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Q4 2022 Standard BioTools Inc Earnings Call

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CORPORATE PARTICIPANTS

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

Peter Denardo

Vikram Jog *Standard BioTools Inc. - CFO*

PRESENTATION

Operator

Hello and welcome to the Standard BioTools Inc. Fourth Quarter and Full Year 2022 Financial Results Conference Call.

As a reminder: This conference is being recorded.

It is now my pleasure to introduce your host, Peter DeNardo, investor relations. Thank you.

Mr. DeNardo, you may begin.

Peter Denardo

Thank you, operator. Good afternoon, everyone. Welcome to Standard BioTools' Fourth Quarter and Full Year 2022 Earnings Conference Call.

At the close of the market today, Standard BioTools released its financial results for the quarter and fiscal year ended December 31, 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 CFO.

During the call, we will make forward-looking statements about events and circumstances that have not yet occurred, including plans and projections for our business, our outlook for 2023 and future financial results and market trends and opportunities. These statements are subject to substantial risks and uncertainties that may cause actual results or events to differ materially from current expectations. The forward-looking statements in this call are based on information currently available to us, as we disclaim any obligation to update these statements, except as may be required by law. During the call, we will also present some financial information on a non-GAAP basis. We encourage you to carefully consider our results under GAAP as well as our supplemental non-GAAP information and the reconciliation between these presentations which are disclosed in a table accompanying our earnings release. 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 our employees around the world for their hard work and dedication throughout 2022. It was a transformative year that brought significant change to the organization. The commitment and resilience exhibited by the Standard BioTools team while we navigated a leadership transition, corporate rebrand, sales team rebuilds and cost-cutting initiatives has been truly remarkable, to say the least. Most of all, I'm proud of the cultural transformation with our employees' strong embrace of Standard BioTools Business Systems or SBS. I'd also like to thank all the investors who have supported Standard BioTools as we embark on our mission to reenergize this company; and create a leading life science tools platform building a portfolio of exciting products that, when unleashed, will help accelerate breakthroughs in human health.

During the call today, I will provide a summary of our fourth quarter and full year 2022 financial performance and operating highlights as well as expectations for 2023. I will outline progress against our key strategic priorities; and discuss where the business is heading, which we believe is positioning us for sustainable growth and profitability. I'll then turn the call over to Vikram for a more detailed look at our financial performance and guidance.

When we joined 3 quarters ago, the company was losing market share despite its innovative and differentiated products, a victim of lack of effective response to emerging competition and poor and unfocused execution across the board. We acted swiftly and put a strategy in place to streamline the business, with a focus on our value propositions combined with sales enablement, to ensure consistent growth of the top line and a path to profitability. We have made significant progress on our key objectives, and I'm pleased with the second consecutive quarter of sequential revenue growth while expanding gross margins and significantly reducing ongoing operating expenses. Although early, the recent organizational changes are starting to positively impact our performance, and we expect to continue to build on these to achieve our financial goals.

To highlight some key metrics of our financial results. Fourth quarter revenue was \$26.8 million, representing sequential growth of about 8% and bringing full year 2022 core revenue to \$94.5 million. We have also reduced expected ongoing annual operating expenses by over \$30 million heading into 2023.

As we have been saying, our 3 strategic priorities are, first, stabilize the core business and return to growth; second, improve operating discipline to increase productivity and drive the business to profitability; and third, expand our product offerings by acquiring complementary assets that leverage our infrastructure and accelerate our growth. We have made significant progress on these, which drives our confidence to provide 2023 guidance of flat to moderate core revenue growth, inclusive of the previously disclosed temporary \$5 million headwind in our Genomics business, significant expansions of our gross margins and lower operating expenses. Vikram will provide more details on this outlook in his discussion.

As we have largely completed the heavy lifting of this turnaround, we'll be focused on the future in subsequent quarterly calls. However, I would like to detail some of the work we have done so you all can appreciate the foundation upon which we are building. Our first priority was to stabilize revenues and return to growth, and we did just that. Revenues stopped their decline, rebounding from a low point in the second quarter, and grew sequentially 30% and 8% on an adjusted basis in the last 2 quarters, respectively. This has been our primary focus and the results of our actions are only just beginning to become apparent.

Additional initiatives we undertook included reorganizing the business around our core proteomics and genomics products while exiting noncore product lines. We are targeting our Proteomics business to be the growth driver to enable this. We have reallocated R&D to this business to drive a steady cadence of new product introductions and build upon our market leadership position. We rightsized our Genomics business by simplifying the product portfolio to a single instrument, the X9; dramatically reduced our R&D spend; and shifted to a more efficient go-to-market approach focused on OEM partners such as Olink and large account opportunities. On the commercial side, new senior commercial leadership has reconstructed our North American sales team, which has been rebuilding our sales funnel with new, disciplined sales funnel management processes and new sales enablement tool, which we expect will result in increased revenue consistency. We're currently running the same playbook internationally to strengthen our global footprint and similarly drive ex U.S. sales.

Our second priority is to improve operating discipline and reduce expenses, leveraging our lean culture to optimize our cost structure, increase productivity and drive profitability. This is well underway. And actions taken, so far, are expected to reduce ongoing operating expenses by over \$30 million or by approximately 20% compared to 2022. Additionally, our gross margins are expanding. And we continue to expect over 1,000 basis points improvement by the end of this year, helping us drive to our target of positive cash flow by the end of fourth quarter of 2024.

We have reduced our head count by approximately 15%, which is something we did not take lightly. Streamlining the organization was a necessity and [there were corridors] to make some very difficult decisions along the way. It's important to note it's easy to cut costs on a spreadsheet, but it is an entirely different matter to do it and not damage the business. We believe, by reducing costs in some areas while investing in others, we have made the business stronger.

The Standard BioTools business system or SBS is now core to the way we operate and who we are. Standard work, daily management and visual project management, among other critical elements of SBS, have been embraced throughout the organization. It's been incredible to witness the cultural transformation empowering our employees to make positive impacts on the business. And we believe this is just starting to be reflected in our improved performance.

And finally, our third priority is adding inorganic growth, where we plan to leverage our infrastructure and balance sheet to add strategic assets to our portfolio. Our thesis is that there are many innovative technologies but few great companies that have been able to scale and build profitable businesses. Standard BioTools is well positioned, especially in the current macro environment, and provides an attractive avenue for consolidation.

Before I turn the call over to Vikram, I would like to dive deeper into our Proteomics business and why we have heightened conviction that it will be the primary driver of core organic growth in '23 and beyond. We firmly believe our mass cytometry technology should be recognized as an integral next-generation tool that is poised to take share of the growing single cell and spatial biology markets. Our technology has unique competitive advantages in high-parameter analysis, which the field is increasingly recognizing is required to gain insights into biology.

The standard tool in our field is florescence, which is fundamentally limit to simultaneous detection of a few handfuls of markers. There are a number of workarounds, but these all compromise data integrity or have very complex and lengthy workflows. Our mass cytometry approach is the only solution that allows for simultaneous identification of 50 digital colors in the form of [unique mass text]. Because of the high data quality, we win in the marketplace [of results]. A staggering 96% of the approximately 1,850 research papers published on more than 20 protein markers use our technology.

Our R&D engine has been reignited. And in April, at AACR, we will launch the Hyperion XT_i, which is the next generation of our imaging system that scans 5x more slides per day while improving both the workflow and the ease of use and will position us favorable as a key tool in the spatial biology marketplace. The Hyperion XT_i is a platform we will build upon. We now see plenty of runway ahead for advancing mass cytometry technology, for example, in the number of markers, speed, resolution and form factor. In fact, we believe it's a technology just coming out of its infancy and is now ready for prime time.

It is also important to recognize the leverage available in this business. While instrument revenues can be lumpy due to the high average selling prices and varying sales cycle times, the recurring portion, consumables and services, [helps] to smooth those revenues. Such recurring revenues for the Proteomics business was approximately 2/3 of total Proteomics revenue in 2022. And as more instruments are installed, the proportion of revenues from recurring sources will vary but continue to provide a source of steady and predictable high-margin revenues.

In closing, I'd like to say how much of a pleasure it was meeting so many investors last month in San Francisco, around the JPMorgan Healthcare Conference. I look forward to continued talks with you and meeting more investors and analysts in the upcoming months, including the upcoming Cowen health care conference in March. I want to reiterate that we know our mission. We know we work for our shareholders, and I'm excited to share this journey with you all.

Now let me turn it over to Vikram for a review of our financial results.

Vikram?

Vikram Jog *Standard BioTools Inc. - CFO*

Thanks, Michael. And good afternoon, everyone.

As Michael noted, we are pleased with our results for the fourth quarter, which showed top line sequential improvement in our core revenue. Let me begin with a review of core revenue for the fourth quarter and full year 2022.

Core revenue for the quarter was \$26.8 million, an increase of 8% sequentially. Core revenue in the fourth quarter of 2021 was [\$35.1 million]. Core revenue excludes revenues from discontinued products, including COVID-19-related products; and other revenue. Recurring revenues, which include consumables and service, were 72% of core revenues. For the full year 2022, core revenue was \$94.5 million compared to \$111.6 million in 2021. Recurring revenues including consumables and service were 71% of core revenue for the full year.

Moving now to our operating performance. GAAP product and service margin for the quarter expanded 620 basis points to 40.9% relative to the third quarter. Non-GAAP product and service margin, which excludes noncash charges primarily for amortization of developed technology, grew by 520 basis points to 52.9% compared to the third quarter. For the full year 2022, GAAP product and service margin was 36.7% versus 51.5% in 2021, while non-GAAP product and service margin was 50.2% versus 62.2% last year.

Operating expenses in the fourth quarter declined sequentially by 16% to \$32.3 million on a GAAP basis and declined 9% to \$30.2 million on a non-GAAP basis. For the full year 2022, operating expenses were \$153 million versus \$137 million in 2021. On a non-GAAP basis, which primarily excludes noncash charges for stock-based compensation, operating expenses were \$133 million versus \$118 million in 2021.

Our operating results in 2022 include charges related to the capital infusion transaction; retention, severance, inventory and other write-downs associated with discontinued products; and other costs associated with the phased restructuring and strategic realignment of the business. These charges totaled approximately \$2 million in the fourth quarter and \$29.7 million for the year.

I will focus the balance of my comments primarily on non-GAAP results, which excludes 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 our earnings call presentation.

Non-GAAP net loss for the quarter was \$14.3 million compared to \$20.8 million in the third quarter and \$847,000 in the prior year. For the year, non-GAAP net loss was \$80.5 million compared to \$26.7 million in 2021. GAAP net loss for the quarter was \$20.1 million compared to \$29.4 million for Q3 2022. For the full year 2022, GAAP net loss was \$189.4 million compared to \$59.2 million in 2021.

GAAP net loss in 2022 included approximately \$74 million of losses related to the forward sales of the Series B preferred stock and bridge loans, \$14.9 million of stock-based compensation, \$11.5 million of amortization of developed technology, \$3.5 million related to the impairment of the InstruNor intangible assets and other items. Additional details are available in the reconciliation tables in the earnings press release issued earlier today.

Moving on now to cash flow and the balance sheet. Our operating cash burn for the fourth quarter was \$19.2 million, down from \$24.6 million in the third quarter. For the year, operating cash burn was \$89.4 million compared to \$44.1 million in 2021.

In November 2022, we announced a \$20 million stock repurchase program through December 31, 2023. Through December 31, 2022, we repurchased approximately 422,000 shares for a cost of \$563,000. Our repurchases were limited by our daily trading volumes and applicable SEC regulations.

Cash, cash equivalents and short-term investments were \$165.8 million compared with \$185.2 million as of September 30, 2022.

Now turning to our business outlook for 2023. Core revenue for 2023 is expected to be flat to moderately higher when compared to 2022. This outlook includes an expected \$5 million headwind due to a genomics partner launching their product and building inventory ahead of that launch in 2022. As for quarterly progression, we expect our revenues to follow the seasonal pattern typical to the life science tools industry with Q1 sequentially down compared to Q4 2022 and Q4 being the strongest quarter of the year.

We are currently targeting product and service margin of 52% to 55% on a GAAP basis and 65% to 68% on a non-GAAP basis for 2023. We believe the largest variables impacting this outlook are the realization of our business improvement programs and revenue mix, as instruments, consumables and service revenues have significantly different margins.

Operating expenses are expected to be \$118 million to \$123 million on a GAAP basis and \$102 million to \$107 million on a non-GAAP basis, which primarily excludes approximately \$13 million of noncash stock-based compensation expense. We have completed the vast majority of our restructuring activities through January 2023. We incurred \$5.4 million of restructuring expenses in 2022 and expect to incur additional charges of up to \$3 million in 2023.

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

Peter Denardo

Thank you, Vikram.

This concludes our fourth quarter and full year 2022 financial results call. We'd like to thank everyone for attending our call today. As we do not currently have any covering analysts, we invite interested parties to contact us directly to answer any questions they may have. A replay of this call will be available in the investors section of our website.

Again thank you for joining us today.

Operator

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

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