Event ID: 138692308546
Event Name: Q3 2022 Standard BioTools Inc Earnings Call
Event Date: 2022-11-08T22:00:00 UTC

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Operator^ Hello, and welcome to the Standard BioTools Inc. Third Quarter 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 Third Quarter 2022 Earnings Conference Call. At the close of the market today, Standard BioTools released its financial results for the quarter ended September 30, 2022.

During this call, we will review our results and provide commentary on our financial and operational performance, market trends and strategic initiatives. Presenting for Standard BioTools today will be Michael Egholm PhD, Chief Executive Officer and President; and Vikram Jog, our 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. These statements are subject to substantial risks and uncertainties that may cause actual events or results to differ materially from current expectations. The forward-looking statements in this call are based on information currently available to us and 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 the 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^ Good afternoon, and welcome to Standard BioTools Third Quarter 2022 Conference Call and the first full quarter with our new executive leadership team in place.

The Standard BioTools tools corporate transformation of this company begins with stabilizing what we now call our core commercial business, which will assess holistically on the basis of instrument growth, consumables and service revenue.

The life science tools industry broadly is built on a well-established razor and razor-blade business model, and that is how we view this business. Further success is based on focus as we continue to streamline the team and products as well as raised upon growth, profitability and overall corporate execution.

There remains work to do, but this quarter shows encouraging green shoots of that process with a 30% sequential growth in core products and service revenue. While we stabilize the commercial business, we must do so in the context of improved corporate profitability. To this end, we are well underway in focusing on gross margin and operational expense improvement. And I reiterate here those stated financial goals achieved 700 to 1,000 basis points improvement in gross margin by year-end 2023, significantly reduced operating cash burn in 2023 and achieve positive free cash flow by year-end 2024.

Finally, having spent nearly 30 years in the life science tools industry, it has never been more clear to me that there is a strategic need for consolidation in our industry. It's our belief that the portfolio approach is the only validated business model that is capable of delivering consistent, compounding long-term return for shareholders. It's also the only business model to release the obvious innovation bottleneck keeping investors, entrepreneurs and scientists disappointed and frustrated today.

What do I mean by innovation bottleneck? Today, after a prolific period of investment and innovation in next-generation life science tools, almost all businesses are stumbling with the scaling of product development, manufacturing, commercial discipline and execution, customer support and basic fiscal discipline. These are not technology problems per se, but business issues. Luckily, there are clear and well-known business solutions to those challenges. That is if you have the right mix of operating and technical talent. These are naturally different skill sets to master. And from my experience, large and successful companies have many of the former and the unsuccessful small players have too many of the latter.

I have built the team here with proven players across those disciplines and more are joining monthly. We are confident with this team, core platform and capital to expand. We have all the required components to address the industry-wide challenge, execute on our vision and realize the full potential of our platform to create a diversified innovation-focused life science tools companies serving the pharma and research market. It has been done before, and we are on our way to doing it again.

A key element of our strategy is growth through M&A, and we're methodically advancing conversations with target companies using a disciplined approach and an eye not just on the growth promise, but how we successfully integrate businesses and performance of those businesses over time.

On revenue growth, we're beginning to see progress on that front with core product and service revenue for the third quarter of $24.8 million, representing over 30% sequential growth compared to the second quarter of 2022. This was favorable compared to core product and service revenue in the third quarter of 2021 with 3% year-over-year growth in constant currency despite macro weakness in EMEA. Moving forward, we continue to focus on our core product and service revenue and its sequential growth to track our progress.

Underpinning the sequential growth in the quarter are improved sales funds management and a renewed discipline that's synonymous with SBS. The approach is beginning to work and while we're identifying untapped demand, it won't fully take hold overnight. We are encouraged by the year early results, but realize there's still a lot of hard work to be done.

Geographically, we experienced strong sequential growth across all regions. Since joining, we successfully rebuilt the Americas sales team, attracting high quality and skilled sales people to drive our commercial efforts forward, which we believe is responsible in part for the early success this past quarter. We'll continue to invest in leadership and standard work across the globe.

Outside the U.S., we know the headwinds from macroeconomic challenges and FX pressures, and we are positioning ourselves for when these markets become healthier. Our second priority is to improve operating discipline via Standard BioTools Business System, or SBS, which we view as our force multiplier. Lean is a way of thinking that we apply to everything we do and every facet of our business. We continue to roll out SBS training across the organization, and I'm proud to report that our team has embraced a cautioned approach of continuous improvement, displaying a revitalized sense of price and empowerment for the work we do.

We're beginning to see the benefits of SBS translate into performance, and we are on the way to achieving our stated goal of 700 to 1,000 basis points and gross margin improvement by year-end 2023. We expect this to result in non-GAAP product and service gross margin of 65% to 68% by year-end 2023, driven by lean transformation in volume growth and value selling.

In this environment, controlling costs is front and center. Our aim is to significantly reduce operating cash burn to generate positive cash flow by year-end 2024. The team is doing what we brought in to do to make that a reality, and we believe we are well on our way to achieve this goal. There's more cleanup to do, as I just outlined, but I can tell you this. We're spending less today than when I joined, excluding business improvement expenses, which we expect to substantially reduce as we approach year-end.

In August, we announced a phased restructuring plan, which entails reduction in general and administrative expenses, rightsizing our microfluidics business and further portfolio rationalization. We are well into Chapter 1 with significant reduction in head count and a smaller real estate footprint in our South San Francisco headquarters. To date, restructuring efforts have improved our operating margin by 600 to 800 basis points or $8 million net on an annualized basis. And we'll execute on the next phases of our restructuring plan to generate positive free cash flow by year-end 2024.

We are making big cuts across several functions also such that we can invest in other areas where it will be the biggest impact in our business, for example, targeted investment in R&D and bringing in required talent. SBS is not only allowing us to position our core business for future growth, but enables the necessary changes to get the supporting infrastructure integration ready as we look to complement our product portfolio through targeted M&A, which brings me to our third priority, strategic capital allocation.

M&A has its own time frame, but our proprietary deal pipeline is full. We can walk and chew gum at the same time. We are intensely focused on reinvigorating our core business while at the same time, executing on our aggressive M&A strategy. We continue to seek out opportunities for our funnel that have revenue potential and synergies with our existing infrastructure to strengthen our connection to pharma and partnering with translational and clinical researchers.

As mentioned earlier in my prepared remarks, we have been working tirelessly to streamline the organization to build the foundation that can support both organic and inorganic growth initiatives, allowing us to offer the industry's best innovations on a shared global infrastructure. We know our mission, and we know we work for our shareholders and look forward to meeting with some of you at the Jefferies London Healthcare Conference next week.

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

Vikram Jog^ Thanks, Michael, and good afternoon, everyone. As Michael noted, we are pleased with our results for the third quarter, which showed top line sequential improvement across all the geographic markets we serve. This is illustrative of the rebuilding of our America sales team and the improvements that have been made by the new leadership team.

Now let me begin with a review of revenue for the third quarter of 2022. Total core revenue for the quarter was $24.8 million, an increase of 30% sequentially and up 3% year-over-year at constant exchange rates. Core instrument revenue across our mass cytometry and microfluidics segment of $7.8 million was up sequentially from $2.7 million and down from $9.5 million in the year ago period.

Core consumables revenue of $11.1 million was up sequentially from $8.9 million and from $10.1 million in the year ago period. Core service revenue of $5.9 million was approximately flat sequentially and year-over-year. Other revenue, which includes product development, license and grant revenue for the third quarter, was approximately $500,000 and included the third and final tranche of a legal settlement of $300,000.

We are pleased with the sequential recovery in our business in the quarter with 18%, 76% and 43% growth in the Americas, Asia Pacific and EMEA regions, respectively. We are beginning to see the benefits of rebuilding our sales team in North America and implementing SBS across our operations, including a systematic sales approach. This contributed to top line sequential revenue increase across all the geographical regions. For additional commentary on our revenue, including geographic breakdown, please refer to our third quarter Form 10-Q filing when available.

Moving on now to our operating performance. Our operating results in 2022 include certain items related to the strategic financing transaction and subsequent business improvement actions taken by the new management team, including the ongoing rationalization of our product portfolio and restructuring program announced in August 2022. These items increased operating loss by $6.1 million and $24.5 million for the 3 and 9 months ended September 30, 2022. These business improvement actions are ongoing, and we expect to incur additional related expenses in the fourth quarter of 2022 and into 2023, although at a lower level.

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

Non-GAAP net loss was $20.8 million compared to $25.8 million reported for the prior quarter, primarily reflecting higher revenues and higher gross margin. GAAP net loss for the quarter ended September 30, 2022, was $29.4 million compared to $63.5 million for Q2 2022. GAAP net loss in the second quarter included approximately $25 million of losses related to the forward sales of the Series B preferred stock and bridge loans, and $3.5 million related to the impairment of the InstruNor intangible assets.

During the quarter, we incurred a charge of $2.2 million included in cost of goods sold, related to the termination of our microfluidic instrument manufacturing contract. Beginning in early 2023, we will manufacture these instruments in our Singapore manufacturing facility. Over time, we believe this action will improve product quality and reduce manufacturing costs.

Non-GAAP product and service margin was 47.7%, up from 37.7% for the second quarter but down from 58.9% for the third quarter of last year. Margins in both Q2 and Q3 were impacted by charges related to portfolio rationalization and the termination of our manufacturing contract. Excluding these charges, non-GAAP product and service margins were approximately 58% in both Q3 and Q2. Non-GAAP operating expenses were $33.2 million, down sequentially from $34.1 million and compared to $28.4 million for the year ago period. The year-over-year increase was primarily driven by the charges related to the business improvement actions that I mentioned earlier.

Moving on now to cash flow and the balance sheet. Cash and cash equivalents and short-term investments were $185.2 million compared with $211.2 million as of June 30, 2022. During the quarter, our operating cash burn of about $24.6 million was down sequentially from approximately $30 million in Q2 2022. As Michael mentioned, one of our key goals is to reduce operating cash burn and generate positive free cash flow by year-end 2024. We are beginning to see progress here and expect to see additional benefits as our previously announced phase restructuring plan continues through the remainder of this year into 2023. This concludes my remarks on the quarter.

I will now turn the call over to Peter. Peter?

Peter DeNardo^ Thank you, Vikram. This concludes our third 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 conference call. You may disconnect your lines at this time. Thank you for your participation.