Investor Relations

Good afternoon, and welcome to PacBio's third-quarter 2024 earnings conference call.

Earlier today, we issued a press release outlining the financial results we'll be discussing on today's call, a copy of which is available on the Investor's section of our website at www.pacb.com or as furnished on Form 8-K available on the Securities and Exchange Commission website at www.sec.gov. A copy of our earnings presentation is also available on the Investor's section of our website.

With me today are:

- Christian Henry, President and Chief Executive Officer, and
- Susan Kim, Chief Financial Officer

On today's call, we will make "forward-looking statements," including, among others, statements regarding predictions, estimates, expectations, and guidance. You should not place undue reliance on forward-looking statements because they are subject to assumptions, risks, and uncertainties that could cause our actual results to differ materially from those projected or discussed.

Please review our SEC filings, including our most recent Forms 10-Q and 10-K and our press releases to better understand the risks and uncertainties that could cause results to differ. We disclaim any obligation to update or revise these forward-looking statements except as required by law.

We will also present certain financial information on a non-GAAP basis, which 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. Reconciliations between historical U.S. GAAP and non-GAAP results are presented in our earnings release, which is available on the Investors' section of our website. For future periods, we're unable to reconcile non-GAAP gross margin and non-GAAP operating expenses without unreasonable effort due to the uncertainty regarding, among other matters, certain acquisition-related items that may arise during the year.

A recording of today's call will be available shortly after the live call in the investor section of our website. Those electing to use the replay are cautioned that forward-looking statements may differ or change materially after the completion of the live call.

I will now turn the call over to Christian.

Christian Henry (President and CEO):

Thank you for joining us today. We're excited to broadcast to you from Denver, Colorado, at the American Society of Human Genetics annual meeting. This week, we unveiled several new and exciting products to thousands of researchers and scientists in the human genetics community. I look forward to sharing those and other updates on today's call. Our goal is to leave you with the following takeaways.

First, PacBio is delivering on its strategy to create a suite of platforms with turnkey, end-to-end solutions, enabling our customers to access some of the most advanced sequencing technologies available. Our latest launches significantly expand our addressable market in ways that PacBio has never seen before.

Second, although we continue to operate in a difficult macro environment where customer capital expenditure budgets have been challenged and sales cycles prolonged, we have seen several positive signs that our business is returning to growth.

Third, Revio continues to drive new customers to long-read sequencing and open up new demand—this is evident not only in the continued adoption by new PacBio customers but also in the diversity of customers implementing PacBio and the adoption of HiFi sequencing by large population-scale programs and diagnostic and LDT labs.

Finally, we are hyper-focused on building a sustainable, cashflow-positive business and have made meaningful progress this year in driving the production costs of our products down, reducing expenses, lowering our cash burn, and strengthening our balance sheet by reducing our total debt while balancing dilution through our recently

announced note exchange with SoftBank. We remain committed to our goal of being cashflow-positive by the end of 2026.

Now, let's discuss our product launches. Last week, we announced a significant upgrade to our Revio platform with a new chemistry we call SPRQ or 'spark'. This new chemistry leverages the power of our existing 25M SMRT cell, increasing the data output per SMRT cell by 33% from a target of 90 gigabases to 120 gigabases. This increase enables the Revio system to sequence up to 2,500 complete, phased, HiFi human genomes a year at a cost below $500 per genome—offering what we believe is the most complete and economical genome on the market.

Like any HiFi genome, methylation data is included with every run. This chemistry update, together with our software upgrade, improves the accuracy of existing 5mC capabilities by 10% and adds additional methylation calling abilities with 6mA for the Fiberseq assay, giving customers an even more in-depth view of the genome.

Importantly, SPRQ *significantly* lowers DNA input requirements for human whole genome sequencing by fourfold to just 500 nanograms. In fact, we have now reduced sample input requirements by 30-fold since I joined PacBio four years ago. Many customers say this is perhaps the most intriguing update because it unlocks even more sample types—like saliva or tumor—to be sequenced with HiFi. Building on this, we've expanded our Nanobind Pan DNA kit capabilities for high molecular weight DNA extraction of saliva samples, allowing us to offer sample-to-answer workflows for one of the most common biological sample types.

We've received fantastic feedback from early-access customers. We expect SPRQ to ship globally next month, helping to enable the next wave of sample migration to long-read sequencing. Notably, we expect to deliver this throughput increase and cost

reduction through innovation and manufacturing improvements - passing these benefits to our customers and, at the same time, improving Revio's consumable gross margin profile.

While we expect SPRQ chemistry to advance more large HiFi sequencing projects, we realize that some researchers do not have the capital budget to purchase a Revio, but they still need the extraordinary accuracy and completeness that Revio offers.

Last night, we were thrilled to unveil our latest sequencing platform, Vega.

Priced at $169,000, Vega is a revolutionary new benchtop sequencer designed to make accurate long-read sequencing accessible to any laboratory and introduces a new sequencing paradigm in which customers don't have to sacrifice data quality for low capital investment.

With a runtime of just 24 hours, users can sequence up to 60 gigabases of HiFi data and utilize on-board analysis with Google DeepConsensus, 5mC calling, and demultiplexing – all at a cost of $1,100 per run.

Vega was developed with the customer in mind. It offers the same HiFi data quality customers expect from PacBio. In experiments comparing data from Revio and Vega, we see a correlation of .996, demonstrating nearly identical data between the two platforms and giving customers confidence in the consistent high-quality data no matter what HiFi platform they use for their project.

With only two simplified consumables, Vega gives users the flexibility and confidence to sequence almost anything. From RNA sequencing with our Kinnex kits and targeted

analysis with PureTarget to small-scale WGS projects and microbial genomics, Vega has the potential to attract thousands of customers to PacBio HiFi sequencing.

I'm happy to report that platform development is in the final stages and we expect to commence shipping in Q1 2025 and scaling manufacturing throughout next year. Tying our platforms together for a seamless user experience is critical to broader adoption, and we're pleased to announce our plans to launch our SMRT Link Cloud Solution in early 2025. With this, customers can access, store, and analyze their HiFi data without local hardware, making it easier for new and existing customers to ramp up their PacBio sequencing.

Additionally, DNAStack – a PacBio Compatible partner, has expanded its offerings with its latest software launch, *Instruments*. This cloud solution is expected to integrate directly with Revio and Vega to automatically detect new samples and offer users best-practice informatics pipelines.

We believe that seamless and intuitive informatics tools like these can help build a thriving customer ecosystem around our growing installed base and solidify our position as a leading sequencing provider.

Now, let's turn back to the third-quarter results. I'll give a quick update on our performance and discuss commercial activity.

Total revenue was $40 million, up 11% from the second quarter of 2024, with sequential growth in instrument, consumable, and service revenue. Total long-read sequencing systems grew quarter over quarter, as Q3 revenue included 22 Revio systems and 5 Sequel IIe systems. Interestingly, we continue to see some demand for the Sequel IIe system which is an encouraging sign that some customers are seeking

a lower throughput platform like Vega, – especially in areas like microbial genomics and gene therapy.

The 22 Revio systems were delivered to 22 customers, and year-to-date, approximately 45% of Revio's shipped were to new PacBio instrument customers. This was the second quarter in a row with a Revio unit book-to-bill of 1 or greater. Additionally, we had a record quarter for the Onso, with the most systems shipped since the platform launch last year.

Consumable revenue of $18.5 million grew 10% year-over-year and 8% from the second quarter of 2024. Annualized pull-through on the Revio platform was approximately $255,000 – also in line with the past couple of quarters, with stable utilization and a similar pull-through distribution to what we experienced in the first half of this year. The output from PacBio long read sequencers continues to grow, with petabases sequenced increasing 1.6x from Q3 2023.

Stable unit book-to-bill and pull-through, new customer adoption, consumable growth, and increased data output are all encouraging signs that lead us to believe that we're past the trough we experienced in the first half of 2024. With the imminent launch of Vega and a more powerful Revio platform with SPRQ chemistry, we expect to return to growth in 2025 and beyond.

Vega product development is ahead of our previously anticipated schedule. And, while we don't expect Vega to cannibalize Revio meaningfully, we are mindful that there may be some cases where potential customers take a little more time to assess our new offerings, which may prolong some sales cycles.

As a result, we expect that fourth quarter revenue will be lower than previously anticipated and be flat to slightly up compared to the third quarter of 2024, with Revio system placements and pull-through looking similar to that of Q2 and Q3 of this year. Susan will touch more on guidance later.

Looking back at the third quarter, I'm encouraged by the team's commercial successes even as we continue to operate in an extremely difficult capital equipment environment.

Building on our success last quarter, we continued to see adoption from Diagnostic and LDT labs and clinical research.

For example, using the Revio platform, Azenta Life Sciences recently launched a long-read Whole Genome Sequencing test for clinical applications. This test will enable precise detection of a range of complex genomic alterations undetectable by traditional sequencing approaches.

Additionally, Myriad Genetics acquired its first Revio system in the third quarter. This leading genetic testing and precision medicine company plans to use PacBio's PureTarget kit to develop a high-throughput, automated, targeted sequencing panel and consolidate current methods, such as PCR and capillary electrophoresis, for a subset of genes in their carrier screening test.

GenieUs Genomics is utilizing Revio in a Phase 2 clinical trial with Duke Health and Temple Health to test and further develop its bioinformatics platform, which provides comprehensive genomic profiling and stratification of ALS patients for individualized treatments.

The improved cost and throughput coupled with the completeness of a HiFi genome is driving government-sponsored precision health and research projects to increasingly utilize long-read sequencing to gain a deeper understanding of the genetic diversity of their respective populations.

In September, the National Institute of Health of Korea announced that it plans to create a next-generation human reference pangenome based on the Korean population to further research into undiagnosed diseases and difficult-to-sequence genes related to drug metabolism and strengthen its precision medicine capabilities. The program aims to sequence over 1,000 individuals using long-reads, and PacBio is proud to be part of the pilot phase starting this year.

Earlier this year, we announced that Singapore's National Precision Medicine program, PRECISE, selected PacBio as a key sequencing provider. Today, we are excited to share that we've expanded this collaboration to include our Kinnex Full-Length RNA kit into the program. By incorporating full-length isoform data, researchers will have access to multi-omic data, which can lead to important discoveries about the social, environmental, lifestyle, and genetic factors influencing public health and prevalent diseases in Singapore.

Meanwhile, publications and evidence continue to demonstrate the utility of highly accurate long-read sequencing.

In genetic disease testing, researchers from Radboud and other institutions published a preprint with results concluding that long-read sequencing can be implemented as a first-tier diagnostic workflow for germline testing, potentially encouraging its increased use as a test for diagnosing individuals with rare diseases.

Similarly, in a preprint, researchers at Boston Children's Hospital studying pediatric sensorineural hearing loss, where diagnostic rates have remained static for over a decade at around 40%, used HiFi to solve over 20% of a cohort of previously unsolved cases that had used exome and short read WGS.

In microbial and metagenomics, researchers from the Salk Institute and others studied head-to-head comparisons of PacBio, nanopore, SBS, and synthetic long reads on generating complete metagenome-assembled-genomes or MAGs from longitudinal pediatric microbiome samples. They found that *"long read approaches generated 51 to 72x more complete MAGs per gigabase pairs than legacy short read approaches while PacBio generated the most accurate, complete cMAGs at the lowest cost."* We've always believed long-reads to be the best-suited sequencing method for microbial genomics – and with low-cost platforms like Vega, on the heels of validating studies like this, we are highly encouraged that PacBio can penetrate deeper into this market.

Shifting gears to Onso and the short read portfolio, it was a record quarter for PacBio as we shipped the most Onso systems yet, two-thirds of which were to new PacBio customers. We also welcomed the Translational Genomics Research Institute, or TGen, as the first official service provider for SBB sequencing, helping our short-read SBB technology reach a broader customer base.

We also expanded the breadth of applications SBB can address by joining 10x Genomics' compatible partner program. Integrating Onso into 10x's workflows will help extend the platform's ability to address the fast-growing single-cell and spatial biology applications.

Finally, we were encouraged to see a peer-reviewed publication validating the accuracy of SBB chemistry and its ability to examine rare variants with extraordinary

results. The study showed that *“SBB sequencing chemistry detected target SNPs down to 0.01% at 100,000x depth and 0.1% at 20,000x depth without any error correction methods.”* It was noted that “*traditional SBS sequencing is unable to achieve this accuracy without the use of sophisticated error correction tools.”*

I’ll wrap up in a bit with some closing remarks, but before I pass the call to Susan, I wanted to share that Susan will be leaving PacBio in December to pursue another opportunity outside of life sciences. Susan has been a trusted partner over the past four years and I wanted to thank her for her contributions and wish her every success. We plan to immediately begin searching for Susan’s full-time replacement. I’ll now pass the call to Susan to review our financials in more detail.

Susan Kim (CFO):

Thank you, Christian. I'm incredibly proud of what we have accomplished over the past four years and am excited for PacBio's future. I am confident that under Christian's leadership, the team will continue to make tremendous strides in its mission to better human health through the promise of genomics. With that, I'll now dive into the quarterly results.

I will be discussing non-GAAP results, which include non-cash stock-based compensation expense. I encourage you to review a reconciliation of GAAP to non-GAAP financial measures in our earnings press release.

As discussed, we reported $40.0 million in product, service, and other revenue in the third quarter of 2024, compared to $55.7 million in the third quarter of 2023.

Instrument revenue in the third quarter was $16.8 million, a decrease of 52% from $34.7 million in the third quarter of 2023 due to lower Revio unit shipments. We ended the quarter with 247 cumulative Revio system shipments.

Turning to consumables, revenue of $18.5 million in the third quarter increased 10% from $16.9 million in the third quarter of last year. Approximately 77% of consumable revenue came from Revio systems, and the remainder from other systems and other consumables.

Finally, service and other revenue was $4.7 million in the third quarter of 2024, compared to $4.1 million in the third quarter of 2023. We continue to expect modest sequential increases in service and other revenue as the commencement of Revio service contracts is expected to more than offset the decrease in service contract revenue resulting from Sequel II and IIe decommissions.

From a regional perspective,

Americas revenue of $20.1 million decreased 31% compared to the third quarter of 2023 with a decline in Revio systems partially offset by record consumables in the third quarter.

For Asia Pacific, revenue of $10.8 million decreased 32% compared to the third quarter of 2023. The region, however, exceeded our expectations and while we remain cautious on China, it was encouraging to see sequential quarterly growth for the country as well as sequential quarterly improvement of Revio instrument utilization.

Finally, EMEA revenue of $9.1 million decreased 17% compared to the third quarter of 2023, with year-over-year growth in consumables partially offsetting the year-over-year decline in instrument revenue. It was encouraging to see Revio utilization in the region hit an all-time high in the third quarter, primarily driven by momentum in population-scale programs.

Moving down the P&L,

Third quarter 2024 non-GAAP gross profit of $13.0 million represented a non-GAAP gross margin of 33%, compared to a non-GAAP gross profit of $18.1 million or 32% in the third quarter of last year. Sequential decline in non-GAAP gross margin from the second quarter of 2024 was primarily due to record Onso placements in the third quarter, which carry a lower gross margin with our promotional price offered in the third quarter, Sequel IIe systems sold in the quarter at lower ASPs, and lower Revio ASPs in the quarter.

Non-GAAP operating expenses were $62.4 million in the third quarter of 2024, representing a 31% decrease from non-GAAP operating expenses of $90.9 million in the third quarter of 2023. Non-GAAP operating expenses also declined 12% sequentially compared to the second quarter of 2024 as we continued to realize cost savings related to our restructuring plan initiated earlier this year, and, again, it represented our lowest non-GAAP operating expenses quarter since Q3 of 2021.

Regarding headcount, we ended the quarter with 575 employees compared to 796 at the end of 2023 and 844 at the end of the third quarter of 2023. Operating expenses in the third quarter included non-cash share-based compensation of $17.0 million, compared to $18.6 million in the third quarter of last year.

Non-GAAP net loss was $46.0 million, representing $0.17 per share, in the third quarter of 2024, compared to a non-GAAP net loss of $67.9 million, representing $0.27 per share in the third quarter of 2023.

Turning to our Balance Sheet items, we ended the third quarter with $471.1 million in unrestricted cash and investments, compared with $631.4 million on December 31, 2023.

Inventory balances decreased in the third quarter to $65.7 million, representing 1.6 inventory turns, compared with $68.6 million at June 30, 2024, also representing 1.6 inventory turns.

Accounts Receivable decreased in the third quarter to $29.4 million compared with $32.4 million at June 30, 2024.

Before I discuss guidance, I wanted to share the details of our Note Exchange with SoftBank.

As more fully disclosed in our 8-K that we filed today, we signed an agreement to exchange the $459 million aggregate principal amount of the PacBio 1.5% convertible senior notes due 2028 for:

- $200 million principal amount of newly issued 1.5% convertible senior notes due August of 2029,
- Approximately 20.5 million shares of common stock which represents dilution of less than 7%, and
- $50 million of cash.

We are pleased to have announced this transaction, which, once closed, is expected to reduce the total notes outstanding by $259M as well as extend the duration by another 18 months, giving us tremendous operational flexibility going forward and is expected to close on or about November 21, 2024.

Now, turning to guidance,

As Christian mentioned earlier, we expect that fourth-quarter revenue will be flat to slightly up compared to the third quarter of 2024, with full-year revenue lower than our previous estimate of approximately $170 million. Additionally, we expect Revio system placements and pull-through similar to Q2 and Q3 of this year.

We expect the full-year Non-GAAP gross margin to be between 34% and 35%.

We continue to improve the per-unit cost of Revio instruments and consumables significantly. We expect to end the year with Revio instrument standard COGS over 10% lower than when we launched the platform and consumable unit costs over 20% lower. These cost and operational improvements are expected to continue beyond 2024, driving quarterly gross margin expansion in 2025 and beyond, as some of our recent cost improvements are expected to be realized in 2025.

We now expect full-year 2024 non-GAAP operating expenses to be $285 million to $290 million. This assumes a modest step up in the fourth quarter of 2024, primarily due to a one-time benefit in Q3 related to our bonus accrual that we do not expect to occur in Q4. We continue to expect full-year non-GAAP operating expenses to decline in 2025 compared to 2024.

We expect full-year interest and other income to be approximately $10 million.

We expect our ending cash, cash equivalents and investments to be approximately $385 million, reflecting the expected $50 million cash payment and other fees related to the Note Exchange with SoftBank. Excluding this payment, our updated guidance is at the low end of our previous $435 million to $450 million range.

We expect 276 million in weighted average shares outstanding for the full year 2024 reflecting additional shares to be issued related to the Note Exchange with SoftBank.

Finally, we remain committed to our plan of turning the business cash flow positive by the end of 2026 under various revenue scenarios, which include revenue growth in 2025 and beyond with new products and growing consumables off increasing Revio installed base, expanding gross margins with reduced manufacturing per unit costs and continued mix shift to consumables, and lower non-GAAP operating expenses in 2025 compared to 2024 with minimal growth expected thereafter. We will provide more details behind our assumptions and our updated long-term guidance at a later date and more details about our 2025 guidance early next year.

I'll hand it back to Christian for some final remarks.

Christian Henry (CEO)

Thank you, Susan. In closing, I'd like to discuss our progress on the four strategic priorities we outlined earlier this year.

The first was to improve commercial execution to drive the adoption of both Revio and Onso. As discussed, I believe we are past the trough our business experienced in the first half of this year, with several green shoots in our business that support our belief that revenue will grow in 2025 and beyond. Onso notched a record quarter; approximately 45% of Revio placements this year are to new customers, and clinical customers and large-scale research programs continue to adopt long-read sequencing at a pace we've never seen before.

Second was continuing the development of new platforms that are expected to broaden our product offering and drive revenue growth. As discussed with our launches of SPRQ, Vega, and SMRT Link Cloud – we've strengthened the value proposition of Revio, opened up HiFi sequencing to more customers than ever, and developed a cloud environment for any user to scale their PacBio projects. And this is still just the beginning. We continued to develop our high throughput short-read platform and an ultra-high throughput long-read platform with the goal of addressing customers with both long – and short-read systems across a full spectrum of throughput.

Third, we focused on improving our gross margin and driving manufacturing efficiencies. As we discussed, we've lowered our per-unit COGS on Revio systems and consumables with a roadmap for further reduction in 2025. Additionally, we developed Vega with gross margin in mind and expect it to be accretive to the company's gross margin as we scale the platform next year.

And finally, reduce non-GAAP operating expenses. As Susan mentioned, we've lowered our full-year non-GAAP operating expense guidance by an additional $10 to 15 million; our operating cash burn continues to decline each quarter this year, and we expect a further decline in non-GAAP operating expenses in 2025. Building a cashflow-positive business remains front-and-center in our minds, and we're committed to our plan of turning cashflow-positive by the end of 2026.

Further, we signed an agreement with SoftBank to meaningfully reduce and extend the duration of our long-term debt while balancing shareholder dilution and impact on our cash. This exchange underscores our commitment to our shareholders and customers to optimize our capital structure and build a long-term sustainable business around our industry-leading technologies. With the earliest debt maturities now in August of 2029, this strengthens our financial position and gives us even greater flexibility.

With that, I'll now open it up to questions. Operator, let's start the Q&A section.

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 press release. PacBio excludes recurring charges from its non-GAAP financial statements, including amortization of intangible assets, changes in fair value of contingent consideration and restructuring related expenses, and further excludes infrequent and limited charges including impairment charges and gains or losses on the extinguishment of debt. 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. The amortization related to these intangible assets will occur 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 press release. PacBio is unable to reconcile future-looking non-GAAP guidance included in this press release 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 press release 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 PacBio's note exchange transaction and its anticipated financial impact and closing timing; cost-saving plans and initiatives as well as the expected financial impact and timing of these plans and initiatives; PacBio's financial guidance and expectations for future periods; developments affecting our industry and the markets in which we compete, including the impact of new products and technologies; anticipated future customer use of our products; and the availability, uses, accuracy, coverage, advantages, quality or performance of, or benefits or expected benefits of using, PacBio products or technologies; and, the impact of new products and technologies. 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.

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

(in thousands, except per share amounts)	Three Months Ended		
	September 30, 2024	June 30, 2024	September 30, 2023
Revenue:			
Product revenue	$ 35,296	$ 31,746	$ 51,562
Service and other revenue	4,671	4,267	4,129
Total revenue	39,967	36,013	55,691
Cost of Revenue:			
Cost of product revenue [1]	23,278	23,083	33,551
Cost of service and other revenue [2]	3,484	3,366	4,054
Amortization of acquired intangible assets	3,201	2,628	184
Loss on purchase commitment	—	998	—
Total cost of revenue	29,963	30,075	37,789
Gross profit	10,004	5,938	17,902
Operating Expense:			
Research and development [1]	25,516	38,485	47,514
Sales, general and administrative [1]	43,746	45,877	43,431
Goodwill impairment [3]	—	93,200	—
Merger-related expenses [4]	—	—	8,979
Amortization of acquired intangible assets	3,649	4,222	741
Change in fair value of contingent consideration [5]	1,170	—	(271)
Total operating expense	74,081	181,784	100,394
Operating loss	(64,077)	(175,846)	(82,492)
Interest expense	(3,538)	(3,542)	(3,588)
Other income, net	6,890	6,069	8,505
Loss before benefit from income taxes	(60,725)	(173,319)	(77,575)
Benefit from income taxes [6]	—	—	(10,706)
Net loss	$ (60,725)	$ (173,319)	$ (66,869)
Net loss per share:			
Basic	$ (0.22)	$ (0.64)	$ (0.26)
Diluted	$ (0.22)	$ (0.64)	$ (0.26)
Weighted average shares outstanding used in calculating net loss per share:			
Basic	272,915	272,385	255,001
Diluted	272,915	272,385	255,001

(1) Balances for the three months ended September 30, 2024 and June 30, 2024 include restructuring costs. Refer to the Reconciliation of Non-GAAP Financial Measures table below for additional information on such costs and related amounts.

(2) Balance for the three months ended June 30, 2024 includes restructuring costs of $0.6 million. Refer to the Reconciliation of Non-GAAP Financial Measures table below for additional information on such costs.

(3) Goodwill impairment during the three months ended June 30, 2024 was related to a sustained decrease in the Company's share price, among other factors.

(4) Merger-related expenses for the three months ended September 30, 2023 consists of $4.9 million of transaction costs arising from the acquisition of Apton, $2.8 million of compensation expense resulting from the liquidity event bonus plan in connection with the Apton merger, and $1.3 million of compensation expense resulting from the acceleration of certain equity awards in connection with the Apton merger.

(5) Change in fair value of contingent consideration during the three months ended September 30, 2024 and September 30, 2023 was due to fair value adjustments of milestone payments payable upon the achievement of the respective milestone event.

(6) A deferred income tax benefit during the three months ended September 30, 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 Statements of Operations

(in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Revenue:				
Product revenue	$ 35,296	$ 51,562	$ 102,051	$ 129,871
Service and other revenue	4,671	4,129	12,739	12,293
Total revenue	39,967	55,691	114,790	142,164
Cost of Revenue:				
Cost of product revenue [1]	23,278	33,551	68,808	87,147
Cost of service and other revenue [2]	3,484	4,054	10,588	11,258
Amortization of acquired intangible assets	3,201	184	7,172	550
Loss on purchase commitment	—	—	998	—
Total cost of revenue	29,963	37,789	87,566	98,955
Gross profit	10,004	17,902	27,224	43,209
Operating Expense:				
Research and development [1]	25,516	47,514	107,456	142,626
Sales, general and administrative [1]	43,746	43,431	133,376	123,822
Goodwill impairment [3]	—	—	93,200	—
Merger-related expenses [4]	—	8,979	—	8,979
Amortization of acquired intangible assets	3,649	741	13,377	741
Change in fair value of contingent consideration [5]	1,170	(271)	1,100	13,960
Total operating expense	74,081	100,394	348,509	290,128
Operating loss	(64,077)	(82,492)	(321,285)	(246,919)
Loss on extinguishment of debt [6]	—	—	—	(2,033)
Interest expense	(3,538)	(3,588)	(10,655)	(10,772)
Other income, net	6,890	8,505	19,718	24,301
Loss before benefit from income taxes	(60,725)	(77,575)	(312,222)	(235,423)
Benefit from income taxes [7]	—	(10,706)	—	(10,706)
Net loss	$ (60,725)	$ (66,869)	$ (312,222)	$ (224,717)
Net loss per share:				
Basic	$ (0.22)	$ (0.26)	$ (1.15)	$ (0.90)
Diluted	$ (0.22)	$ (0.26)	$ (1.15)	$ (0.90)
Weighted average shares outstanding used in calculating net loss per share:				
Basic	272,915	255,001	271,631	249,082
Diluted	272,915	255,001	271,631	249,082

(1) Balances for the three and nine months ended September 30, 2024 include restructuring costs. Refer to the Reconciliation of Non-GAAP Financial Measures table below for additional information on such costs and related amounts.

(2) Balance for the nine months ended September 30, 2024 includes restructuring costs of $0.6 million. Refer to the Reconciliation of Non-GAAP Financial Measures table below for additional information on such costs.

(3) Goodwill impairment during the nine months ended September 30, 2024 was related to a sustained decrease in the Company's share price, among other factors.

(4) Merger-related expenses for the three and nine months ended September 30, 2023 consists of $4.9 million of transaction costs arising from the acquisition of Apton, $2.8 million of compensation expense resulting from the liquidity event bonus plan in connection with the Apton merger, and $1.3 million of compensation expense resulting from the acceleration of certain equity awards in connection with the Apton merger.

(5) Change in fair value of contingent consideration during the three and nine months ended September 30, 2024 and September 30, 2023 was due to fair value adjustments of milestone payments payable upon the achievement of the respective milestone event.

(6) Loss on extinguishment of debt during the nine months ended September 30, 2023 is related to the exchange of a portion of the Company's 1.50% Convertible Senior Notes due 2028 for the Company's 1.375% Convertible Senior Notes due 2030.

(7) A deferred income tax benefit during the three and nine months ended September 30, 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)	September 30, 2024	December 31, 2023
Assets		
Cash and investments	$ 471,147	$ 631,416
Accounts receivable, net	29,383	36,615
Inventory, net	65,737	56,676
Prepaid and other current assets	17,277	17,040
Property and equipment, net	31,952	36,432
Operating lease right-of-use assets, net	17,344	32,593
Restricted cash	2,222	2,722
Intangible assets, net	436,426	456,984
Goodwill	369,061	462,261
Other long-term assets	9,503	13,274
Total Assets	$ 1,450,052	$ 1,746,013
Liabilities and Stockholders' Equity		
Accounts payable	$ 12,064	$ 15,062
Accrued expenses	19,183	45,708
Deferred revenue	22,747	21,872
Operating lease liabilities	27,608	41,197
Contingent consideration liability	20,650	19,550
Convertible senior notes, net	893,144	892,243
Other liabilities	1,534	9,077
Stockholders' equity	453,122	701,304
Total Liabilities and Stockholders' Equity	$ 1,450,052	$ 1,746,013

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

(in thousands, except per share amounts)	Three Months Ended			Nine Months Ended	
	September 30, 2024	June 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
GAAP net loss	$ (60,725)	$ (173,319)	$ (66,869)	$ (312,222)	$ (224,717)
Change in fair value of contingent consideration [1]	1,170	—	(271)	1,100	13,960
Goodwill impairment [2]	—	93,200	—	93,200	—
Amortization of acquired intangible assets	6,850	6,850	939	20,549	1,395
Merger-related expenses [3]	—	—	8,979	—	8,979
Loss on extinguishment of debt [4]	—	—	—	—	2,033
Income tax benefit [5]	—	—	(10,706)	—	(10,706)
Restructuring [6]	6,701	18,028	—	24,729	—
Non-GAAP net loss	$ (46,004)	$ (55,241)	$ (67,928)	$ (172,644)	$ (209,056)
GAAP net loss per share	$ (0.22)	$ (0.64)	$ (0.26)	$ (1.15)	$ (0.90)
Change in fair value of contingent consideration [1]	—	—	—	—	0.06
Goodwill impairment [2]	—	0.34	—	0.34	—
Amortization of acquired intangible assets	0.03	0.03	—	0.08	—
Merger-related expenses [3]	—	—	0.04	—	0.04
Loss on extinguishment of debt [4]	—	—	—	—	0.01
Income tax benefit [5]	—	—	(0.04)	—	(0.04)
Restructuring [6]	0.02	0.07	—	0.09	—
Other adjustments and rounding differences	—	—	(0.01)	—	(0.01)
Non-GAAP net loss per share	$ (0.17)	$ (0.20)	$ (0.27)	$ (0.64)	$ (0.84)
GAAP gross profit	$ 10,004	$ 5,938	$ 17,902	$ 27,224	$ 43,209
Amortization of acquired intangible assets	3,201	2,628	184	7,172	550
Restructuring [6]	(207)	4,650	—	4,443	—
Non-GAAP gross profit	$ 12,998	$ 13,216	$ 18,086	$ 38,839	$ 43,759
GAAP gross profit %	25 %	16 %	32 %	24 %	30 %
Non-GAAP gross profit %	33 %	37 %	32 %	34 %	31 %
GAAP total operating expense	$ 74,081	$ 181,784	$ 100,394	$ 348,509	$ 290,128
Change in fair value of contingent consideration [1]	(1,170)	—	271	(1,100)	(13,960)
Goodwill impairment [2]	—	(93,200)	—	(93,200)	—
Amortization of acquired intangible assets	(3,649)	(4,222)	(755)	(13,377)	(845)
Merger-related expenses [3]	—	—	(8,979)	—	(8,979)
Restructuring [6]	(6,908)	(13,378)	—	(20,286)	—
Non-GAAP total operating expense	$ 62,354	$ 70,984	$ 90,931	$ 220,546	$ 266,344

[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] Goodwill impairment during the three months ended June 30, 2024 and nine months ended September 30, 2024 was related to a sustained decrease in the Company's share price, among other factors.

[3] Merger-related expenses for the three and nine months ended September 30, 2023 consists of $4.9 million of transaction costs arising from the acquisition of Apton, $2.8 million of compensation expense resulting from the liquidity event bonus plan in connection with the Apton merger, and $1.3 million of compensation expense resulting from the acceleration of certain equity awards in connection with the Apton merger.

[4] Loss on extinguishment of debt during the nine months ended September 30, 2023 is related to the exchange of a portion of the Company's 1.50% Convertible Senior Notes due 2028 for the Company's 1.375% Convertible Senior Notes due 2030.

(5) A deferred income tax benefit during the three and nine months ended September 30, 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.

(6) Restructuring costs consist primarily of employee separation costs, accelerated amortization and depreciation for right-of-use assets, leasehold improvements, and furniture and fixtures relating to the abandonment of the San Diego office, including charges for excess inventory due to a decrease in internal demand relating to the expense reduction initiatives.