PacBio Q2 2024 Earnings Presentation

August 7, 2024 | Second 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 consumable sales, growth and customer requirements; 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, machine financing, utilization and pull through; anticipated customer use of our products; 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 & Commercial Updates

Christian Henry, President & CEO

PacBio is progressing toward the four strategic priorities we outlined in May

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

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

3. Improving our gross margin and driving manufacturing efficiencies.

4. Reducing annualized non-GAAP run-rate operating expenses.

Q2 Revenue Summary

$36.0M

Q2 revenue below our expectations; reflects shortfall in instrument placements which we believe is due to ongoing impact of the difficult macro backdrop + elongated purchasing cycles.

24

Revio systems delivered in Q2, less than anticipated with higher ASPs.

~$17.0M

Consumable revenue; +24% year-over-year; +7% sequentially as customers continue to ramp up their Revio usage.

We continued to see elongated purchasing cycles in Q2, which we believe is due to:

1. Companies/organizations awaiting funding for their systems, and we're seeing that funding is increasingly delayed.

2. Unanticipated delays in the procurement processes, including tenders in Europe and APAC taking longer than expected.

3. Sample volumes are not materializing as fast as we had expected for some potential Revio customers, causing them to delay their purchases.

FY 2024 Guidance Summary

Around the low-end[1]

Of previously guided full year range of $170 million to $200 million…

…which we believe is primarily due to the continuation of the headwinds we experienced in the first half of the year and the expectation that organizations continue to operate in a capital-constrained environment for the rest of 2024.

To drive instrument placements, we have implemented a number of programs to make HiFi long read sequencing more accessible

Promotions designed to ease customers' upfront capital expenditure requirements while maintaining PacBio's overall economic value, including:

- Mitsubishi Capital offering one of the most attractive deals on a Revio instrument through a 2-year rental agreement for eligible customers in the U.S. This program does not require a consumable purchase commitment, which is appealing to research customers who are primarily project-based.
- Onso promotion for what we believe is the most attractive mid-throughput short-read instrument on the market. As a result, customers can trade in any NGS system and acquire an Onso for $99,000, with sequencing costs as low as $4 per gigabase.

“PRISM” marketing events: 6 events attracted ~800 attendees and helped drive dozens of new Revio opportunities – some of which have already closed and others that we’re actively working on closing in the second half of this year.

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[1]Guidance as of 8/7/2024 only

On the consumable side, we are seeing indications that give us confidence that consumables will continue growing in the second half of the year

Several large projects scale up their sequencing.

Positive book-to-bill ratios for consumables, as customers are placing longer-term purchase orders for their SMRT cells and reagents – a potential leading indicator for quarterly growth.

Remain cautious about the outlook in China for the remainder of the year, though customer utilization trends in the country have started to improve in the past couple of months, and July marks the highest utilization month for the region this year.

Mid and high utilization customers continued to ramp on consumables in the second quarter

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

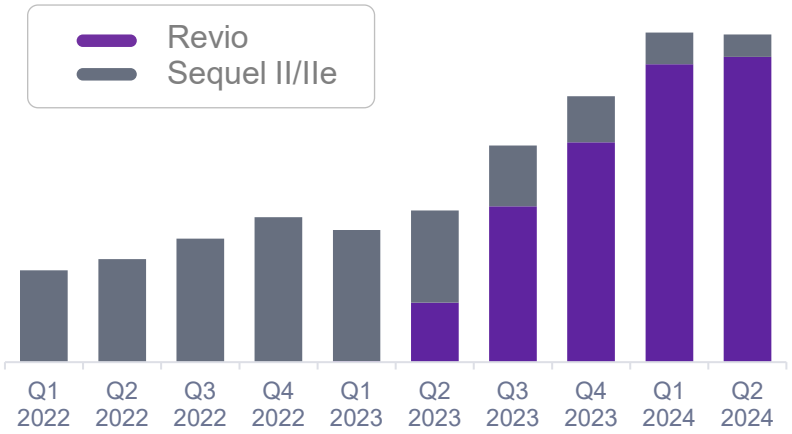
Utilization[1]	< 20%	21% - 50%	> 50%
Pull Through[2]	~110K ↓	~290K ↑	~600K ↑
Avg. months since install[3]	~ 5	~ 8	~ 9

As our installed base grows, we expect to see more customers migrate over to the higher utilization and pull-through categories.

[1]Represents installed base as of 3/31/2024 and does not include customers not connected to SMRT Link
[2]Represents average annualized pull through for each utilization group for Q2 2024
[3]Average number of months since the system was installed at the customer site as of 3/31/2024

↑↓ Denotes trend compared to Q1 2024

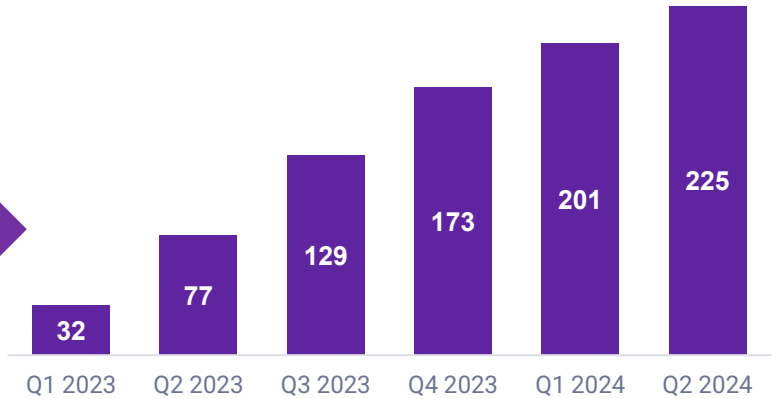
Sequencing data, Revio shipments, and new customer trends



Total petabase output from PACB sequencers

~2.2x data generated from PacBio sequencers year-over-year[1]

Our fastest installed base ramp
Expect further growth with new customers, fleet expansions, and penetration into the ~180 Sequel II/IIe customers that have not purchased a Revio as of 6/30/24



Cumulative Revio shipments (installed base)

56 NPS score among our surveyed product users

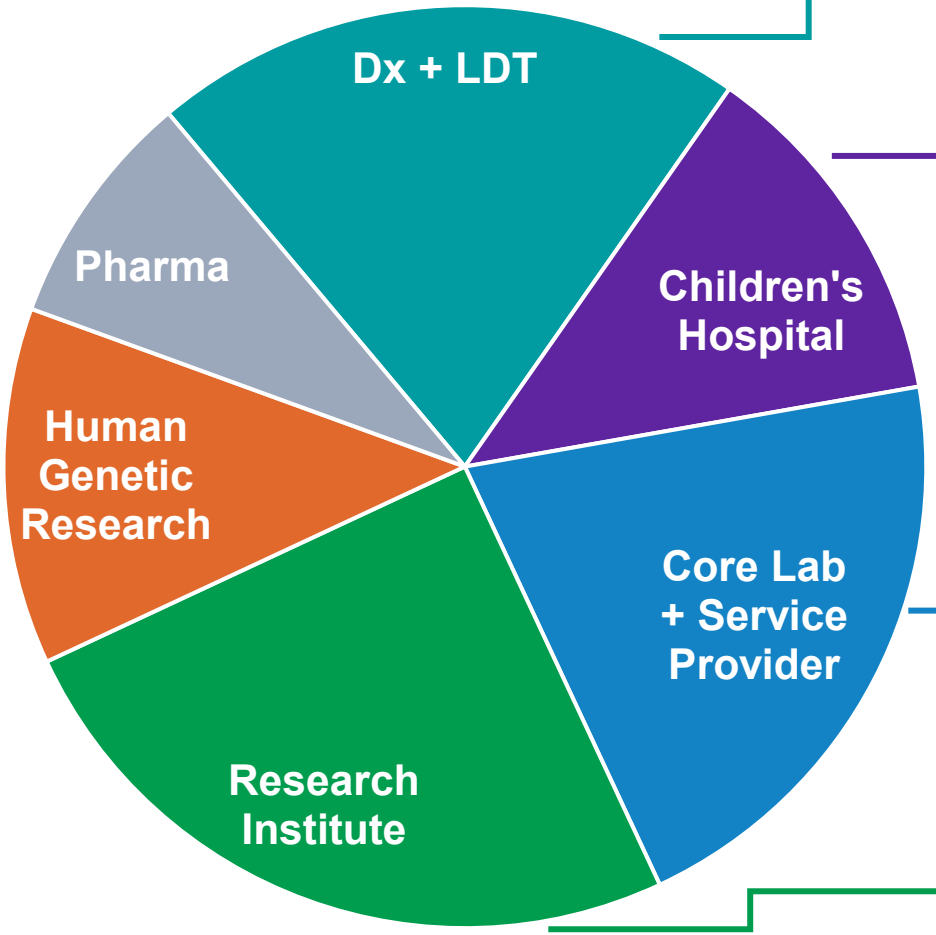
9 out of 10 Respondents reported being satisfied or very satisfied with Revio

48% Of Revios shipped in 1H 2024 went to new PacBio instrument customers

[1]As of 6/30/2024; represents total petabases sequenced by customers using Sequel II/IIe and Revio

Diverse customer types adopting Revio in the second quarter

Q2 Revio distribution by customer type



Quest Diagnostics®

Multiple Revios to support development of tests for neurological disorders based on advantages of PacBio's recently launched PureTarget™ repeat expansion panel.

คณะแพทยศาสตร์ FACULTY OF MEDICINE Chulalongkorn University

VR Gene Co., Ltd. บริษัท วีอาร์ยีน จำกัด

Adopted second Revio system to scale its HiFi sequencing capabilities. Plans to deliver 1K human genomes annually for the next five years to improve health outcomes in Thailand.

healthincode

First Revio system to Spain and PacBio's first service provider in Southern Europe to support large-scale HiFi projects for variant detection in complex regions for customers throughout the region.

Launch of Kinnex kits helped place a Revio at a prominent cancer research center in Texas.

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We continued to make progress in Research and Development while balancing OpEx investment

Late stages of development of new Revio consumables that we expect will:

- **Increase the throughput** of the system without the need for additional capital investment.
- **Decrease DNA** input requirements.
- **Add additional methylation** calling abilities.

…. We believe these improvements will **unlock more samples and increase Revio's capacity.**

We’re continuing to make progress in our work to develop a **low-throughput long-read system** as well as a **high-throughput short-read system.**

Expect to exit this year with annualized non-GAAP run rate savings exceeding our previous target of $50 million to $75 million. As a result of this restructuring, **we expect our cash burn to continue to decline sequentially in the third quarter and fourth quarter this year.**

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Financial Results & Guidance

Susan Kim, CFO

$36.0M

Q2 2024 Revenue
(vs. $47.6M in Q2 2023)

225

Revio Installed base as of June 30, 2024
(+24 vs. March 31, 2023)

$251,000

Q2 2024 annualized Revio pull through

~37%

Q2 2024 Non-GAAP gross margin[1]
(vs. 33% in Q2 2023)

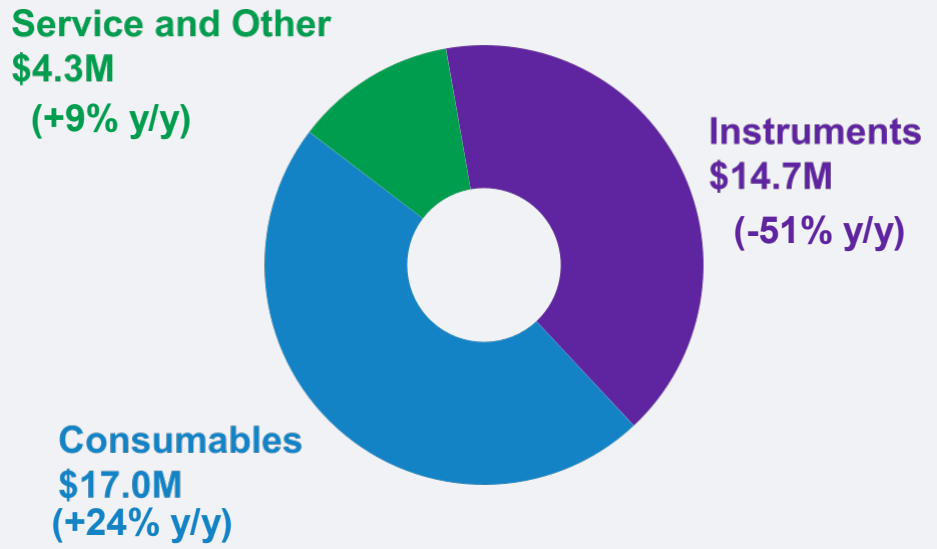
$71.0M

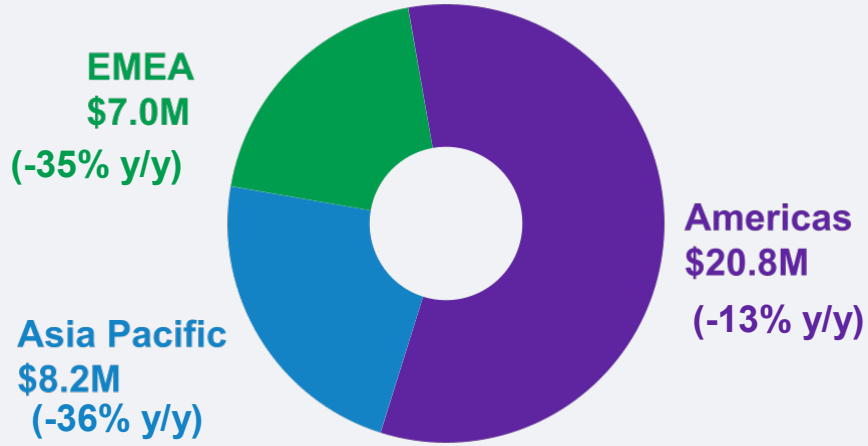
Q2 2024 Non-GAAP OpEx[1]
(-18% vs. Q2 2023)
Includes $16.1M in non-cash share-based compensation

~$510M

Cash, cash equivalents, + investments as of June 30, 2024

Q2 2024 Revenue





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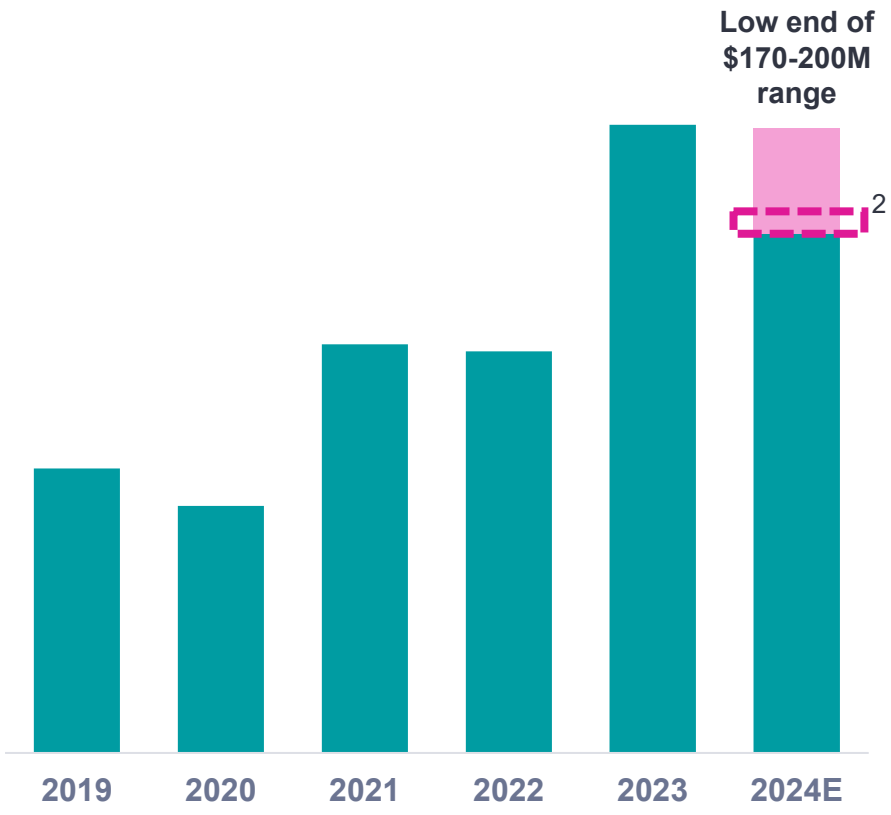
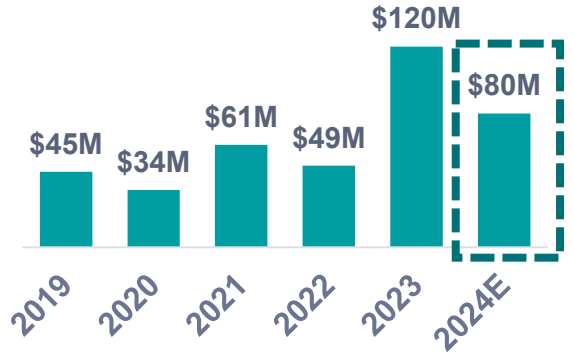
[1]See Appendix for a reconciliation of GAAP to non-GAAP financial measures

We expect 2024 revenue to be around the low-end of $170M and $200M range

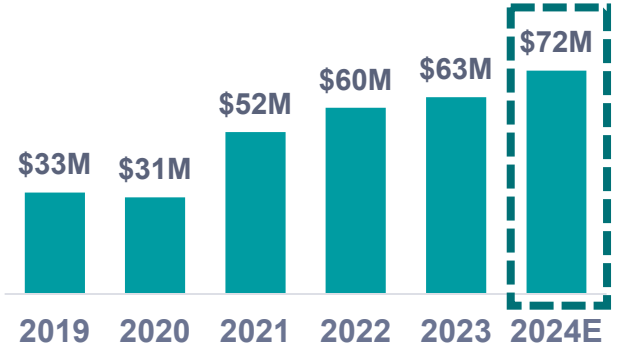
Key assumptions: $80M instrument revenue, 115 Revio shipments, $72M consumable revenue, $260K Revio pull-through



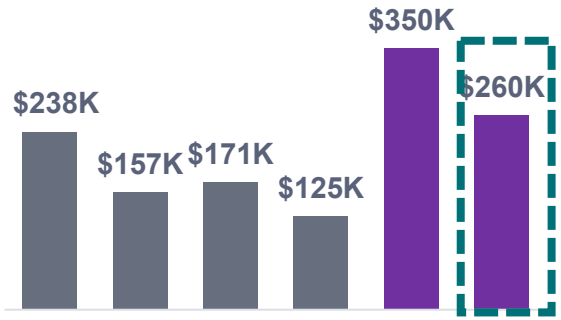
Instrument revenue



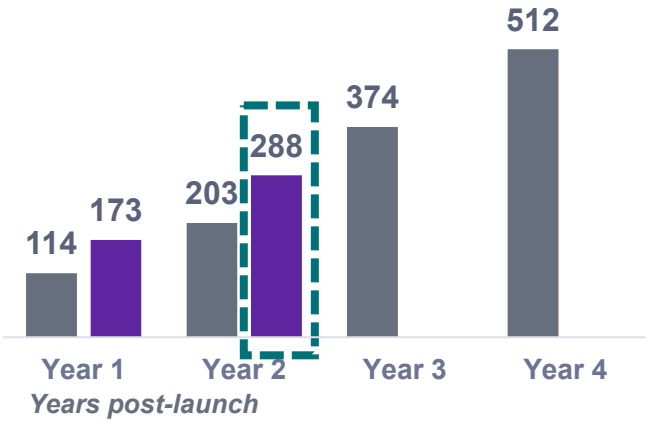
Consumable revenue



Pull through[1]



Ending installed base



Revio
Sequel II/IIe

Note: Guidance as of 8/7/2024
[1]Annual pull through calculated as full year consumable revenue divided by average quarterly beginning installed base
[2]Not drawn to scale

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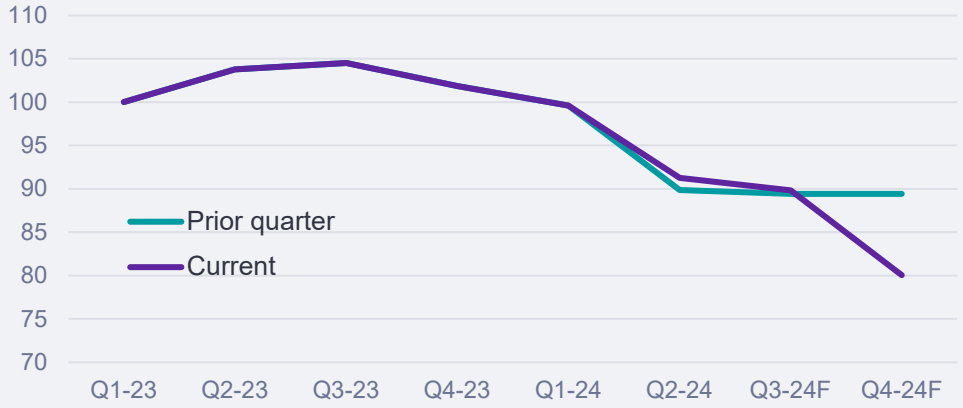
Significant progress on improving per unit production cost of both Revio instruments + Revio consumables. Expect both to end the year ~20% lower than when we launched the platform.

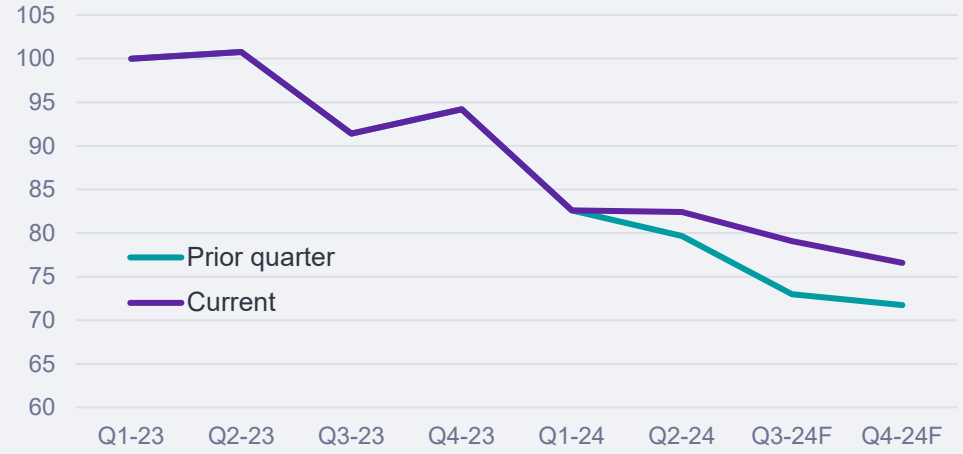
Revio Instrument COGS improvement

Q1 2023 = 100



Revio Consumables COGS improvement

Q1 2023 = 100



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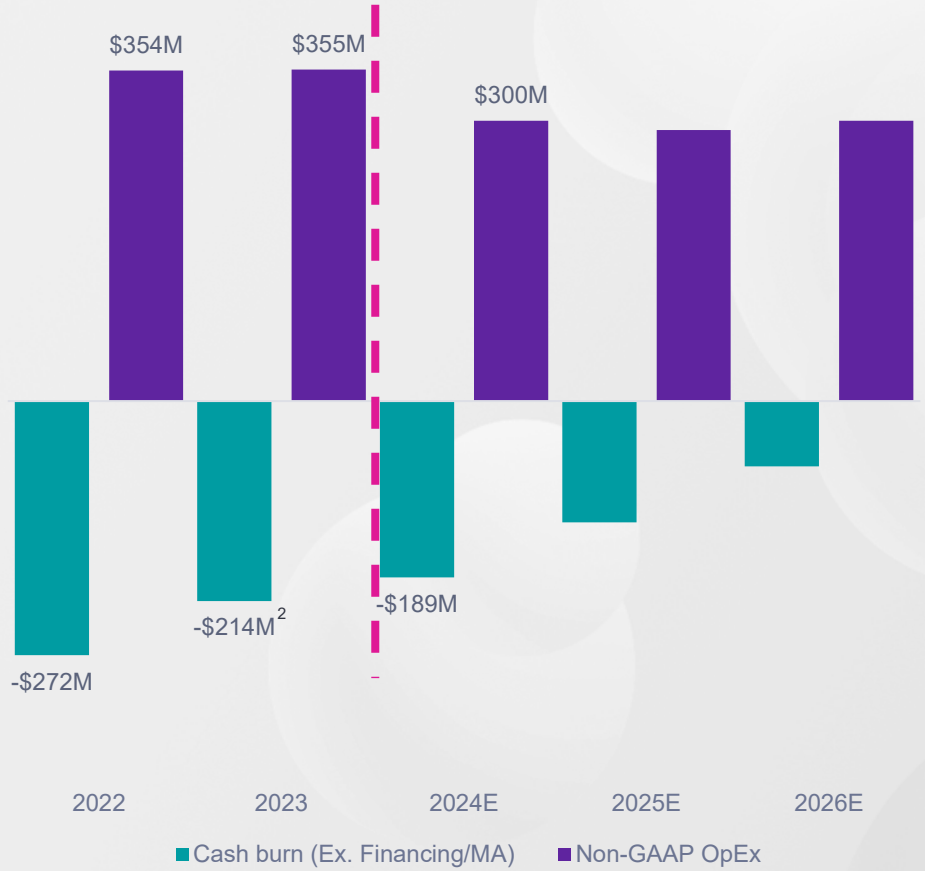
Additional 2024 Guidance, we expect:

- FY non-GAAP gross margin to be around the low end of previously-guided 35%-38% range.
- Non-GAAP OpEx to be around the low end of the $300 million to $310 million range.
- Non-GAAP annualized restructuring savings to be >$75 million by year end.
- FY non-GAAP OpEx to decline in 2025 compared to 2024.
- Around the high end of $5 million to $10 million range for interest and other income.
- 273 million weighted average shares outstanding for FY24.
- Ending Cash, cash equivalents and investments to be $435 million - $450 million; 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 by executing on our strategic priorities

Illustrative cash burn and OpEx forecast[1]



Revenue growth in 2025 and beyond with new products and consumables expansion from the increasing Revio installed base.

Expanding gross margins with lower per-unit production 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 about 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 & CEO

Appendix

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

(in thousands, except per share amounts)	Three Months Ended June 30, 2024	March 31, 2024	June 30, 2023
Revenue:			
Product revenue	$ 31,746	$ 35,009	$ 43,655
Service and other revenue	4,267	3,801	3,918
Total revenue	36,013	38,810	47,573
Cost of Revenue:			
Cost of product revenue	23,083	22,447	28,432
Cost of service and other revenue	3,366	3,738	3,412
Amortization of acquired intangible assets	2,628	1,343	183
Loss on purchase commitment	998	–	–
Total cost of revenue	30,075	27,528	32,027
Gross profit	5,938	11,282	15,546
Operating Expense:			
Research and development	38,485	43,455	46,173
Sales, general and administrative	45,877	43,753	40,573
Goodwill impairment [1]	93,200	–	–
Amortization of acquired intangible assets	4,222	5,506	–
Change in fair value of contingent consideration [2]	–	(70)	1,975
Total operating expense	181,784	92,644	88,721
Operating loss	(175,846)	(81,362)	(73,175)
Loss on extinguishment of debt [3]	–	–	(2,033)
Interest expense	(3,542)	(3,575)	(3,554)
Other income, net	6,069	6,759	8,929
Loss before benefit from income taxes	(173,319)	(78,178)	(69,833)
Benefit from income taxes	–	–	–
Net loss	$ (173,319)	$ (78,178)	$ (69,833)
Net loss per share:			
Basic	$ (0.64)	$ (0.29)	$ (0.28)
Diluted	$ (0.64)	$ (0.29)	$ (0.28)
Weighted average shares outstanding used in calculating net loss per share:			
Basic	272,385	269,578	250,070
Diluted	272,385	269,578	250,070

(1) 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.

(2) Change in fair value of contingent consideration during the three months ended March 31, 2024 and June 30, 2023 was due to fair value adjustments of milestone payments payable upon the achievement of the respective milestone event.

(3) Loss on extinguishment of debt during the three months ended June 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.

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

(in thousands, except per share amounts)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Revenue:				
Product revenue	$ 31,746	$ 43,655	$ 66,755	$ 78,309
Service and other revenue	4,267	3,918	8,068	8,164
Total revenue	36,013	47,573	74,823	86,473
Cost of Revenue:				
Cost of product revenue	23,083	28,432	45,530	53,596
Cost of service and other revenue	3,366	3,412	7,104	7,204
Amortization of acquired intangible assets	2,628	183	3,971	366
Loss on purchase commitment	998	–	998	–
Total cost of revenue	30,075	32,027	57,603	61,166
Gross profit	5,938	15,546	17,220	25,307
Operating Expense:				
Research and development	38,485	46,173	81,940	95,112
Sales, general and administrative	45,877	40,573	89,630	80,391
Goodwill impairment [1]	93,200	–	93,200	–
Amortization of acquired intangible assets	4,222	–	9,728	–
Change in fair value of contingent consideration [2]	–	1,975	(70)	14,231
Total operating expense	181,784	88,721	274,428	189,734
Operating loss	(175,846)	(73,175)	(257,208)	(164,427)
Loss on extinguishment of debt [3]	–	(2,033)	–	(2,033)
Interest expense	(3,542)	(3,554)	(7,117)	(7,184)
Other income, net	6,069	8,929	12,828	15,796
Loss before benefit from income taxes	(173,319)	(69,833)	(251,497)	(157,848)
Benefit from income taxes	–	–	–	–
Net loss	$ (173,319)	$ (69,833)	$ (251,497)	$ (157,848)
Net loss per share:				
Basic	$ (0.64)	$ (0.28)	$ (0.93)	$ (0.64)
Diluted	$ (0.64)	$ (0.28)	$ (0.93)	$ (0.64)
Weighted average shares outstanding used in calculating net loss per share:				
Basic	272,385	250,070	270,982	246,074
Diluted	272,385	250,070	270,982	246,074

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

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

(3) Loss on extinguishment of debt during the three and six months ended June 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.

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

(in thousands)	June 30, 2024	December 31, 2023
Assets		
Cash and investments	$ 509,802	$ 631,416
Accounts receivable, net	32,433	36,615
Inventory, net	68,594	56,676
Prepaid and other current assets	16,968	17,040
Property and equipment, net	34,910	36,432
Operating lease right-of-use assets, net	22,391	32,593
Restricted cash	2,264	2,722
Intangible assets, net	443,278	456,984
Goodwill	369,061	462,261
Other long-term assets	9,790	13,274
Total Assets	$ 1,509,491	$ 1,746,013
Liabilities and Stockholders' Equity		
Accounts payable	$ 17,488	$ 15,062
Accrued expenses	22,456	45,708
Deferred revenue	24,918	21,872
Operating lease liabilities	32,107	41,197
Contingent consideration liability	19,480	19,550
Convertible senior notes, net	892,844	892,243
Other liabilities	7,498	9,077
Stockholders' equity	492,700	701,304
Total Liabilities and Stockholders' Equity	$ 1,509,491	$ 1,746,013

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

(in thousands, except per share amounts)	Three Months Ended			Six Months Ended	
	June 30, 2024	March 31, 2024	June 30, 2023	June 30, 2024	June 30, 2023
GAAP net loss	$ (173,319)	$ (78,178)	$ (69,833)	$ (251,497)	$ (157,848)
Change in fair value of contingent consideration [1]	—	(70)	1,975	(70)	14,231
Goodwill impairment [2]	93,200	—	—	93,200	—
Amortization of acquired intangible assets	6,850	6,849	228	13,699	456
Loss on extinguishment of debt [3]	—	—	2,033	—	2,033
Restructuring [4]	18,028	—	—	18,028	—
Non-GAAP net loss	$ (55,241)	$ (71,399)	$ (65,597)	$ (126,640)	$ (141,128)
GAAP net loss per share	$ (0.64)	$ (0.29)	$ (0.28)	$ (0.93)	$ (0.64)
Change in fair value of contingent consideration [1]	—	—	0.01	—	0.06
Goodwill impairment [2]	0.34	—	—	0.34	—
Amortization of acquired intangible assets	0.03	0.03	—	0.05	—
Loss on extinguishment of debt [3]	—	—	0.01	—	0.01
Restructuring [4]	0.07	—	—	0.07	—
Non-GAAP net loss per share	$ (0.20)	$ (0.26)	$ (0.26)	$ (0.47)	$ (0.57)
GAAP gross profit	$ 5,938	$ 11,282	$ 15,546	$ 17,220	$ 25,307
Amortization of acquired intangible assets	2,628	1,343	183	3,971	366
Restructuring [4]	4,650	—	—	4,650	—
Non-GAAP gross profit	$ 13,216	$ 12,625	$ 15,729	$ 25,841	$ 25,673
GAAP gross profit %	16 %	29 %	33 %	23 %	29 %
Non-GAAP gross profit %	37 %	33 %	33 %	35 %	30 %
GAAP total operating expense	$ 181,784	$ 92,644	$ 88,721	$ 274,428	$ 189,734
Change in fair value of contingent consideration [1]	—	70	(1,975)	70	(14,231)
Goodwill impairment [2]	(93,200)	—	—	(93,200)	—
Amortization of acquired intangible assets	(4,222)	(5,506)	(45)	(9,728)	(90)
Restructuring [4]	(13,378)	—	—	(13,378)	—
Non-GAAP total operating expense	$ 70,984	$ 87,208	$ 86,701	$ 158,192	$ 175,413

(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 and six months ended June 30, 2024 was related to a sustained decrease in the Company's share price, among other factors.

(3) Loss on extinguishment of debt during the three and six months ended June 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.

(4) Restructuring costs during the three and six months ended June 30, 2024 consist primarily of employee separation costs, accelerated amortization and depreciation for right-of-use assets, leasehold improvements, and furniture and fixtures relating to the planned abandonment of the San Diego office, including charges for excess inventory due to a decrease in internal demand relating to the expense reduction initiatives during the three months ended June 30, 2024.

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