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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Fluidigm Second Quarter 2021 Financial Results Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Mr. Peter DeNardo, Investor Relations. Sir?

Peter Denardo

Thank you, May, and good afternoon, everyone. Welcome to Fluidigm's Second Quarter 2021 Earnings Conference Call. At the close of the market today, Fluidigm released its financial results for the quarter ended June 30, 2021. During this call, we will review our results and provide commentary on our financial and operational performance, market trends and strategic initiatives. Presenting for Fluidigm today will be Chris Linthwaite, our President and CEO; and Vikram Jog, our CFO.

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 business, future financial results and market trends and opportunities.

Examples include statements about expected financial performance, including guidance relating to revenues, net loss, business line performance, margins and cash burn as well as statements about market trends, the impact of COVID-19, product releases and customer demand, collaborations and partnerships market and revenue growth expectations and Fluidigm's strategic plans.

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, 2020, 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.

At the conclusion of our prepared remarks, we will take questions from those participating by phone. And then time permitting, we'll take some questions from our online webcast participants who can submit the questions by clicking the ask a question button in the webcast player.

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

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

Thank you, Peter, and good afternoon. In the second quarter, our base business top line revenue continued to rebound from 2020 levels with notable growth in mass cytometry, services and non-COVID-related microfluidics products. We advanced several key innovative initiatives, including the launch of our fourth-generation industry-leading CyTOF platform, and made strides in our partnerships and the overall R&D pipeline. We completed significant milestones under our NIH RADx contract as well as our DARPA Mount Sinai program.

We did experience headwinds with a rapid deceleration in our COVID testing revenues, which we believe is consistent with macro trends in the United States as vaccination levels have increased and testing of the population has decreased.

Earlier this year, we outlined our 5-year growth plan, that we call Vision 2025. Our 2021 corporate objectives are tied to this plan, which is organized into 3 pillars of growth, innovation, beachheads and partnerships.

During Q2, we made progress in each of these categories as we advance towards our objective to power the next generation of health care decision-making. We believe we remain on track to achieve the 2021 objectives in this plan, and I will provide more detail on that in a few minutes. Now briefly shifting to market dynamics for the period. Globally speaking, we see an uneven recovery continuing across the various geographies we serve as individual countries navigate successive waves of outbreaks. We estimate that lab operations remain below pre-COVID activity levels with some marginal improvement over Q1 and with the slowest improvement in Japan among the major markets we serve.

We are closely monitoring the Delta variant, which introduces further uncertainty as well as the status of regional travel restrictions and supply chain challenges, which continue to create moderate operational headwinds.

However, on balance, based upon what we know today, we are optimistic about the second half of the year, particularly for our base business as we see improving demand signals. As we'll discuss later, we have increased our full year base business revenue guidance and reduced our outlook for COVID testing revenue while maintaining our prior period, full year guidance range.

Shifting gears, I will provide an overview of key business highlights during the quarter and add perspective on how these recent achievements support our 5-year strategy. As I mentioned, our strategic vision calls for execution of 3 distinct growth drivers, innovation, beachheads, partnerships.

I will break them down in the context of each franchise. Let me start with mass cytometry and general market conditions for this product family. Broadly speaking, we see a steady recovery in our mass cytometry business, and this includes solid demand across suspension and imaging applications. Though many labs are still operating below pre-COVID levels, customer anecdotes suggest there are significant project backlogs that foreshadow increased activity. These customers anticipate higher demand for our consumables to support their work. In fact, over the last few months, we have seen momentum forming with new purchase orders and new monthly sales records established for our mass cytometry consumables. These encouraging signs, plus our new product releases, underpin our growth expectations for the balance of full year 2021.

Turning to innovation. Starting with our suspension business. In May, we launched the fourth generation CyTOF instrument with CyTOF XT. The launch at the end of May was a 100% digital effort including virtual training for field service engineers, which was a first for us. And we are very pleased with the market reaction as well as our execution of this plan, given the ongoing macro environmental constraints.

The event boosted awareness and demand for suspension mass cytometry analyzers and created several hundred potential needs, exceeding our registration and attendance goals and supporting what we believe will be a strong opportunity for the new system in the second half of 2021 and beyond.

Internally, we are working to scale up our CyTOF XT manufacturing capacity to accommodate market interest, and we anticipate more unit deliveries in Q4 versus Q3.

For those of you who did not attend our launch events or May investor events, the CyTOF XT product addresses user requests for greater automation of sample loading, higher system uptime, an automated approach to cleaning periodic sample clogging, a built-in chiller to reduce noise and a more compact system footprint that requires less room modification.

With these improved capabilities, most customers can deploy 2 XTs in the space allocated for one of our prior generation Helios system. The new system is also available to lower instrument price and with lower ownership costs over a projected 5- to 7-year operational cycle as well as we also offer attractive trade-in, trade-up and leasing options.

I'm pleased to report that during the first 8 weeks of commercial launch, we've sold 7 of these new instruments including 3 systems for revenue in Q2. These deliveries were to accounts that primarily or exclusively perform clinical and translational research. Among the 7 total orders year-to-date 1 CRO customer ordered 2 XTs to accommodate increasing biopharma demand and represents our first 2 system order.

New customers accounted for 2 of these orders. We are pleased with these early market signals as we seek to expand our penetration of translational research as well as provide upgrades to our growing installed base. In the years ahead, we expect that the fourth generation unit placements will contribute to the growth in our Instruments revenue with sales to a mix of existing and new customers. These placements will enable further growth in our recurring revenue streams of consumables and services, given the higher pull-through potential for this platform.

In mass cytometry imaging, we are seeing similar market dynamics. Customers have reported backlogs of studies that again foreshadow increasing future consumables demand. And while we are signaling a new imaging system release in 2022, our current generation, the Hyperion product remains the gold standard for single-cell resolution, high-plex protein imaging of tissue.

We are carefully monitoring changes in customer buying behaviors as we release updates on our development time lines for the next-generation platform. We know the market is increasingly competitive, but we believe our solution remains best positioned to serve clinical and translational research market needs. We believe our planned second-generation platform will put us in a strong position to maintain our imaging market leadership.

Lastly, in Q3, we will deliver enhancements to our award-winning Maxpar direct immune profiling assay, or MDIPA, introducing additional antibody content for immuno-oncology and vaccine studies. In addition, we are planning to introduce a pilot antibody conjugation program that we call Maxpar-On-Demand, which features pre-curated combinations of isotopes and antibodies. Our MDIPA product has achieved notable adoption milestones, including more than 400 orders and $5 million in revenue since launch.

Transitioning from innovation to beachheads. As we outlined in our mass cytometry investor event in May, we believe we are underpenetrated in a number of attractive market segments where we see opportunities for growth. In particular, we are working to increase our exposure to customers who will influence the tools used for future health care decision-making, including the CROs that serve these organizations.

We are pleased to announce a new collaboration agreement with the imaging CRO in the biotech, focusing on advancing CRO capabilities and drug development, utilizing our Hyperion system. Imabiotech focuses on the oncology and neurosciences markets and has more than 200 customers, most of which are in the pharma sector. Imabiotech purchased a system to serve increasing customer interest in high-plexity, high-resolution imaging.

We hope biopharma customers explore contract service engagements with leading CROs such as Imabiotech to accelerate their drug discovery and development objectives. In addition, on the suspension side of our business, we added a specialized vaccine CRO to our community to serve the surging needs of this important health care segment. Another CRO partner ordered a system to support their geographic expansion. In conclusion, we believe that the path to increased biopharma adoption of our suspension and imaging platforms will be influenced by our growing network of CRO beachheads.

Our focus on beachheads is yielding results, both in terms of our CRO networks and more broadly, the increasing number of total users executing clinical and translational studies. In Q2, our mass cytometry technology was incorporated in 7 new clinical trials, bringing the total to 162. Our technology has been featured in nearly 1,600 publications with more than 115 of them related to Hyperion, our imaging platform.

Let me turn to partnerships. In addition to the Imabiotech agreement, we announced a co-marketing agreement with Ultivue, a leader in advancing precision medicine solutions. Our marketing efforts are focused on expanding the portfolio of biomarker discovery and drug development tools for tissue analysis available to researchers. Our technologies are complementary, and each company will market these capabilities, increasing awareness of new approaches to serve this fast-growing field.

Via our Therapeutic Insights Services business, we plan to offer customers access to these combined technologies. As a side note, we completed 12 projects for biopharma accounts during the latest reporting period.

We also recently established a collaboration focused on data management and more automated analysis of images. We signed a co-development agreement with Visiopharm to enable customers to upload our images into their software package and automate the reading and analysis of imaging mass cytometry.

Switching now to our microfluidics business. Our base microfluidics business has been steadily recovering and delivering renewed revenue growth. We are seeing new account opportunities beyond COVID-related testing and are executing on our growth formula of innovation, beachheads and partners.

As mentioned in my opening comments, COVID-related testing revenue did decline faster than we expected in Q2, and we missed our performance targets in that area. The overall uncertainty regarding vaccine efficacy and future testing demand presents forecasting challenges. Our vision -- however, Vision 2025 is not predicated on success in COVID testing. Rather, our strategy has been to invest in the foundational elements of a durable diagnostic strategy, leveraging the COVID revenue generated and the large investments from agencies such as the NIH and Department of Defense. We are pleased with our progress on these foundational elements, including the approaching end of our manufacturing facility upgrade, funded by the NIH RADx contract.

Over the last year, we have tripled our capacity with new state-of-the-art manufacturing lines, installing more than 110 new pieces of equipment on a demanding schedule, which will support growth for years to come. Other benefits of our COVID response included a new Biomark platform, a novel chip configuration, well suited for a broad range of diagnostic applications.

Turning now to innovation in this franchise. We achieved significant internal milestones with respect to development and launch of the next-generation Biomark platform we introduced during our May call. In addition, we are fast approaching a milestone to submit our new sample-to-answer IFC for FDA review, a chip that can be adapted to numerous applications.

As a reminder, the NextGen Biomark platform integrates our Juno and Biomark HD instruments into a single system, 1/6 the size of the 2 current instruments, with an advanced easy-to-use interface that will hybridize our novel approach to PCR with a large touchscreen user interface.

In fact, the new instrument will ultimately encompass 100% of the features of our Juno and Biomark HD platforms combined at a lower total ownership cost offering tremendous value. We intend to market these capabilities to diagnostic industry participants, with the goal to recruit go-to-market partners who share our vision of simplifying complex workflows and reducing the cost structure of testing.

Though we have begun to demo these new platforms on the new proprietary microfluidics chips, our associated revenue expectations for the balance of 2021 are modest. With the vast majority of our projected revenue coming from existing base business improvements and our existing OEM relationships. We will share more details as we approach the new Biomark launch, and we are entertaining early developer interest now.

Innovation can come in many forms. One area I'd like to highlight is our service business innovation. Our service team continues to execute in the face of a challenging operating environment. In Q2, we delivered a new quarterly service revenue record, service innovation is part of our multiyear commitment to driving sustained revenue growth and meeting new customer needs. We launched our Fluidigm Pro service brand during the first half of the year, offering enhanced service lines. And we are driving a pipeline of service line extensions and new capabilities to enhance the value of our growing installed base.

Now let me turn to partnerships in our microfluidics franchise. In Q3, we anticipate transitioning from the development phase of our contract with Olink proteomics to the commercialization and scale-up phase. We are grateful for the opportunity to serve this exciting market an important partner. We are excited by the prospects of our partner to penetrate new markets and advance the field of proteomics in the years ahead.

In Q2, our partnership achieved a major milestone as Olink launched its signature Q100 product, which is a designated benchtop system for protein biomarker analysis. Q-100 is conceptually an end market application-specific derivative of our next-gen Biomark. We look forward to learning more about early market response to their launch events in the weeks ahead.

In summary, we are pleased with the continued execution against our Vision 2025 strategy and the steadily growing improvement in our base business and the early response to our new product introductions in both the mass cytometry and microfluidics business.

I'll now turn the call over to Vikram for a detailed discussion of our second quarter financial results. Vikram?

Vikram Jog - *Fluidigm Corporation - CFO*

Thanks, Chris, and good afternoon, everyone. Before turning to our second quarter financial results, I would like to note that we have posted updated supplemental financial information in addition to our investor presentation on our website. Let me begin with a review of our financial and geographic highlights for the second quarter of 2021 and then provide some updates to our 2021 guidance. We demonstrated continued top line recovery in our base business from a difficult year ago period, and we project this recovery to continue across both mass cytometry and microfluidics supported by new product introductions. Our revenue from COVID-19 testing continued to decline and came in at $2.3 million for Q2, down sequentially from $6.5 million in Q1, and below our expectations of $3 million to $4 million as testing volumes declined both overall and for our commercial lab customers.

Year-over-year, COVID testing revenues were flat for the quarter. We are continuing to monitor the COVID testing landscape in view of the recent uptake in infections and the impact of the Delta variant. I note that we recently released an RUO COVID variant testing panel. But for now, we have provided updated guidance for testing revenues that does not incorporate any potential effect of that panel.

Total revenue for the second quarter was $31 million, an increase of 19% compared to $26.1 million for Q2 2020. Changes in foreign exchange rates contributed 2 percentage points to the year-over-year growth. Base product and service revenue, which excludes COVID-19 testing, was $26.9 million or 33% over the year-ago period. We now expect our full year 2021 base product and service revenue to grow between 20% and 22% year-over-year.

Moving on now to the performance of each of our franchises. Mass cytometry product and service revenue of $16.6 million for the second quarter was up 33% over the prior year quarter and up 19% sequentially. Year-over-year growth was balanced across all product categories, while the sequential growth was driven by recovery in instrument revenues. Base microfluidics products and service revenue, which excludes COVID-19 testing was $10.3 million, up 36% over the prior year quarter and virtually flat quarter-over-quarter.

Including COVID-19 testing, microfluidics product and service revenue was $12.6 million, up 26% over the prior year, primarily driven by base business growth.

Before moving on to the region, I'd like to take a moment to call out our services business, which achieved a new quarterly revenue record of $6.6 million, up 29% over $5.1 million for the second quarter of 2020. Global Service revenue has been incrementally increasing every quarter since Q1 2020, illustrating the value of our technology to customers. About 70% of this revenue is related to maintenance contracts, which provide us visibility into recurring revenue.

Looking at the second quarter revenue compared to the prior year period from a regional perspective, the Americas revenue grew 16% to $16.1 million, including $1.8 million of other revenue. Product and service revenue increased 38%, driven primarily by higher consumables and slightly higher instrument sales. EMEA revenue grew 41% to $9.2 million, driven by improved mass cytometry and microfluidic instrument sales and increased consumables.

Changes in foreign exchange rates contributed 9 percentage points to the year-over-year growth. Asia Pacific revenue grew 2% to $5.7 million. This geography experienced challenges due to a slowdown in Japan, changes in spending priorities and continued delays in issuing tax extension certificates in China.

Currently, we have $2.2 million in instrument shippable backlog, awaiting release of such certificates and this number may increase through the second half of this year as we take more orders. As noted earlier, we reported other revenue of $1.8 million during the quarter including $900,000 of development revenue from our proteomics OEM supply and development agreement.

Total revenue recognized under this agreement since its inception in March 2020 is $11.1 million. The development phase of this agreement is nearing completion and is expected to be completed in Q3 2021.

Moving now to our operating performance. GAAP net loss for the second quarter of 2021 was $17.1 million compared to $13 million for the second quarter of 2020. Non-GAAP net loss of $9.3 million increased from $5.2 million in the second quarter of 2020. The increased net loss in Q2 2021 versus the prior year period was driven by higher operating expenses and lower development and grant revenue, partially offset by higher product and service revenue.

The remainder of my comments on operations, we will focus on non-GAAP measures. 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. Non-GAAP product and service margin was 61.5% for the second quarter and was down from 67.1% in the prior year period and 66.4% in Q1 '21.

Reserves for excess COVID-19 testing reagents reduced margin by about 3 percentage points in Q2. Lower average selling prices of mass cytometry instruments and higher service costs contributed to the remainder of the margin decline. We expect our product and service margin to be negatively impacted in the second half of '21 as we enter a new product transition cycle and a less favorable product mix.

Non-GAAP operating expenses were $29.4 million compared to $24.7 million in the year ago period and $34.1 million in Q1 '21. The increase versus the year ago period was driven by higher compensation and benefits costs, the absence of temporary salary reductions and government subsidies in the second quarter of 2020 and higher R&D project and marketing program expenses. The sequential decrease in operating expenses was due to lower variable compensation and benefits costs. Also contributing to the decrease were lower outside services and consulting expenses.

Moving on now to cash flow and the balance sheet. Cash and cash equivalents, short-term investments and restricted cash at the end of the second quarter totaled $31.9 million compared with $50.8 million at March 31, 2021. Operating cash burn was $14.7 million during the quarter, an increase of $1.8 million compared to the first quarter of 2021. The lower customer collections, driven by a lower receivable balance at the end of the first quarter of 2021 versus the fourth quarter of 2020 and more than offset the impact of employee bonus payments in Q1 2021. Second quarter cash from operations was also impacted by higher inventory purchases and the timing of payables. Accounts receivable days sales outstanding were 46 compared with 45 days at the end of the first quarter of '21.

For the second quarter of 2021, investing cash flow was a negative $4.2 million, including $4 million for equipment purchases for the expansion of our IFC manufacturing facility which is being funded under the NIH RADx program. We have received cumulative proceeds of $30.9 million and incurred expenditures of $23.3 million, including $20.1 million of capital expenditures under this program.

In 2021, through the end of the second quarter, we collected $5.5 million of proceeds under this contract, and incurred $11.6 million of expenditures, $9.9 million of which are related to capital expenditures. We expect our cash burn in the second half of 2021 to be lower compared to the first half of the year. We expect inventory levels to decline through the second half with the commencement of sales of our new mass cytometry instrument platform. In addition, expenditures associated with the RADx program will decline as that program comes to a close in the third quarter. At the end of the second quarter, the borrowing base under our asset-based revolving credit facility was $10.9 million, none of which was utilized.

On August 2, we extended the maturity date of this facility by 1 year to August 2, 2023 and obtained a new $10 million term loan facility. The term loan is expected to mature on July 1, 2025, and will carry interest-only payments through August 1, 2023.

Please refer to the Form 8-K we filed today for more details on the term loan as well as the extension of the pre-existing credit facility.

In closing, let me provide some color on guidance. Our base business excluding COVID-19 testing performed at the high end of our expectations in the second quarter, and we are incrementally more positive on the full year outlook for the base business. While we are maintaining our full year total revenue guidance, we are revising guidance for our base business and COVID-19 testing revenues and net loss to reflect our revised outlook.

Our current expectations call for base product and service revenue, excluding COVID-19 of $120 million to $122 million, reflecting a year-over-year growth of 20% to 22%. Total revenue, which includes COVID-19 testing and other revenue, of approximately $134 million to $140 million; GAAP net loss of $62 million to $65 million and non-GAAP net loss of $29 million to $32 million.

For the third quarter of 2021, we expect base product and service revenue, excluding COVID-19 testing to be approximately $29 million to $30 million or 16% to 20% higher than Q3 2020. We expect total revenue, which includes COVID-19 testing and other revenue to be between $29 million and $31 million.

Before closing, I will note that historically, the fourth quarter has been our strongest revenue quarter in the calendar year, and we expect a similar seasonality in 2021. In addition, the timing of new product introductions are expected to make the seasonality more pronounced this year compared to historical trends. As a result, we are maintaining our full year total revenue guidance of $134 million to $140 million.

And with that, we'll open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Sung Ji Nam with BTIG.

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

Maybe starting out with the CyTOF XT. Great to see that there are 7 orders there. You talked about 2 new customers, your customers that are new to the CyTOF technology. I'm just curious, have they used the platform through outsourcing before? Or is this the first time they're adopting? And kind of curious what motivated them to adopt the system? And then also on the biopharma, the pharma customers. Just curious kind of as you look at the CyTOF XT platform, do you think that more pharma customers would adopt the system outright rather than outsourcing to CROs going forward?

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

Okay. A bunch of questions, I'll roll at them one by one. Good to hear your voice again, Sung Ji. So yes, we are definitely excited about having the XT on the market. I want to clarify, I think I made a comment in the prepared statement. So it's 6 customers, 7 systems. I think that was clear, but I think we interchanged the use of orders and systems. So I just want to make sure that's clear.

1/3 of those customers were new to the technology. And so I think your follow-on question to that was, okay, so what are some of the motivations behind that? I'm not intimate with each one of those accounts. But what I can tell you is I know at the high level, they were driven by commercial needs. So either seeing an opportunity as a CRO to go out and bring in additional business or seeing demand from their customers or interest from their customers to add those into their studies. Another was -- so on the new side, I can't tell you if they had experienced the technology or not through another venue. I can get back to you with that information. So it's a noted question, but I don't know all the details off the top of my head. I seem to forget what's the final -- what was the final part? I forgot.

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

The pharma customers adopting the platform.

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

Yes, the prospects for pharma. I -- personally, this is my kind of one opinion is pharma is not monolithic, you're working within different groups within pharma. And the decisions to in-source or outsource, I think traditionally about 2/3 of the activities are outsourced. 1/3 is brought in-house these days, partially because of the speed and the need to execute, and they don't know the mix of projects exactly. So they tend to contract more externally for quick projects.

So I would anticipate that we would see -- we've got great exposure. We were in 9 of the 10 top pharma's in at least 1 part of their business. So there's plenty of incremental market opportunity. I think we partially landscaped that in the Investor Day event. So we see a significant amount of expansion opportunities in incremental systems, but I think they can go -- they're not antithetical to one another.

So meaning that the CROs will serve a lot of that surge demand or initial demand, particularly if the pharma company -- in our experience, it's been more around -- they need that project immediately or they need that project for the next 2 months and to go through the process of acquiring the platform, installing it, developing expertise themselves and schematics on that takes a period of time. So that's what I think they will tend to do the -- a lot of projects early on through CROs, then bring a portion of capacity in-house to service their core repeatable needs and then continue to use CROs as surge capacity. But that's my opinion, we'll see how things play out. But I think that's a pretty conventional model.

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

Got you. That's very helpful. And then for the next-gen imaging system that you're going to launch next year. Is that going to be similar? Is it on a module that you attach to an existing CyTOF system? And then just kind of if you can talk about that. But just trying to get a sense of what that launch could look like as far as the existing platforms and how customers might adopt that going forward?

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

Yes. We're clearly going to be really excited about sharing all the details, the operational and capability details of the next-generation platform. You can imagine a lot of the experiences and inputs that we've had that informed our XT development focus areas will be reflected also in the imaging platform rollout or improvements.

I think one of the trickiest things is we're kind of unique in the imaging space and to discuss this level of nuance is that the XT as a detection platform is an analyzer. We're the unique platform that enables both imaging as well as suspension-based analysis.

At this moment in time, on the imaging side, we offer a Hyperion as our first-generation state-of-the-art platform, of which the detector engine is a CyTOF or as a Helios platform or the third generation detector. And then on the suspension side, we're offering both the XT now and then we offer the third-generation system both in the market.

Over time, you might imagine that the laser ablation module or imaging modules that will be introduced with the next-generation platform will be made into the XT platform for the next-generation platform. So does that clarify?

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

Yes, that's very helpful. And then lastly, maybe one for Vikram. As we look at -- as we think about your guidance. You touched on the fourth quarter, the seasonality there. It's a significant ramp-up, sequentially, and obviously, new products driving some of that as well. Are you factoring in

contributions from the next-gen sample-to-answer microfluidics platform there -- that you're launching in that equation in your assumptions? Or just kind of curious what the underlying assumptions are.

Vikram Jog - *Fluidigm Corporation - CFO*

Sung Ji, yes, good to hear from you. The major drivers for the Q4 revenue cadence is the mass cytometry product launch, the CyTOF XT specifically, also consumables increasing relative to the first half. And then the OEM business in microfluidics, I would say, those are the major drivers for the Q4 revenue ramp.

Operator

No further phone questions, I am going to turn the call back over to Mr. Chris Linthwaite.

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

Okay. Thank you. We have received a number of questions from the online chat. So if you can just give us a second to process those, and we'll come right back to you in the order we're going to tackle them.

All right. Thank you. So one of the first questions we received is, can you talk about the initial CyTOF XT launch relative to expectations? And address how the new price point and improved user features have changed or impacted the sales funnel breadth in the sales cycle relative to the penetration that we laid out in the Investor Day deck?

In short, we're really pleased with the early response. The sales team is extraordinarily excited to talk about and sell the product. We do believe that the price point and the positioning of both the Helios system as an entry-level product. So -- and then moving to the upsell to the XT, the latest fourth-generation state-of-the-art, is very favorable and plays to our strengths, which is we want to be included in every sales opportunity and have an opportunity to pitch the unique features and benefits of both platforms and then look at the situational, the context of the customer in order to best position the right product for their needs.

So from our perspective, we think it's increased more shots on goal for us. It's also been very encouraging, and it's hard a little bit to tease this out between the COVID dynamics of the last year in 2020, but we have seen an increase in our sales funnel versus the 2020 time period. And the XT launch certainly brought new leads and new opportunities, somewhat as I alluded to in the prepared comments.

So we've seen really fantastic response from our target market segments in both the clinical and translational segments. We think we also have positioned the price of the product to convey the benefits of accessibility and a lower total cost of ownership, which increases our competitive positioning against others in the industry.

Let's see. So an additional question was more details related to the mix of initial XT orders, which I think Sung Ji hit pretty well. But I guess -- so the only things I would answer, so just that we cleared to restate again, we had 2 of the 6 orders, so 7 systems, 2 of those or 1/3 of the orders were new customers. I forgot to also mention 1 that was going to focus on vaccine development, which we're extremely excited about. That's a European opportunity or European-based CRO.

There's a number actually -- there are -- I've got a little more information based upon Sung Ji's question that are expanding their capacity. So the balance of the orders were around at the people that were known customers to us in the past are about expansion of their ability or capacity to process samples.

So I think that's very -- sets up very favorably for how we were thinking about the early adopter phase. And there was also a question on kind of sales funnel. I think it's very early days to make an extrapolation of what the impact of the XT will be on our overall sales funnel. But given that we did very, very restricted or limited pre-marketing activities before the launch in the second quarter, I think we were, I am, we are very encouraged

by the systems that we delivered in the period and the orders that we received almost immediately in the first week from the announcement of the next-generation system. I would guess that they were probably looking for capacity expansion already, and then this was a great opportunity to kind of to jump first in the line on the fourth-generation platform.

Let's see. We had an additional question that came in that addressed or asked some details around the compatibility of the second -- of the Hyperion, so our current imaging platform with the XT platform.

Just to further clarify, those systems are separate. So the Hyperion is not compatible with the XT. The Hyperion is compatible with the CyTOF, the Helios platform as an analyzer platform.

We did have different questions that was not related to mass cytometry. One of them was how has the Olink partnership performed relative to our initial expectations? And how much of the double-digit growth projected in our microfluidics business comes from this Olink partnership versus the Fluidigm's next-generation Biomark?

I think Vikram probably hit the back part of that, which is we have very little revenue that's earmarked just now for the next-generation Biomark platform nor the sample-to-answer solution. That's largely going to be the seeding and partnership strategy for the next-generation applications. So we are quite pleased with the performance of the Olink partnership. When we reflect back on to the models that we built a few years ago when we started out in the partnership. The performance over the initial phase of this contract has exceeded our expectations.

So we're very pleased with the growing and strengthening relationship with Olink. And we're extremely thrilled that they are on their project timelines for release or announcement the earlier announced the signature 100 product, and we look forward to their own public company announcements as far as how the adoption or receptivity of that initial system will be. And I'll just remind others was not in the question, but we also have a significant consumable stream that's tied to this. So we'll be looking to in the future is not just the signature 100 or Q100 sales of units will be -- those may come first, but we'll be quite focused on the consumable streams that will come later. And that certainly informs some of our optimism around our acceleration in our base business, in our microfluidics consumables.

We had one that relates to Delta and the Delta COVID variant. So essentially, the question is, does the Delta COVID-19 variant introduce any new revenue streams for the company?

In our prepared comments, we took this -- our approach has been to take a very modest outlook on COVID-based testing. Essentially, it's almost unforecastable for us with the variability between vaccination rates and national-level decisions on driving testing. However, the Delta variant is extremely -- could have a significant impact, obviously, to, say the least, on all of us. Our technology is perhaps the most uniquely suited, if that's possible to say, suited to do mass scale variant detection almost and simultaneously with COVID standard testing.

Next-generation sequencing strategies have significant trade-offs. There's a very relatively limited number of samples that can be processed in a short period of time. There's a multiweek lag time between those samples being processed in the answers. So our testing technology has the potential to be almost simultaneous -- to provide simultaneous detection and identification for variants. So if there is a national will for such programs and there's certainly been discussion in Washington that could have a significant impact on our business. But at this stage, it's unforecastable for us. So for conservatism, we've taken it out. Any expectations of Delta variant impact rather on -- either on conventional testing or on variant-based detection.

But this is part of the promise of our technology and the power of our ability to uniquely do many different samples and look at many different types of variants simultaneously.

Let give me a second. There's a couple of more questions that have come in and I need process them.

There was a follow-up question that came in as I was discussing Olink. So the follow-up question was, can I talk in more detail or we talk in more detail about how we think quantitatively about the consumable streams from Olink, maybe between that quantitatively versus qualitatively?

Vikram Jog - *Fluidigm Corporation - CFO*

Not at this stage, Chris, if you might be able to take that question. It's still early days yet. We've just launched -- or Olink has just launched their Q100 signature program, which is a venue instrument. And we still have not had much experience on how that will be utilized. It's fair to say that our expectations are strong for the future for the full 2, but it's somewhat be mature for us to give an estimate at this stage.

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

It feels like a question we should circle back to when we -- once we hear Olink commercial, we need to understand better their positioning of the end product. And then we can perhaps provide some rules of thumb or ratios to how to think about our consumable streams, including our services contract, which we will have service contracts on these instrument platforms that Fluidigm will be providing.

So there'll be multiple probably quantitative things we can provide over time. But I think we just need to see what the final end market positioning is, consumables pricing, and then we can look at the ratio of our products compared to the total pull-through they model for each of their boxes and communicate to investors.

And then we can share some rules of probably a relative range of what service contracts are worth for us. I think you'll find over time that it will be a disproportionate over time a contribution from those recurring revenue streams versus the value to us on a single instrument placement that we provide. We anticipate over time to get a multiple return -- multiple I think that's very safe to say.

Okay. Let's see. I think there was a good question in here that relates to the impact of the RADx grant and how it fits into our long-term vision for the microfluidics business. I think mass cytometry, we've made a pretty strong case I think. I think the micro is -- I got a lot of nuance to it. I think the simplest way to respond to this particular investor's question is the RADx grants, the Department of Defense, DARPA and ECHO program, they have provided a number of leverage points that serve our kind of overall long-term ambitions in the diagnostics space. To date, we've received more than $40 million of investments from those 2 entities.

What it's enabled us to do in a very short period of time has been to dramatically expand our manufacturing capacity and upgrade our manufacturing capacity to provide 3 unique manufacturing lines that gives us more manufacturing flexibility and updated equipment, with no long-term obligations on how we would use that outside of the performance period, which ends in the next 2 months.

I think even more important strategically for us. So that basically takes capacity and capacity investment as a concern off the table for us, which is really exciting.

The second is the new product development. The funding that has helped enable, not only contribute to a portion of our next-generation Biomark platform development. It's also helped us with the sample-to-answer program and given us support for those initial applications that it may be used for and given us a subsidy for -- not a true subsidy, but to give us investment dollars to parlay into this platform the same product, the same configuration can be used for many different applications outside of infectious disease or effective and COVID-based testing or Delta variant testing or any other version.

And the final, which is maybe settled incredibly important has been the support with the FDA in our regulatory filings and to give us -- to get our technology and to introduce into the FDA in this form factor, which is pretty foundational for what we believe will be a longer-term transition to a more conventional 510(k) approach to regulating these diagnostic tests and diagnostic platforms.

So we're, again, incredibly grateful for it. It continues to give us a pipeline of new demand or interest that comes from the government. And so we see many different elements of this strategy that will transcend the outbreak of pandemic response itself.

Let's see. So I think with that, we have approached the end of the time, and I think we've -- all of the questions that have been queued up here upon Teams, we've already covered to date.

So with that, I want to thank all of you for attending our Q2 2021 call. Thank you, and have a good day.

Operator

Thank you, sir. This concludes today's conference call. You may all disconnect.