufacturing efficiencies.

Adjusted operating expenses totaled \$192 million, or 30.5% of adjusted net revenue, and were down 12.0% year on year - the biggest driver of this decline, of course, was the restructuring that the company completed in the 4th quarter of last year. Adjusted operating expenses were comprised of \$26 million in R&D and \$166 million in SG&A. As a percentage of second quarter net revenue, R&D was 4.1% and SG&A was 26.4% - again, both down significantly from last year's 5.4% and 28.2% levels, respectively - a terrific accomplishment for the Alere team around the world!

Moving down the P&L, adjusted operating income was \$115 million in the second quarter, an 18.5% year-on-year improvement, resulting from the continued operating expense reductions across the Company that I just described. Adjusted operating margin in Q2 was 18.3% of adjusted net revenue, a 300+ basis point improvement over last year.

Adjusted Interest and Other expense was \$41 million in Q2 versus \$48 million last year, driven by lower interest expense from our debt pay down earlier this year with the Alere Health proceeds. Our adjusted tax rate was 29.3%, up from 24% last year due to geographic income mix as well as a number of discrete, one-time foreign tax items that drove the rate down last year.

Adjusted net income from continuing ops was \$48 million, or \$0.54 per diluted share, during the second quarter with diluted common shares outstanding at the end of the quarter of 100.3 million.

Turning to the balance sheet, as of June 30 we had \$465 million in cash and \$2.7 billion of net debt. As Namal indicated, we refinanced a large portion of our long term debt during the second quarter, resulting in significant ongoing interest savings to the Company. You'll note on the balance sheet that we also had \$462 million of restricted cash, of which \$426 million is in escrow and will be used to pay off our 8 5/8 bonds at the October call date. This approach was taken as it yielded a \$2 million plus positive NPV to the company versus calling the bonds at the July call price.

Looking forward to the second half of 2015, as you saw in our second quarter press release and based on our current business outlook, we continue to expect revenue in 2015 in the range of \$2.5 billion to \$2.6 billion and non-GAAP adjusted earnings per share from continued operations in the range of \$2.40 to \$2.50 per diluted share. As Namal said, we expect BBI to close in the fourth quarter of this year so that, combined with accretion from the USD acquisition, we expect these transactions to be at break-even or just slightly dilutive to 2015 earnings,

Now, as promised, I'd like to finish by sharing some thoughts and observations from my first 100 or so days at Alere. In the last few months, I've met with dozens of people across the organization in nearly all of our businesses and functions. I've come to learn about the markets in which we compete, our strong leadership positions in those markets and the exciting growth opportunities we have around the globe and, frankly, just how important point-of-care diagnostics is, and will be, to healthcare everywhere. I've seen the benefit of the initiatives that

Namal and the management team have already put in place to focus the business and remove costs and improve the Company's profitability. I've also begun the process of working with the business and finance teams to dig deeper and uncover further underlying cost drivers and the potential for continued enterprise-wide profit improvement. Now, I realize that there's nothing you'd love more than have specific operational targets and metrics right now – but it's a little too soon for that. *However*, I do think we'll be able to provide additional metrics by which you can judge our long-term financial performance early next year around the time we give guidance for 2016. For now, I can say that we do see the potential to systematically remove at least tens of millions of dollars in costs over time as we simplify Alere and manage the Company as one global enterprise. These savings will come through strategic initiatives around pricing, global procurement, IT, corporate infrastructure simplification, changing our internal operating and service delivery models, better treasury and tax planning, and many other things. In short, we see clear opportunity to improve our profitability throughout the P&L over the next two to three years.

With that, we can now open the line for your questions.

Q&A session

Namal Closing Remarks

To round things out, I'd like to say that our business continued to perform to plan in Q2 and we remain focused on transforming the Company and building our financial strength. We're gearing up for growth in the second half of the year with new product launches, focused R&D and continued market expansion. We look forward to reporting on our progress and seeing many of you at investor conferences and meetings in the coming weeks. Thank you for your time and attention.

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