REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2023 OraSure Technologies Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 27, 2024 / 10:00PM GMT

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

CORPORATE PARTICIPANTS

Carrie Eglinton Manner *OraSure Technologies, Inc. - President, CEO & Director*
Jason Michael Plagman *OraSure Technologies, Inc. - VP of IR*
Kenneth J. McGrath *OraSure Technologies, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Harris Cooper *Raymond James & Associates, Inc., Research Division - Research Analyst*
Jacob K. Johnson *Stephens Inc., Research Division - MD & Analyst*
Matthew Jay Stanton *Jefferies LLC, Research Division - Equity Associate*
Patrick Bernard Donnelly *Citigroup Inc., Research Division - Senior Analyst*

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the OraSure Technologies, Inc. 2023 Fourth Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Jason Plagman, Vice President of Investor Relations. Please go ahead.

Jason Michael Plagman ***OraSure Technologies, Inc. - VP of IR***

Good afternoon, and welcome to OraSure Technologies' Fourth Quarter 2023 Earnings Call. Participating in the call today for OTI are Carrie Eglinton Manner, our President and Chief Executive Officer; and Ken McGrath, our Chief Financial Officer. As a reminder, today's webcast is being recorded, and the recording can be found on our Investor Relations website.

Before we begin, you should know that this call may contain certain forward-looking statements, including statements with respect to revenues and guidance, expenses, profitability, earnings or loss per share and other financial performance, product development, performance, shipments and markets, business plans, regulatory filings and approvals, expectations and strategies. Actual results could significantly differ. Factors that could affect results are discussed more fully in OTI's SEC filings, including its registration statements, its annual report on Form 10-K for the year ended December 31, 2022, its quarterly reports on Form 10-Q and its other SEC filings.

Although forward-looking statements help to provide complete information about future prospects, listeners should keep in mind that forward-looking statements are based solely on information available to management as of today. OTI undertakes no obligation to update any forward-looking statements to reflect events or circumstances after this call.

With that, I am pleased to turn the call over to Carrie.

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

Thanks, Jason, and thank you to everyone for joining us today.

We are pleased to provide an update on the progress OraSure is making on the 3 pillars of our strategic transformation: 1, strengthening our foundation; 2, elevating our core growth; and 3, accelerating profitable growth. A few notable items since last quarter include that we generated $41 million of operating cash flow in Q4 and grew our cash balance to $290 million. For the full year 2023, our cash and short-term investments increased by $180 million. We continue to execute on our COVID-19 contract, and we delivered stronger than anticipated InteliSwab volumes during the quarter.

Our enterprise-wide focus on driving improved operating efficiency continues to unlock incremental cost savings, including gross margin expansion and reduced overhead expenses. In February, we signed a strategic distribution agreement with Diagnostics Direct, which allows us to enter the U.S. Syphilis testing market with the first CLIA-waived treponemal test. Of course, earlier in the quarter, we also announced our investment and strategic distribution relationship with Sapphiros, a consumer diagnostics company with unique technology platforms that plan to enable low-cost, high-performance next-generation diagnostics and sample collection devices. We

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

expect the distribution of Sapphiros' products will add at least 2 percentage points to revenue growth in our core business beginning in 2025.

Starting with costs as we continue to strengthen our foundation. For the full year of 2023, we exceeded our target of $15 million in annualized cost savings. Over the last 18 months, we have developed an enterprise-wide mindset that is focused on continuous improvement and operational efficiency. As such, we have identified and are working on a number of opportunities that are expected to generate additional productivity enhancements and cost reductions in 2024 and beyond, including consolidating facilities, further leveraging our automation capabilities and managing our nonproduction costs. These initiatives give us confidence in achieving our target of operating cash flow breakeven for our core business by the end of 2024.

As we previewed on our last earnings call, in Q4 we collected the final milestone payments from the U.S. government related to the completion of our capacity expansion at our Opus Way facility in Bethlehem, Pennsylvania. We also continued to make progress on consolidating our footprint by transitioning one of our distribution facilities into Opus Way in order to unlock operating efficiencies and cost savings.

Moving to COVID-19. InteliSwab generated $42 million of revenue in Q4. As we discussed last quarter, we have visibility to order trends that are expected to fulfill the remaining portion of our largest contract with the U.S. government and complete our deliveries during the first half of 2024. Looking at our core business, which excludes COVID-related products, core revenue in Q4 increased slightly on a year-over-year basis. Core revenue growth was primarily driven by strong HIV sales in the U.S. and international markets, which were partially offset by declines in non-product revenue and molecular lab services.

We've discussed for the past 18 months that external partnerships are a fundamental part of our strategy to drive profitable growth in our core. We continue to execute on each of our initiatives to accelerate our innovation pipeline and expand our product portfolio. We've been sharing examples of strategic distribution agreements that build upon our existing strengths in areas such as infectious disease and sexual health.

Along those lines, we are delighted to announce a new agreement with Diagnostics Direct, a New Jersey-based innovator that allows us to distribute their Syphilis health check on a semi-exclusive basis in the U.S. Syphilis is a growing public health epidemic and Diagnostics Direct's Syphilis Health Check is the first FDA-cleared, CLIA-waived rapid point-of-care syphilis test. Earlier this month, the CDC released new recommendations on syphilis testing explicitly stating that "Accurate POC serologic antibody test for Syphilis can shorten the time to treatment because the infection can be identified at the time of the visit or encounter."

Our agreement with Diagnostics Direct allows us to enter the U.S. Syphilis testing market, serving all channels and customers aside from a defined group of clients whom Diagnostics Direct will continue to directly support. Fundamentally, we are excited to add Syphilis Health Check to our sexual health portfolio, and we view it as an important tool in the nation's response to Syphilis as a public health crisis and for clinical care more broadly.

In addition to diagnostics, we are also expanding our portfolio in other important product categories. In our substance abuse testing business, we've entered into an agreement with Veriteque U.S.A. to be a distributor for SwabTek, an easy-to-use surface testing technology that can quickly detect and differentiate concealed substances. We are pleased to add the SwabTek kits to our portfolio of drug and alcohol testing products, allowing us to help keep workplaces, schools, and other critical environments safe.

In molecular sample management solutions, we have entered into an agreement with Anaerobe Systems to be a distributor of portions of their microbiome portfolio. Anaerobe Systems is a manufacturer of high-quality anaerobic culture kits and media that are highly complementary to our microbiome portfolio. OTI will be the exclusive distributor of the biome preserve anaerobic microbiome collection kit in order to better serve our clients with more comprehensive solutions.

Shifting to our current portfolio of molecular sample management solutions. Fourth quarter revenue from those products was consistent with our expectations, and we continue to create positive momentum in establishing new partnerships and commercial relationships. We are also extending relationships across segments and have signed multiyear agreements with a diverse set of existing customers, which

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

we believe demonstrates their confidence and commitment to the long-term opportunities in the genomics market.

As an example, we signed a multiyear agreement with GeneDx to provide saliva collection devices that will be used for pediatric exome and genome testing. GeneDx is a pioneering force in medical genetics, working to expand access to diagnostic insights, especially those focused on pediatric patients with neurodevelopmental delays and rare disease.

Looking at the overall market environment as we enter 2024, we see end segments that remain subdued as our customers adapt to the post-pandemic environment, macroeconomic uncertainty, and evolving priorities, research and otherwise. Those factors and the uncertainty in timing for sustained recovery is resulting in a muted outlook for core revenue in the first quarter. For the full year 2024 and beyond, we remain confident in our opportunity to deliver core growth.

Our view is supported by multiple factors. First, the expansion of our product portfolio through the distribution agreements we've been discussing, which leverage our sales infrastructure and customer relationships. We expect the contribution from these agreements to increase as we move through the year. Second, our success over the last 2 years in diversifying our client base through the addition of new and expanded relationships with diagnostics, pharma, and biotech companies, along with other innovators. We expect the revenue from customer relationships that we've launched in recent quarters will continue to grow during 2024.

Third, our current expectations for ordering patterns for our sample management solutions from some of our key customers throughout 2024. Fourth, our view, similar to outlooks discussed by our peers and others externally, that underlying market growth in the life sciences industry will begin to improve in the second half of 2024.

Turning to our innovation road map. We continue to make progress on our initiatives to accelerate profitable growth through organic and inorganic investments. At the beginning of the year, we announced our strategic relationship and investments in Sapphiros. As a part of this partnership, OTI gains exclusive commercial and distribution rights for key product lines in Sapphiros' development pipeline that are expected to strengthen our portfolio, such as blood collection devices and new diagnostic tests. We also see opportunities for co-funding and co-development of additional innovative offerings as our partnership progresses.

Overall, the partnership is off to a great start, and our teams are working really well together in multiple areas, including R&D collaboration and in preparation for the future launch of Sapphiros' initial self-collected small-volume blood product, timing, of course, subject to regulatory review.

As we discussed in January, from a financial standpoint, we expect distribution of Sapphiros' products to add at least 2 percentage points to revenue growth in our core business beginning in 2025. Sales of Sapphiros' products are expected to be accretive to OraSure's operating profit beginning in 2026 due to our ability to leverage our existing infrastructure, capabilities, and customer relationships. We anticipate a modest amount of incremental SG&A expense in 2024 and 2025 to successfully launch new Sapphiros products in the market, and we believe our investment in Sapphiros is an efficient method to deploy capital, preserving flexibility for additional organic and inorganic innovation.

With that, I'd like to turn the call over to Ken to discuss our financial results and guidance.

Kenneth J. McGrath ***OraSure Technologies, Inc. - CFO***

Thanks, Carrie. I'm happy to discuss our results for the fourth quarter of 2023 and provide updates on our financial outlook.

In Q4, we delivered total revenue of $75.9 million. COVID-19 products, predominantly InteliSwab, contributed $41.7 million of revenue in the fourth quarter, which was above the high end of our guidance range. Purchasing patterns under our contract with the U.S. government were slightly stronger than expected during the quarter.

Core revenue, which excludes COVID-19 products, was $34.2 million in the fourth quarter, representing 0.4% year-over-year growth. Within core revenue, our diagnostic products generated $17.2 million of revenue in Q4 and grew 19% year-over-year. This growth was driven by HIV test sales in the U.S. and international markets.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Looking at molecular sample management solutions. Fourth quarter revenue of $13 million increased 9% on a year-over-year basis, which was in line with our expectations. Core revenue growth from diagnostics and molecular sample management solutions in the fourth quarter was offset by year-over-year declines in non-product revenue and molecular services revenue. As a reminder, non-product revenue is primarily related to funded R&D projects, grants and royalties, which are lumpy and not key growth drivers within our long-term strategy.

From a gross margin perspective, our GAAP gross margin in the fourth quarter was 46.3% compared to 40.5% in last year's fourth quarter. Non-GAAP gross margin was 49.7% compared to 40.9% in the prior year period. Non-GAAP gross margin expansion in Q4 was driven by production efficiencies and cost reduction initiatives. For the full year 2023, our GAAP gross margin of 42.3% increased by 400 basis points compared to 2022, and our non-GAAP gross margin of 45.5% expanded by 540 basis points versus the prior year.

Overall, we believe we can drive additional gross margin expansion over the coming years, and we remain focused on delivering efficiencies across our enterprise, including consolidating facilities, driving procurement savings, further leveraging our automation capabilities and streamlining our product portfolio.

Shifting to operating expenses. Our total operating expenses in the quarter were $31.2 million, which includes $3.3 million for impairment of acquired intangible assets and certain manufacturing equipment and $3 million of non-cash stock compensation expense. As we move into 2024, we continue to focus on driving additional savings in our nonproduction expenses. These incremental cost reductions are important as we look to utilize our cash to invest in growth and achieve our goal of operating cash flow breakeven in our core business by the end of 2024.

GAAP operating income was $3.9 million in the fourth quarter. And non-GAAP operating income was $13.6 million. We ended the quarter with 0 debt and total cash, cash equivalents, and short-term investments of $290 million, which is $65 million increase from the prior quarter. The increase in our cash balance during the fourth quarter was primarily driven by $41 million of operating cash flow. We also collected $24 million in Q4 related to the achievement of capacity expansion milestones at our Opus Way facility.

Turning to guidance. We are guiding to the first quarter revenue of $50 million to $54 million, which includes core revenue of $29 million to $31 million. As Carrie discussed, we expect core revenue growth to improve as we move through 2024, and we remain confident in our ability to elevate core growth in the coming years. For InteliSwab, we expect revenue of $21 million to $23 million in Q1 and approximately $40 million in the total -- in total in the first half of the year as we complete the remaining portion of our largest contract with the U.S. government.

With that, I'll turn the call back to Carrie to conclude.

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

Thanks, Ken. Over the past year, OTI delivered meaningful progress on our strategic imperatives. We've strengthened our foundation, including strong cash flow generation, improved operating efficiency and instilling an enterprise-wide focus on continuous improvement to fuel how we serve customers and grow. We completed the milestones included in our contract with the U.S. government related to our capacity expansion at our Opus Wave facility earlier than expected, and we made progress in streamlining our operational footprint in order to leverage the automation and infrastructure at our new facility.

We grew core revenue by 2% in 2023, while navigating macro and industry headwinds. We expanded the portfolio of products that our sales team can provide to our customers in several important segments, including entering the U.S. Syphilis testing market with Diagnostics Direct here in 2024. And in early January, we announced our strategic partnership and investment in Sapphiros, which is expected to expand and accelerate our product and innovation pipeline. We expect our partnership with Sapphiros will accelerate our core revenue growth beginning in 2025.

Overall, OTI continues to execute in order to deliver on our vision of transforming health through actionable insights, powering the shift that connects people to health care wherever they are. Our mission to improve access, quality, and value of health care with innovation in

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

effortless tests, sample management solutions and services is aligned with where health care is headed in the coming years.

With that, I'm pleased to turn the call over to the operator for Q&A. Stephen?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Patrick Donnelly of Citi.

Patrick Bernard Donnelly ***Citigroup Inc., Research Division - Senior Analyst***

I guess when we look at the 2024 kind of OpEx piece, can you just talk about, it seems like a little bit of a ramp there. You guys still talking about being cash flow breakeven. How does the partnership piece impact that just in terms of the OpEx side and, again, the cash flow breakeven, just would love to talk through the impact there?

Kenneth J. McGrath ***OraSure Technologies, Inc. - CFO***

Yes, Patrick, and thank you for the question. During the year 2024, we do expect some quarterly fluctuations throughout OpEx, given legal expenses, R&D funding, and the implementation timing of our cost savings. When it comes to some of those partnerships, one of the key strengths of those partnerships is allowing us to leverage our existing infrastructure, which minimizes the investments we need directly to support them. So that's the area when -- and we -- during the last quarter, we talked a little bit about it, where when you look at some of these partnerships, while the gross margins may be lower than our overall gross margins, the operating income is higher because what we do is we leverage all of that infrastructure, again, not having to add a lot of extra resources to support.

Patrick Bernard Donnelly ***Citigroup Inc., Research Division - Senior Analyst***

And I guess staying on the partnership, I think you talked about the potential for it to add a couple of percent to '25 revenue growth. Is that just kind of on that self-collected blood products? Are there other products that should be launched? And again, I guess, on the self-collected one, maybe just an update just on the timelines there. The approval process would be helpful.

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

Yes. And you call this out and you're right on that it's regulatory approvals that kind of dictate the timing of that Sapphiros self-collected small-volume blood offering, which is why we're really planning for the ramp up this year and the revenue, the incremental revenue for 2025. To answer the other part of your question about what else has included that, we are looking towards the potential to launch other diagnostic tests. And while they -- and we haven't talked about specifically what those are, I would say that it's a plan that contemplates the launch of the blood device this year with some line of sight into launch of additional diagnostic tests next year.

And did I -- is there a part of that that I still need to address, Patrick?

Patrick Bernard Donnelly ***Citigroup Inc., Research Division - Senior Analyst***

Yes. No, that covers it. And one last quick one. Just on the COVID piece. You talked a little bit about the government contract. Just the cadence of COVID revs after a nice number this quarter and then just the update on how you're thinking about the endemic run rate would be really appreciated.

Kenneth J. McGrath ***OraSure Technologies, Inc. - CFO***

Yes, right now we have visibility, as you recall -- as you mentioned, to about $40 million from the main contract. Most of that will be in the first half. After that we will enter the endemic phase. I believe what we guided last quarter for the full year was $40 million to $45 million in total InteliSwab revenue. So you can infer from that a couple of million going forward beyond that from that first contract.

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

And I'd just add a little color to de minimis volumes outside of the government contracts. We definitely compete in every state, local level as well. We have a few of the kind of regional grocery chains and otherwise that we've talked about in the past, but really in comparison, small dollars versus the contracts, which is, again, why Ken said that we've guided to that $40 million to $45 million range. So we just describe it as small volume.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Operator

Our next question comes from the line of Jacob Johnson of Stephens.

Jacob K. Johnson ***Stephens Inc., Research Division - MD & Analyst***

Maybe just starting on the 1Q guidance. It implies the base business is going to be down somewhere in the teens in 1Q. But Carrie, you talked about kind of growth in the back half, and you mentioned a number of opportunities, but also cited the macro. I'm just curious kind of as we think about that return to growth in the back half of the year, how much of that is within your control? Or how much visibility do you have in that return to growth?

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

Yes. So I'll start, Jacob, with some of our -- some of the visibility and kind of the path that we see in the second half. That includes what I talked about in the prepared remarks, which is the distribution agreements for 2024. We're very excited about Diagnostics Direct and entering the U.S. Syphilis testing market. That's an add that comes in with our public health infectious disease portfolio and really nice momentum that we have in HIV, for example.

And we have a number of other partnerships as well, includes international diagnostic tests we talked about last year. That's -- we have a partner in international Syphilis, for example, hep C and hep B. We also have 3 other partnerships in substance abuse testing. It includes one of our recently announced partnerships with SwabTek. I won't list them all, but I would say those distribution agreements and the ramp-up in '24. We've talked about Sapphiros for '25, but I'd point to some of these other opportunities in '24 as one element.

Another, and I won't list all of these, but another that I would just highlight for you here is the diversification of our customer base. We've been talking about that along the way. We've shared highlights of that. And it's both new customers as well as new agreements with sort of valued key customers that we've been working with. And just the outlook we have on their ordering patterns for total year. Again, I just sort of reiterate this, we see this path and the path really is in a strength in the second half.

Jacob K. Johnson ***Stephens Inc., Research Division - MD & Analyst***

And that kind of leads to my next question. You mentioned a variety of these kind of distribution type agreements. You've been clear that kind of partnerships were key to your strategy, especially as it relates to capital allocation. But I feel like on this call, we've talked a little bit more about distribution agreements. Can you just kind of discuss the strategy there? It sounds like it's kind of leveraging your existing infrastructure, but I'm just kind of curious your thought process about doing more of these distribution type deals.

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

Yes, you're exactly right. And you know we've been talking about this for at least 18 months as long as I've been here. Part of what we have as a company that turned in the face of COVID to serve the pandemic was both on the sample collection side, where a huge number of that effort went to COVID collection for molecular tests and then obviously on the diagnostics side in InteliSwab. And what that did, and I think we were transparent about it, we tried to be transparent about it, was that it took an innovation pipeline and really focuses around a key public health need. And that's why we started talking about partnerships.

It was so that we could both invest internally in the areas of our development strengths, but also put more of those complementary portfolios very quickly into our sales team's offerings so that we could better serve the market with, while we were simultaneously strengthening our financial foundation, that opportunity to better serve while we're completely leveraging the capabilities of very strong sales channel, really strong customer relationships and just a credibility and a longevity of having served in this space, whether it'd be public health, clinical or on the sample collection side, our extensive diagnostic pharma, biotech customers and our expansion into areas like animal health, environmental, research and beyond.

So I'd say we did it because we needed to, we knew we needed to, and we leveraged our strength to really put together some great agreements with great partners, and we're going to leverage all that's good about our capabilities and strengths to change the acceleration on that success.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Operator

Next question comes from the line of Brandon Couillard of Jefferies.

Matthew Jay Stanton ***Jefferies LLC, Research Division - Equity Associate***

This is Matt on for Brandon. Maybe one for Ken. I think prior, you talked about gross margins in the mid-40s for 2024. It sounds like InteliSwab assumptions haven't changed much. Maybe some of these newer partnerships are lower gross margin, but better operating margin. Is mid-40s still the right range as we think about gross margins for full year '24 year?

Kenneth J. McGrath ***OraSure Technologies, Inc. - CFO***

Yes. As you mentioned, we guided towards mid-40s last call. We're maintaining that outlook for the full year. Recognize that within the -- between quarters, there may be some fluctuations based on how we ramp up cost savings, the InteliSwab volume, as you mentioned, and overall product mix. So there could be fluctuation quarter-to-quarter. But for the whole year, we're still maintaining mid-40s.

Matthew Jay Stanton ***Jefferies LLC, Research Division - Equity Associate***

And then on the cost savings here, it sounds like you exceeded the $15 million in '23 and maybe unlock some additional productivity enhancements beyond that. Is that the right way to think about it? And then maybe talk about some of the impact and timing of some of the other items you called out like site consolidation among other things.

Kenneth J. McGrath ***OraSure Technologies, Inc. - CFO***

Yes. And you'll see those impact or implemented throughout the year, and you nailed it, right? One of the big areas is consolidation. The other is automation. It's leveraging our existing processes. And as we highlighted, we've identified a list of those projects and are implementing those projects now throughout the year and maintaining our target of -- by exit of 2024, our core business cash flow from operations will be breakeven.

Operator

Next question comes from the line of Andrew Cooper of Raymond James.

Andrew Harris Cooper ***Raymond James & Associates, Inc., Research Division - Research Analyst***

Maybe just first kind of a high level one. I think you talked about it a little bit already, but just adding a lot of products for distribution, which I think makes sense given the business that you have and the capabilities to distribute. But just how do you think about that view on trending more towards the distribution business versus wanting to have more proprietary offerings? And then how do you think about the opportunities, I think, with at least some of these to maybe bring them in-house down the road? What are some of the puts and takes as you contemplate them? And what could the margin increase look like should that actually occur for some of these distributed products today?

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

Yes. Thanks, Andrew. I'll leave margin to the end, and will address that at the end. I'll just say, philosophically, we really like the partnership model that allows us to leverage our strengths and access innovation now with -- these are -- we're a fairly small company, and these are pretty small partners, and we have spent a lot of time while rebuilding our financial base by which to do this, to have the opportunity to be very thoughtful and judicious about what we pick. And we're picking products and partnerships that really fit in our portfolio. And you'll see sort of by partner, where we choose to be exclusive and we think that, that makes sense and where some we've made a strategic investments like we did in Sapphiros because there are sort of more elements to that strategic agreement, and we have the potential to co-fund and co-develop.

What I would say by giving you those examples is this is a part of a big picture strategy that we've been very thoughtful about and aligned with our multiyear innovation road map that we put together and landscaped and went out looking for these pieces that I would just describe as very thoughtfully come into our portfolio because we truly believe we have an opportunity to accelerate them.

You'll also see that that mix is across portfolios and sales teams. So we're intentional about what we're adding to diagnostics, both domestically and internationally. I mean the amount you hear about Syphilis U.S. testing, probably not a big surprise, but really great

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

news, but not a big surprise to see us entering that market. So whether it's the diagnostics play we're picking or the team that we're putting it into, the substance abuse partnerships, for example, are a very different sales team than our core diagnostic sales team.

So just to bring it all together, I would say it's a part of our -- a well-defined strategy. We've been communicating. We've been forecasting that this was an important part of our growth plan, and we're excited to share more about each of these along the way to deliver as proof points, the growth -- the elevating our core growth and doing that just like we've been talking about.

In terms of margin, Ken, maybe back to the previous one.

Kenneth J. McGrath ***OraSure Technologies, Inc. - CFO***

And to build on and add also to what Carrie said, we're exploring all types of growth still when it comes to our strategy, both organic, inorganic, all different deal types to Carrie's point that really fit with our strategy. And we have the luxury right now being in pretty strong financial position to really look and choose the ones that are the best fit.

When it comes to margins, when you think about distribution specifically, again, think of it as P&L geography. The gross margins may be a little bit lower than our overall gross margins. But because we leverage significantly kind of the OpEx, the existing OpEx infrastructure, there's not a lot of incremental cost on that end. So when you go to the bottom line, it's actually incremental and accretive to our overall operating income margins.

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

And I know I'm making this a long answer, Andrew, but I'm going to add this. We think it's important to have multiple shots on goal. We use that phrase, and we talk about it. We are very much open to M&A. Again, just as the size of the company we are, we think we will continue to be super judicious about that. Many of our agreements are exclusive. Many are multiyear.

We put a lot of effort into how we make those durable and partnerships that can really pay off. But we have opportunities to do more. And our modeling doesn't require that every single one be the blockbuster. We're sure going to put the effort into that, which is why we've diversified across teams in our strategy. But a part of this is ensuring that we make smart selections and really leverage our strength. And I think I just said to you, we're really clear on what those strengths are.

Andrew Harris Cooper ***Raymond James & Associates, Inc., Research Division - Research Analyst***

Maybe just one more for me. Just when we think about that core growth improving through the year and the commentary about the partnership starting to contribute more through that year, just to kind of level set, what sort of growth expectations do you have for, let's call it the historical core, the business that we've known for some time, What is the outlook as we think about kind of that traditional product suite relative to what's being contributed from the partnerships?

Kenneth J. McGrath ***OraSure Technologies, Inc. - CFO***

Yes. Well, we don't provide product-specific guidance. We are looking for growth across all aspects of the portfolio. But just from the distribution agreements, obviously, that will add incremental growth, but we are looking for growth in all avenues depending on the particular opportunities that present themselves and the market conditions.

Operator

Thank you for your questions. This does conclude the question-and-answer session. I would now like to turn it back to Carrie for closing remarks.

Carrie Eglinton Manner ***OraSure Technologies, Inc. - President, CEO & Director***

Great. Thank you so much for everyone's participation, and we thank you for your continued interest in OraSure. Have a great night. Thank you, Stephen. Bye-bye.

Operator

Okay. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024 Refinitiv. All Rights Reserved.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.