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FLDM - Q4 2017 Fluidigm Corp Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fluidigm Fourth Quarter 2017 Financial Results conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Ana Petrovic, Director of IR. Ma'am, you may begin.

Ana Petrovic - *Fluidigm Corporation - Director of Corporate Development and IR*

Thank you. Good afternoon, everyone. Welcome to the Fluidigm Fourth Quarter 2017 Earnings Conference Call.

At the close of the market today, Fluidigm released the financial results for the fourth quarter and full year ended December 31, 2017.

During this call, we will review our results and provide commentary on recent commercial activity, market trends and our strategic business initiatives. Presenting for Fluidigm today will be Chris Linthwaite, our President and Chief Executive Officer; and Vikram Jog, our Chief Financial Officer.

During the call and subsequent Q&A session, we will make forward-looking statements about events and circumstances that have not yet occurred, including plans and projections for our business, future financial results and market trends and opportunities. Examples of these forward-looking statements include statements regarding our business prospects and growth, expectations for business development and the strategic initiatives in 2018, mass cytometry applications and benefits, consumables pull-through projections, revenues for the first quarter of 2018 and other projected financial results. These statements are subject to substantial risks and uncertainties that may cause actual events or results to differ materially from current expectations.

Information on these risks and uncertainties and other information affecting our business and operating results is contained in our Annual Report on Form 10-K and our most recent Form 10-Q for the quarter ended December 31, 2017, and in our other filings in with the SEC.

The forward-looking statements in this call are based on information currently available to us, and Fluidigm disclaims any obligation to update these forward-looking statements except as may be required by law.

During the call, we will also present some financial information on a non-GAAP basis. Non-GAAP information is not prepared under a comprehensive set of accounting rules and should only be used to supplement an understanding of the company's operating results as reported under U.S. GAAP. We encourage you to carefully consider our results under GAAP as well as our supplemental non-GAAP information and the reconciliation between



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these presentations. Reconciliations between GAAP and non-GAAP operating results are presented in a table accompanying our earnings release, which can be found in the Investors section of our website.

I will now turn the call over to Chris, our President and CEO.

Stephen Christopher Linthwaite - *Fluidigm Corporation - President, CEO & Director*

Thank you, Ana. Good afternoon, everyone, and thank you for joining our Q4 and 2017 earnings call.

As detailed in our press release today, we made excellent progress in the recent quarter and the full year in the areas we've identified as priorities in positioning Fluidigm for a return to sustainable growth. One year ago today, we told you we were taking necessary steps to change the company's prospects for the better. We set in motion a series of changes that would transform Fluidigm. We made several commitments to change the focus and culture of Fluidigm to foster innovation and partnerships, to increase operational efficiency and to improve financial discipline and cash management. We committed to taking bold steps to position Fluidigm as a key partner for translational research with the goal of empowering health care insights of the future. Most importantly, we said that the sum of these actions would position the company for a return to sustainable growth.

Over the past 4 quarters, we have driven meaningful change across every aspect of our business. We achieved significant operating expense reductions for the year, forged new partnerships with industry and academia and added cash to our balance sheet for financial flexibility. We built a strong foundation for taking Fluidigm's technologies in mass cytometry and microfluidic genomics to larger markets, more users and expanded applications. We saw proof that our strategies in these businesses are succeeding.

We posted strong year-over-year revenue growth for mass cytometry in 2017, supporting our belief that it will be the premier tool to explore the human immune system. Building upon our breakthrough suspension-based Helios technology, which accelerated oncology and cancer immunotherapy research, we launched the Hyperion Imaging System. In our high-throughput genomics business, we forged partnerships to develop new content and workflow solutions and continued our strategic focus on high-value customers.

In 2017, we worked to grow and develop these businesses while delivering on our financial commitments, strengthening our balance sheet and improving the customer experience. That work continues in 2018. More importantly, the accomplishments of the past year established a strong foundation for growth. There are challenges ahead, but we've made undeniable progress, more details of which we will share today.

I'm now going to provide an overview of our financial results for the quarter and the year and discuss markets and strategies, then I'll turn the call over to Vikram Jog, our CFO, for a more detailed financial review before offering closing remarks and some thoughts on the future and take some questions.

Our fourth quarter results marked year-over-year and sequential revenue growth. Total revenue for the fourth quarter of 2017 was \$27.7 million, an increase of 12% over the third quarter of 2017 and up 11% from the fourth quarter of 2016. Total revenue -- revenue for the full year 2017 was \$101.9 million, a decrease of 2% from 2016.

For the quarter and the year, mass cytometry was once again a great growth story. For the quarter, mass cytometry product revenue increased 26% from the prior year period. Instruments were up 20%; consumables, 45% over Q4 of 2016. For the year, mass cytometry revenue increased 38%.

During the quarter and the year, as compared to the year-ago period, mass cytometry total revenue was up in Europe and APAC across every category: consumables, instruments and service. We had record mass cytometry pull-through in Q4, well above our projected annual pull-through rate per range for the fourth consecutive quarter on a larger unit base.

For the quarter, it was more than 10% above the high end of our 2017 guidance. As a result, our range for pull-through guidance for mass cytometry in 2018 has been raised by approximately 10% over the range in our 2017 guidance.



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Genomics revenue in total was relatively flat for the quarter and down for the year as we continued to manage competitive headwinds in single-cell. Our single-cell business posted year-over-year revenue decline as expected. However, for the quarter, we saw a modest sequential growth in single-cell, notable given the underperformance of this business over the past several quarters.

In the most recent quarter, high-throughput genomics product revenue increased in all geographies versus the year-ago period as we saw the benefits from strategies implemented earlier in the year bear fruit.

Let's turn to a discussion of our revenue performance by geographic region. We continue to be delighted with the commercial leadership in Europe and Asia Pacific. From a global standpoint, year-over-year revenues for the fourth quarter were up 41% in Europe and 29% in Asia Pacific. For the year, Europe and Asia Pacific were up 10% and 8%, respectively.

Here are just a few examples from the second half of the year of the kinds of traction we're seeing in this region in mass cytometry. Our teams sold Helios mass cytometry systems to a Japanese pharma company with a rich pipeline of oncology therapies and to a joint venture of a major teaching hospital and a diagnostics company in Japan. We sold Imaging Mass Cytometry systems to a European pharma company that operates in more than 100 countries and to a prestigious public research university in China.

As you can see, our teams in those regions are effectively marketing our value proposition as a leader in high-parameter analysis of cells and tissue, with special focus on customers working on oncology and immune system-modulated diseases.

In contrast, we are disappointed in U.S. sales performance in 2017. In the United States, revenues declined 15% for the quarter and 13% for the year. We did not see significant problems intrinsic to the U.S. market in either period. Rather, we believe the performance was due in part to the particularly high turnover we experienced in the U.S. commercial team. In multiple sales territories during this transitional year for the company, there was also a leadership issue, which we took action to correct in the fourth quarter. Coupled with the continued competitive headwinds in single-cell during the year, our performance in the U.S. in totality suffered. We are optimistic, however, for a more positive performance in 2018.

Now to a discussion of our end markets. We market our instruments and consumables to leading academic institutions, clinical research laboratories, pharma and Ag-Bio companies worldwide. For the fourth quarter, Fluidigm posted revenue growth broadly across multiple customer categories, including academic research ag-bio and pharma. For the year, outside of Ag-Bio, we posted flat or negative revenue, much of the decline due to continued weakness in single-cell genomics versus historic levels.

Now on a positive note, illustrating our value proposition in the Ag-Bio space, Q4 included more than \$2.7 million in consumables orders from a single Ag-Bio account. Also in Q4, a major U.S. Ag-Bio acquired a Juno system to enable genotyping by sequencing for crop trade selection as well as targeted microbiome sequencing in crop yield research. These purchases reflect continued demand for our genomics solutions in this end of market. We intend to nurture these relationships and expand with the market.

Now for the longer-term growth of Fluidigm. Our unique capabilities and our technology, particularly in mass cytometry, are increasingly aligned with exciting new directions in cancer and immunology research. We believe mass cytometry will be the premier tool to explore the human immune system. It is far and away our fastest-growing business.

Now others hold, I think, a similar viewpoint. The January 25, 2018 issue of the journal Nature included mass cytometry as one of the technologies to watch in 2018. The article noted what we've been saying for a long time. This technology could transform the field of cancer immunotherapy.

We are pursuing multiple tactics to growing in the space, increasing market coverage, identifying new funding sources and creating a larger base of researchers who spread the word about the unique value proposition of mass cytometry in healthcare research and other fields.

I am often asked about metrics. One metric to track success for this strategy is the number of major cancer centers using mass cytometry systems. Our instruments can be found in 29 of the 69 NCI-designated cancer centers or their associated translational research institutions in the United States. We added 1 new center last quarter. I am setting a goal of adding at least 5 new NCI-designated centers in 2018. We are pleased to see how integral mass cytometry is becoming in cancer immunotherapy.



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In complement to our suspension-based solution, there is an emerging market in imaging for our mass cytometry technology. We expect our Hyperion Imaging System, launched in Q4, to play an increasingly larger role in this research. While now a nascent technology, we believe Hyperion is the future of tissue imaging.

We are simply excited about its potential. It enables researchers to simultaneously image a 37 protein markers with minimal background and up to 135 channels to detect additional parameters. The system provides subcellular resolution while preserving tissue architecture and cellular morphology.

The Hyperion resolution is a perfect balance between the field of view or how much of the cellular microenvironment can be seen and resolution at 1,000 nanometers. This is ideal for biomarker discovery because you can see enough of the microenvironment to make these assessments. It enables preservation of precious samples and reduces the variability by eliminating dependency on serial sections of tissue. The system includes the Maxpar imaging antibody portfolio of more than 60 pathologist-verified antibodies tailored for Hyperion.

Overall, the power of mass cytometry is evidenced by more than 400 publications, 120 new studies in 2017 alone of groundbreaking research. Here are 2 very recent examples.

Researchers at the University of Zurich used mass cytometry to identify melanoma patients likely to respond to immunotherapy. They identified a peripheral blood cell population as a strong predictor of progression-free and overall survival before and after 12 weeks of anti-PD-1 immunotherapy. This study is novel in that researchers identified biomarkers in the blood, indicating whether therapy is likely to work before treatment begins.

In the future, this research could enable oncologists to quickly make decisions that pivot to other treatments. This extremely thought-provoking study appeared in Nature in January, and we believe it is just the first of many new insights to be shared by researchers.

Another key to widespread adoption of new technologies is the reproducibility of results. A study at Stanford explored the feasibility of multi-center mass cytometry studies. The paper confirmed the viability of multi-center investigations and provided a detailed roadmap for successfully performing and evaluating these studies across multiple centers internationally. This study was published earlier this month in the Journal of Immunological Methods.

We expect mass cytometry to have significant influence on the precision medicine approaches of the future.

Now a word about our single-cell business. Our revenue expectations for single-cell have moderated over time. We are taking a strategic, measured approach in how we create value from our single-cell franchise. Select markets and specific applications continue to provide new opportunities.

As we've mentioned previously, we continue to support our 300-plus single-cell customers with service and product innovation. During the quarter, we had an early release of a small cell high-throughput script pack for use with the C1.

It is also worth noting that we saw some interesting research in Q4, including a published study in which researchers compared 2 systems side-by-side, both our C1 system and that of a droplet-based competitor. In the words of the study author, this dual approach using 2 sequencing platforms allowed us to comprehensively investigate the research questions more powerfully than we could have done using either platform alone. This suggests our technology will remain relevant for the future of single-cell analysis.

Throughout 2017, we measured our progress against 3 strategic pillars. Let's take a moment to review how we performed in terms of fostering innovation and partnerships, increasing operational efficiency, and improving financial discipline and cash management.

In innovation and partnerships, we signed an agreement with Ascendas Genomics to support development of molecular diagnostics in China. Ascendas is developing and commercializing systems and assays using microfluidic technologies included -- or using our microfluidic technologies included in the Fluidigm Biomark HD and Juno. We introduced the Advanta Immuno-Oncology Gene Expression Assay. The assay for use with the BioMark HD System was developed in collaboration with academic research institutions and biopharma companies.



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We entered into a licensing agreement with Baylor Genetics for a next-generation sequencing library prep assay for our Juno system. It enables efficient sequencing of the CFTR gene in cystic fibrosis.

A distribution agreement with the University of Zurich allows us to offer histoCAT software for multi-parameter tissue analysis in conjunction with the Hyperion Imaging System. We obtained the rights to globally distribute histoCAT, which identifies -- or enables researchers to identify unique cellular social networks across a range of disease states.

We entered into an agreement with a major university research center to be the first Mass Cytometry Center of Excellence. We intend for centers of excellence researchers to work with us to expand and refine training in operations and techniques as well as develop new content.

The second, and under the category of increasing operational efficiencies and reducing costs. For the full year, in 2017, operating expenses decreased 16% on a GAAP basis.

And finally, with respect to financial discipline. We completed an at-the-market offering of equity in 2017 for net proceeds of approximately \$28.8 million.

I'll now turn the call over to Vikram, our CFO, for a further review of our financial results.

Vikram Jog - *Fluidigm Corporation - CFO*

Thanks, Chris, and good afternoon, everyone.

Total revenue in Q4 2017 grew 11% year-over-year, driven by mass cytometry, and notably, high-throughput genomics products. Single-cell genomics product revenue grew modestly on a sequential basis but continued to suffer from unfavorable year-over-year comps. We also recorded strong growth in our mass cytometry service revenue. Favorable foreign exchange rates contributed about 3 percentage points to the year-over-year revenue growth.

Full year 2017 revenue declined by 2%, driven primarily by lower single-cell genomics revenues and, to a much lesser extent, by lower high-throughput genomics revenues, partially offset by increased revenues from mass cytometry products and service.

Foreign exchange rates had minimal impact on full year revenue.

Mass cytometry product revenue grew 26% in the quarter and 38% for the full year across both instruments and consumables. For the fourth consecutive quarter, mass cytometry consumables pull-through tracked above the high end of our 2017 guidance range of \$50,000 to \$60,000 per year.

Genomics product revenue was relatively flat in the quarter and down 26% for the full year versus the year-ago period. Notably, Q4 revenue increased 19% sequentially. High-throughput genomics product revenue in the quarter increased both year-over-year and sequentially across both instruments and consumables.

BioMark and EP1 pull-through tracked significantly above our projected range of \$33,000 to \$38,000 per year.

From a regional perspective, in the fourth quarter, we recorded revenue growth of 41% in Europe and 29% in Asia Pacific year-over-year, driven primarily by mass cytometry products.

In the United States, however, revenue declined 15%, mainly due to lower sales from mass cytometry and single-cell genomics, while the 13% decline for the full year was driven by lower revenue from single-cell genomics.



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Our active installed base of instruments at the end of 2017 was approximately 1,310 compared to 1,340 at the end of 2016. The net decrease of 30 instruments primarily represents a lower active installed base of C1 and related BioMark instruments used in single-cell application, offset by higher installed bases of mass cytometry and Juno instruments.

While the aggregate active installed base of BioMark and EP1 instruments declined in 2017 by approximately 4%, or 25 instruments, their related consumables revenue grew modestly in the year.

Turning now to annualized consumables pull-through per active system compared to our 2017 guidance range. In the fourth quarter of 2017, mass cytometry pull-through tracked above the range, BioMark and EP1 pull-through tracked significantly above the range, and Access Array Juno and C1 pull-through underperformed.

Service revenue of \$4.7 million in the fourth quarter increased 15% from \$4.1 million in the year-ago period due to increased revenue from mass cytometry instruments.

And finally, revenue by customer type. In Q4, research customers accounted for 64% of our total revenue, and applied customers accounted for the remainder.

Product margin was 48% in the fourth quarter compared to 52.1% in the year-ago period and 44.5% in Q3 of 2017.

Non-GAAP product margin was 63.4% in the fourth quarter compared to 69.6% in the year-ago period and 62.1% in Q3. Non-GAAP product margin excludes the effects of amortization of developed technology, depreciation and amortization and stock-based compensation expense.

The year-over-year decrease in product margin was primarily due to increased genomics unit product costs from lower production volumes. The decrease in GAAP product margin was partially offset by fixed amortization of developed technology over higher revenues. The sequential increase in product margin was mainly due to higher production volumes of mass cytometry instruments and consumables.

Turning now to OpEx. GAAP research and development expenses was \$7.2 million in the fourth quarter of 2017, \$8.8 million in the year-ago period and \$7.7 million in Q3. The 18% year-over-year decrease was primarily due to cost reduction measures, lower stock-based compensation and lower project costs. The sequential decrease was mainly due to lower personnel costs.

GAAP SG&A expenses were \$15.9 million in the fourth quarter of 2017, \$22.8 million in the year-ago period and \$20.1 million in Q3. The year-over-year decrease of 30% was primarily due to a \$3 million litigation settlement recorded as an offset to SG&A expenses, lower legal expense, cost reduction measures and lower stock-based compensation. The sequential decrease was mainly due to the litigation settlement and lower personnel, legal and outside services expense.

Net loss for the fourth quarter 2017 was \$10.5 million, \$17.7 million for the same period last year and \$15.9 million in Q3.

Non-GAAP net loss for the fourth quarter of 2017 was \$3 million, \$9.3 million in the year-ago period and \$8.6 million in Q3.

Please note, reconciliation tables between our GAAP and non-GAAP measures are provided at the end of our earnings press release that we issued earlier today.

Now moving on to the balance sheet. Accounts receivables increased by \$1.3 million in the fourth quarter to \$15 million. DSO was 49 days compared to 50 days in Q3. Cash, cash equivalents and short-term investments was \$63.1 million at the end of 2017 compared to \$59.4 million at the end of 2016.

For the full year 2017, net cash used in operating activities declined by \$15 million to \$24 million, and payments for property and equipment purchases declined by \$3.5 million to \$1.6 million.



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Cash inflows from financing activities were \$29 million in 2017, including \$28.8 million of net proceeds from our ATM offering.

Total cash inflow in the fourth quarter was \$800,000, including a \$3 million receipt under our litigation settlement compared to a cash outflow of \$8 million in the third quarter, excluding the net proceeds from our ATM offering.

As a reminder, cash outflow in Q3 included our semi-annual interest payment of \$2.8 million on our convertible debt and a net \$2 million payment under a separate litigation settlement.

Moving on now to guidance for the first quarter of 2018. Total revenue is projected to be between \$24 million to \$27 million, which includes a favorable foreign exchange impact of approximately 3% at the midpoint of the range.

GAAP operating expenses are projected to be \$27 million to \$28 million.

Non-GAAP operating expenses are projected to be \$24 million to \$25 million, excluding stock-based compensation of approximately \$2 million and depreciation and amortization expense of approximately \$1 million.

Total cash outflow is projected to be \$12 million to \$13 million, including annual incentive compensation payment of approximately \$6 million and our half-yearly interest payment of \$2.8 million.

And finally, for 2018, our projected annualized consumables pull-through per system is as follows: \$38,000 to \$42,000 for BioMark and EP1 in the aggregate; \$22,000 or \$27,000 for Access Array and Juno, collectively; \$8,000 to \$12,000 for C1; and \$60,000 to \$65,000 for mass cytometry.

And with that, I will now turn the call back to Chris for closing remarks.

Stephen Christopher Linthwaite - *Fluidigm Corporation - President, CEO & Director*

Thank you, Vikram.

2017 was, indeed, transformative for Fluidigm. We took decisive actions on many fronts, some painful for the organization, but most certainly necessary. These actions yielded significant operating expense reductions, new content and distribution partnerships and an improved balance sheet for greater financial flexibility. I'm particularly pleased with our improved cash management.

Our actions produced a stronger, more strategically focused company that provides a strong foundation going forward. We must translate these actions into more revenue growth in the coming quarters and years ahead.

In 2018, expect us to take our technologies in mass cytometry and microfluid genomics to larger markets and more users and to add new applications. We must build on the momentum in mass cytometry. That means new content, capitalizing on Imaging Mass Cytometry. We'll pursue strategic placements in multiple customer segments, emphasizing cancer centers and pharma. We must further develop and execute on our content strategy for high-throughput genomics, continuing to target high-value accounts. And across all our businesses, we'll seek new partnerships, particularly in content and distribution.

The foundation we created this year -- or in 2017 enables us to pivot to a longer view for our company. In the coming months, expect to hear more about what we are calling Fluidigm 2020, shorthand for where we're taking the company as we enter the second year of our transformation of the business.

The natural question now is what is the destination? Where are we headed? In coming months, we'll be talking more about that and about the strategic imperatives that we believe will enable us to realize our vision.

With that, I'd like to open the line for questions.

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QUESTIONS AND ANSWERS
Operator

(Operator Instructions) Our first question comes from Bill Quirk with Piper Jaffray.

Alexander David Nowak - Piper Jaffray Companies, Research Division - Research Analyst

This Alex Nowak on for Bill. You're guiding Q1 flat year-over-year despite comp in the single-cell headwind, you're launching Hyperion and you're coming off a relatively good Q4. So I guess despite these positives, why are you not expecting Q1 to at least grow year-over-year?

Stephen Christopher Linthwaite - Fluidigm Corporation - President, CEO & Director

Hi, Alex. Chris. I'll chip in or I'll start, and maybe have Vikram add a few comments on it. I think there's -- as you know, our instruments business -- or our business is very balanced from the standpoint that we have a very high instrument portion of the mix of our revenue base, approximately still at this stage about half and half between annuities or renewables, like consumables and service, and then analytical equipment sales. There's a -- the first quarter is typically a step-down quarter with regards to the prior quarter, the fourth quarter period, year before. And the second, I'll remind is that as you probably recall, as we started shipping a very significant backlog of the laser ablation modules and the Hyperion system kind of in the pre-commercial phase. So in the prior comp period, I think it was north of -- I think, Vikram, you probably have the exact number.

Vikram Jog - Fluidigm Corporation - CFO

Between \$3 million and \$3.5 million.

Stephen Christopher Linthwaite - Fluidigm Corporation - President, CEO & Director

Yes, yes. \$3 million and \$3.5 million of instrument sales that weren't part of the backlog. So I think when you look at it on an adjusted comp basis, this is actually quite -- this is a continuance of the trend line.

Alexander David Nowak - Piper Jaffray Companies, Research Division - Research Analyst

Okay, that's helpful. Thanks for the reminder on that comp issue there. The \$2.7 million of consumable orders to 1 customer, I assume that's not expected to repeat going forward? That's just a onetime full purchase?

Stephen Christopher Linthwaite - Fluidigm Corporation - President, CEO & Director

Yes. There is a cyclical in the Ag-Bio business, so you are correct in a sense that will not necessarily repeat in the first quarter time period. I will say there was a large stocking order that we are fulfilling over at 2-quarter period, some of which we took in the fourth quarter and some of which we'll ship in the first quarter. So there's a portion of that benefit that we'll receive likely in the first quarter also. But as I said before, there's a cyclical as they ramp up for the growing seasons based upon which geography you're shipping to around the hemisphere, the northern hemisphere or the southern hemisphere. So I don't expect a significant order repeat with this size customer in the first quarter.



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Alexander David Nowak - Piper Jaffray Companies, Research Division - Research Analyst

Okay, that makes sense. And then BioMark and EP1 had a nice rebound quarter. Just -- can you provide any more color on what drove the increase in consumable utilization on the systems? Was it really just a factor of making sure the existing customers weren't using their boxes that were already in place?

Stephen Christopher Linthwaite - Fluidigm Corporation - President, CEO & Director

So I think you're really talking about the pull-through, right, versus -- as compared to instruments placements, right?

Alexander David Nowak - Piper Jaffray Companies, Research Division - Research Analyst

That's correct, pull-through.

Stephen Christopher Linthwaite - Fluidigm Corporation - President, CEO & Director

Well, I mean, as I kind of intimated on what to see over successive quarters to see if the trend plays out, I think a lot of our -- a number of our BioMark placements were correlated for a period of time that really predates even me joining the company, related to single-cell analysis. And what you've seen is the value proposition is actually broader than single-cell analysis. We call it bulk genomics here. Others call it the mid-density real-time PCR space. There is continued strong demand, we think, in that market segment. And I think we're now starting to get a better -- or a more fair share of the broader market outside of the correlation of single-cell analysis in the BioMark system. So those, before were C1s and BioMark sold together as a package. And the second part is we have been focusing on consumables and reactivating our installed base. And I think you'll probably recall that was one of the things -- the opportunities that I saw when I joined the company in the fourth quarter of 2016 that I felt that there was a significant amount of opportunity for us to reinvigorate our installed base. And we've been steadily layering-in new content and talking more actively about the capabilities of our microfluidic system in the BioMark, specifically. And I think the value proposition of the BioMark is just as strong today as it was when the product was launched, and I think we're just now doing a little better job of focusing on it.

Alexander David Nowak - Piper Jaffray Companies, Research Division - Research Analyst

Okay, that's helpful. And then just last question from me. I was on the Fluidigm Careers website and I noticed you're hiring a Director of Product Management responsible for the mass cytometry suite. So obviously, the suites -- this business is one of the major growth drivers. So I just curious, why the new hire? And was there anything going on internally to explain why you're making a change to the team there?

Stephen Christopher Linthwaite - Fluidigm Corporation - President, CEO & Director

Yes. There's no back story, I'm glad. If you're seeing there are opportunities for friends for any of the other jobs that we're recruiting for, there's quite a number of on the job board, so I appreciate all your help. So on a little more serious note, I think mass cytometry, we're really excited about it. We need to add even more horsepower to the team. Our ambitions are growing as we're expanding both -- as we talked about on the call, expanding more aggressively into the imaging space, which will complement kind of our current value -- our core value proposition that's more in suspension or flow based. So we're looking for people who have backgrounds ideally in one or the other to help us shore-up the team. We've been adding resources in that area, and it's -- obviously, as you can imagine, there's a strong correlation with the very strong growth dynamics we're seeing in mass cytometry and our need for more people to help us develop the next generation of products, to develop content strategies, to build on the capabilities of the system and then to get those products out to market as quickly as possible.

Operator

And our next question comes from Doug Schenkel from Cowen.



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Adam Joseph Wieschhaus - *Cowen and Company, LLC, Research Division - Associate*

This is Adam Wieschhaus on for Doug. My first one was on the CyTOF franchise, and Q4 was the first core of the broad commercial Hyperion launch. Can you provide any more details on what percent of CyTOF placements were driven by that broader launch? Or any color on how important that launch was in driving mass cytometry revenue growth in Q4?

Stephen Christopher Linthwaite - *Fluidigm Corporation - President, CEO & Director*

Hi, Adam. So first, I'll kind of comment is that we're not probably in a position we're going to break out the mix between those 2. But I will tell you that the system was launched, as you know -- I think, it was October 26, and so it was really not even the full quarter effect is in there. And we'll see -- I don't think at this stage it's going to have a -- this is really built on the back of the success in the suspension portion of our portfolio, which we were really pleased with the performance in 2017. And I think we're just extremely optimistic and continue to be very opportunistic about the opportunities. On the imaging side, that area, though, is a more nascent technology, as we discussed. And so we think it'll take more time to grow our footprint on that particular area, as we talked a few times, and I know we've talked in our meetings before. This is a significant price point, and also was a newer technology for this pathologist customer segment. And we're going to have to continue to help work on getting the funding sources aligned to convert very strong interest into orders.

Adam Joseph Wieschhaus - *Cowen and Company, LLC, Research Division - Associate*

Okay. That's very helpful. And then moving on to a geography question. It was another strong quarter of growth in Asia. Would you be willing to split out the contributions between Japan and China? And maybe any color on -- if the China growth was largely driven by the Ascendas partnership? And was Japan continuing to benefit from new the commercial lead there?

Stephen Christopher Linthwaite - *Fluidigm Corporation - President, CEO & Director*

What I think I can make a comment on is that China has actually maintained a relatively constant percentage of our revenue, and so it's strong. It's -- as you commented on it, it's been a strong source of growth for us. But on a percentage basis, I don't see a material change in the percentage of our business that's coming from China. What's different in the second half of 2017 compared to the first half, and really, compared to 2016 even, is that Japan has been doing just fantastic for us. And we're really optimistic about Japan. We're still even heading into the flush quarter, generally speaking, for budget flush, which is the first quarter of the new year. And we had strong performance, and really, just strong execution. And I think you'll probably -- I'm sure you recall, is we made a change in the first half of 2017 and put in a new leader in Japan, a new country leader in Japan, who has both reinvigorated that sales organization and I think has really kind of tapped into the talent we had inside the company, and also added some new people. And so we're seeing a nice, steady growth in there. And we're really pleased with our performance in Japan, and we hope to continue to build on that.

Operator

And our next question comes from Ron Yee with Symphony.

Sutanto Widjaja

This is Sutanto calling from Symphony. So 2 questions. The first one is -- I really appreciate you guys giving quarter-over-quarter guidance. My question is at what point in the future would you be comfortable giving annual guidance?



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Stephen Christopher Linthwaite - *Fluidigm Corporation - President, CEO & Director*

Yes, always a fair question. I think I'm not really in a position right now. We have no current plans to provide full year guidance, but we absolutely know that 2018 is a year where we must show growth. And we really worked hard in 2017 to establish credibility. And we think at this stage kind of providing quarterly guidance with the right approach for us, particularly given -- as I talked about, with Alex in the first question, given the weight of instrument sales on our total sales in any given period. So if you look -- step back and you look at the kind of the trajectory over the course of the year, I think we're very comfortable this is -- we need this to be a growth year, that we intend to make this a growth year. But calling the shots in any one quarter versus another is not appropriate at this time.

Sutanto Widjaja

Sure. And then the second question I have is, given your consumables growth is -- it's so strong. I mean, if my notes are correct, it's up 40% for mass spec. Do you have any visibility over your margin throughout the year as you change your consumable mix?

Stephen Christopher Linthwaite - *Fluidigm Corporation - President, CEO & Director*

Well, I'll kind of can give 2 parts to that. So I think from a margin perspective, yes, I think we're very -- one, you're correct. The growth trajectory for that portion of our portfolio is quite significant. It's a high double-digit grower. We think in the near term, we're going to see margin stabilizing, clearly, in their backs of volume increases. That's going to be positive for us. When we step back and look at the whole portfolio and we see mix shifts towards higher-margin products, that should augur well for the future for margin performance. So -- but the second part is I think we need to take an even more proactive stance in how we drive operating efficiencies. So I talked in 2017 about -- we talked about it as a team, about generating operating leverage. We generated about 16% in savings in OpEx, but we really haven't done much yet in the manufacturing and operations. And I think there's a lot of opportunities. So I looked at the first year of the turnaround, we really need to work on commercial effectiveness, on reallocation of our R&D portfolio and really getting our commercial selling engine reignited. I think the second gear we need to start putting in 2017 is starting to go after margin improvement opportunities. We'll benefit some, as you described, from a margin shift or from a mix shift in the business, but we're going to take an even more proactive approach. And so -- and maybe Adam saw it on the website, when he was looking at job postings, but we're also recruiting for a leader of operations for the company. And this is -- we're looking. This is going to be a high-impact role that we look to bring into the company and start to look at everything, both our operational footprint, our manufacturing rooftop strategy, our distribution and supply chain, procurement leverage. The whole 9 yards. So I'm really excited to meet that person and welcome to the organization, and we'll hopefully be talking about that soon here in the first half of the year.

Operator

And I am showing no further questions in the queue at this time. I'd like to turn the call back over to Ana for any closing remarks.

Ana Petrovic - *Fluidigm Corporation - Director of Corporate Development and IR*

We'd like to thank everyone for attending our call.

A replay of this call will be available on the Investors section of our website.

This concludes the call, and we look forward to the next update following the close of the first quarter of 2018. Good afternoon, everyone.

Operator

Ladies and gentlemen, this does conclude your program, and you may all disconnect. Everyone, have a great day.



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