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Bio-Techne Corporation (TECH) Q1 2024 Earnings Call Transcript

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Q1: 2023-10-31 Earnings Summary

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EPS of $0.41 misses by $0.03 | Revenue of $276.94M (2.70% Y/Y) misses by $10.70M

Bio-Techne Corporation (NASDAQ:TECH) Q1 2024 Earnings Conference Call October 31, 2023 9:00 AM ET

Company Participants

David Clair - Vice President-Investor Relations

Charles Kummeth - Chief Executive Officer

James Hippel - Chief Financial Officer

Kim Kelderman - Chief Operating Officer.

Conference Call Participants

Puneet Souda - SVB Securities

Patrick Donnelly - Citi

Catherine Schulte - Baird

Matthew Larew - William Blair

Alex Nowak - Craig-Hallum

Paul Knight - KeyBanc

Justin Bowers - Deutsche Bank

Operator

Good morning, and welcome to the Bio-Techne Earnings Conference Call for the First Quarter of Fiscal Year 2024. [Operator Instructions]

I would now like to turn the call over to David Clair, Bio-Techne's Vice President, Investor Relations.

David Clair

Good morning, and thank you for joining us. On the call with me this morning are Chuck Kummeth, Bio-Techne's Chief Executive Officer; Jim Hippel, Chief Financial Officer; and Kim Kelderman, Chief Operating Officer.

Before we begin, let me briefly cover our safe harbor statement. Some of the comments made during this conference call may be considered forward-looking statements, including beliefs and expectations about the company's future results. The company's 10-K for fiscal year 2023 identifies certain factors that could cause the company's actual results to differ materially from those projected in the forward-looking statements made during this call. The company does not undertake to update any forward-looking statements because of any new information or future events or developments. The 10-K as well as the company's other SEC filings, are available on the company's website within its Investor Relations section.

During the call, non-GAAP financial measures may be used to provide information pertinent to ongoing business performance. Tables reconciling these measures to most comparable GAAP measures are available in the company's press release issued earlier this morning on the Bio-Techne Corporation website at www.bio-techne.com. Separately, we'll be participating in the Stifel, Stephens, Evercore and JPMorgan health care conferences in the coming months. We look forward to connecting with many of you at these upcoming events.

I will now turn the call over to Chuck.

Charles Kummeth

Thanks, Dave, and good morning, everyone. Thank you for joining us for our first quarter conference call. The Bio-Techne team continues to execute in a challenging environment as we delivered 2% organic growth for the first quarter of fiscal 2024 despite several headwinds that are impacting the broader industry as well as Bio-Techne.

The sources of these headwinds have remained relatively consistent during recent quarters, including a soft biotech funding environment, inventory destocking from a handful of our OEM customers, as well as broad economic challenges in one of our historically highest growing geographies, China.

While the primary culprits remain the same, the impact of the biopharma funding challenges in the U.S. as well as the evolving macroeconomic environment in China were higher than our original expectations for the quarter, albeit not as onerous as we saw with many of our peers. Despite these transitory challenges, our growth pillars remain intact and continue to perform well.

Specifically, our GMP proteins business, ExoDx prostate and our Protein Simple franchise all delivered impressive growth in the quarter. Our portfolio remains incredibly well positioned in several high-growth and unpenetrated end markets, and our team will continue to leverage our strategic playbook and strong financial position to gain share, enter adjacent markets, introduce innovative products and solutions and capitalize on the tremendous opportunity in front of the company.

Before we dig deeper into the performance of the quarter, I'd like to personally congratulate Kim Kelderman on his recent appointment as Bio-Techne's incoming Chief Executive Officer effective February 1, 2024. In the meantime, I will continue to lead Bio-Techne's CEO, and work closely with Kim in his new role as Chief Operating Officer until Kim takes the reins as Bio-Techne's CEO in February. I will continue to support Kim in a senior advisory capacity prior to my retirement from the company and the Board on July 1, 2024.

Kim has successfully led the Diagnostics and Genomics segment since joining the company in 2018. During Kim's leadership of this segment, the team gained significant market acceptance and traction with the ExoDx prostate test, the revenue of our ASV business totaled the segment portfolio was strengthened through the Asuragen and Lunaphore acquisitions and multiple new product introductions and partnerships position the business for future growth.

Prior to joining Bio-Techne, Kim ran multiple large businesses at ThermoFisher Scientific including most recently leading its genetic analysis business unit. Kim will be taking over an incredibly strong and talented team as well as a novel portfolio with leadership positions in some of the fastest-growing life science tools and diagnostic markets.

Kim has been working with me since 2009, so I can assure everyone that I know he is more than ready for this tremendous opportunity, and he is the right person to take Bio-Techne on our 10-year forward journey to $5-plus billion revenue as a target as outlined recently at our Investor Day in New York.

I'd like to also thank both Roll Gus and Jim Hippel, who created an incredibly difficult decision for the Board. Jim and extra thanks, as he, too, has been with me since 2009 and is the best financial partner I've ever worked with.

Separately, I'd like to highlight Bio-Techne's latest Corporate Sustainability Report, which showcases the continued progress the company is making in its environmental, social and governance or ESG initiatives. The report is available in the corporate and social responsibility section of Bio-Techne's website. As you will see in the report, Biotech remains committed to our employees and the communities where we live and work. We are proud of the innovative culture we have built as well as our commitment to corporate governance and operational integrity. Driving durable, sustainable and responsible growth remains a cornerstone of our forward strategy.

Now let's get into the details of the quarter, starting with an overview of our performance by geography and end market. Europe had a very strong quarter as the region grew mid-teens overall, including particularly strong performance from our biopharma end market. As a reminder, Europe was the region that was first experienced the effects of the post COVID slowdown, which contributed to a high single-digit decline in the comparable quarter of our last fiscal year.

That said, the European biopharma and academic end markets remain stable, and the new leadership team has maintained the positive momentum we experienced in the region over the last three quarters.

In North America, we delivered as expected mid-single-digit growth with the performance in the region nearing the growth rate we experienced in the region last quarter and last fiscal year. It's worth noting that this is the region where we are noticing the most impact from the soft biotech funding environment as a subset of these customers continue to exhibit a disciplined approach to managing the businesses in the current environment.

Now let's discuss the geography remains at the top of everyone's mind, China. This region declined low teens during the quarter and underperformed our original expectations with the business climate deteriorating as the quarter progressed. The funding challenges we highlighted in the last earnings call persisted in the quarter, as Chinese government funding for life sciences R&D at hospitals and academic institutions is significantly lower than last year.

Given the challenging macroeconomic conditions in China, it remains very difficult to ascertain when R&D funding will stabilize and step back up again. Additionally, private equity and VC funding activity has slowed in the geography, which is creating more cautious near-term spending patterns for cash-dependent biopharma companies in the region.

We view the temporary pause in China's growth trajectory as transitory as the government remains focused on modernizing health care in both large metropolitan areas and rural communities. Our portfolio remains extremely well positioned in this geography as our proteomics research reagents and analytical tools and increasingly our spatial biology solutions are the tools researchers rely on to advance scientific discoveries and improve health care. We are as bullish as we have ever been on our long-term opportunities in China, but acknowledge that these headwinds will likely linger in the near term before improving.

Now I'll highlight the growth pillars that will propel our future, starting with those within the Protein Sciences segment, where organic growth was 2% in the current quarter. During the quarter, we continued to advance our portfolio of cell and gene therapy initiatives as our portfolio of proteomics reagents and workflow solutions continue to enable our customers to further their therapeutic development work and make continued progress towards the commercialization of these next-generation therapies. Collectively, our portfolio of cell and gene therapy products and services increased over 25% in the quarter.

GMP proteins remains the cornerstone of our cell therapy offering and Bio-Techne continues to benefit from having the broadest menu available, including several proteins that are unique to Bio-Techne. This broad offering is a critical selling point for customers working across the cell therapy spectrum especially in regenerative medicine cell therapies as these tend to require not only several different proteins in the workflow, but also require complex proteins that are very difficult to manufacture, playing right into one of biotech strong suits.

Overall, our portfolio of GMP proteins grew nearly 40% in the quarter. We also continue to gain traction with our portfolio of GMP small molecules. Recall that these small molecules are key components in the route programming, self-renewal, storage and differentiation processes that are key to regenerative medicine workflows. This business grew almost 20% in the quarter and is on its way to becoming a significant contributor to our overall cell and gene therapy business.

We are in the process of expanding our G&P portfolio to include additional media formulations, gene edit engineering capabilities and antibodies, positioning Bio-Techne to remain a leader in this rapidly growing industry. Additionally, work continues to finalize our aseptic immune cell therapy manufacturing solution, which pairs our GMP proteins, GMP Media and Wilson Wolf G-Rex in a closed sterile manufacturing solution.

Moving on to our ProteinSimple branded portfolio or proteomic analytical tools. Here, the team delivered 9% organic growth. It's worth noting that excluding China, the portfolio grew an even more impressive 18%, including over 35% growth in Europe. Consumable pull-through from our growing installed base remains very strong and continues to grow on a per instrument basis, reflecting the high value and productivity gains that these instruments deliver to our biopharma and academic customers.

The ProteinSimple performance was led by our Simple Plex automated multiplexing ELISA instrument branded as Ella, who is expanding menu of validated assays, including 7 launches in Q1 and a growing installed base is driving consumable pull-through on the platform. We've recently received ISO 1345 certification of our Wallingford, Connecticut facility quality management system, demonstrating our commitment to producing products for clinical applications. With this important certification in hand, we are now ready to pursue clinical diagnostic opportunities on Ella, opening up a large potential market for this fast, highly sensitive and easy-to-use multiplexing immunoassay instruments.

Momentum continued in our Biologics business as we experienced continued uptake of our Maurice Flex instrument and strong demand for consumables. As a reminder, Maurice Flex's protein charge variant fractionation capabilities position this next-gen instrument is an easy-to-use replacement for legacy mass spectrometry fractionation, methods, including ion exchange chromatography.

This new application enters Maurice into a new $300 million market approximately doubling the addressable market opportunity for the instrument. The capabilities of our legacy Maurice instrument as well as the next-gen Maurice Flex were recently highlighted by scientists from top pharmaceutical companies at the recent CE Farm conference, including a presentation from Pfizer scientists on Maurice Flex's capabilities for peak identification of AAV capsid proteins through fractionation.

I would note that there are several other Maurice Flex collaborations in progress with additional top-tier life science companies. Our fully automated Western blot solution branded as Simple Western also continued to increase its market share this quarter. The platform's ability to reduce the 2-day long manual and messy western blotting process into a 3-hour push button, highly reproducible solution continues to drive demand within our biopharma and academic customer bases.

We are also seeing robust adoption of Simple Western in cell and gene therapy applications, with the system increasingly being utilized to measure protein expression potency, empty versus full capsid ratio, and for process impurity detection. Revenue from cell and gene therapy applications in Simple Western increased over 25% in the quarter and now account for almost a quarter of the associated product right of revenue.

Next, I'll highlight the growth pillars within our Diagnostics and Genomics segment, where organic revenue growth was flat in the current quarter compared to prior year. Mostly due to the timing of large OEM orders within our diagnostics reagents business as well as large lab orders for genetic tests within our molecular diagnostic business.

I'll start with our ExoDx prostate test, where we once again drove significant growth in test volume as the valuable information on whether a man with an indeterminate PSA score should proceed with an invasive and potentially dangerous prostate biopsy continues to resonate with both patients and physicians.

ExoDx prostate volume increased nearly 50% compared to prior quarter, while year quarter, while revenue increased in the upper teens. Adjusting for our prior year cash to accrual adjustment, year-over-year revenue growth was approximately in line with our test volume growth.

As we highlighted during our recent Investor Day, applications for our exosome-based diagnostic platform are much broader than our current ExoDx prostate test. Our pipeline includes single gene mutation test for monitoring several different cancers, a saliva-based test for the diagnosis of children syndrome a next-generation prostate cancer rule in test as well as a colorectal cancer screening test designed for early detection of both colorectal cancer and precancerous polyps. We look forward to sharing additional data on this exciting pipeline in coming quarters.

Now let's discuss our spatial biology business, which includes our ACD-branded catalog of over 47,000 unique probes as well as the Luna for branded spatial biology instrument assay and software portfolio. Our spatial biology business increased upper single digits organically for the quarter as our broad portfolio of multi-omic assays continue to play an important role in advancing gene therapy, neuroscience and cancer research.

Within the portfolio, we are experiencing continued momentum in base scope, which enables the detection of target sequences down to one nucleotide differences and microRNA scope for the visualization of microRNA and other nucleic acid targets. BaseScope and micro RNA scope increased almost 20% and 50%, respectively, and are experiencing increasing acceptance and traction in gene therapy applications.

Integration efforts of our latest acquisition, Lunaphore, are off to a great start and the team is embracing their new home under the biotech umbrella. As a reminder, Lunaphore for is currently commercializing its common instrument, a fully automated, high-throughput Hyperflex platform that does not require the use of conjugated primary antibodies. [indiscernible] high value proposition is resonating with the translational research community, which is driving significant interest and rapid growth in its installed base.

We continue to make progress developing the first fully automated spatial and multiomic workflow that will leverage Lunaphore's common instruments, Inspire antibody panels as well as ACD's RNAscope Hipple technology to enable protein and RNA detection and visualization on a single slide.

In summary, the Bio-Techne team continues to execute our strategic growth plan in this challenging environment. As we look at our relative performance to many of the life science companies that have reported so far this quarter, I'm especially proud of our team's execution and have even more confidence in the perseverance of our growth platforms.

As we highlighted during our recent Investor Day, our portfolio of proteomic research reagents, cell and gene therapy workflow solutions, analytical tools, spatial biology products and liquid biopsy diagnostics are aimed squarely at a $27 billion vessel market with amazing long-term growth prospects. Initiatives to cure cancer, neurodegenerative and other diseases, along with understanding how these diseases develop and evolve, we remain a social priority for the foreseeable future, and Bio-Techne's portfolio will continue to play a critical role in these efforts. I am looking forward to when the transitory headwinds facing our industry subside, allowing the growth of our high-value tools to once again shine through.

With that, I'll turn it over to Jim.

James Hippel

Thanks, Chuck. I'll start with some additional detail on our Q1 financial performance, then give some thoughts on the financial outlook.

Starting with the overall first quarter financial performance. Adjusted EPS was $0.41 compared to $0.45 in the prior year quarter, a decrease of 9% over last year. Foreign exchange had a had an immaterial impact on EPS in the quarter. GAAP EPS for the quarter was $0.31 compared to $0.55 in the prior year. Q1 revenue was $276.9 million, an increase of 2% year-over-year on an organic basis and 3% on a reported basis. Foreign exchange translation had an immaterial impact, while acquisitions contributed 1% to reported growth.

Moving on to our organic growth by region and end market in Q1. North America grew mid-single digits. Europe increased mid-teens, and China declined low teens in the quarter. As Chuck previously mentioned, the soft biotech funding environment remained a drag on our North American business, while Europe saw strong growth but also had a less difficult comp as the region declined high single digits in the comparable quarter last year.

For China, the funding environment continued to impact the region. Our long-term enthusiasm on China remains fully intact. Health care remains a top priority for the government and our proteomic reagents, analytical tools and spatial biology solutions will play a critical role advancing health care in this country.

That said, the timing of this recovery remains incrementally more challenging to call at this point. Meanwhile, APAC outside of China increased low single digits overall, with government funding constraints in Japan and South Korea.

By end market in Q1, both biopharma and academia excluding China, grew upper single digits. However, the biopharma growth was much larger in Europe given the less difficult comps. Below revenue on the P&L, total company adjusted gross margin was 71.3% in the quarter compared to 70.9% in the prior year. The increase was primarily driven by productivity gains and foreign exchange partially offset by the impact of the Lunaphore acquisition.

Adjusted SG&A in Q1 was 31.3% of revenue compared to 27.3% in the prior year, while R&D expense in Q1 was 8.7% of revenue compared to 8.9% in the prior year. The increase in SG&A was driven primarily by the Lunaphore acquisition and, to a lesser extent, strategic investments to position the business for future growth. The price increases implemented during the first half of fiscal year '23 continue to offset the dollar impact of inflation to operating income with pricing also largely offsetting the inflationary impact in our operating margin in Q1.

Adjusted operating margin for Q1 was 31.4%, a decrease of 340 basis points from the prior year period. Excluding the Lunaphore acquisition, which closed at the beginning of Q1, adjusted operating margin was 100 basis points lower than the prior year due to strategic investments, which was partially offset by diligent cost management.

Looking at our numbers below operating income. Net interest expense in Q1 was $3.9 million, increasing $1 million compared to the prior year period due to higher debt levels, partially offset by higher interest income and cash deposits. Our bank debt on the balance sheet as of the end of Q1 stood at $440 million, an increase of $90 million compared to last quarter, reflecting the Lunaphore acquisition, which was partially funded by debt and cash on hand.

Other adjusted nonoperating income was $1.6 million in the quarter, an increase of $0.4 million compared to prior year, primarily reflecting our 20% share of Wilson Wolf's adjusted net income partially offset by the foreign exchange impact related to our cash pooling arrangements. Moving further down the P&L, our adjusted effective tax rate in Q1 was 22%, a sequential increase from our Q4 tax rate due to international mix.

Turning to cash flow and return of capital. $59.4 million of cash was generated from operations in the quarter, and our net investment in capital expenditures was $13.6 million. Also during Q1, we returned capital to shareholders by way of $12.7 million in dividends. We finished the quarter with 161.9 million average diluted shares outstanding. Our balance sheet finished Q1 in a strong position with $148.7 million in cash, and our total leverage ratio remained below 1x EBITDA. Going forward, M&A remains a top priority for capital allocation.

Before we get into the segment results, I'd like to quantify some of the impacts from headwinds we experienced in the quarter compared to our initial expectations for organic growth. A more challenging China funding and macro environment than expected represented an additional approximately 200 basis points headwind, while order timing in our Diagnostics and Genomics segment was another unanticipated headwind of approximately 100 basis points. The more cautious spending from our biotech customers, which we primarily experienced in the U.S. is more difficult to quantify that impacted the business none the less, especially in the last couple of weeks of the quarter.

Now I'll discuss the performance of our reporting segments, starting with Protein Sciences. Q1 reported sales were $204.7 million, with both reported and organic revenue increasing 2% compared to the same period last year. As a reminder, it is our Protein Sciences segment that has the most exposure to the China geographic region as well as to the biotech end market. Operating margin for the Protein Sciences segment was 43.2%, and an increase of 20 basis points compared to the prior year quarter as productivity gains and cost management more than offset the impact from strategic investments.

Turning to the Diagnostics and Genomics segment. Q1 reported sales were $72.8 million, with reported growth increasing 4% compared to the same quarter last year. Organic revenue growth for the segment was flat with acquisitions having a 3% impact and foreign exchange having a favorable impact of 1%. As Chuck previously mentioned, organic growth was negatively impacted by the timing of certain OEM and lab orders for our diagnostic controls and genetic testing products.

However, our Exosome Diagnostics business remained very strong in the quarter as our fortified marketing message, strong clinical data and the updated Medicare LCD drove both test volume and revenue growth. Also, our spatial biology business delivered upper single-digit growth in the quarter with continued growth in RNA scope and strong performances in our BaseScope and microRNA product lines.

We are very pleased with the traction Lunaphore is having with its comment launch, as Chuck highlighted initial integration efforts are progressing well. While Lunaphore will not be in our organic growth rates for the year, they are executing well on their plan to grow more than 100% for the fiscal year. We continue to expect Lunaphore to contribute at least 1.5% to our overall company's reported growth for fiscal '24.

Moving on to the Diagnostics and Genomics segment operating margin at 0.7%, the segment's operating margin decreased compared to prior year's 12.4%, due primarily to the impact of the Lunaphore acquisition, and to a lesser extent, strategic growth investments as well as unfavorable product mix.

Before we get to Q&A, I'd like to provide some color on our current thoughts regarding the near-term outlook. As many of our life science tools peers have already mentioned, the macro environment in China continues to weaken, and the biopharma end market is softening, especially in the U.S. While we expect these headwinds to negatively impact our growth in the protein scientist segment relative to Q1, we also anticipate the timing of OEM and lab orders within our Diagnostics and Genomics segment to be accretive to growth relative to Q1. Net-net, we are forecasting overall company organic growth to be about flat in Q2.

Beyond Q2, the macro environment is dynamic to provide guidance with any sort of results. While the headwinds of OEM destocking should be behind us in the second half of fiscal year '24, it appears right now that a China and biopharma recovery will not be tailwind as we once believed.

Whatever the macro environment throws at us in the near term, our excellent management team and dedicated employees will continue to drive productivity to protect the bottom line, all while selectively investing in the growth pillars that will accelerate our overall company's growth rate when the market headwinds decide and turn back into tailwinds, and the winds will turn.

As Chuck said, society's priority to cure disease is inevitable and endless. Bio-Techne is ready now and will be even more so in the future to help our customers fulfill the societal need.

That concludes my prepared comments and with that, I'll turn the call back over to the operator to open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Puneet Souda with SVB Securities. Please proceed with your question.

Puneet Souda

Yeah, hey guys, Puneet here from Leerink. So just, Chuck, could you maybe just help us clarify, I know a lot of uncertainties right now with China funding and just overall macro. But should we expect a sequential recovery and growth in the second half of this fiscal year?

I know you said flat for the next quarter. but should we expect that to continue to step up from that? And what does that mean in terms of the overall growth for the full fiscal year, if Jim could elaborate on that, that would be super helpful?

Charles Kummeth

Sure, Puneet. So we just came back from China, and we are pretty much saying what everyone else is saying on their call this past week or -- this quarter was disappointing. China definitely is created, they're out of money. We did talk about funding returning starting next quarter -- last quarter -- and there are some glimmers of that, but not enough to be material. So this next quarter is more of the same.

The second half, we're hopeful, but there isn't anything -- any real evidence right now that there's that there's going to be any kind of a V recovery or a recovery at all, to be honest. But the team is very hopeful. There's energy there. Streets are full. The economy looks great at a consumer commercial level. But I think in terms of government funding for this segment, I think, is right now, we're kind of a wait and see.

Now with a bunch of very important KOLs, and they all say the same thing that there's a lot of hope and there's a lot of expectations they don't doubt it's coming, but the government is not roll forward on their planning, obviously. So we're all kind of wait and see. But other segments there look better. It's just a downtime for biotech, and we're going to we've got to grind through it, I guess.

James Hippel

And Puneet, I'll just add, I mean, as Chuck alluded to, there's no sign right now any kind of V or even new shape recovery in this fiscal year. So we're just playing it fairly conservative. The China situation is, as Chuck outlined, the other thing dynamic we saw was the U.S. market starts to soften in the last couple of weeks of the quarter and that has continued into October.

So that's reflected in our kind of flattish guidance here for Q2, but what's unknown is whether that trend continues beyond that or whether it stabilizes. So hence, we're not commenting on the back half of fiscal year '24 at this point.

Charles Kummeth

I do want to also emphasize that you take out China, we had a not too bad a quarter, mid- to high single-digit growth, near 20% growth or instruments. All our growth platform is growing -- actually right on plan more or less. They just aren't big enough to cover the company right now. But -- so it won't be too much longer. This kind of stuff won't matter that much. And I do believe in a couple of quarters, China will be -- start becoming a better story. But right now, for 1 more quarter, at least, we're all in a wait and see. So.

Puneet Souda

Okay. That's helpful. Then could you elaborate a bit more on sort of what you're seeing on the Wilson Wolf side of the business, the contribution you were expecting here for us cell and gene therapy?

And how much, if any, that could contribute to sort of the second half growth here in the fiscal second half? And then I mean it seems like a number of unexpected pressures showed up in Diagnostics and Genomics segment. Maybe just talk to us a little bit about sort of the timing and recovery in that as well?

Charles Kummeth

Okay. I'll mention Wilson Wolf, and I'll let Kim discuss TGS. Wilson Wolf is kind of more of the same, very flattish. We've not lost any customers. We're kind of grinding forward with them, too. They've got 800-plus customers. We've got 400 overall with our protein side, but they are kind of the de facto standard out there in bioreactors. And John has been focusing a lot on scale ready, the sister business that will also carry our workflow through.

That's going extremely well. We have just launched or new versions of our protein to be working towards a sterile type of a bioreactor module, I guess, a bundle. So everything is kind of going okay there. We're just kind of waiting for the overall uptick, but we're not losing ground. It's just kind of treading water right now. And which means they're still making lots of revenue, a meager 75% operating income and pushing forward.

So they're using all that income to keep investing and driving faster. So -- and then Kim wants to follow up.

Kim Kelderman

Yes, Puneet, thanks for the question. So obviously, larger companies have been optimizing their inventories and for us, that mainly impacted the DRD organization as they mainly sell into the large IVD companies. It also affected MDD a little bit, specifically in the genetic testing portfolio, which is the legacy surgeon.

They sell into the laboratory space and the larger laboratory space and of course, these laboratories also want to optimize their inventories, specifically going into the end of the calendar year. But we see those as temporal, and we think that we're at the back end of the destocking phase.

Operator

Our next question comes from the line of Dan Arias with Stifel. Please proceed with your question.

Daniel Arias

Hi guys, thanks for the question. Chuck, Simple Western growth stepped up nicely this quarter, particularly given the issue environment that we're in. What do you think drove that? And do you see that as sustainable what do you think a reasonable growth rate for that portion of the portfolio might be this year?

Charles Kummeth

No, that's a great question. I think we're kind of back to original type thinking on Simple Western. I think we had roughly 9% growth or something like that with it. Consumables was even higher, much higher we're knocking on the door of 3,000 instruments out there, which is still under 20% penetration just for the Western blot application alone.

And there's a bunch of new applications coming using the instruments, including the diagnostic-related applications. So we're super bullish on our Simple Western platform. It's -- we're in early innings yet. So I still think the long-term growth rate for this talk like a decade is like a 15% CAGR for a decade. It's going to go up and down. I think last year, we're still fighting comps. And last year, we had 50% type growth last couple of years. So we're still kind of working through that. And we're still showing growth right now, strong growth and double-digit growth in consumables.

So long term, I think it's going to bounce around 10% to 30%, but it's going to be an average of 15%, I think. And this is the only game in town where this type of technology. We've got strong IP. No one's ever been able to get close to it. It's automated Westerns, which is a nightmare for people. So it's nothing but a great future.

James Hippel

Yes, Dan, I'll just add to that. As Chuck just ended with, I think it speaks to the productivity nature of the instrument. We've been saying all along, it's an amazing productivity tool. And in this time, as tightening budgets and concerns about funding should help. That's what's driving the consumable growth there. So it truly is the productivity tool. We've been saying it all along.

Daniel Arias

Yes. Okay. And then maybe just on ACD, 9% growth, I think you said during the quarter. Do you think that can get back up into the double-digit range? And then along those lines, can you just touch on where you are now just in terms of the need for additional commercial scale up there?

And then whether you think usage in the clinical translational setting is a reasonable expectation in one of the things that you need in order to get back up into that 2-digit number?

Kim Kelderman

Hey Dan, it's Kim. Thanks for the question. Absolutely. I think it was mainly Apex slowing us down a little bit this quarter. By fixing just that or normalizing, we will be back in the double digits. That's the entitlement for not only the end markets but also our unique solution with the RNA scope portfolio of products.

Think about Lunaphore is going to keep this business a boost as well, right? And we will definitely have more pull-through on the Lunaphore boxes, to COMET specifically. And then last but not least, our clinical business has been outpacing the overall product portfolio already and it's becoming more than 10% of our revenues portion. So I think the undoubtedly answer is, yes, it will be back in double digits.

Daniel Arias

Okay. Just really quickly, Kim, is the percentage of revenues from -- in China for your spatial business similar to the overall corporate average?

Kim Kelderman

No, it's much lower.

Daniel Arias

Okay, thank you.

Kim Kelderman

Thank you.

Operator

Our next question comes from the line of Jacob Johnson with Stephens. Please proceed with your question.

Unidentified Analyst

Hi, good morning. This is Hannah on for Jacob. Thanks for taking my questions. If the macro remains a headwind well into 2024, how does this impact your view on organic investment? Will you try to manage profitability? Or does this change your approach to organic investment?

Charles Kummeth

Yes. Jim can cover this.

James Hippel

Yes. The short answer is no. I mean we are putting in productivity measures in place. We have been anticipating this throughout the quarter, and we continue to do that. We are, of course, pacing our investments accordingly. But our intention is to hold the margin guidance that we gave out earlier in the year. and manage our productivity to that while still investing in our growth platforms.

So we're -- that's what we're paid to do is manage the support of the business given the current environment while still investing for the future, and that's what we intend to do.

Unidentified Analyst

Thanks. And then can you talk about the outlook in proteins and antibodies for the remainder of the year? Do you expect to end the bulk orders to be coming back?

Charles Kummeth

Yes, I'll cover that. I just had a meeting yesterday with the team and bulks are on the rise. So that's a very good early indicator that OEM business be returning. Destocking, as Jim said, it's kind of largely behind us. We're starting to see discussion on orders now in some very large orders. So I think we're turning the corner on that. I think our run rate business is hopefully kind of bottomed here.

We'll start positioning that out. I mean we had probably the worst quarter and 10 years of Fisher this last quarter, and we see that kind of flattening as well. I mean they talked about it on their call as well, and where that -- the segment that lives and it couldn't have been very great. But these labs are running out of stuff. They've got to start buying again, and we're starting to see the first inklings of that.

So we think run rate will start improving some. And I think our retail overall will start improving. Remember now, our that's not a majority of our revenue. So it takes all these things together to give us in the double-digit growth. But they all matter. And this part here, I'm kind of bullish looking forward finally.

Operator

Our next question comes from the line of Patrick Donnelly with Citi. Please proceed with your question.

Patrick Donnelly

Hey guys, thanks for taking the questions. Maybe first just on the biopharma performance in the quarter. Can you just talk about what you saw across the customer set and how things progress throughout the quarter, kind of the linear performance?

And then maybe just disaggregate between the trends, smaller biotech versus mid and large pharma, a few peers suggest that things may be deteriorated as the quarter went? So curious what you guys saw?

Charles Kummeth

Yeah. Well, overall for the company, our academic versus biopharma is largely even about the same, but it was lopsided. So it was much stronger for biopharma in Europe okay, than it was in U.S., U.S. was low almost mid-single-digit growth. So that's a much poorer performance than usual for us in the U.S. As Jim said, most of our pain was in the U.S. and then China and it was on the biopharma side.

All in, without China, we actually didn't do too bad because academic was not too bad. I mean, probably better than many quarters in the past quarter, to be honest. So we're waiting on that biopharma to come back. And of course, as you mentioned, biotech is part of that biopharma and biotech is still soft out there. The funding environment for biotech, small to medium companies going after their second or third round or trying to get that next way the clinical is going or rejuvenate the clinicals they're in, it's just softer. They're all being very careful because money is tight. It's going to change, but it's going to be a quarter or 2, I think on that part of biopharma.

Pharma is just being conservative because they're just being conservative because they just see the wins, the way they're looking, and that can turn on a dime. I'll give you some evidence why that can be very, very quick to move. We actually had a very good quarter on our immunoassay, ELISA, dual sets, high single-digit growth. and that was not the case a quarter or 2 ago.

So that could be early evidence of things starting to flip because that's mostly farmer driving most of that business. So ELISA is still more or less a standard for driving testing and clinicals. So.

Patrick Donnelly

Okay. That's helpful, Chuck. Thanks. And then maybe just a follow-up on China. I guess what do you guys need to see to get a little more constructive in that market? Obviously, the prior guide, you're talking maybe a little bit about a second half recovery curious what you're baking in at this point in terms of the year for China and if there's any visibility into a level of improvement? Thank you, guys.

Charles Kummeth

Yeah. We went how many -- how many quarters in a row a 25% growth or so. So we're definitely in a lull right now. This is a negative teens quarter coming off of a high teens quarter growth last quarter. But going forward, it's going to be more of the same. I think flattish would be hopeful the next quarter or 2, to be honest. So the second half, our Q4, who knows? I mean it wouldn't take -- we're not that big in China, right, overall.

So it wouldn't take that much or that many orders or rejuvenation in any area to actually get back into some growth. But we'll just have to wait and see. We're just going to be cautious and not overpromise. There's not a lot of evidence, but the attitude is very high. Our team is at full strength. We have 0 attrition. Talked to a lot of customers personally here a couple of weeks ago, and actually, they're fairly bullish as well. We're just waiting for the government to start loosening up here with what they usually do in April, and they still haven't done it. But once they do, people start talking favorably again about China.

And you got to believe, and we've talked to a lot of people, health care is still number 1 is a priority for China. It looks great. You're in the middle of Shanghai. You don't have to go too far outside the city and you start seeing why the government is still concerned about health care.

Operator

Our next question comes from the line of Catherine Schulte with Baird. Please proceed with your question.

Thomas Peterson

Yeah, hi everyone. This is Tom on for Catherine. Wanted to maybe dig into Europe a little bit. Obviously, had a really strong quarter from an organic growth standpoint. I understand that there are some comp dynamics within that number, but kind of flag the region as perhaps a leading indicator of some of the softness. So curious to the kind of what were the drivers here? And if you have anything to flag from a leading indicator standpoint within Europe?

Charles Kummeth

Sure. Well, first, as you mentioned, the comps were quite easy. So that helped a lot. But 15% organic growth is 15% organic growth. It's a great quarter to have that. We're not talking about a negative Europe right now. So we're 2 or three quarters into a real recovery for us in Europe. That's also part of the story.

We have a new management team in place. They have done some reorganization a couple of quarters ago. And quite frankly, it's working. We're getting more synergies. We're getting more cross-selling. We're nearly at full strength. We've invested more salespeople as an example, in the Nordic regions.

The new leader is German. Germany should be our biggest subsidiary in Europe and if not, and be correcting that. There's already been great evidence that we're going to have a strong future, I think, in Germany with him at the helm. And I guess wait and see. But I'm -- right now, I'm not focused too much on Europe for a change. Things are going pretty well.

Thomas Peterson

Great. That's helpful. And then clearly, we talked about a number of headwinds throughout the space that are popping up throughout your reports. But with that in mind, I was wondering if you had any comments on sort of your thoughts around the M&A landscape? I mean what does the funnel look like here? Is there any more willingness among private maybe enter those conversations kind of given where we are from a macro perspective?

Charles Kummeth

Yeah. Well, it's -- we've never been busier to be honest. It's -- I said all year, it's going to be a great year in M&A, we've landed Lunaphore. I just came back from Aldo where I'm on the Board, and I never received more confidence about a deal in my entire tenure here is this Lunaphore deal. It seems like everybody wanted to.

So it's going to be a marvelous platform and it has lots of applications and did we mention the growth year-on-year, 170%. This thing is it's exploding. It's going to be a wonderful asset and Kim personally close that deal. We've been involved in others. I mean we just saw Link. We were there. We know a lot about Olink. We sell them a lot of products. And they're a good partner, and we look forward to continuing our partnership on many fronts with Thermo Fisher with Olink as well.

So it's been a great relationship with Thermo and we don't see any problems there, but we'd sure like to pick up a few more assets like that. There are lots of them out there. You mentioned private. This is definitely the year to be looking at smaller deals, private deals, deals in the core even that funding is tight, and we're seeing multiples kind of picking up. The price takes these latest deals have been pretty good, and that gives hope for owners and they pick up the phone. So I'm still expecting a pretty good coming year here for M&A.

We have lots of purchasing power for our size, and we'll try to use it and I mean I'll be gone soon, but I'm sure Jim and Kim and the team here will continue the mission on that.

Operator

[Operator Instructions] Our next question comes from the line of Matt Larew with William Blair. Please proceed with your question.

Matthew Larew

Chuck, something you -- as Jim called it out in his comments was the headwind around biotech funding. And I think you said that hurt especially in the last couple of weeks of the quarter. And so given that Bio-Techne has been under pressure for some time. Just curious if there was anything that you picked up on in the last couple of weeks or I've noticed a sense on that front?

James Hippel

Yes. I mean, we've been saying how biotech was relatively stable for us after its initial kind of drop in the first part of fiscal year '23. And stabilization was pretty consistent up until like I said the last couple of weeks. We saw the run rates drop off. We saw some larger deals not close, and that kind of continued here in October.

I don't have a good answer as to why that's the case, except to say that all of our peers are pretty much saying the same thing. So it appears like as we get into the year-end here, there's another round of belt tightening going on across biopharma, especially in biotech. There's some optimism that it's an end of the year belt piping exercise and once we get into calendar year '24, but new budgets get approved at the business level that we'll start to see the pickup in activity. But again, we're a little bit too early to tell at this point.

Matthew Larew

Okay. And then sort of aggregating your comments, it sounds like we should be thinking about China continuing down in this low teens as we're modeling out, but obviously, growth in the business ex China, and that's fair to say, even though you're not providing guidance?

James Hippel

That is fair to say, and that's consistent with Q1. I think one of the biggest drivers, too, in terms of the about the second half and so forth in diagnostics and genomics. So our growth would have been better this quarter if there weren't for those timing issues that Kim talked about and so we do see a nice snapback in the diagnostics genomics submit going forward.

And to reiterate what I said earlier, in the near term, Protein Sciences can still be very challenged by China. China is going to get worse before it gets better. The view from our teams out in China, we just visited is that Q2 is hopefully the bottom. The question is does it -- is it a dead count bounce for a while? Or is the funding come back in the early part of calendar year '24. That remains to be seen.

Operator

Our next question comes from the line of Alex Nowak with Craig-Hallum. Please proceed with your question.

Alexander Nowak

Okay. Great, good morning, everyone. Kim, I think we're all very excited to work with you in the CEO position. But maybe just expand maybe the whole team here because you expand on the internal search process in that the board considered Will and Jim as well what ultimately led to the decision here?

Charles Kummeth

Well, I can't speak for the Board, but we did announce it's very early. I went through that quite carefully. I mean it's going on 1.5 years ago. I think it was very clear why we announced. One, which is uncommon was to give enough time to be very thoughtful in the process, look at leading executives that might have non-competes to work through. I think the Board went through an extensive exhaustive list doing their fiduciary duty, I do know that there was more than a half a dozen external on the list at 1 point.

And -- but I think to say more or less what Bob had said at a meeting recently was there just didn't seem to be that big a difference in what they thought the experience levels and the abilities of the externals versus our three top notch internal candidates, which I spent the last decade and, in some cases, longer from 2 different companies. And so why take the risk externally with their point of view.

And I do think it was a tough decision, as I mentioned, and Kim's thrilled. Jim and Will, I'm sure, are happy for Kim, but they're still here, and we're -- we've been a good team with very low politics for many years together. And both here and Thermo Fisher, where we all came from, and I see no reason why it won't continue. We've got a lot of work to do. Our stock is down like everybody else's in the industry, and so there's a lot of potential upside. We see a path to a $5 billion revenue company in 10 years. And my guess is the stock will be much higher than. So they'll probably stick around.

Alexander Nowak

Makes total sense. And Kim, there's always been a biotech news that this is a unique combination of biotech products and then call it Diagnostics and Genomics. Would you anticipate with this move here that Bio-Techne is a little bit more diagnostics focus after the transition? Or are you very focused on keeping this truly well-defined high-growth areas?

Kim Kelderman

Absolutely. So the latter, there's no internal bias to either one. I think we have defined our core growth platforms, our true growth platforms, our vertical markets that we're focused on, and I'm going to love all of them equally. And on top of that, some of them have higher potential than others, and we're going to invest in the true growth platforms, and that's going to be the best way for the company as well as for the shareholders.

Operator

Our next question comes from the line of Paul Knight with KeyBanc. Please proceed with your question.

Paul Knight

Yeah. Thanks very much. Chuck, you're a long-time China expert. When you look at the funding, do you -- what portion is the government funding and what portion is this biotech private sector demand that, I guess, developed in the last 5 years? So what's kind of the proportion of this kind of funding discussion you're seeing or your perspective would be super interesting?

Charles Kummeth

It's a great question, and it's probably a very difficult answer to really answer definitively. You're absolutely right in the last 5 years or so, it's been definitely a drift away from solely relying on government funding and the government plans and the biotech sector has definitely grown in China. And there have been some companies that have come and become real companies like BGI to come to mind that have been very successful.

I think private equity, VC money has grown. I think you've got a lot of Chinese American people that are Chinese and decent have gone home and taken with them business principles and business models from America, and it's gone quite well. We have some great friends there. We know some -- there have been some great track records of some Chinese firms that have been doing venture and done quite well.

The percentage, I think, though, is hard to difficult at. I think we still -- we're going more and more direct all the time, all of us there, but we still mainly fulfill through just master distributors in China. And so it's a little bit hard to understand where it already is coming from. There's a run rate component as well and I think that is largely driven by institutions, which are largely government funded.

We have some growing OEM opportunities as well, especially in our DRD segment and there are companies like mine Array and others that have been around a long time and very successful in growing double digit that have taken a bigger and bigger piece of our business and going direct with us. But -- so the government portion is definitely shrinking, but it's still such a major portion of that is going to drive the overall size of the business and the overall, call it, the pulse of the economy over there.

James Hippel

Paul, I would add, if I could, that perhaps unlike the U.S., the government funding in China has more indirect impact on VC funding than it does in the U.S. I think VC fund in the U.S. is irrespective of what NIH funding does. But in China, the VC funding often will follow or accentuate what the government does. So that's why following the government money really the lead, we believe on -- with the direction of where our space is going there.

Paul Knight

Yes. That follow-up on that then to me would be it does appear that the government clearly is behind hospitals and core health care, some numbers across the industry show improvement there. But -- do you think the government still is behind fundamentally picking up R&D to create that biotech sector? So yes, that would be my last follow-up. Thanks.

Charles Kummeth

I think they're very bullish on that. I think that's something they definitely want. They -- China wants to be in a leadership position as best they can in biotech in life sciences and not being a predicament like they are in semiconductor, for sure.

Operator

Our next question comes from the line of Justin Bowers with Deutsche Bank. Please proceed with your question.

Justin Bowers

Hi, good morning, everyone. So just sticking with the topic du jour, where -- you talked about next quarter being potentially the trough for China. And somewhat of a philosophical question. But if we exclude Hope and return to government funding and just think about the infrastructure that's in place now and what's needed to sustain the business. Is 2Q sort of like a good reflection of the run rate?

And just taking a step back, I mean, you guys are outperforming peers a little bit in that market. Some are down 30%, 40%, 50%, right? And there's only so many quarters you can have those sorts of drawdowns before you start cutting into the bone. So just any thoughts on that would...

Charles Kummeth

Yes, it's a good question. the institutions there, a good comment from our leader in APAC this week, and he said, "Well, -- they're not really in the cutting people. They're just sitting around playing Mahjong waiting for money to come in." So -- but the teams are there. And -- but you're right, they've got to get work done, and they are labs and they've got run rate we need. And I think the -- it's about growth, it's about future growth, it's about money for new programs, but there is a certain level of keep the lights on funding happening. So it's shrinking, but it's not gone away.

So I mean got to put it in perspective there, I think. I think other companies talked with that, too. There's -- we had 17% growth last quarter. In this quarter, we were down mid-teens. Maybe it will be end up being flat, but it isn't like there's no money, no funding. I mean people aren't working or going to work, they're going to work, and they're doing work, but there isn't funding for new programs right now. So everything is kind of at a standstill waiting on that. So that's really the tone going forward.

Don't know of any real layoffs. We have our full team right now, and there isn't much attrition. I don't think they're that kind of an economy anyway, but they are playing a lot of Mahjong waiting for the checks to come in. So it's pretty happy team, too. I mean it's -- if you've gone to China as many times as I have, I'm just always come back pretty energized because they're just such hard-working people, and they're just really enjoy seeing you and they really are authentic and you'll never get more honest questions and honest answers from than you will from the teams in China, your teams or customers or anyone for that matter. So just love it.

Justin Bowers

Got it. And then just one follow-up and sort of ending on a more positive note. Within the ProteinSimple franchise, you talk about a lot of runway left. where have you had the most success, which sort of accounts or which end markets and penetrating and where do you think there's more sort of education that needs to happen around adoption of the platform? And so 15% growth going forward is highly attractive in the comps that you put up this quarter as well. So.

Charles Kummeth

Yes. Well, we do -- we've got a stable of nice businesses here, a good dozen or so platforms, but three of them are three most important. We put most of our energy and our funding, all had great quarters with 50% growth in Exosome, we had double-digit growth nearly in spatial. We had solid growth in cell and gene therapy, 40% in GMP proteins. We're going to more than double the number of proteins that come out of the factory this coming year. We're building a new factory in China for GMP proteins because the demand there is actually accelerating as well.

So yeah, I think now is the time to be thinking ahead and not be short-term thinking and -- it isn't just our company stock. It's a lot of in our industry. A year from now, this is all, could be all behind us, and there's going to be a fast flight back to quality earnings, and that's us. We make money, and we operate well. But we are definitely can say that we're in a -- we're definitely in a recession. In fact, the whole world is waiting and talking about rates and interest rates are a big issue, obviously, and waiting for a pivot and whether or not we can hit a soft landing and for the economy.

And I'm going to pull out there. I would say, in life sciences, we missed the pit. So in terms of life sciences. It was a hard landing. So we're going to -- but we'll get through it. Disease, neuroscience, cancer. They're not going away on their own. And the big macro trends out there, aging, obesity, things like that are just getting worse, not better. So our time will come again, and the smart investors will be there early. So.

Operator

Thank you. We have reached the end of the question-and-answer session. Mr. Kummeth, I would now like to turn the floor back over to you for closing comments.

Charles Kummeth

Well, again, thanks for the quarter. Probably my last full earnings call. This is like number 42 or something like that. Kim will probably take more of a lead next quarter, and I'll be around for a couple more or so. But we're all pretty energized here and still having a good time, and we love what we do, and we love the science. And anyway, we'll see you next quarter. Thanks.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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