PacBio Q1 2024 Earnings Presentation

May 9, 2024 | First Quarter 2024 Earnings Call

Statement regarding use of non-GAAP financial measures

PacBio reports non-GAAP results for basic and diluted net income and loss per share, net income, net loss, gross margins, gross profit and operating expenses in addition to, and not as a substitute for, or because it believes that such information is superior to, financial measures calculated in accordance with GAAP. PacBio believes that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In addition, other companies may calculate similarly titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of PacBio's non-GAAP financial measures as tools for comparison.

PacBio's financial measures under GAAP include substantial charges that are listed in the itemized reconciliations between GAAP and non-GAAP financial measures included in this presentation. The amortization of acquired intangible assets excluded from GAAP financial measures relates to acquired intangible assets that were recorded as part of the purchase accounting during the year ended December 31, 2021. Certain intangible assets contribute to revenue generation and its amortization will recur in future periods until they are fully amortized. Management has excluded the effects of these items in non-GAAP measures to assist investors in analyzing and assessing past and future operating performance. In addition, management uses non-GAAP measures to compare PacBio's performance relative to forecasts and strategic plans and to benchmark its performance externally against competitors.

PacBio encourages investors to carefully consider its results under GAAP, as well as its supplemental non-GAAP information and the reconciliation between these presentations, to more fully understand its business. A reconciliation of PacBio's non-GAAP financial measures to their most directly comparable financial measure stated in accordance with GAAP has been provided in the financial statement tables included in this presentation. PacBio is unable to reconcile future looking non-GAAP guidance included in this presentation without unreasonable effort because certain items that impact this measure are out of PacBio's control and/or cannot be reasonably predicted at this time.

Forward-Looking Statements

This presentation contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and the U.S. Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements, including statements relating to our expectations for future operating results, revenue, revenue mix, margins, guidance, cash burn, goals, operating plans and long-term growth; expectations with respect to the commercial success of Revio and Onso; expectations with respect to development and commercialization timeframes; statements relating to the availability, uses, accuracy, coverage, advantages, quality or performance of, or benefits or expected benefits of using, PacBio products or technologies; the impact of new products and technologies, including the Revio and Onso systems; throughput, scalability, affordability, coverage, run times, data, density, type and cost per genome; pricing, consumable requirements, number of genomes that can be sequenced per year; the use of AI-enable compute in the Revio system and related improvements in yield and accuracy; schedule flexibility and downtime; references that PacBio is the future of sequencing; expected delivery timeframes; expectations regarding competition in the short- and long-read sequencing technologies markets; market sizes, market and revenue growth and market opportunities, as well as our ability to capture market share; and statements relating to PacBio's cost-saving plans and initiatives as well as the expected financial impact and timing of these plans and initiatives. Reported results and orders for any instrument system should not be considered an indication of future performance. You should not place undue reliance on forward-looking statements because they are subject to assumptions, risks, and uncertainties and could cause actual outcomes and results to differ materially from currently anticipated results, including, challenges inherent in developing, manufacturing, launching, marketing and selling new products, and achieving anticipated new sales; potential cancellation of existing instrument orders; assumptions, risks and uncertainties related to the ability to attract new customers and retain and grow sales from existing customers; risks related to PacBio's ability to successfully execute and realize the benefits of acquisitions; the impact of U.S. export restrictions on the shipment of PacBio products to certain countries; rapidly changing technologies and extensive competition in genomic sequencing; unanticipated increases in costs or expenses; interruptions or delays in the supply of components or materials for, or manufacturing of, PacBio products and products under development; potential product performance and quality issues and potential delays in development timelines; the possible loss of key employees, customers, or suppliers; customers and prospective customers curtailing or suspending activities using PacBio's products; third-party claims alleging infringement of patents and proprietary rights or seeking to invalidate PacBio's patents or proprietary rights; risks associated with international operations; and other risks associated with general macroeconomic conditions and geopolitical instability. Additional factors that could materially affect actual results can be found in PacBio's most recent filings with the Securities and Exchange Commission, including PacBio's most recent reports on Forms 8-K, 10-K, and 10-Q, and include those listed under the caption "Risk Factors." These forward-looking statements are based on current expectations and speak only as of the date hereof; except as required by law, PacBio disclaims any obligation to revise or update these forward-looking statements to reflect events or circumstances in the future, even if new information becomes available.

The unaudited condensed consolidated financial statements that follow should be read in conjunction with the notes set forth in PacBio's Quarterly Report on Form 10-Q when filed with the Securities and Exchange Commission.

Business and Commercial Updates

Christian Henry, President and CEO

Q1 Revenue and FY 2024 Guidance

$38.8M

First quarter revenue; ~flat vs Q1 2023

$170M - $200M

Full-year 2024 revenue guidance[1]

Today we will:

- Discuss some of the factors that contributed to our previously announced revenue shortfall and revised full-year guidance.
- Discuss the steps we are taking to return to revenue growth and why we are confident in the assumptions underlying our updated financial forecasts.
- Share our re-focused priorities for 2024, which we believe will position us to build PacBio into a sustainable, cash-flow-positive company with the ability to execute in any macroenvironment.

Takeaway:

- While we forecast near-term growth to be lower than our original guidance for 2024, we have never been more confident in the value of our platforms, our long-term growth potential, and our ability to capture market share in the multi-billion dollar opportunity in sequencing.

PacBio

[1]Guidance as of 5/9/2024 only

Instrument shortfall primarily resulted from elongated purchasing cycles

The median sales cycle for Revio instrument purchases increased more than expected in Q1 2024

We believe drivers to instrument shortfall include:

- Uncertainty surrounding the timing of funding for new capital equipment, particularly in the U.S. and China.
- Smaller Sequel II and IIe customers who are planning to upgrade to a Revio are waiting for the samples to drive the upgrade.
- An increasing proportion of the sales pipeline was comprised of new customers in the first quarter of 2024, which have proven to have longer sales cycles compared to existing PacBio customers.

Consumable revenue +15% year-over-year, but below our expectations

We believe this was primarily attributed to:

- Slower-than-expected ramp-up in sequencing by our small- to mid-sized customers, many of whom are new to PacBio; the time for new Revio customers and new projects to reach full capacity has been slower than previously anticipated.
- Sample delays impacting sequencing volume in the quarter for certain large customers.
- Some smaller service providers in China operating at lower utilization as a result of the challenging funding environment.

More customers than we expected utilized their Revio systems at less than 20% capacity

Revio Installed Base – Utilization, pull-through, and age

Utilization[1]	0% - 20%	21% - 50%	>50%
Pull Through[2]	~120K	~270K	~445K
Avg. months since install[3]	< 4	~ 6	> 6

[1]Represents installed base as of 12/31/2023 and does not include customers not connected to SMRT Link
[2]Represents average annualized pull through for each utilization group for Q1 2024
[3]Average number of months since the system was installed at the customer site as of 12/31/2023

We are implementing several strategies aimed at accelerating instrument and consumable revenue

1. Intense focus on the customer

- Organizing PRISM roadshows: 6 cities, ~1,000 registered attendees, >500 organizations.
- Reducing spans/layers of commercial org, allowing leadership to get closer to/more involved in the sales process.
- Establishing ‘tiger teams’ to actively work with low-volume customers to accelerate Revio ramp.
- Collaborating with customers to demonstrate the value of HiFi long-read sequencing.

2. Addressing the upfront CapEx barrier

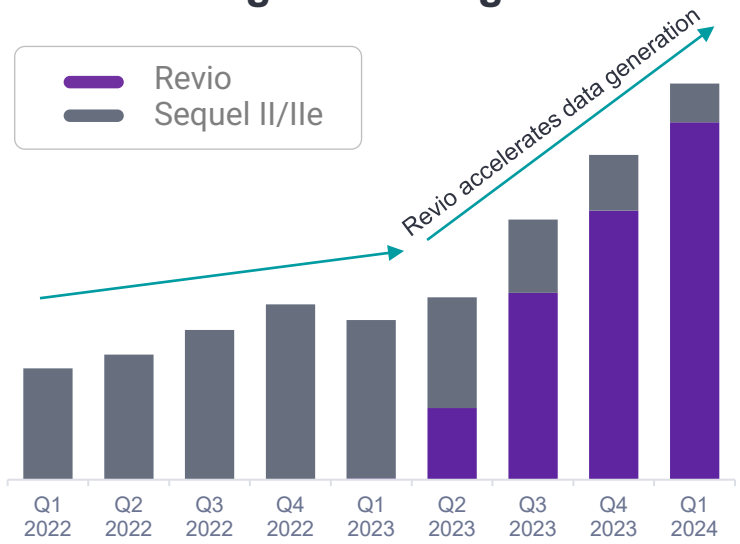
- Implementing promotions that ease customers' upfront capex requirements while preserving PacBio's overall economic value. These promotions have already created more funnel opportunities, which we believe will close this year.
- Focusing our product development on a benchtop platform, which will allow for a lower capex entry and, upon launch, potentially open PacBio HiFi sequencing to hundreds of new global customers.

3. Expanding addressable market and applications

- Investing in developing library prep + informatics solutions that enhance Revio’s value proposition, including PureTarget for targeted clinical research applications and Kinnex for transcriptomics, and 16S metagenomics.
- Developing enhancements that we believe will further reduce DNA inputs below one microgram for 30x WGS – potentially opening up more existing samples/new projects to HiFi.

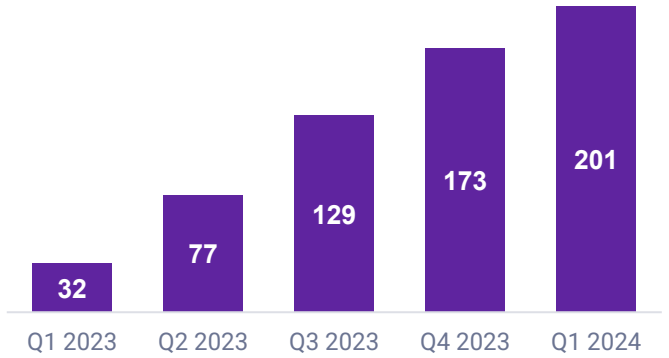
The demand for and interest in our products indicates the tremendous market opportunity ahead

Long-read data generated[1] demonstrates continued market share gain for long-reads



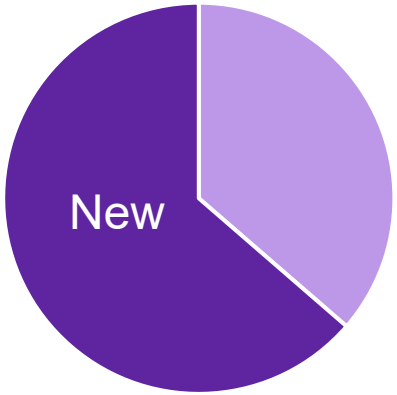
~2.5x data generated from PacBio sequencers year-over-year

Cumulative Revio shipments (installed base)



Fastest installed base ramp in PacBio history. Installed base equal to the throughput of >3,000 Sequel IIes

Continued adoption by new customers



57% Of Revios shipped in Q1 2024 went to new PacBio instrument customers

[1]As of 3/31/2024; represents total petabases sequenced by customers using Sequel II/IIe and Revio

Revio customers plan to implement HiFi for large-scale projects and rare disease/cancer research

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Selected Revio exclusively over other short and long read technologies to sequence 10,000 whole human genomes as part of their goal to adopt personalized medicine at scale and understand the underlying genetics of health, disease, and treatment outcomes.

Ambry Genetics®

In collaboration with University of California, Irvine and the GREGoR Consortium, plans to sequence up to 7,000 human genomes aimed at improving health outcomes for families battling rare diseases over the next three years.

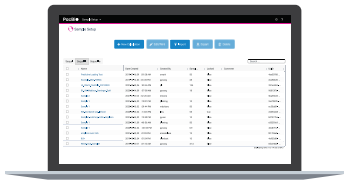
SNUH SEOUL NATIONAL UNIVERSITY HOSPITAL

Utilized one of our recently-announced instrument promotions and plans to use HiFi long read technology to improve its testing capabilities in rare disease and cancer.

Enhancing our software, launching new library prep, and sample prep solutions which make PacBio sequencing turnkey and more accessible than ever

We believe new products can help contribute to a recurring revenue outside the core sequencing reagents and / or drive more sequencing on the platform

Launched Q4 2023 →



V13 Software

Adaptive loading

Run preview

Shorter / longer inserts

5 Gb Improvement in SMRT Cell yield for hWGS apps[1]

Kinnex

Scalable, cost-effective RNA sequencing

Full-length RNA, single-cell RNA, 16S rRNA

160 Customers since Q4 launch[1]

>$1.5M in cumulative orders[1]

Launched Q1 2024 →

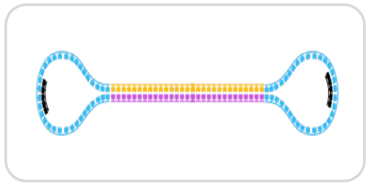
Nanobind PanDNA Kit

Provides fully-automated and scalable solution

Lowers cost of sample prep

>1,000 customers ordering since acquisition of Circulomics[1]

Highest revenue quarter for Circulomics products since acquisition[2]



HiFi Prep Kit 96 and Plex Prep Kit 96

8hr prep time DNA → library

Scalable and compatible with automation

Lower DNA input required

Some of our largest customers are adopting these kits to help them further scale their projects

PureTarget™

Repeat expansion panel

Comprehensive characterization of repeat expansions

192 samples per Revio run

w/ TRGT repeat expansion caller & Nanobind = 3-day E2E solution

Interest from customers ranging from pediatric hospitals to large commercial testing labs, biopharma, and academic labs

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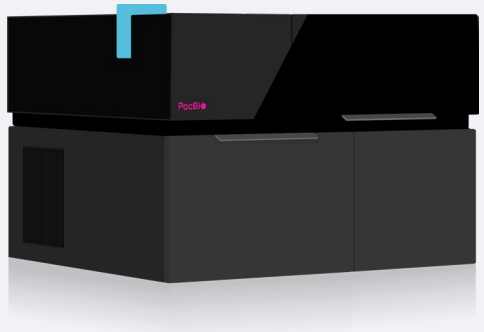
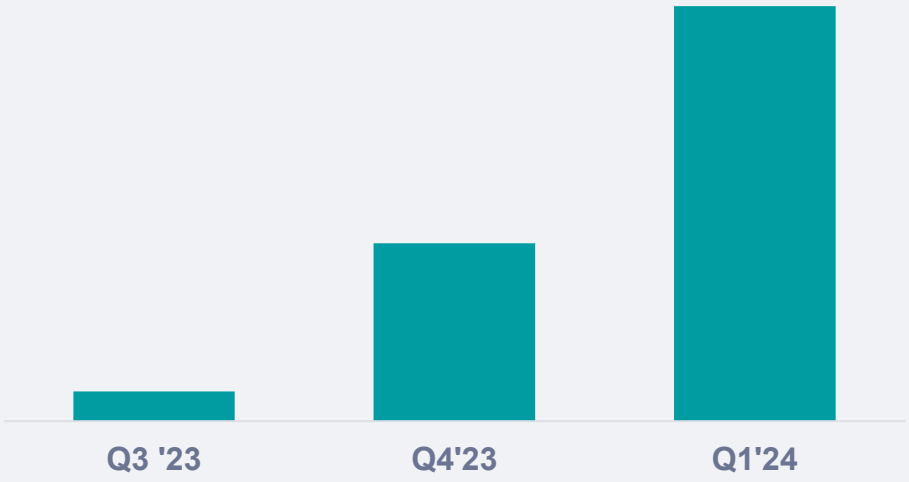
[1]As of 3/31/2024
[2]excludes OEM sales to one large customer

We continue to see success with our Onso platform





Installed base continues to ramp

Instrument shipments grew again in the first quarter, and the installed base now spans six continents.

We’ve completed our consolidation of Onso instrument and consumable manufacturing into our Menlo Park facility, which allows us to fully leverage our operational infrastructure.

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We are focused on four strategic priorities

Improving commercial execution to drive adoption of both Revio and Onso.

Continuing the development of new platforms that are expected to broaden our product offering and drive revenue growth.

Implementing projects to improve our gross margin and drive manufacturing efficiencies.

Reducing annualized run-rate operating expenses.

Financial Results and Guidance

Susan Kim, CFO

$38.8M

Q1 2024 Revenue
(vs. $38.9M in Q1 2023)

201

Revio Installed base as of 3/31/2024
(+28 vs. 12/31/2023)

$254,000

Q1 2024 annualized Revio pull through

~33%

Q1 2024 Non-GAAP gross margin[1]
(vs. 26% in Q1 2023)

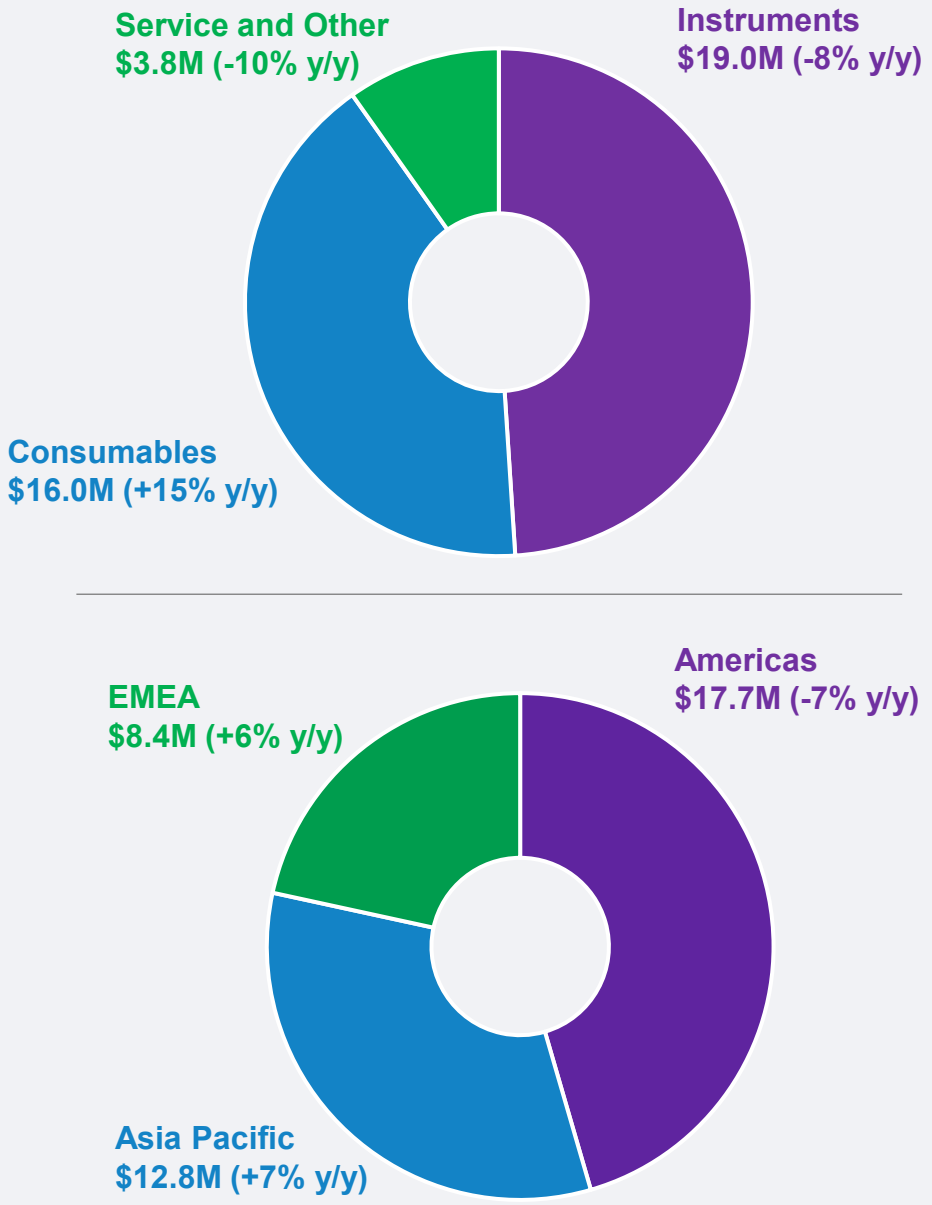
$87.2M

Q1 2024 Non-GAAP OpEx[1]
(-2% vs. Q1 2023)
Includes $17.4M in non-cash share-based compensation

~$562M

Cash, cash equivalents, + investments as of 3/31/2024

Q1 2024 Revenue



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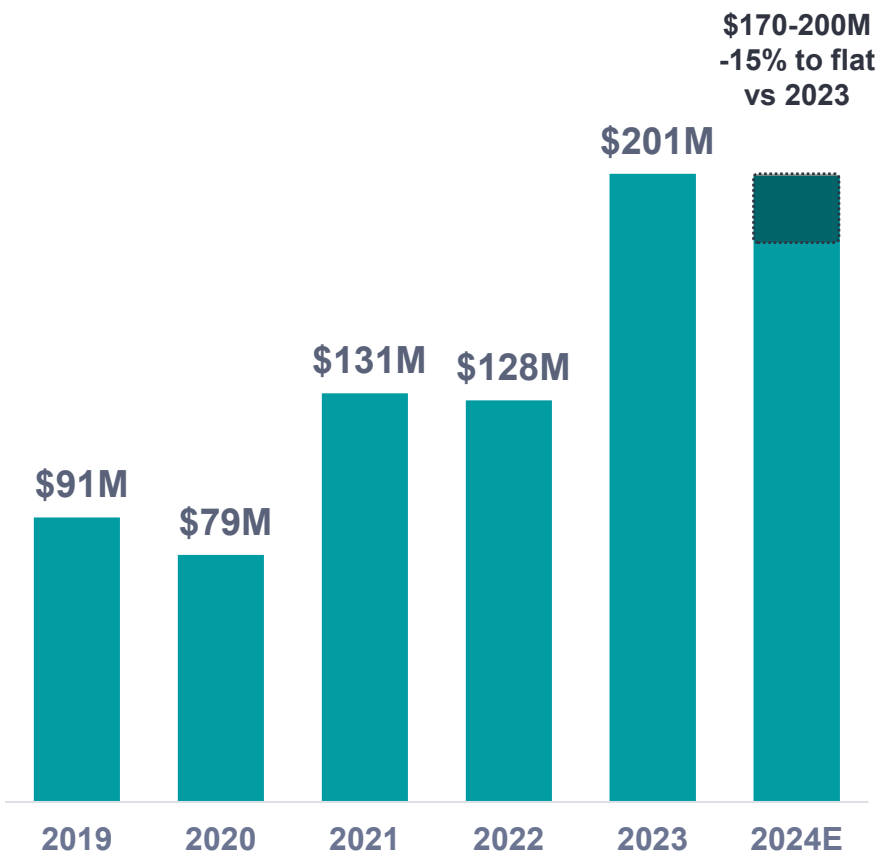
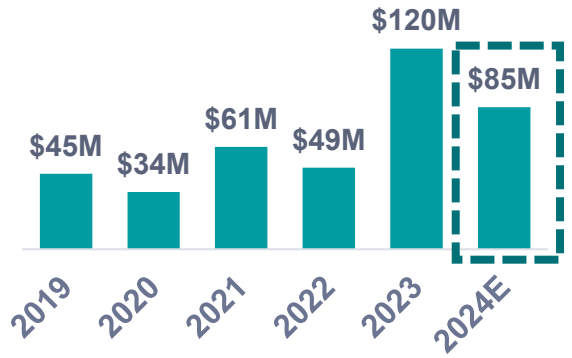
[1]See Appendix for statement regarding use of non-GAAP financial measures

We expect full-year 2024 revenue to be between $170M and $200M

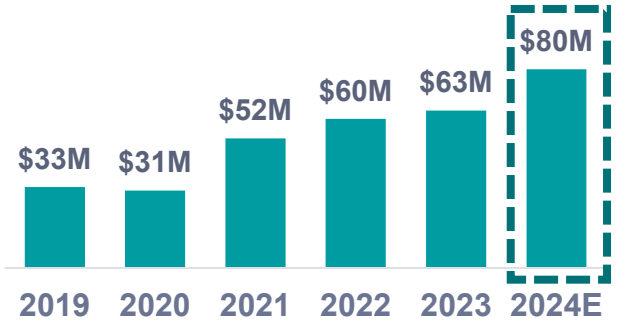
Midpoint assumptions: $85M instrument revenue, 120 Revio shipments, $80M consumable revenue, $290K Revio pull-through



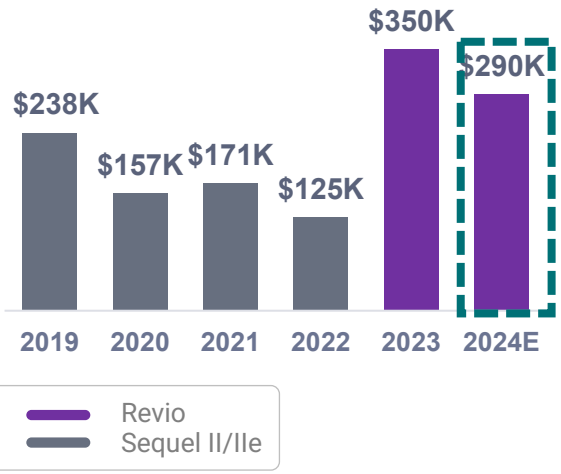
Instrument revenue at midpoint



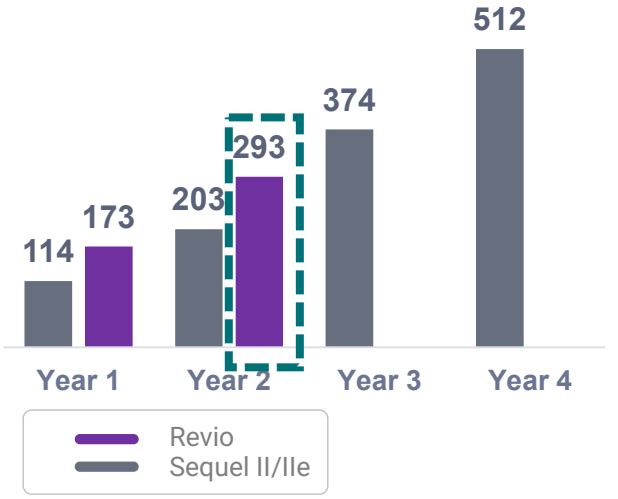
Consumable revenue at midpoint



Pull through[1] at midpoint



Ending installed base at midpoint



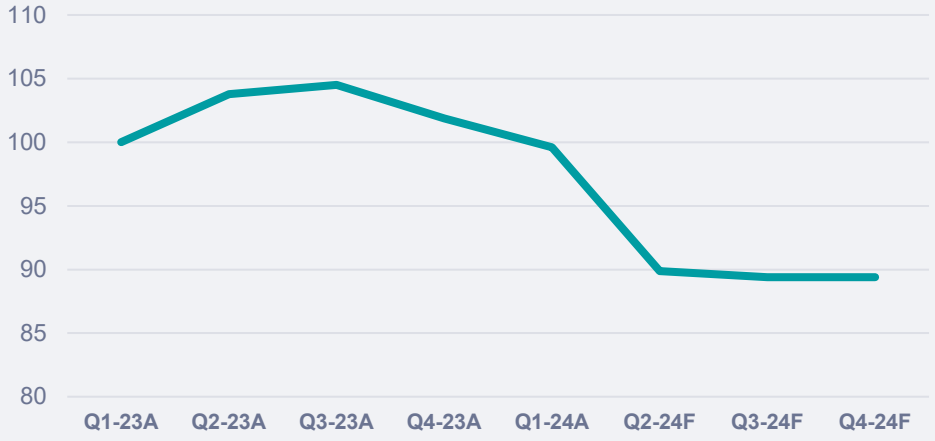
Note: Guidance as of 5/9/2024

[1]Annual pull through calculated as full year consumable revenue divided by average quarterly beginning installed base

15

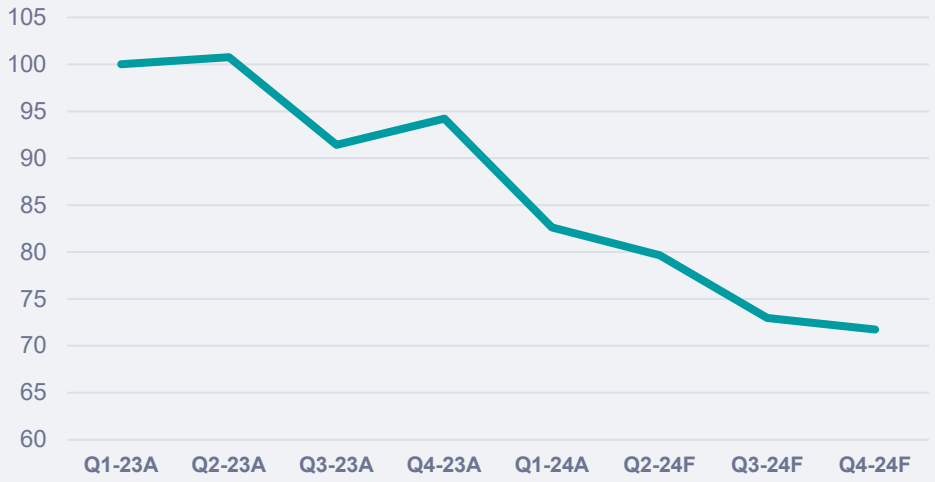
Revio Instrument COGS improvement

Q1 2023 = 100



Revio Consumables COGS improvement

Q1 2023 = 100

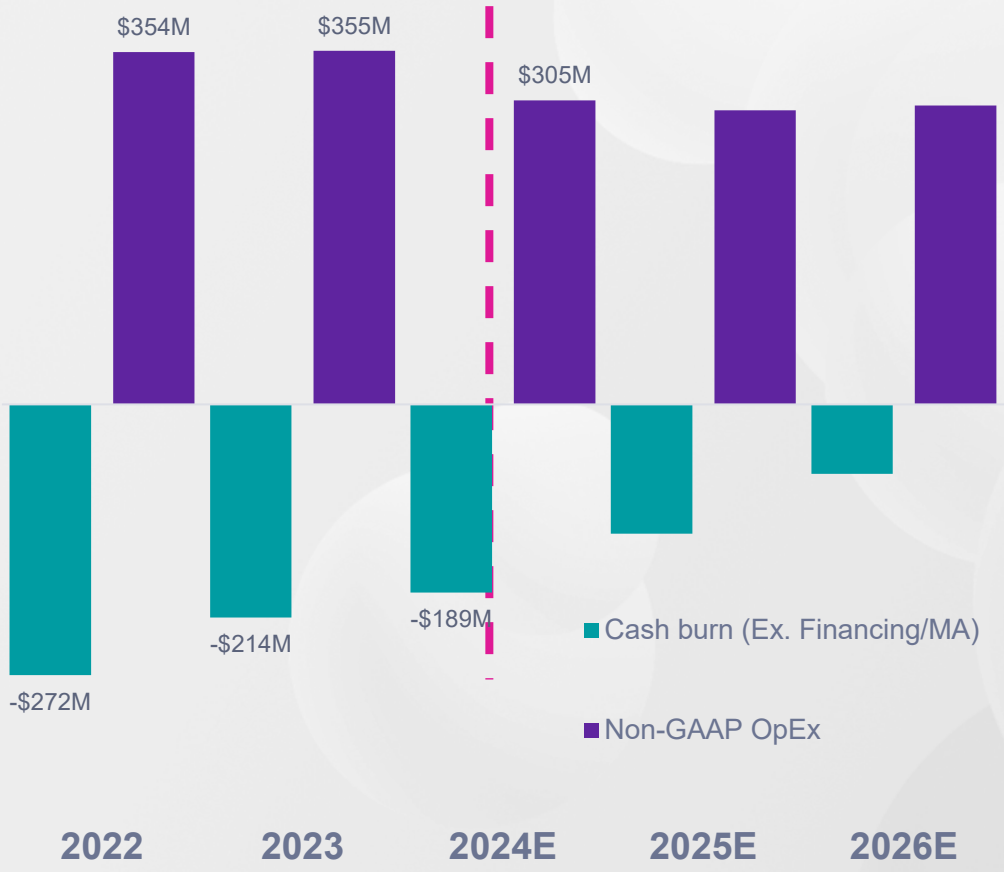


Additional 2024 Guidance, we expect:

- FY non-GAAP gross margin to be 35%-38%
- Non-GAAP OpEx to decline compared to $355 million in 2023 and be ~$300M to $310M
- Non-GAAP annualized restructuring savings to be >$75M by year end
- FY non-GAAP OpEx to decline in 2025 compared to 2024
- $5M to $10M in interest and other income
- 273M weighted average shares outstanding for the FY24
- Ending Cash, cash equivalents and investments to be $435M - $450M; representing a cash burn of $189 million at the mid-point

We remain committed to our plan of turning the business cash flow positive by the end of 2026 under various revenue scenarios

Illustrative cash burn and OpEx forecast[1]



Revenue growth in 2025 and beyond with new products, continued Revio placements, and growing consumables off increasing installed base.

Expanding gross margins with reduced manufacturing per unit costs and continued mix shift to consumables.

Lower Non-GAAP OpEx in 2025 compared to 2024 with minimal growth thereafter.

We will provide more details behind our assumptions and our updated long-term guidance at a later date.

[1]Forward-looking bars not drawn to scale; meant to illustrate direction only
[2]Net change in cash/investments excluding $189.2M net proceeds from Jan 2023 financing; $101M cash paid to former Omniome shareholders in connection with achievement of milestone; $7.4M debt issuance costs in connection with refinancing of convertible notes; $7.7M in cash related to Apton acquisition

Closing remarks

Christian Henry, President and CEO

Revio customers have never been more excited for PacBio HiFi and its potential to improve human health

"I work on rare disease research but push for clinical implementation. If I focus on PacBio it's mainly two things: First, it's probably the most comprehensive and most complete single technology we've ever had at hand in our department and for our science. So it offers us the most complete human genome I have ever seen since I have been working on NGS for 15 years, and second, we have preliminary data that we will be able to replace our entire test portfolio – or almost all of it - that we have in our clinic."

- Alexander Hoischen, PhD, Associate Professor Genomic technologies & immuno-genomics at Radboudumc

"HiFi sequencing has already shown itself to be incredibly useful in our research program focused on unsolved rare diseases – of the handful of families in our initial pilot, it helped find an answer for several families who had been [in the dark] for over 40 years….

…This is an exciting time. A future diagnostic pathway where a single test could be offered to all patients with a suspected rare genetic disease early in their diagnostic journey is the ultimate goal for both healthcare providers and families. We are getting closer to this goal, and we look forward to contributing to the clinical and informatic processes that will need to be in place to achieve this future."

- Kym Boycott, MD, PhD, Chair of the Department of Genetics at CHEO and Senior Scientist at the CHEO Research Institute

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MISSION

Enabling the promise of genomics to better human health

We create the world’s most advanced sequencing technologies

Appendix

Pacific Biosciences of California, Inc.
Unaudited Condensed Consolidated Statement of Operations

(in thousands, except per share amounts)	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Revenue:			
Product revenue	$ 35,009	$ 54,001	$ 34,654
Service and other revenue	3,801	4,356	4,246
Total revenue	38,810	58,357	38,900
Cost of Revenue:			
Cost of product revenue	22,447	40,421	25,164
Cost of service and other revenue	3,738	3,496	3,792
Amortization of acquired intangible assets	1,343	1,433	183
Loss on purchase commitment	—	3,436	—
Total cost of revenue	27,528	48,786	29,139
Gross profit	11,282	9,571	9,761
Operating Expense:			
Research and development	43,455	44,544	48,939
Sales, general and administrative	43,753	45,996	39,818
Merger-related expenses	—	63	—
Change in fair value of contingent consideration [1]	(70)	1,100	12,256
Amortization of acquired intangible assets	5,506	5,416	—
Total operating expense	92,644	97,119	101,013
Operating loss	(81,362)	(87,548)	(91,252)
Interest expense	(3,575)	(3,571)	(3,630)
Other income, net	6,759	8,383	6,867
Loss before benefit from income taxes	(78,178)	(82,736)	(88,015)
Benefit from income taxes [2]	—	(718)	—
Net loss	$ (78,178)	$ (82,018)	$ (88,015)
Net loss per share:			
Basic	$ (0.29)	$ (0.31)	$ (0.36)
Diluted	$ (0.29)	$ (0.31)	$ (0.36)
Weighted average shares outstanding used in calculating net loss per share:			
Basic	269,578	267,121	242,032
Diluted	269,578	267,121	242,032

(1) Change in fair value of contingent consideration during the three months ended March 31, 2024, December 31, 2023, and March 31, 2023 was due to fair value adjustments of milestone payments payable upon the achievement of the respective milestone event.

(2) A deferred income tax benefit during the three months ended December 31, 2023 is related to the release of the valuation allowance for deferred tax assets due to the recognition of deferred tax liabilities in connection with the Apton acquisition.

Pacific Biosciences of California, Inc.
Unaudited Condensed Consolidated Balance Sheets

(in thousands)	March 31, 2024	December 31, 2023
Assets		
Cash and investments	$ 561,914	$ 631,416
Accounts receivable, net	30,323	36,615
Inventory, net	67,343	56,676
Prepaid and other current assets	17,144	17,040
Property and equipment, net	37,291	36,432
Operating lease right-of-use assets, net	30,672	32,593
Restricted cash	2,722	2,722
Intangible assets, net	450,131	456,984
Goodwill	462,261	462,261
Other long-term assets	10,119	13,274
Total Assets	$ 1,669,920	$ 1,746,013
Liabilities and Stockholders' Equity		
Accounts payable	$ 21,006	$ 15,062
Accrued expenses	21,991	45,708
Deferred revenue	23,473	21,872
Operating lease liabilities	38,821	41,197
Contingent consideration liability	19,480	19,550
Convertible senior notes, net	892,545	892,243
Other liabilities	3,587	9,077
Stockholders' equity	649,017	701,304
Total Liabilities and Stockholders' Equity	$ 1,669,920	$ 1,746,013

Pacific Biosciences of California, Inc.
Reconciliation of Non-GAAP Financial Measures

(in thousands, except per share amounts)	Three Months Ended March 31, 2024	December 31, 2023	March 31, 2023
GAAP net loss	$ (78,178)	$ (82,018)	$ (88,015)
Change in fair value of contingent consideration [1]	(70)	1,100	12,256
Amortization of acquired intangible assets	6,849	6,849	228
Merger-related expenses	–	63	–
Benefit from income taxes [2]	–	(718)	–
Restructuring [3]		2,224	
Non-GAAP net loss	$ (71,399)	$ (72,500)	$ (75,531)
GAAP net loss per share	$ (0.29)	$ (0.31)	$ (0.36)
Change in fair value of contingent consideration [1]	–	–	0.05
Amortization of acquired intangible assets	0.03	0.03	–
Merger-related expenses	–	–	–
Benefit from income taxes [2]	–	–	–
Restructuring [3]	–	0.01	–
Non-GAAP net loss per share	$ (0.26)	$ (0.27)	$ (0.31)
GAAP gross profit	$ 11,282	$ 9,571	$ 9,761
Amortization of acquired intangible assets	1,343	1,433	183
Restructuring [3]	–	112	–
Non-GAAP gross profit	$ 12,625	$ 11,116	$ 9,944
GAAP gross profit %	29 %	16 %	25 %
Non-GAAP gross profit %	33 %	19 %	26 %
GAAP total operating expense	$ 92,644	$ 97,119	$ 101,013
Change in fair value of contingent consideration [1]	70	(1,100)	(12,256)
Amortization of acquired intangible assets	(5,506)	(5,416)	(45)
Merger-related expenses	–	(63)	–
Restructuring [3]	–	(2,112)	–
Non-GAAP total operating expense	$ 87,208	$ 88,428	$ 88,712

(1) Change in fair value of contingent consideration was due to fair value adjustments of milestone payments payable upon the achievement of the respective milestone event.

(2) A deferred income tax benefit during the three months ended December 31, 2023 is related to the release of the valuation allowance for deferred tax assets due to the recognition of deferred tax liabilities in connection with the Apton acquisition.

(3) Restructuring costs during the three months ended December 31, 2023 consist primarily of employee severance costs related to restructuring activities.

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