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LAB.OQ - Q1 2022 Standard BioTools Inc Earnings Call

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CORPORATE PARTICIPANTS

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

Peter DeNardo *Standard BioTools Inc. - IR*

Vikram Jog *Standard BioTools Inc. - CFO*

PRESENTATION

Operator

Greetings, and welcome to the Standard BioTools Inc. First Quarter 2022 Financial Results Conference Call. (Operator Instructions) 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 - *Standard BioTools Inc. - IR*

Thank you, operator. Good afternoon, everyone. Welcome to the Standard BioTools' First Quarter 2022 Earnings Conference Call. At the close of the market today, Standard BioTools released its financial results for the quarter ended March 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, 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 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, 2021, 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 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 within the webcast today and this presentation is also posted on our website.

As a reminder, I would also like to note that due to the appointment in April of new management team members who are focused on completing a 90-day assessment following the closing of a $250 million strategic capital infusion, 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 Vikram Jog, our CFO. Vikram?

Vikram Jog - *Standard BioTools Inc. - CFO*

Thanks, Peter, and good afternoon, everyone. Before turning to our first quarter financial results, I would like to note that we have posted this presentation, including updated supplemental financial information, on our website.

I will review the performance of our business units and geographic regions. Michael will then discuss our growth strategy going forward.

Let me begin with a review of financial and geographic highlights for the first quarter of 2022. Total revenue for the quarter was $26.5 million as compared to $32.8 million for Q1 2021. The year-over-year decline was primarily driven by lower COVID-19 revenue. Base product and service revenue, which excludes COVID-19 testing revenue and other revenue, was $23.9 million, approximately 2% lower than a year ago.

Our first quarter results were impacted by our pending and now closed strategic capital infusion transaction. This process created some disruptions in our U.S. sales force and was an impediment to growth. Moreover, our business continued to be adversely impacted by COVID-related disruptions, primarily in the APAC region, which is covered in the next slide.

Mass cytometry product and service revenue of $13.5 million for the quarter was down 4% compared to the first quarter of 2021. Revenue from the CyTOF XT instrument, which was launched in mid-2021, was more than offset by lower sales of legacy Hyperion and Helios instruments.

Please note that in April, we launched Hyperion+, our new high-plex spatial imaging system with lower limits of detection as well as improved sample capacity and time to results.

Base microfluidics product and service revenue, which excludes COVID-19 testing revenue, was $10.4 million, basically unchanged year-over-year. We are encouraged by the early adoption of our new Biomark X instrument, and our Olink OEM partnership remains an important growth driver, offsetting weakness in other microfluidics consumables.

COVID-19 revenue of $2.3 million declined by 65% relative to $6.5 million reported for Q1 2021. Other revenue, which consists of NRE, grant and license revenue, was $1.4 million lower year-over-year due to the completion of certain NRE and development contracts in 2021, partially offset by an increase in license revenue resulting from a litigation settlement. We believe our base product and service revenue, excluding COVID and other revenue, is the appropriate indicator of our top line performance.

Now looking at first quarter revenue compared to the prior year period from a regional perspective. Americas revenue was $12.9 million, down 30% year-over-year, driven almost entirely by lower COVID testing and NRE and grant revenues. The base business in the Americas was unchanged year-over-year.

EMEA revenue was $8.6 million, down 6% year-over-year, primarily driven by lower mass cytometry instrument revenues. Changes in foreign exchange rates reduced the year-over-year growth by approximately 4 percentage points. The negative impact of the conflict in Ukraine on the European economy and related funding headwinds, together with COVID-related pressures in public health care systems, remain challenges for growth in this region.

Asia Pacific revenue decreased 3% to $5 million primarily due to lower microfluidics consumables revenues. We experienced challenges in this region from lockdowns, such as those widely publicized in China, and travel restrictions and disruptions. In Japan, we were also affected by the diversion of government funding for research instruments or other purposes.

Moving now to our operating performance. I will focus my comments on non-GAAP results, which exclude certain nonrecurring 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 $19.5 million compared to a non-GAAP net loss of $11.1 million for the first quarter of 2021. The increased net loss for the first quarter of 2022 over the first quarter of 2021 was driven primarily by lower total revenue and lower product and service margins.

Non-GAAP product and service margin was 58.5% for the first quarter, down from 66.4% for the same period a year ago. This was primarily driven by unfavorable product mix and, to a lesser extent, by lower factory utilization.

Non-GAAP operating expenses were $35.1 million compared to $34.1 million for the first quarter of 2021. The increase versus the year ago period was primarily driven by onetime costs related to the strategic capital infusion transaction that closed in early Q2 2022.

Moving on now to cash flow and the balance sheet. Cash and cash equivalents and restricted cash at the end of the first quarter totaled $31 million compared with $29.5 million as of December 31, 2021. Immediately following the completion of the strategic cash infusion by Casdin Capital and Viking Global on April 4, 2022, our cash, cash equivalents and restricted cash balance was $256.2 million before transaction costs.

Operating cash burn was $15.6 million during the quarter, an increase of approximately $2.7 million compared to the first quarter of 2021. The increase in cash burn was primarily due to higher operating losses, partially offset by favorable working capital changes relative to the first quarter of 2021.

Financing cash flows during the quarter were $18.1 million, including $25 million of proceeds from a bridge loan and repayment of advances under our revolving line of credit of $6.8 million. Following the completion of the strategic capital infusion transaction, the outstanding balance under the bridge loan was converted into shares of Series B preferred stock.

Accounts receivable days sales outstanding were 53 compared with 43 days at the end of the fourth quarter of 2021.

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

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

Thank you, Vikram. Hello, everyone. I'm proud to be speaking with you today as President and Chief Executive Officer of Standard BioTools. I started this role just 1 month ago, and I'll therefore focus most of my comments on our vision and strategic priorities for Standard BioTools going forward.

The end of first quarter 2022 marked the completion of the company's strategic evaluation process, which culminated in the closing of a $250 million capital infusion from leading life science investors Casdin Capital and Viking Global in April.

While the closing of this transaction marked a major milestone, as Vikram mentioned, our financial performance for the first quarter was disappointing and adversely affected by related disruptions in our U.S. sales force. We also experienced continued COVID-related disruptions, particularly in APAC. We're taking immediate steps to address the operational issues with new leadership, including the recent appointment of Jeremy Davis as Chief Commercial Officer.

Mindful of our past and its lessons, we now embark on a new chapter of focused execution and growth, and 2022 will serve as the foundation, which we will build upon.

To mark our new beginning, we changed our name to Standard BioTools to reflect our ambition to become an essential solutions provider to the life science industry. We have an ambitious goal for the company, and our vision is to become a top quartile life science research tools company in 3 to 5 years. We'll achieve this by offering our customers best-in-class tools that become established standards in their workflows.

Our strategy to realize this vision has 3 pillars. First, we will prioritize revenue growth by focusing our efforts to compete in growing market segments where we believe we have or could have a competitive advantage. Specifically, we'll focus on servicing more customers in translational and clinical research. Second, we will significantly improve our operating discipline by implementing best-in-class processes to manage expenses and increase productivity so we can create more value for all stakeholders. Third, we intend to expand our product offering to our customers with strategic capital allocation to acquire complementary assets that allow us to leverage our infrastructure.

Allow me to elaborate on each of these strategic priorities. Our priority #1 is revenue growth, and we believe mass cytometry will be our growth driver. Our new instrument, CyTOF XT for high-parameter flow cytometry addresses some of the key barriers to adoption for our mass cytometry technology in the past, as expressed by our customers. Specifically, CyTOF XT increases throughput, integrates new sample introduction automation, improves time to results and reduces total cost of ownership, features particularly valuable to translational and clinical researchers across the pharmaceutical and biotechnology sectors.

Our new Hyperion+ imaging system offers researchers a deeper understanding of disease and response to treatment. Two critical challenges in realizing the full transformative potential of this remarkable technology are reducing the time to answer key biological questions and detecting important biomarkers that are expressed at low levels. The Hyperion+ imaging system is designed to solve these challenges with faster time to results and a lower limit of detection than our prior imaging system. We believe that Hyperion+ will improve our competitive position in the growing high-plex imaging market, and we'll continue to invest to make our imaging instruments more competitive.

Importantly, for both high-parameter flow cytometry and imaging, we will invest in improving our consumable offerings, also known as menu expansion, to better address our customers' needs, thereby improving consumable pull-through per instrument.

Leading our efforts in mass cytometry will be our new Chief Commercial Officer, Jeremy Davis. Jeremy brings more than 2 decades of business leadership, driving commercial operational improvements for world-class manufacturing businesses and their associated service centers across the globe.

Microfluidics is our legacy business, and our intent is to focus the business and make it profitable in the short term. We're currently launching our new Biomark X instrument, which integrates our Juno and Biomark HD instruments into a single platform while adding an expansive set of sample-to-answer capabilities on a versatile, scalable, transformative genomics and proteomics platform. Biomark X leverages over a decade of experience to simplify qPCR and NGS workflow through nanoscale automation in application areas such as genotyping, gene expression, NGS library preparation and protein biomarker assays through our relationship with Olink. Going forward, we will focus on targeted applications in well-defined markets where we can achieve sufficient scale.

We are pleased with the performance of the Olink partnership, which is a growth driver for microfluidics. We will continue to seek additional OEM opportunities to leverage our microfluidics technology.

Leading our efforts in microfluidics will be Alex Kim, our Chief Operating Officer. Alex was most recently President of the Healthcare Division in Milliken & Company. Previously, Alex was Senior Vice President, Corporate Strategy and Business Development for Pall Corporation. And prior to that, he spent a decade at Danaher.

As we broaden our customer and service offering, our goal is to expand our customer base. Currently, our customer reach is concentrated in the basic research. We will direct sales and marketing to expand our relationships deeper into the life science ecosystem, including large pharma, emerging biotech and diagnostic companies and the broader CRO/CMO service provider network. We are already seeing encouraging adoption of our CyTOF XT in the pharma, biotech and CRO segment. At the end of the first quarter, 200 clinical trials were underway using CyTOF technology.

As I discussed what we are going to do, it's also important to highlight how we are going to do things because it will be foundational. To create value for all stakeholders, we will embark on a journey of continuous improvement, or Kaizen. We will begin that journey with the Standard BioTools Business System, SBS, a systematic approach to business operations based on Lean methodologies used by the highest-performing organizations in the world.

One key aspect of this approach is that we focus on processes and standard work and leverage problem-solving to close process gap. We will use SBS to improve our operating discipline as we optimize our cost structure. We will roll out training and SBS in the upcoming weeks.

Leading this cultural transformation will be our Senior Vice President of SBS, Mona Abou-Sayed. Mona is a seasoned continuous improvement leader with experience in customer operations, human resources and product management to drive organizational transformation.

At Standard BioTools, we want to be a leading provider to biological researchers, in particular pharma customers in translational and clinical research. This requires we have a broader product offering along the workflow to meet their needs.

Accordingly, our third priority is that we intend to expand our product offerings with strategic capital allocation to acquire complementary assets that allows us to leverage existing infrastructure. We have a robust funnel of potential acquisitions identified today, which we have developed through relationships cultivated over decades. Our focus will be on acquisitions that are technologically de-risked, have immediate revenue potential and have synergies with the company's existing infrastructure.

The incoming management team has significant experience in completing successful acquisitions. As such, we will be strategically and financially disciplined in our M&A approach. We intend to be active in the M&A market. Particularly given the current market dynamics, we're seeing an increase in opportunities. And we can tell you that we are actively engaged in evaluating various assets, which we are excited about.

During the next 90 days, we will refine the strategy and finalize our tactical plan to execute it. After completing this process, and at the appropriate time, we look forward to providing additional details to the financial community. I also look forward to meeting you at various investor events. And of course, I look forward to leading this outstanding team as we embark on our transformation journey. I'm confident that our tool set will indeed accelerate breakthroughs in human health.

I'll now turn the call over to Peter.

Peter DeNardo - *Standard BioTools Inc. - IR*

Thank you, Michael. This concludes our first 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.
