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Q4 2019 Fluidigm Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 10, 2020 / 10:00PM GMT



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## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen, and welcome to the Fluidigm Fourth Quarter 2019 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Ms. Agnes Lee, Vice President, Investor Relations. Please go ahead, ma'am.

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### **Agnes Lee** *Fluidigm Corporation - VP of IR*

Thank you. Good afternoon, everyone. Welcome to the Fluidigm Fourth Quarter 2019 Earnings Conference Call. At the close of the market today, Fluidigm released its financial results for the quarter and full year ended December 31, 2019. During this call, we will review our results and provide commentary on recent commercial activity, market trends and our strategic business initiative. Presenting for Fluidigm today will be Chris Linthwaite, our President and Chief Executive Officer; and Vikram Jog, our Chief Financial Officer.

During the call and subsequent Q&A session, we will make forward-looking statements about events and circumstances that have not yet occurred, including plans and projections for our future business -- future financial results and market trends and opportunities. Examples include statements about expected revenue growth, the anticipated positive impact of various strategic and operational initiatives, prospects for our products and technologies, potential customers and collaborators, trends in competition, markets, research funding and customer demand and guidance for revenues and operating loss for the full year 2020.

These statements are subject to substantial risks and uncertainties that may cause actual events or results to differ materially from current expectations. Information on these risks and uncertainties and other information affecting our business and operating results is contained in our annual report on Form 10-K for the year ended December 31, 2018, as well as our other filings with the SEC. The forward-looking statements in this call are based on information currently available to us, and Fluidigm disclaims any obligation to update these forward-looking statements, except as may be required by law.

During the call, we will also present some financial information on a non-GAAP basis. Non-GAAP information is not prepared under a comprehensive set of accounting rules and should only be used to supplement an understanding of the company's operating results as reported under U.S. GAAP. We encourage you to carefully consider our results under GAAP as well as our supplemental non-GAAP information and the reconciliation between these presentations. Reconciliations between GAAP and non-GAAP operating results are presented in the table accompanying our earnings release, which can be found in the Investors section of our website.

I will now turn the call over to Chris, our President and CEO.

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### **Stephen Christopher Linthwaite** *Fluidigm Corporation - President, CEO & Director*

Thank you, Agnes. Good afternoon. Thank you for joining our fourth quarter and full year 2019 earnings call. The discovery and deployment of new biomarkers for disease insight and treatment is becoming more and more important to our industry, particularly biomarkers related to the immune system. We think this will be one of the biggest trends in life science research in the coming decade. As new biomarkers are revealed, integrating them in the clinical study requires technologies that allow many simultaneous



measurements. Fluidigm is unique in the life sciences tool space because we provide innovative tools powering biomarker discovery and deployment at single-cell resolution for DNA, RNA and protein.

Furthermore, our tools are transforming biological understanding through spatial interrogation of tissue, including elucidating the tumor microenvironment. We sell our instrument platforms and consumables to leading academic medical centers, research centers, contract research organizations and industrial biopharma entities for this purpose.

In addition, our tools are useful in adjacent industries, including ag-bio, a broad category of companies. We are continuing to develop and improve consumables software and services for our customers to provide more complete, integrated workflows with recurring revenue streams and enjoy strong intellectual property protection for our technologies. We harness the power of 2 technology platforms: mass cytometry and microfluidics in new and compelling formats, enabling large panels as well as the processing of a broad range of sample numbers. In other words, we believe our prospects are bright as the science moves forward into our areas of strength.

As a result of these trends, in Q4, we exceeded our guidance, increasing revenue on a sequential basis by \$6 million and delivering 4% growth net of FX effects. On a full year basis, in particular, I'm pleased with the progress we made in delivering broader adoption of mass cytometry across multiple customer segments. We had notable customer expansion of this technology in the quarter, including adoption by Covance, a leading global CRO; establishment of a new mass cytometry Center of Excellence at the Georgetown Lombardi Comprehensive Cancer Center, emphasizing development of new imaging panels for pancreatic cancer, lung cancer and liver transplantation. Significant new system placements in translational research centers in Germany, Japan and China, driven by their increased investment in biomarker research.

Although the microfluidics' business performed below our expectations. We saw healthy adoption of our Juno instrument platform related to the RNA-Seq library prep kit we introduced late in Q3. We are targeting a \$300 million market opportunity and delivered revenue growth in line with our Q4 guidance for that product. Over time, we believe this product will catalyze portfolio growth in other microfluidic categories with revenue acceleration in the latter half of 2020. We've made good progress on the sales and marketing investments we foreshadowed in our last earnings call. These commercial investments complement our product innovation pipeline and our overall optimism for the future.

In brief, for the full year 2019, we drove mass cytometry utilization with full year 2019 revenue growth of 23%, punctuated by very strong sales of our imaging system configuration. We innovated across our portfolio, launching more than 10 new products for mass cytometry and microfluidics. We increased our active installed base of mass cytometry units to 292 with 85 enabled for imaging. We witnessed exceptional growth in scientific knowledge enabled in part by these platforms. Specifically, publications developed with mass cytometry technology now exceed 1,000 in number, representing 59% growth over the past year with exciting findings across immunology, immune function, immuno-oncology, infectious disease, to name a few.

Our mass cytometry technology-powered 75 new clinical trials during Q4 2019, a 25% increase from Q3, and we believe we are just beginning this journey in terms of the annual number of translational studies we can penetrate. We signed numerous new partnerships and collaboration agreements to supplement our organic initiatives, including a significant DARPA-funded development program and a software collaboration with Indica Labs around their powerful HALO offering for imaging mass cytometry. We strengthened our balance sheet by eliminating \$150 million of debt in Q1 2019 and refinancing the remainder of our 2014 convertible notes in Q4. In 2020, we intend to build upon these foundational accomplishments and take Fluidigm to new heights.

Shifting from prior accomplishments to perspectives on the market. I want to start with some comments on mass cytometry. Across all regions, our underlying markets remain healthy. From what we can determine, we did not experience any unusual budget flushes in Q4 compared to Q4 2018. We see strong market demand for analysis solutions and high parameter protein across tissue and cells, and we are seeing demand for new instruments as organizations build capabilities. We believe usage of established systems remain strong, while sales of new systems has grown, and our base of recurring revenue streams from consumables and services is becoming a meaningful part of our revenue profile. In the U.S. market, we believe our prospects are good, with continued NIH funding growth and biopharma industrial investment. There is a steady increase in new clinical studies and trials, especially in the areas where we focus, namely immune response measurement.



And for 2020, we don't anticipate fundamental changes in the funding landscape or competitive dynamics compared to 2019. With this market context, our underperformance in the Americas during the second half of the year is disappointing. Starting late in Q3, we conducted a review of our market assumptions, competitive positioning and commercial effectiveness. And ask the question, how can we establish more consistent growth in the Americas, both from mass cytometry and microfluidics.

We concluded that end-market health and competitive dynamics were not the prime drivers of our underperformance. However, we did gain an important new insight. Despite our large opportunity funnel, our coverage model had not scaled with the accelerating growth of our mass cytometry installed base from the last 2 years. Furthermore, we had poor coverage of high-value microfluidics accounts and prospects. Simply put, we were spread too thin on both business lines with a single-selling team. As a result, we began a series of commercial investments starting in Q4 and continuing into Q1 aimed at addressing this situation. We anticipate reaching our target commercial footprint in Q2, and we are on track with our hiring plans. We believe the incremental selling capacity in the Americas will accelerate our revenue growth as we enter the latter part of the year. We have deployed other levers to mitigate the potential adverse impact on our cash burn.

In EMEA, we see relatively strong demand for our products despite the backdrop of slow GDP growth and Brexit dynamics. Overall, basic research funding is tight, but we see a shift in funding to areas where we are well positioned. We are part of numerous consortia of researchers and industrial partners on disease research and biomarker development, especially immune-mediated diseases.

We continue to focus on market development activities on these organizations, best positioned to benefit from the shifting research landscape. The landmark nature paper, we highlighted in January, is an amazing example of how we have partnered with a leading academic center in Zurich, who, in turn, recruited a consortium with pathologists and hospitals to investigate novel biomarkers and cell populations important to breast cancer patient stratification and treatment. Their study suggests that high-parameter protein image analysis of tumors could be a game-changer. On the heels of these scientific breakthroughs, we believe further sales channel investment is required to build on our product momentum. Investments in sales heads for the German-speaking countries have delivered new growth in 2019, and we believe this trend will continue in 2020.

In fact, we are investing in incremental selling resources for the entire EMEA region, primarily microfluidics, which will allow our existing mass cytometry team, which previously carried microfluidics in their bag to sharpen their focus. We think it will be a win-win for both franchises as we deploy a specialist sales model while increasing our direct-selling presence in key countries.

In addition, conversion in some territories from distributors to direct sales makes more and more financial sense as we gain scale in those locations. Similar to the Americas and EMEA, the APAC region is shifting funding to immuno-oncology and immune system-related tools and related programs. In absolute terms, China and Japan are the fastest-growing markets, followed by Korea, Singapore and Australia.

Highlighting this market trend, the Japanese government has funded a 5-year national immuno-oncology program. In Q4, we sold Imaging Mass Cytometry systems to key research centers that were awarded projects. We believe these placements will drive recurring revenue streams in the coming years, and we hope these projects result in new biomarker panels, important to prevention, early detection and therapy.

China has shifted national funding to large precision medicine in immuno-oncology programs as well as build out -- as well as the build-out of institutional infrastructure, top medical research centers. We have not modeled any adverse long-term impacts from the recent coronavirus outbreak. And similar to other research tools providers, we believe our tools will be critical to researching, preventing and addressing future infectious diseases. To capitalize on these growing markets, we are building out specialist teams to scale with the market demand in China.

From a segment perspective, demand in large academic medical centers remain strong. We have penetrated more than half of the targeted U.S. and EMEA accounts in this segment. And in many situations, we have sold multiple systems. With the largest accounts approaching 10 or more installed units on the mass cytometry side of our business. Consumables are trending in line with our expectations, and we materially increased our clinical trial participation in 2019. We see incremental placement opportunities and new



demand emerging from these institutions as well as emerging interest from mid-tier institutions. Our microfluidics' sales team focuses on these same segments, although the decision-makers and users differ in most institutions.

The CRO and CRL segment is another strategically important segment, although not currently our largest end market in terms of annual revenue. We see this market segment increasing in importance for us over the course of the coming years as early stage clinical studies, scale and larger biomarker panels become more common. With the addition of Covance this quarter, we are laying the foundation for future growth. We have a good group of smaller specialty CROs servicing demand of biopharma customers. We've just scratched the surface of the market potential.

Similar to our model with other partners, starting with our Maxpar Direct Immune Profiling panel, Covance will market specialty services to pharma biotech customers. What makes Covance special is their ability to provide global scale and support for the larger programs we think will emerge. Over time, we can feed them new panels from our partnerships with academic centers to extend their service venue. We know that most biopharma customers need flexibility and pre-configured solutions and value speed to market. So turnkey CRO partnerships will play an important role in our long-term success as we increased exposure to global drug development pipelines.

Turning now to microfluidics. Our microfluidics business is a platform technology, serving the broad genomics, for example, sequencing, real-time PCR and sample prep markets as well as the biomarker discovery portion of the proteomics market. These markets are very large with entrenched market participants. So we need to be targeted in our approach.

Our strategy is simple. For genomics applications, we've focused on high-value customers who appreciate our cost efficiency and automation. We use our innovation resources to target the biggest pain points for this type of research, such as library prep for RNA-Seq, a fragmented market with no integrated automated workflow. We achieved our guidance range for this product in Q4, and we anticipate steady growth in 2020, including Juno instrument placements with a focus on larger genomics cores and service providers.

Recently, we announced a key placement at MOgene, a St. Louis-based genomic service provider who has adopted Juno and our Advanta products, including the RNA-Seq NGS library prep product. We've been building a good pipeline for RNA-Seq and expect this to ramp as instruments are installed and validated with more revenue in the second half of 2020.

The second arm of our strategy is collaborations and partnerships oriented on key applications in end markets, where the partner has existing channel or insight. We have an excellent collaboration with the proteomic services provider that is ripe for further enhancement and a robust business development funnel. Our technology is incredibly powerful, but we need channel support and content plays to capitalize on this potential. We intend to avoid commodity applications and stay focused.

Our microfluidics business performance in 2019 was disappointing, largely because of weak demand from concentrated legacy customers. However, we have made steady investments in new applications, partnerships and channel expansion that should generate attractive returns in due time.

I'll now turn the call over to Vikram, our CFO, for a complete review of our financial results.

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**Vikram Jog *Fluidigm Corporation - CFO & Principal Accounting Officer***

Thanks, Chris, and good afternoon, everyone. Total revenue was \$32.4 million in Q4 2019, flat compared to Q4 2018 and up sequentially 22% or about \$6 million. Total revenue for the full year 2019 was \$117.2 million or up 4% compared to full year 2018. Changes in foreign exchange rates had a minimal net impact on revenues for the fourth quarter of 2019 and negatively impacted revenues by 1% for the full year period.

Mass cytometry revenue of \$21.5 million in the fourth quarter increased 13% year-over-year. For the full year 2019, mass cytometry grew 23% year-over-year. Revenue in both the fourth quarter and full year reflected strong growth across all categories, including instruments, consumables and service. Mass cytometry consumables and service revenue delivered strong double-digit year-over-year growth in the fourth quarter and the full year, including solid revenue growth from our Maxpar Direct Immune Profiling assay and new metals. Consumables pull-through in the quarter was close to our guidance range.



Mass cytometry instruments grew in the fourth quarter and delivered strong double-digit year-over-year growth for the full year 2019. Our total installed base of instruments at year-end was 292, including 85 that are enabled for imaging applications. Microfluidics revenue of \$10.9 million decreased 18% year-over-year, driven by a decline in consumables, partially offset by instruments. RNA-Seq revenue for Q4 was in our guidance range at approximately \$340,000 with most of the revenue from Juno instrument placements.

We expect consumables to ramp up later in the year as these instruments are validated at customer sites. We have seen microfluidics revenue remained fairly steady over the last 4 quarters and are seeing good early progress with the new RNA-Seq product. As Chris has mentioned, we are executing on our microfluidics strategy to target new key accounts and grow the business longer term with new applications and partnerships.

To close off my commentary on microfluidics, consumables pull-through for Juno and Access Array was higher than our guidance range and Biomark and EPI pull-through continued to be lower than our guidance range.

Turning now to a regional perspective. For Q4 2019 compared to the prior year period, Asia-Pacific revenue grew 15% to \$9.1 million, primarily driven by higher mass cytometry sales. EMEA revenue grew 13% to \$11.6 million, primarily driven by higher mass cytometry sales and partially offset by lower microfluidics consumables. Foreign exchange rates had a negative 1% impact on sales. Americas revenue declined 17% to \$11.8 million, primarily driven by lower sales of mass cytometry instruments and microfluidics consumables, partially offset by higher mass cytometry consumables. Fourth quarter mass cytometry consumables pull-through in the Americas continued to be significantly higher than our worldwide pull-through.

Moving on to our operating performance. GAAP gross margin was 55.1% in the fourth quarter of 2019, compared to 58.2% in the year-ago period and 53% in the third quarter of 2019. Non-GAAP gross margin was 65.3% in the fourth quarter of 2019 compared to 69.3% in the year-ago period and 65.5% in Q3 2019. The year-over-year decrease in non-GAAP gross margin was primarily due to product mix and to a lesser extent, lower average selling prices. Sequentially, the decrease in non-GAAP gross margin was primarily due to lower average selling prices, mostly offset by a favorable product mix, higher plant utilization and lower inventory reserves. In the case of GAAP gross margin, the year-over-year decrease was coupled with lower stock-based compensation expense. The sequential increase was due to fixed amortization over higher revenue.

Operating expenses on a GAAP basis in the 2019 fourth quarter decreased approximately 10% year-over-year to \$27.1 million. Operating expenses on a non-GAAP basis decreased 6% year-over-year to \$22.9 million. The decrease in both GAAP and non-GAAP operating expenses was due primarily to lower variable compensation expense, partially offset by higher product development expense. GAAP net loss for the 2019 fourth quarter was \$12.7 million compared to \$14.8 million for the same period last year and \$12.9 million in Q3 2019. The 2019 year-over-year and sequential decreases in GAAP net loss were primarily due to lower operating expenses, offset by lower gross profit. The non-GAAP net loss for the fourth quarter was \$2.3 million compared to \$2.4 million for the year-ago period, primarily driven by lower operating expenses, partially offset by lower gross profit. Reconciliation tables between our GAAP and non-GAAP measures are provided at the end of our earnings press release that was issued earlier today.

Moving on now to the balance sheet and cash flow. Accounts receivable were \$19 million at the end of the fourth quarter compared to \$14 million at the end of the third quarter of 2019. DSO was 53 days at the end of the fourth quarter compared to 48 days at the end of the third quarter. Cash and cash equivalents, short-term investments and restricted cash at the end of the fourth quarter of 2019 totaled \$60.7 million, including \$37 million of short-term investments that are readily available for sale and \$2.1 million in restricted cash. This compares to \$64.8 million at the end of the third quarter of 2019, reflecting a net decrease of \$4.1 million in Q4 2019. At year-end, the borrowing base under our asset-based revolving credit facility was \$8.9 million, none of which was utilized.

And finally, on to guidance. Based on investor feedback, going forward, we will be providing annual guidance for both revenue and operating income. For the full year 2020, total revenue is projected to be approximately \$126 million to \$130 million or approximately 8% to 11% higher year-over-year. GAAP operating loss is projected to be \$51 million to \$54 million. Non-GAAP operating loss is projected to be between \$21 million and \$24 million, excluding amortization of developed technology of \$11.2 million, stock-based compensation of approximately \$14 million and depreciation and amortization of approximately \$4.5 million. We expect most of the year-over-year



revenue growth in 2020 to be in the second half of the year as our commercial investments start generating returns.

I will also note that historically, revenue in the first quarter of the year is lower than in the previous year's fourth quarter. We expect this revenue cadence in Q1 2020 as well. In addition, operating expenses in the first quarter are seasonally higher than in the previous year's fourth quarter. Our guidance does not include any impact from the ongoing coronavirus epidemic. The impact is still too early to determine as our China team is just returning from the extended Chinese New Year holiday. To provide some color on the split of revenue by product lines, we are projecting that the majority of our 2020 revenue growth will be driven by mass cytometry with growth across all categories, instruments, consumables and service.

And with that, I will turn the call back to Chris for closing remarks.

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**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Thank you, Vikram. Last quarter, we completed our second year of growth on the heels of some fundamental changes namely new product innovation, operational investments, business focus on proteomics and tissue imaging, expanded organizational footprint investments and improvements to our balance sheet. We have demonstrated operational execution as well as strategic agility as we take the steps to drive increased market penetration for key customer segments.

Overall, the mass cytometry business is growing rapidly, particularly our recurring revenue streams of consumables and services. We are making the requisite investments to sustain this growth. On the heels of recent innovation, we are increasing our commercial footprint to return microfluidics to growth with enhanced specialist sales coverage for each franchise.

Looking to 2020 expectations. While our higher ASP instruments may continue to drive quarterly variability, our sales funnel remains strong. On an absolute basis, the second half of the year will likely be stronger than the first half as we realize the full benefits of our sales channel investment in the first part of 2020.

To supplement our organic initiatives, we have secured new collaborations and partnerships, and we are pursuing more opportunities to further expand share of wallet; commercialize improved workflows; generate more channel reach; and identify novel content for disease, diagnosis and treatment.

From an investor perspective, we have an improved balance sheet with greatly reduced debt obligations. I am confident in our ability to deliver new innovation and additional revenue growth while maintaining financial discipline and continued operational improvements. We believe these activities will drive sustained growth and tremendous long-term value creation.

As always, I thank our over 500 employees for their contributions this past quarter. We are honored to be recognized for launching the best cell product of the year, the Maxpar Direct Immune Profiling System. Furthermore, our fastest-growing office in Canada was recognized as a 2020 best place to work in Toronto.

Finally, our thoughts are with our colleagues and customers in China as well as employees who may have recently traveled to the regions impacted. We hope to do our part in the fight against these infectious diseases now and in the years ahead.

With that, I'd like to open the line for questions.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) We have your first question from Sung Ji Nam from BTIG.

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**Sung Ji Nam *BTIG, LLC, Research Division - Director and Life Science & Diagnostic Tools Analyst***

Just a few clarifications. Maybe starting out with Covance and Georgetown, did these customers acquire multiple systems? And for Covance, is there a potential for them to acquire the Hyperion Imaging System in the future as well?

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**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Okay. Great. So with regards to Covance -- and actually with George Mason, we did not reveal any details related to either one of those transactions. Although it is true on the Covance opportunity. We talk about Helios as a placement. And I do believe that there's Hyperion opportunities also at the account. But I don't -- I believe both institutions could represent a significant strategic value for us over the long period of time. Certainly, in the call, we gave some color related to Covance and the importance of their global footprint. And in this case, it's around suspension. And I think there's plenty of opportunity on the imaging side and then George Mason is specifically for Hyperion -- it was for Georgetown, sorry. I lived in Virginia for too long. But yes, for Georgetown University and Lombardi Cancer Center, it is a Hyperion opportunity. But they also have interest in both -- using both technologies in dual-use format.

**Sung Ji Nam *BTIG, LLC, Research Division - Director and Life Science & Diagnostic Tools Analyst***

Okay, great. And then, Vikram, when you talked about lower ASP impacting margins in the quarter, was that pretty much across the board -- across both product categories? Or was it more skewed towards one versus the other?

**Vikram Jog *Fluidigm Corporation - CFO & Principal Accounting Officer***

No, we didn't break that out Sung Ji. So it was a factor that affected gross margins, as I said in my script, but it was mostly offset by mix and capacity utilization.

**Sung Ji Nam *BTIG, LLC, Research Division - Director and Life Science & Diagnostic Tools Analyst***

Okay. And then just lastly, did you say that the consumable revenue for mass cytometry grew this quarter year-over-year?

**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Yes, we did.

**Operator**

We have your next question from Bill Quirk from Piper Sandler.

**William Robert Quirk *Piper Sandler & Co., Research Division - MD and Senior Research Analyst***

Great. So I guess, first question, certainly heard you loud and clear that we're not going to include anything in guidance for coronavirus. And I also appreciate that your team is just getting back from an extended holiday. But any intel whatsoever around the logistics of moving products around the country? Have they given you any feedback on whether or not they can get instruments and consumables and such to customers? We've been hearing different stories about the state of logistics over there.

**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Bill, this is Chris. Yes, so with regards to -- we're still getting a lot of details, I think, out of the region at this moment as far as our products are involved. So for us, it's shipment getting permits into the country, primarily tax-based permits. So we don't have a lot of details on the logistics and logistics flow at this time. So that's really all we can provide at this moment. I think the secondary component is -- our manufacturing supply chain primarily is outside of China as a primary basis for manufacturing in Singapore, Toronto and the U.S. There's always a potential impact from the secondary supply sources, of course. But for the amount of visibility we have at this moment, we have to stand by the comments that we made in the call.

**William Robert Quirk *Piper Sandler & Co., Research Division - MD and Senior Research Analyst***

Okay, got it. And then, Chris, maybe you can just elaborate on the timing around the comments concerning splitting up some of the sales functions between the mass cytometry business broadly and microfluidics. A couple of years ago, I think when maybe it's a little tighter on capital, you guys decided to combine those 2 teams. And so maybe you can just elaborate on why the time is right now to split those 2 back up into specialty teams?

**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

You're actually absolutely spot on, and we did make the decision actually right when I came into the organization that we had the team split. At that time, they were actually split around applied markets differences. So there was one around -- and then that was the fundamental difference. So we reunited instead of being -- differentiating between end-customer segments, we went to one integrated





team.

Now it is also true that in the Q3 time period and really on the heels, I think, of the RNA-Seq launch that we really see a catalyst with the new significantly differentiated product that we think it presents a real winner and provides a halo for really driving the broader microfluidics story that it makes sense for us to catalyze this expansion by product area. So one mass cytometry-focused team; a second, on microfluidics. And really, the third, I think, is that we've continued to accelerate our overall footprint in terms of mass cytometry. So that's really -- that's been really the primary catalyst for us for making this transition in the 2 teams.

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**Operator**

We have your next question from Doug Schenkel from Cowen and Company.

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**Adam Joseph Wieschhaus *Cowen and Company, LLC, Research Division - Associate***

This is Adam Wieschhaus on for Doug. As you know already, with a very strong mass cytometry instrument revenue quarter, we have you adding 17 mass cytometry instruments in the period and enabling around 15 instruments in the quarter for imaging. I just want to make sure those numbers sound approximately correct. And do the lengthening sales cycles and funding dynamics that you saw in Q3 subside? Or was it just more that they were offset by the positive drivers that you mentioned in your prepared remarks?

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**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Well, as far as the first question, I may -- did you repeat the second part of the question. I didn't fully get it. But I'll come back to that second.

On the first part, as you know, we gave a Q3 snapshot of our installed base. And in the fourth quarter, we obviously gave a revised update here in the most recent call. So you have the real mass directly to mass cytometry as well as it relates to imaging, specifically imaging enabled?

Can you repeat the second part of the question, please?

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**Adam Joseph Wieschhaus *Cowen and Company, LLC, Research Division - Associate***

Yes. You mentioned...

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**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

I'll just remind you on the first part of it, sorry to interrupt you that even the Hyperion are dual-use. So it also that -- it can get complicated from a mix perspective, just keep in mind, I know you guys will work hard on the modeling from -- we have Helios, we have an imaging upgrade, and then we sell a Hyperion configuration. So there's 3 elements to that sales line.

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**Adam Joseph Wieschhaus *Cowen and Company, LLC, Research Division - Associate***

Okay, understood. The second part of the question was just asking about the lengthening sales cycles and funding dynamics that you pointed out in the Q3 call. Just trying to understand have those subsided? Or if they were just more than offset by the positive commentary you mentioned on broadening customer base and new applications driving the strength in the Q4?

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**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Yes. I think adding additional color, it's really more the latter. As we had commented that historically, even in the 2017, 2016 time period, the sales cycles were longer than what we experienced in 2018. We saw a lengthening in the 2019 time period. And so really, the size of the funnel has -- and we started -- we've accommodated those elements in our forecasting.

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**Adam Joseph Wieschhaus *Cowen and Company, LLC, Research Division - Associate***

Okay. And your Biomark installed base increased by around 50 instruments this year -- or in 2019. Access Array and Juno installed basis decreased by around 12, we believe. Do you think further attrition, it's possible in 2020? Or do you expect those installed bases will grow this year as you target new customers and applications?



**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Yes, that's correct. That reflects the update and the snapshot that we gave between the last year and then this year on both of those line items. On the Access, Juno line item, I think it's important to put colors, as you know, the Access Array is an older piece of equipment, and we've been legacy wind-down of the Access Arrays. And so new Juno placements are partially offsetting that. I can't only be speculating on what the net effect would be for the 2020 time period at the stage, but that general trend is not a surprise to us, and I think you can see a deceleration of that wind-down of the Access Arrays.

Biomark also is -- reflects, I think, many of the Biomark placements in the earlier cycles were tied to single-cell and C1 placements, in particular. So we have seen some decline from that line item as far as active installed base, more related to the conjoint relationship with C1. And we've offset that partially with new placements of Biomarks, largely in connection with our proteomic applications and new customer acquisition.

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**Operator**

We have your next question from Paul Knight from Janney.

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**Paul Richard Knight *Janney Montgomery Scott LLC, Research Division - MD, Head of Healthcare Research & Senior Equity Research Analyst***

Chris, regarding the distribution move you are making, is that you are hiring additional people on the distribution force and also going more direct and also having them sell broader portfolio of products? Is that the way I should read it?

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**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Paul, first, not exactly. So I'd say, approximately, we're investing or increasing our investment in direct-selling heads by about 20% on a worldwide basis. And simultaneously, we're also creating more a direct microfluidic selling organization. So we're enhancing. We had a very small one in the United States, which we're significantly expanding. And then in select geographies, outside of the U.S., we are also adding a direct microfluidic selling capability. In addition, we're also adding incremental mass cytometry selling capacity in a number of geographies. So it's a 2 dimension. So it's both creating a dedicated team in some geographies and expanding the 2 teams, respectively speaking.

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**Paul Richard Knight *Janney Montgomery Scott LLC, Research Division - MD, Head of Healthcare Research & Senior Equity Research Analyst***

And how is your war on penetration of the biotechnology in the -- let's call it, the commercial nonacademic market. How -- what was the -- how was the progress in 4Q?

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**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Overall, I think we're pretty pleased with our continued acquisition of biotech and nonacademic customers. We do maintain that our current installed base today and a significant amount portion of our sales are closer in the academic space and increasingly more and more in the translational setting. But you have examples in our lexicon of installations like the one you've heard about today. Covance represents a significant expansion for us in accessing the biopharma spend. So we think that biopharma industrial spend is a very significant portion of the potential spend in this area, and we'll acquire that through a mix of system placements and then also through services contracts that reach into CROs. And so I think we're pleased, but we're going to make a lot more progress in this area over the coming year.

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**Paul Richard Knight *Janney Montgomery Scott LLC, Research Division - MD, Head of Healthcare Research & Senior Equity Research Analyst***

And then lastly, on the U.S. was, I guess, softer in terms of your geographical split? Was it capital equipment flow through not happening in 4Q?

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**Stephen Christopher Linthwaite *Fluidigm Corporation - President, CEO & Director***

Actually, one more time, do you mind asking the question on the academic -- on the America side?

**Paul Richard Knight** *Janney Montgomery Scott LLC, Research Division - MD, Head of Healthcare Research & Senior Equity Research Analyst*

Yes. U.S., down in the quarter. What was behind that? Was it capital spending constraints. Could you just talk to that?

**Stephen Christopher Linthwaite** *Fluidigm Corporation - President, CEO & Director*

It feels like to us, I mean, partially, the U.S. both had a very strong comp in the prior year period and the Q4 2018 time period. But to us, it felt more as a coverage issue. So we have a significant pipeline, but we are having trouble getting the full yield out of that pipeline. I don't think there's an issue in the U.S. I just think it's an opportunity for us to do more investment in that particular area to increase -- to maintain the rate of growth that's required for us to show absolute growth for the Americas.

So it's -- primarily the microfluidics business is there that zaps some of the vitality out of there. And assuming we've had areas that where we had a series of levered accounts and there that have -- as we talked about in historically legacy accounts that have kind of ebbed and flowed. And so that certainly impacted the Americas number.

And I'd just add -- thank you very much, Paul. And then on the hiring basis, we made good progress in the fourth quarter on our hiring plans. So we started those activities in Q3. And so we continue to feel very pleased about the progress that we've made through Q1, and then we'll expect to be, I think, at full staff in the Q2 time period.

**Operator**

I'm showing no further questions at this time. I would now like to turn the conference back to Ms. Agnes Lee. Please continue.

**Agnes Lee** *Fluidigm Corporation - VP of IR*

Thank you, Alexander. We'd like to thank everyone for attending our call today. A replay of this call will be available on the Investors section of our website. This concludes the call, and we look forward to the next update, following the close of the first quarter of 2020.

Please reach out to us if there are further questions. Good afternoon, everyone.

Alexander, you may now close the call.

**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and have a wonderful day. You may all disconnect.

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