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FLDM.OQ - Q3 2021 Fluidigm Corp Earnings Call

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## CORPORATE PARTICIPANTS

**Peter Denardo** *Fluidigm Corporation - Investor Relations*

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

**Vikram Jog** *Fluidigm Corporation - CFO*

## PRESENTATION

### Operator

Good afternoon, and thank you for standing by. Welcome to the Fluidigm Third Quarter 2021 Financial Results Conference Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Peter DeNardo. Sir, please go ahead.

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**Peter Denardo** - *Fluidigm Corporation - Investor Relations*

Thank you, Anne. Good afternoon, everyone. Welcome to the Fluidigm's Third Quarter 2021 Earnings Conference Call. At the close of market today, Fluidigm released its financial results for the quarter ended September 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 and business line performance as well as statements about strategic initiatives, cash and financing plans, market trends, product releases and customer demand, collaborations and partnerships and revenue expectations. 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 a 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 participants on today's call.

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, Peter, and good afternoon. In the third quarter, we executed on our 3-part strategy to leverage the power of our core technologies. We saw a very active third quarter and made progress on our ambitious plan to commercially scale 2 new instrument systems.

Core demand for our products was healthy, but we were unable to fulfill all orders for our products during the quarter, largely due to supply chain issues. Our backlog of unfilled orders stands at more than \$9 million, which is almost twice as much as our historic average. We expect to work

through these pending orders over the next few quarters. Demand in the Asia Pac region was impacted by China tax issues and COVID-related shutdowns in Japan.

We saw strong demand from our proteomics OEM partner, Olink, for the new microfluidic instrument designed and manufactured by Fluidigm. We delivered the first production units of the Olink Signature Q100 benchtop instrument system, and we anticipate an increase in deliveries for Q4.

We expect supply chain pressures to continue. Our teams are working diligently to mitigate these issues and are working directly with supply chain partners. However, this lack of visibility to supply chain reliability tempers our outlook for the near term.

Fluidigm also announced today that its Board of Directors is undertaking a review of various options with the assistance of outside financial, operating and legal advisers to maximize stockholder value, included with regard to strategic alternatives, cost and capital structure and operations and supply chain. Please note, we will not be commenting further on these strategic alternatives today nor can we take questions on this topic.

Let's proceed to a review of the quarter. All of our activities track the strategic pillars of innovation, partnerships and beachhead expansion. I'd like to review examples of how we're executing on these primary strategies.

In Q3, we continue to innovate. The new CyTOF XT gained significant traction in Q3. We see double-digit opportunity funnel increases for both Q4 and for full year 2022 when compared to the beginning of Q3. We have seen notable interest from CROs, pharma and translational centers, including those pursuing COVID vaccine and CAR T cell therapy research.

Our next-generation microfluidics instrument, the Biomark X, launches this week. Biomark X integrates the Fluidigm Juno and Biomark HD instruments into a single platform while adding sample-to-answer capabilities. Biomark X is being officially launched at the Society for Immunotherapy of Cancer, or SITC, Annual Meeting in Washington, D.C. later this week.

Due to numerous factors, including supply chain considerations, we are rolling out a phased launch of Biomark X. And consequently, revenue contributions for Biomark X are expected to be modest for 2021. The Biomark X and the Olink Signature Q100 instruments share certain components for which near-term supply availability is uncertain.

In Q3, we focused on partnerships to enter markets and new channels. There were many examples of mass cytometry. We expanded our collaboration with Visiopharm to offer a unique, third-party data analysis tool. We signed an agreement with the Karolinska Institutet to accelerate customer adoption of CyTOF XT. We have an in-progress collaboration underway with one of the largest global pharmaceutical companies to develop a new automation feature for Hyperion. The CRO, Imbiotech, brought aboard several new pharma customers. This relationship is emblematic of our focus on CROs' partnerships.

We are collaborating with Ultivue on an abstract for the 50th Annual Meeting that will highlight a new complementary workflow for mass cytometry customers doing tissue analysis. Our mass cytometry technologies, including CyTOF and IFC, have been used in more than 175 national clinical trials, including 13 new trials in Q3. This technology has been featured in more than 1,740 publications and preprints with 130 of them related to Hyperion.

In terms of partnerships on the microfluidics side, we completed all milestones in our DARPA contract and the development phase of our proteomics OEM and supply and development agreement. Our agreement with the National Institutes of Health as part of the RADx program has extended into Q4. Our next milestone includes FDA emergency use authorization submission, leveraging a new sample-to-answer IFC format as part of a COVID-19 testing kit. This submission specifies a test with a sample type that extracts RNA from nasal samples.

We focused on beachhead expansions as well during the quarter. We announced that IMC or Hyperion is being utilized in studies led by Weill Cornell Medicine to identify molecular links between African ancestry and aggressive forms of breast and prostate cancer. The focus is racial disparities and cancer outcomes and new data to inform prevention, diagnosis and treatment.

A new study in major communications based on CyTOF technology evaluated key inflammatory pathways in pregnant women infected with SARS-CoV-2, the virus that caused COVID-19, illustrating the flexibility of CyTOF and gaining health insights for treatment decisions.

In microfluidics, we provided our RT-PCR saliva-based testing technology for a saliva-based testing program in a large network of public schools in the Eastern United States.

Moving on to a review of our overarching strategy for each franchise and the proof points for each. Our strategy for the mass cytometry suspension business, as highlighted at our recent Investor Day, is to be a leader in the fast-growing markets of translational and clinical research in immune-mediated conditions and diseases. Let's review some progress.

Our CyTOF XT value proposition resonates with CROs, pharma and leading translational centers. We have sold 10 CyTOF XT systems since launch with 2 additional instruments in backlog. A top 10 global pharma company and a comprehensive cancer center in New England each purchased 2 CyTOF XT systems in Q3. We continue to scale up CyTOF XT manufacturing capacity to meet market interest. However, supply side constraints present a near-term headwind.

Pharma and CRO customers are coming to our South San Francisco lab to see demos of this new instrument. These customers include a global leader in rare genetic disease therapies and a programmable cell therapy biotechnology company. One of our XT customers plans to use the instrument in a COVID vaccine study, and CyTOF XT is now among our Therapeutic Insights Services offerings menu.

Our strategy for imaging mass cytometry is to power the next generation of health care decision-making focused on immuno-oncology and neurosciences. Proof points include continued expansion of our user base and applications as well as the broadening of our global footprint. Outside of traditional geographies, we completed our first mass cytometry system sales in Mexico and in Hong Kong.

Our recent IMC Summit, titled Uncovering Spatial Biology, drew more than 1,000 participants. The event featured presentations of recently published findings and new and unique applications of IMC focusing on translational and clinical research in immunology, immuno-oncology and infectious disease. At the IMC Summit, we launched Maxpar OnDemand antibodies. This is an expanded option that more than doubles the current catalog offering for metal conjugated antibodies for IMC.

Our strategy for microfluidics is to invest in the foundational elements of a durable diagnostic strategy, leveraging the major investments from agencies such as the NIH and Department of Defense. Let's review some recent progress. We continue to see diagnostics and new diagnostic opportunities and applications beyond COVID testing. We are in discussions with select go-to-market partners who share our vision of simplifying complex workflows and reducing the cost structure of testing.

Evidence of how successful this strategy can be is our proteomics OEM partnership with Olink. As we mentioned, we delivered the first production units of the Olink Signature Q100 benchtop instrument system, and we anticipate an increase in deliveries for Q4. We are working with Olink on demand forecasting for 2022, and we are very pleased at the future prospects for this continuing collaboration, which includes significant consumable pull-through opportunities. Our base microfluidics consumables business has grown 16% year-to-date, offset by lower COVID testing-related demand.

Beyond franchise updates, I'd like to mention a highlight of activities to expand our market outreach. We are pleased to announce that our public website, fluidigm.com, has been completely re-platformed. It is part of an ongoing broader multiyear expansion of our digital infrastructure. This new site allows -- or it provides improved efficiency through our e-commerce channel, which now supports a more streamlined experience with greater reliability. It also enhances relationships with distributors by providing quicker access to pertinent materials and greater transparency to the distribution sales funnel.

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

**Vikram Jog** - Fluidigm Corporation - CFO

Thanks, Chris, and good afternoon, everyone. Before turning to our third 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 financial and geographic highlights for the third quarter of 2021 and then provide updates to our 2021 guidance.

Total revenue for the quarter was \$28.5 million as compared to \$39.9 million for Q3 2020. The year-over-year decline was primarily due to lower COVID-19 revenue and lower development and grant revenue.

Base product and service revenue, which excludes COVID-19 testing and other revenue, was \$25.6 million compared with \$25.1 million for the year ago period. In the third quarter, our base business recovery was tempered by supply chain disruptions and challenges in the Asia Pacific region, resulting in revenue shortfalls in both of our franchises. Our backlog of unfilled orders at the end of the quarter was more than \$9 million, which was about twice as much as historic levels.

Outside of our base business, we saw stronger-than-expected revenue from COVID-19 testing, which came in at \$2.3 million. As we have stated in the past, COVID-19 testing revenue continues to be highly volatile and may vary widely each quarter. With that being said, we currently believe that full year COVID revenue will come in toward the high end of our revised range of \$12 million to \$13 million compared to our prior guidance of \$10 million to \$13 million.

In terms of the performance of each of our franchises. Mass cytometry product and service revenue of \$15.8 million for the quarter was up 5% over the third quarter of 2020. Base microfluidics product and service revenue, which excludes COVID-19 testing revenue, was \$9.4 million or relatively flat compared to the \$9.5 million of revenue for the year ago period. Total microfluidics product and service revenue was \$12.1 million, down \$8.1 million or 40% over the prior year driven primarily by lower COVID testing revenue, which declined by \$7.9 million to \$2.3 million in Q3 2021.

Our services business, after hitting a new quarterly record of \$6.6 million during the prior quarter, remained relatively strong given travel restrictions in certain regions. Service revenue of \$6 million was down slightly from \$6.1 million for the same period a year ago. In general, our services business performance has been consistent and stable since much of the revenue is tied to maintenance contracts.

Now looking at the third quarter revenue compared to the prior year period from a regional perspective. Americas revenue declined by 45% to \$13 million driven primarily by lower COVID testing revenue. Base product and service revenue, which excludes COVID testing revenue and other revenue, was \$10.4 million, up 5% compared to \$9.9 million for the year ago period. EMEA revenue grew 14% to \$10.1 million driven primarily by improved mass cytometry instrument sales. And Asia Pacific revenue decreased 27% to \$5.4 million. This decline was driven by the overhang from continued delays in issuing tax exemption certificates in China and regional lockdowns, particularly in Japan. While our commercial team pushed hard, we were not able to completely mitigate the effect of these delays during the quarter.

For the third quarter, we reported other revenue of \$600,000 as we completed our commitments under the DARPA agreement and the development phase of our proteomics OEM supply and development agreement, which is now in the supply phase. Total revenue recognized under our OEM development agreement since its inception in March of 2020 was \$11.2 million. We are very pleased with the success of this program, which illustrates the potential for additional OEM opportunities to grow our business while leveraging our partner's distribution channel.

Moving on now to our operating performance. GAAP net loss for the third quarter of 2021 was \$13.8 million compared to \$6 million for the third quarter of 2020. Non-GAAP net loss of \$5.4 million compared to non-GAAP net income of \$2.5 million in the third quarter of 2020. The increased net loss for the third quarter of 2021 versus the prior year period was driven primarily by lower total revenue, lower product and service margin and higher operating expenses.

The remainder of my comments on operations 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 58.9% for the third quarter and was down from 68.3% for the same period a year ago and 61.5% in Q2 2021.

Unfavorable product mix from lower COVID-19 consumable sales in 2021 versus 2020 reduced margin by 3.7 percentage points. Lower capacity utilization for consumables and lower average instrument selling prices also contributed to this decline. As a reminder, we noted on our last call that we expected product and service margins to be negatively impacted in the second half of 2021 due to new product transitions and a less favorable product mix.

Non-GAAP operating expenses were \$28.4 million compared to \$25.8 million for the third quarter of 2020. The increase versus the year ago period was driven by the absence of temporary salary reductions and government subsidies in the third quarter of 2020 and higher R&D project and marketing program 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 \$30.3 million inclusive of the \$10 million term loan compared with \$31.9 million at June 30, 2021. Operating cash burn was \$9.5 million during the quarter, a decrease of \$5.1 million compared to the second quarter of 2021. The decrease in the cash burn was primarily due to lower working capital requirements. Accounts receivable DSO was 44 compared with 46 days at the end of the second quarter of 2021. For the third quarter of 2021, investing cash flow outflow of \$1.7 million was primarily related to the RADx program. We expect to complete the RADx program in December of this year. The borrowing base under our asset-based revolving credit facility was \$10.3 million at September 30, none of which was utilized. As a reminder, we extended the maturity date of this facility by 1 year to August 2, 2023.

In addition, we have lined up a proposal for nondilutive financing that we can pursue if we choose to do so. Any actual funding under the proposal remains subject to negotiation of definitive agreements, market conditions and final approval of the investor and our Board in addition to other customary conditions.

And finally, moving on to guidance. We are revising our previously stated full year total revenue guidance in view of the various factors that have affected our business in the third quarter and our business outlook in the near term, including supply chain constraints, COVID-related disruptions and access to labs and research institutions and ongoing uncertainty regarding resolution of tax permit issues in China. Our current expectations for full year 2021 anticipate: base product and service revenue, excluding COVID-19 testing revenues, of \$107 million to \$109 million, reflecting year-over-year growth of 7% to 9%; total revenue, which includes COVID-19 testing and other revenue, of approximately \$123 million to \$127 million; GAAP net loss of \$63 million to \$66 million; and non-GAAP net loss of \$37 million to \$40 million. Note that this guidance does not reflect the effects of any initiatives that we may undertake pursuant to the strategic review that was announced earlier today.

Our expectations for the fourth quarter of 2021 are as follows: base product and service revenue, which excludes COVID-19 testing revenue, of approximately \$30 million to \$32 million compared to \$31 million in Q4 2020; total revenue, which includes COVID-19 testing revenue, of \$31 million to \$34 million compared to \$44.6 million in the fourth quarter of 2020. The prior year quarter included \$9.4 million of COVID-19 testing revenue and \$4.1 million of other revenue. The fourth quarter revenue guide reflects year-end seasonality tempered by expectations of near-term supply chain uncertainties and a more conservative outlook for the Asia Pacific region.

And with that, I'll turn the call back to Chris.

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

Thank you, Vikram. In conclusion, I just want to thank our employees and customers for their extraordinary patience as we address these near-term challenges. And finally, I want to thank everyone for attending today's call. This concludes our Q3 earnings call. We look forward to sharing important updates of our progress in the next earnings cycle. Thank you, and have a good day.

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