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Q2 2022 Standard BioTools Inc Earnings Call

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CORPORATE PARTICIPANTS

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Vikram Jog *Standard BioTools Inc. - CFO*

PRESENTATION

Operator

Hello, and welcome to the Standard BioTools Inc. Second Quarter 2022 Financial Results Conference Call. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Peter DeNardo, Investor Relations. Thank you. Mr. DeNardo you may begin.

Peter DeNardo *Standard BioTools Inc. - IR*

Thank you, operator. Good afternoon, everyone. Welcome to Standard BioTools Second Quarter 2022 Earnings Conference Call.

At the close of the market today, Standard BioTools released its financial results for the quarter ended June 30, 2022. During this call, we will review our results and provide commentary on our financial and operational performance, market trends and strategic initiatives.

Presenting for Standard BioTools today will be Michael Egholm PhD, Chief Executive Officer and President; and Vikram Jog, our Chief Financial Officer.

During this call, we will forward-looking statements about events and circumstances that have not yet occurred, including plans and projections for our business, future financial results and market trends and opportunities. Examples include statements about expected financial performance, strategic initiatives, acquisition strategies, market trends, product releases, customer demand, collaborations and partnerships and revenue expectations.

These statements are subject to substantial risks and uncertainties and 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, 2021, as well as our other filings with the SEC. The forward-looking statements on this call are based on information currently available to us, and Standard BioTools 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 a table accompanying our earnings release, which can be found in the Investors section of our website.

Please note that management will be referring to a slide presentation, including updated supplemental financial information within the webcast today, and this presentation is also posted on our website. I would also like to note that the company will not be hosting a Q&A session following prepared remarks during today's conference call.

I will now turn the call over to Michael Egholm, our Chief Executive Officer and President. Michael?

Michael Egholm *Standard BioTools Inc. - President, CEO & Director*

Thank you, Peter. I would like to start by thanking everyone joining us today for the Standard BioTools Second Quarter 2022 Earnings Call.

After 4 months with the company and into my second earnings call as President and CEO of Standard BioTools, I'm pleased to share my

view on where the company is, the work we need to do and the opportunity ahead.

For those new to the Standard BioTools story, I will start with a brief overview of our company's founding ambition. I will then transition to the phase restructuring announced earlier today and how these initial actions align with our previously disclosed strategic priorities. I'll conclude my portion of the call with a few words on our revitalized corporate structure and how we are embracing a process-oriented mindset, with an attitude of continuous improvement to drive our organization forward. Following my prepared remarks, I will hand it over to Vikram Jog, Standard BioTools CFO, to go over our financial performance for the second quarter 2022.

We are embarking on a long-term value creation journey here at Standard BioTools that begins with focused execution as we align the business and our product portfolio to where the puck is going and away from where it has already been. It begins today with 2022 serving as the floor and foundation that we, at Standard BioTools, built upon to drive long-term value creation. The initial phase has not been easy, involving many complex, but necessary decisions. While we're still early in the process, I'm encouraged by our progress to date, turning our plans into execution.

Our second quarter financial results are disappointing, yes, but I view those as representative of our past and not our future. There is a vast opportunity in front of us for growth, margin improvement and strategic inorganic scaling. This is why my team and I joined in April, and we're glad we did.

Hard work doesn't scare us if the returns are there, and we see them clearly. There's plenty of low-hanging fruits here. And yes, some higher, but larger fruit further up the tree as well.

Our vision at Standard BioTools is to become a top quarter life science research tools company in 3 to 5 years and a preferred partner for the life science industry offering an innovative portfolio of high-quality and impactful technologies in a standardized and reliable way. This thesis was built upon years of observation of the innovation bottleneck we have witnessed across the industry.

While there have been incredible advances in the tool space, many of the companies attempting to commercialize technologies they have developed in-house and often by the founding technologies themselves, struggle to scale. Specifically, scaling our manufacturing, product development, commercial discipline and customer support have been significant challenges that only a few select have overcome. We plan to address this issue by creating a platform purpose built for consolidation, leveraging our global infrastructure, deliver portfolio of life science tools to have an overlapping customer base across pharma and biotech. In turn, we expect this to lead to greater market penetration, higher customer satisfaction and sustainable growth.

Beyond shared infrastructure, expert operations and execution are mission critical to successfully achieving this goal. We assembled a team of seasoned operators with a proven track record of successfully developing and commercializing innovative tools. While many of us have worked at large and successful companies, we have witnessed firsthand the scale-up challenges, early commercial state companies face. We apply a systematic approach to building best-in-class operations, which we call Standard BioTools Business System, or just SBS. And we know what it takes to scale for growth thoughtfully managing expenses. We continue to recruit world-class talent to our organization, which I will discuss later in my prepared remarks.

Access to capital is always an essential piece of the equation and especially important for the current environment. In April, we announced a successful closure of a \$250 million capital infusion from leading life science investors, Casdin Capital and Viking Global. This was a truly transformative and catalytic event for the organization. It more than sufficiently capitalized the company, which we believe will bring us to cash flow breakeven in our existing businesses, while allowing our team focus on running the company and executing on our M&A strategy.

With that context in mind, let me take a brief moment to revisit our underlying rationale for the transaction and why we are so excited about this opportunity. In short, Fluidigm offered an attractive (inaudible) as a public entity with a global infrastructure. Further review showed us a company that would benefit enormously from a new team, a refreshed strategic vision, streamlined operations and sufficient capital.

We felt strongly that accretive assets already existed within the company, which support the overarching thesis of Standard BioTools, which include an existing brand on products across microfluidics and mass cytometry that are proven utility to an existing customer base. We plan to transform existing product offerings to accelerate growth in mass cytometry, while focusing microfluidics towards profitability. I will cover this in more detail momentarily.

An established global infrastructure across sales and legal as well as instrument design, which we can leverage for future acquisition. State-of-the-art manufacturing capabilities, offering more capacity for pull-through of existing product all as we layer in additional technologies. It also provides the optionality to bring instrumentation manufacturing in-house, which translate into higher margins and increase in quality and allow us to control our own destiny. I cannot stress this enough, manufacturing is a core capability that's essential for success, product reliability, customer satisfaction and it cannot be developed overnight. There is also a vast IP estate with an incredible amount of IP, including the know-how across mass cytometry and microfluidics.

Despite having these desirable attributes and technologies, Fluidigm was exhibit A and B in our underlying thesis, and that both businesses have struggled to scale and didn't realize operational nor cost synergies. However, we were and continue to be convinced about the growth potential for the mass cytometry business and believe microfluidics is a niche business capable of modest growth. We were also certain that the company could be run far better to unlock value, and that is priority #1 for us as I speak to you today.

To build out our talent, we have added several highly experienced executives, including Alex Kim as Chief Operating Officer; Jeremy Davis as Chief Commercial Officer; Mona Abou-Sayed, as Senior Vice President of SBS; Anders Davas as Senior Vice President of Global Operations; and more recently, Matt Ritchie as Vice President, Global Sales Operations; Seiya Ohta as Vice President of Customer and User Experience; as well as David Panzarella as Vice President, Commercial Operations Americas; and finally, Kathy Harrell as Vice President and Controller.

These are top grade professionals with significant sector and operational experience in the areas of process improvement, operational excellence, sales and finance. This team will lead by example and is committed to taking the organization to the next level, including myself, 5 of the 10 most senior officers have joined Standard BioTools post-transaction with most of the incoming team being tied together by shared experience at (inaudible).

In connection with our strategic capital infusion, we have added highly experienced members with life science and capital markets expertise to our Board of Directors, including Dr. Martin Madaus, Dr. Frank Witney and Eli Casdin. They have been an incredible resource to me and will help guide us on our mission to become a category leader in our space as we reinvigorate growth throughout the company.

Today, we commenced a phased restructuring plan that is focused and deliberate all as the same goes measure twice and cut once. We are 4 months into creating long-term value through operational focus, efficiency with a clear strategic vision. We're currently underway with the goal of achieving significant operating expense reduction, which we expect will lead to a dramatic reduction in cash burn beginning in the second half of 2022.

As part of the restructuring, the following steps have been taken to rightsize our business and could be broken out into 3 buckets: number one, G&A expense reduction; number two, microfluidics business rationalization; and number three, portfolio rationalization.

While we are taking immediate action and rapidly moving these initiatives forward in parallel, restructuring is complex and does take time. Through these actions, we expect to return the business to growth with the goals of achieving 7% to 10% gross margin improvement by the end of 2023, significantly reducing operating cash burn and generating positive free cash flow by the end of 2024, while allowing for strategic M&A. We look forward to sharing more details as we take the necessary and long overdue steps to create a leaner, optimized, high-performance organization.

Now turning to our 3 strategic priorities that I laid out during our Q1 call. Priority #1 is revenue growth, which has been lagging and is evidenced by the Q2 results that do not meet our standards. We wish we had been here earlier, but we're here now and we'll drive for better results in the future.

I highlighted a number of key attributes about our core business that attracted me to this opportunity, but I was also acutely aware of the significant challenges within the organization and what was going to be needed to address them once on board. While subpar quarterly performance is unacceptable, our ambition is to build a lasting organization that commence true staying power within the life science industry workflow.

In this world of uncertainty and in light of a challenging market environment and macro backdrop, our focus is on what we can control and how to close gaps in our business. We are in an execution phase. And as we systematically address the underlying causes for underperformance, we expect to become a high-growth company with high-margin products over time.

As we look for potential revenue growth, an important strategy we have applied at Standard BioTools is the outside-in point of view. Historically, we've been too technology-focused, which happens too often in this industry, where it is to believe a particular technology can solve all the world's problems. What's important to take away from this new perspective is that we're now focusing on our customers looking at where they have gaps and understanding what solutions we can provide to help our customer close those gaps.

This customer-focused approach was embodied over the past few months by our team, which conducted over 175 customer interviews, truly making voice of customer a significant element in our strategy and to inform our sales approach going forward.

Ultimately, we believe the core business can be optimized, will stop burning money and eventually yield cash. We'll look to accelerate growth in mass cytometry, while focusing microfluidics towards profitable growth. I'm confident and have complete trust in our new leadership team who have a proven track record in development and commercialization to execute on this mission. A key factor in our success will be the implementation of SBS.

This takes me to priority number two, improving operating discipline. I'll take this opportunity to provide an update on the SBS rollout and training. As a reminder, we view SBS as an essential building block of our company and can be -- that can be applied to every facet of our business. It is designed to promote connectivity across the organization so that we work together and drive our corporate strategy forward. We have been rolling out SBS training across the organization, and I'm excited about how our team has embraced the new approach.

Lean is our way of thinking, designed to simplify business processes by eliminating waste or muda, as we say, with a focus on shortening lead times, reducing costs, improving quality and create highly flexible processes, all to deliver value to our customers.

Lastly, our third priority is strategic capital allocation. To be clear, consolidation will be the engine that drives future growth and the longer-term value proposition at Standard BioTools. Our vision is to become a preferred partner in the life science industry, bringing researchers the industry's best innovations under shared infrastructure to become integrated into the workflow, constructing a portfolio of products that meet our customer needs would be imperative.

Our approach to M&A will be disciplined, and our focus will be on acquisitions that are technologically derisked, have immediate revenue potential and have synergies with our existing infrastructure. We want to strengthen our connection to pharma partnering with translational and clinical researchers. Thematic areas where we have high conviction include, but not limited to, single cell high-parameter solution and biomarker discovery and applications. We are agnostic to where a technology or product originated as our innovation will be in how we solve customer problems and our ability to provide a suite of technologies in a reliable way.

This brings me back to a critical point around voice of customers. Being in constant communication with our existing customer base will also help inform our approach to M&A and use to further validate market demand.

The management team we have assembled has deep experience in consolidating and integrating businesses. Combined with our strengthened balance sheet, we now have the necessary pieces in place to act. Cultivated over decades, we have developed a robust funnel of potential assets and are currently evaluating numerous opportunities. M&A has its own time frame. And although we are laser-focused on optimizing our core businesses, we recognize the current market environment offers a unique window for strategic

M&A, and we intend to capitalize on this opportunity.

In closing, we're excited to be here and the journey is going well. We are taking immediate action to further optimize the business and are laying the foundation for future growth. Furthermore, culture has been a focus of mine from day 1. And over the past quarter, we introduced several guiding principles representative of how we plan to operate going forward.

I've been pleased with how well they have been received, and I'm confident that when put into action, Standard BioTools will be adhering to the highest standards of business practices driven by this winning culture, and I look forward to reporting on our progress in the future.

I will now turn the call over to Vikram Jog, our Chief Financial Officer. Vikram?

Vikram Jog *Standard BioTools Inc. - CFO*

Thanks, Michael, and good afternoon, everyone. As noted in our earnings release today, we are simplifying our product offerings and discontinuing our laser capture microdissection, or LCM, and flow conductor products and deemphasizing our diagnostics or COVID-19 activities. These changes negatively affected microfluidics revenue by \$1.6 million and total product and service gross profit by \$4.7 million, and contributed \$8.2 million to the GAAP operating loss for the second quarter of 2022.

Let me now begin with the business review of revenue for the second quarter of 2022. Total revenue for the quarter was \$18.8 million as compared to \$31 million for Q2 '21. The stronger dollar reduced reported revenues by approximately 4%. Base product and service revenue, which excludes COVID-19 testing revenue and other revenue of \$17.5 million, was approximately 35% lower compared to \$26.9 million in the year ago period, primarily driven by lower instrument revenue.

During the quarter, we experienced continuing disruptions in our North America sales force, macro headwinds and related funding challenges in Europe and COVID-related shutdowns in the Asia Pacific region. Mass cytometry product and service revenue of \$10.1 million for the quarter was down from \$16.6 million in the year ago period. Base microfluidics product and service revenue, which excludes COVID-19 testing revenue, was \$8.9 million, down from \$10.2 million for the second quarter of 2021.

Other revenue, which includes product development, license and grant revenue for the second quarter of '22, was approximately \$750,000 or \$1.1 million lower than the \$1.8 million reported for the same period a year ago, primarily driven by the completion of certain development and grant agreements in 2021. For additional commentary on our revenue, including geographic breakdown, please refer to our second quarter Form 10-Q filing.

Moving now to our operating performance. I will focus my comments primarily on non-GAAP results, which exclude certain nonoperating and noncash items. Please note that the reconciliation tables between our GAAP and non-GAAP measures are provided at the end of our earnings press release that was issued earlier today and in this presentation.

Non-GAAP net loss was \$25.7 million compared to non-GAAP net loss of \$9.3 million for the second quarter of 2021. GAAP net loss for the quarter ended June 30, 2022 was \$63.5 million compared to a GAAP net loss of \$17.1 million for the second quarter of 2021. Non-GAAP product and service margin was 37.7% for the second quarter, down from 61.5% for the same period a year ago. The decline in margin was significantly driven by inventory write-offs resulting from the portfolio rationalization actions.

Non-GAAP operating expenses were \$34.1 million compared to \$29.4 million for the second quarter of 2021. The increase was primarily driven by expenses that are not expected to recur in 2023, including retention and severance expenses and legal and consulting fees, including expenses for SBS-related activities, investments to generate performance improvements and the company name change and rebranding activities.

Moving on now to cash flow and the balance sheet. Cash and cash equivalents and short-term investments were \$211.2 million, reflecting the \$225 million strategic cash infusion in April compared with \$30 million as of March 31, 2022.

During the quarter, our operating cash burn was approximately \$30 million compared to approximately \$15 million for the same period a

year ago, primarily resulting from higher losses from operations. The phased restructuring plan that we announced today is expected to significantly reduce cash burn beginning in the second half of 2022.

This concludes my remarks on the quarter. I'll now turn the call over to Peter.

Peter DeNardo *Standard BioTools Inc. - IR*

Thank you, Vikram. This concludes our second quarter 2022 financial results call. 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. Good afternoon, everyone.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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