

Company Name: Quanterix Corporation (QTRX)  
Event: Canaccord Genuity 42nd Annual Growth Conference  
Date: August 10, 2022

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Everyone good morning. We're at the Canaccord Genuity Global Growth Conference. We have Quanterix here with us today. I'm Kyle Mikson, Life Science Tools and Diagnostics Analyst for Canaccord. With us from Quanterix we have Masoud Toloue, CEO; and Mike...

<<Mike Doyle, Chief Financial Officer>>

Mike Doyle.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Mike Doyle, CFO. So yes, thanks for joining us today, everyone thank you.

<<Mike Doyle, Chief Financial Officer>>

Sure, thanks. Thanks for having us.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

So let's just start off with what happened recently this week, you just reported earnings Monday, also announced a restructuring program for the company and kind of didn't have the best results in the second quarter. So maybe just talk about what happened there? Why are you now reprioritizing some things? And we can just jump off of some stuff there.

<<Masoud Toloue, Chief Executive Officer>>

Yes, absolutely. So, I want to say that we came into the role on April 25, and as an organization, we took a look at and did a structural review of the operations of the company. And we looked top down, bottoms up and we said, hey, we want to ensure that the company is growing at scale and growing in a way that we can leverage from the volume that's coming in.

And clearly, when we looked at things, we said, well we need to make some operational improvements to reduce the cost of the product and delivery of the product going out. And we did those reviews and came up with a few key plans, a comprehensive plan to take that cost. We looked at some of that from an accounting perspective, we put it into our gross margin and at the same time operationally, we launched a redevelopment program for improving our cost and quality.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. And Mike, let, just go to like the gross margins and sorry for the name earlier, lot of movement today. How sort of like efforts going to fix the COG situation? How does that affect OpEx as well? What can we kind of expect in the P&L kind of going forward next few quarters?

<<Mike Doyle, Chief Financial Officer>>

Yes, no, I think it's a great question. So what we did when we finished the deep dive review, we had a couple of buckets of costs that sat in operating expenses. One was really people and how their time was allocated, that when we took a hard look at it, the bulk of their time, particularly because of the quality challenges we were having was spent in just ongoing day-to-day operations and trying to move product back and bring product back in.

So, we changed the allocation charge that went against cost of goods sold. And then separately we had the way the company has treated freight and distribution historically is we charge our clients the standard freight cost, we charge cost of goods sold for a standard cost. All of the excess, whether it's expedited shipment, product returns, product movement, that sits in operating expense.

And we looked at that and said, that's really more appropriately, we made a pro-forma adjustment this quarter to show that in cost of goods sold because we think that one, that's the way we're looking at the business going forward; two, we think it's a better presentation of our financials, even though obviously it took it, the margin down considerably.

What that's going to show though is as we progress over the next 12 to 18 months is our expectation is we're going to see margin go from what was on a pro-forma basis, 28% to exiting 2023 at closer to the 40% plus levels.

So we're putting it out there for everybody to see. And clearly as resources devoted to quality, we don't need as much, they will be back to doing other things to grow top line and freight expense should just come right down. It should begin to creep back down in a material way. And then ideally we're getting more leverage in the business.

And going into the out years, we talk about getting back to double digit, we'll start getting scale benefits from that. And then margins will grow accordingly after that as well.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Got it. And maybe Masoud, like, just talk about why this wasn't known maybe like a few months ago. And it just seems to be just came out of nowhere for a lot of people, for a lot of investors and so I don't know, how do we feel comfortable with that? This won't

happen again or that you kind of can right size given it so early in the whole understanding of it all?

<<Masoud Toloue, Chief Executive Officer>>

Yes. So, April 25, we started immediately began the strategic review we talked about in June, we wrapped it up in July. And we took a lot of decisive actions in July, right. So we immediately, just a few days ago, announced a restructure and realignment of the program. We launched the redevelopment program. We had, say 10 programs. We said, hey, redevelopment and innovation. We're going to keep that sacred. We're not going to pour or pull money off of that. We're going to in fact double down on those initiatives. And we're going to refocus the organization so that we can right size that I believe to deliver revenue and deliver product to our customers.

So that involves ensuring that we have a proper quality wall. So when product is going out the door, we're validating it and ensuring that it's right before it gets to our customer. And we are continuing our business. We talked about our growth for this year, it being flat. So we don't expect an erosion from the core business and fundamentally we have a very key product in the market. There's nothing this – everything sound about the technology, everything sound about what we plan on doing in the future.

There's a little bit of a delay in going back to the product, ensuring that this product is scalable. It's coming out at the quality. We expect it to come out and before it goes to the customer. And we think that now is a critical time to do this. As you have drugs coming up in the market, as you have more clinical trials the next year, year and a half around the whole narrow space. So we think it's the right time. We're taking quick decisive action. We've been able to size up this comprehensive program and we believe we're going to finish it in 2023.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. So now your second half of the year kind of revenue out, basically it's cut quite a bit. Okay. Now you want to have like flat growth basically. That's like the guidance. What is that revenue comprised of? What are you cutting out of that, that we originally expected?

<<Masoud Toloue, Chief Executive Officer>>

Yeah, I mean, I think you're going to see, you saw our instrument sort of numbers were a flat from a year-over-year basis, the consumables revenue was down. That's where the focus of our program is. So by putting up, certain quality, validation and verification, you're going to see some headwind on the consumables number because that's where redevelopment program is. So we isolate and we put together a redevelopment program, that's separate from where we deliver revenue. We increase the quality of material going out. And we have those two moving in parallel. So we keep the business, we keep our customers and we redevelop the assays to put them into the market.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

So same customers, but less maybe volume, is that a good way to think about it?

<<Masoud Toloue, Chief Executive Officer>>

That's the right way to think about it. Yeah.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. And I think this was addressed earlier a bit, like what maybe on the call on Monday, but what happens to like the big customers Lilly so forth? Are they still with you?

<<Masoud Toloue, Chief Executive Officer>>

Yeah, absolutely. We plan to complete our program with Lilly this year and we don't expect it to be any change in that. In fact we're progressing with them and we're moving forward and that's been a very positive program.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

I mean, could this affect your ability to secure more of those types of deals this year? Because that was like an expectation possibly.

<<Masoud Toloue, Chief Executive Officer>>

That's a great question, Kyle. So one clear point that I want to make is that we've done a lot of work in the last six months with our accelerator program. And our accelerator program is where we do all our work with Lilly. Now our accelerator program is a CLIA, LDT laboratory that has certain quality standards that are separate from the base business. And we've put a lot of that quality and we've piloted a lot of that quality that we intended to put into our products. Already in the accelerator program and so we have a lot of confidence in working with pharma partners and other partners that might come to us.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Got it. And the 25% layoff on, I guess it was announced on Monday, what was that comprised of? Like which groups and departments within the company was that?

<<Masoud Toloue, Chief Executive Officer>>

Yeah, we took a very – obviously very difficult decision. We felt that we had to do it to focus the organization and ensure that we were prioritizing and putting the dollars towards these core programs. It was across entire departments, but we felt that we were

careful to ensure that, hey, sizing this whole thing up, we can deliver the same revenue from past year. And so from an operating standpoint and a commercial standpoint, that's going to be at consistent levels. And we would actually put more resources in this redevelopment and innovation on those two branches that we're moving forward on.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. And the synergies from that cost cutting, I guess, 25 million. Does that hit that's a full year number for next year? Or how does that kind of work?

<<Masoud Toloue, Chief Executive Officer>>

Yeah, the 25 million is an annualized savings. So we'll begin – Q3 will be a little noisy because we'll be recording severance. But we're going to get a partial benefit. And then really in the fourth quarter is when you'll see sort of that full benefit. So on an annualized basis, 25 million it should do a good job balancing. We took down guidance by about a comparable amount from revenue standpoint. So the goal is to try and preserve resources as best we can as we move forward.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Got it. And in terms of the underlying performance of the technology, sounded like to me that it's performing similarly like the Simoa instruments and technology, but every box is not doing the same. It's not performing the same way, not reproducible, right. So I think correct me if I'm wrong, but is that like, how do you kind of fix that I suppose.

<<Masoud Toloue, Chief Executive Officer>>

Yeah, no, great question. I want to make this point especially clear, the technology is sound hasn't changed. That's robust what we want to spend a lot of time and effort on are the catalog products and scaling those catalog products. Today, when you want to make that catalog product and you make it at say a small volume that's possible. When you take that and you scale to a much larger volume of kits, that's a whole different operating process. That's a whole, in fact, we're saying formulation, that's going to be required to get to that scale. So I want to be very clear that it's our on the shelf product catalog that we're scaling has nothing to do with the core based technology.

In fact, when our customers use homebrew reagents and they want to put something together, they're not seeing any issues. When we do this in Accelerator, we're able to quality control and validate this. That's why we feel incredibly confident around being able to go into this redevelopment program. We know what has to be done. We've brought in fresh people from the outside who've done this before. In fact a lot of the executive team has done this before and we're just going marching down this program. And that's what gives us confidence to say in 2023 we're back on track.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Got it. So in the Accelerator Lab, you've been able to like reproduce great results over and over again, but like when it's external, that's when the issues arise, that's what you're saying. And now you're going to fix that.

<<Masoud Toloue, Chief Executive Officer>>

Yeah. I would say for some of our products, when we're trying to develop them at a high level or at scale, that's where we run into – we've run into issues and there's a lot of cost associated with putting that product out. So you got to imagine scrap, rework, perhaps the product comes back, goes forward. And that was part of the cost that we identified in the – in OpEx that we want to put into cost of good sold.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. And the revenue decline, like going forward, I guess that's strictly due to the sales force cut – kind of overall employee cut.

<<Masoud Toloue, Chief Executive Officer>>

No, I would say, some of that is self-inflicted, we want to make sure that, while we're putting quality product in the market and that we're validating that that material before it goes out, meets our standards. And so the demand for Samoa technologies is very robust. We're having to say, okay, let's slow down, slow things down. Our consumables revenue grew 100% year-over-year. When you have such explosive growth, you put extreme pressure on the system. And we're saying that this is not something that will sustain when we have huge demand and we have to take a pause and ensure that the quality is great and redevelop some of these assays and then put them back into the market.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

How do you maintain those relationships and leads, I guess, that others, like SomaLogic or Luminex or whoever could come in and kind of like talk to those guys about, I mean, how do you like secure those relationships and then make sure they're there in 2024, et cetera.

<<Masoud Toloue, Chief Executive Officer>>

Yeah. No great, good question. Unfortunately we have an incredible customer base, who's been working with us, some customers will obviously lose but we gain new customers. I think the core message is that when it comes to ultra sensitivity and identifying proteins where you're looking at these at a molecule level, there's no one that comes near or close to us than the Samoa technology. So the Samoa technology that gives you that access.

Now, could you say, hey, I don't need that sensitivity. I want average sensitivity because I can't wait for Samoa. Yes. But if you want that sensitivity, you got to use that platform. And I think that stickiness and that core relationship gives us confidence that we make these changes that are actually partially coming from our customers, hey, we demand X, Y, and Z. We want provide that for them. And we think this is the right time to do it.

As demand and as drugs come out in the market and there's going to be a need for more clinical trials in the neuro space. So if you believe in the neuro space and it's becoming a much larger and important field, I think you got to put a good bet on Samoa and Quanterix.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

So you feel like you like have the best kind of a mouse trap for this kind of low plex clinically focused, maybe biopharma focused platform. Is that a good way to think about it?

<<Masoud Toloue, Chief Executive Officer>>

Absolutely.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

All right, got it. And then I guess the diagnostic potential that's been talked about so much. I mean, I feel like that was a core aspect of your story for a very long time or for at least last year or two. What happens to that now? Is that on hold? Is that stretched out a little bit? I mean, talk us about – talk to us about that.

<<Masoud Toloue, Chief Executive Officer>>

Yeah. So, Quanterix is at a unique translational space, right? We're not looking at 10,000 proteins at once. We are in this translational space between diagnostics and discovery. And our sweet spot has been, can you look at five or six analytes at a time and come up in this transitional area where, you know the proteins you're trying to identify, but you want to identify them at depth with high sensitivity for a trial or for drug research and eventually into diagnostics.

So as we participate in these clinical trials, we think that there's a diagnostic opportunity downstream after a drug is available. And we put, took a big first shot on goal a couple weeks ago when we allowed the P-TAU181 plasma LDT. So it was the first of its kind in the market in North America. And while there's an Alzheimer's drug on the market, we think that there's enough work in the sandbox that has to be done at a regulatory level or at a controlled level. That's going to be required before a drug is available. So we don't think it's a lot of revenue this year, but it's – that we put out that out there and it's going to help our research and pharma business.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. What is the path forward for the P-TAU LDT, I mean, I guess there's competition, I suppose, but it's like in different areas of the Alzheimer's market. So I don't know, is that a realistic, a material sort of test to talk about? I mean, if we're like investors or is it just like there, and it's like a use case, I suppose for now.

<<Masoud Toloue, Chief Executive Officer>>

Yeah. I think until a drug is available, the reimbursement for that test is not obviously going to be significant or it's not going to be material revenues. But it's important that we put that out there to show, we have regulatory ambition, we have a direction in the diagnostics. So that we can work with our partners to tailor future diagnostic tests for their therapies.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. And then I'd brought this up when we spoke on Monday, but the investment in diagnostics, LDTs, IVs, et cetera. I mean, is that, do you have to scale back on that now? Is that why I bring up this whole, is it going to be reduced the actual force or sort of like your footprint in diagnostic of the near term? Do you have to like push back – do you have to like kind of pull back a bit?

<<Masoud Toloue, Chief Executive Officer>>

Yeah. I think, before couple weeks ago, we didn't have a diagnostic test on the market other than the LDT that we just launched. So in some ways we are accelerating things with our service laboratory. And we intend, we talked about at the beginning of the year, 181 and or NFL would be done this year. You can obviously get a view of what our next analyte is. We're going to be moving that forward from an LDT perspective. And working with partners that tailor some of these LDTs for those future drugs.

Now, the good news is we're working with a lot of those partners, because there's – again, only one or maybe two technologies out there that you can detect these difficult proteins in plasma. And so we think we have a big mission and we have we have to be driving that diagnostic path and the clinical trial path forward.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. I guess, the near term is going to be all about translational kind of getting with biopharma customers and so forth?

<<Masoud Toloue, Chief Executive Officer>>

That's a big – we think that's going to be a growing part of the business, and that's why it's so important that we're doing this now. For kits and this demand to scale, we have to



have great operational excellence and great manufacturing processes to scale these catalog products.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Got it. And then you kind of touched on this earlier, but what was the funnel like heading into this announcement Monday as well as the – what was the reaction from any customers post Monday?

<<Masoud Toloue, Chief Executive Officer>>

Yeah, I think we've been reaching out last week to our customers. And I think with our top customers, we've reached out and sent messages to that, hey, we are taking a look at this, we've sized it up, we have control over it. We know what we're doing. And we put together this redevelopment program to actually meet this higher standard that's going to be required in the field. And I think that's what is happening is at Quanterix, we're going from a smaller scale to a larger scale. We're going in this translational space to much higher standards that are even required today, because we're in that translation going to these clinical trials, doing more work with pharma and eventually into diagnostics.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Yeah. I mean, maybe just jumping off that, what are the silver linings in this whole situation, I guess in the past few days, like what should we really hold on to be optimistic about the future path forward?

<<Masoud Toloue, Chief Executive Officer>>

I would say that if we assumed lots of erosion in our base, that would say that you have a product that is out there and there's a commodity for it. I think the silver lining in this has taught me as I've come in and spoken to our 20 or top 30 customers. Our customers say, we need you for our research. We need you for our clinical studies and for our work. So let's help you get there, and this is what we need from you. And so that's been very clear Kyle, extraordinarily clear and we see that path and we want to get to that path. And that's what this redevelopment program is all about.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Got you. And again, maybe just for Mike, like the next year or two financial profile, I mean can you get profitability maybe or cash flow breakeven with the current cash position is pretty high. I mean, it's like almost \$100 million?

<<Mike Doyle, Chief Financial Officer>>

Yeah. I mean, look as we think about our cash as we'll get, look for the next year. We are looking at steadily improving margins, declining cash burn, and we're – we ended the

quarter with \$360 million in cash. My guess is we'll burn \$75 million this year, Kyle, so that would say there's another \$35 million going against that. So we have great financial resources from a raise that happened before I joined. And our target is particularly when you get to cash flow breakeven by making these changes we'll get there sooner.

When we took a hard look in the review, what we saw was these costs that we were dragging, the quality related ones; we're going on a linear basis. They were actually pushing our cash flow breaking and point out. I think it's still, we haven't given – we'll give firmer targets and in terms of volume, we think we'll get there but I think we've pulled it back in a bit. And I envision we have more than enough resources right now to get through this and frankly not have a need to raise capital. I want adequate resources to be strategic with investments as well, so I'm very comfortable with that.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Got it. So I guess on that note of like visibility, historically Quanterix has had a bunch of consumables revenue, very recurring in nature. When you look at – when you look at like 2023 and the 2024, when you forecast double-digit growth, top line growth, how like certain are you or how visible was that to you guys at this point?

<<Mike Doyle, Chief Financial Officer>>

I think look, I think part of it is the confidence in terms of getting the quality issues fixed because I think right now we're really trying to do is manage demand. So the demand is still there to the point Masoud made earlier we feel really good about the technology. We think we're still in a preeminent position, so we're really trying to manage demand during this timeframe. And the idea is once we can resolve the quality issues; we essentially can sort of unleash the engine and get right back into it. And so we feel really good about that and there's nothing on the horizon right now from a competitive standpoint that that we say is going to jeopardize it. Maybe that changes but for right now we feel pretty good about our position.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Got it. Okay. Maybe I think we have a minute or so left. We've done – we got overlook a lot, very comprehensive kind of overview of what has happened recently, as well as the company itself. Any like, takeaways for Investors, Masoud that you feel like and we should really going forward that we should believe kind of hold onto and then feel good about?

<<Masoud Toloue, Chief Executive Officer>>

Yeah. Absolutely, Kyle and I did want to emphasize, Simoa Technology is unparalleled, right? A single molecule identification, there isn't anything out there that's like it. And I think that is one of the reasons Kyle, why I came to the company, is that this is a great technology. You can detect biomarkers early and as this whole advent of new more

biomarkers whether it's genomics or proteomics or metabolomics. There are going to be more of these biomarkers and that's going to affect health. Simoa plays a key role on the protein side, which is closest to disease. That technology continues to be sound. We are at a scaling – have some scaling challenges right now, but that doesn't change both where we want to go. It doesn't change the market. It doesn't change that demand. We need to go now, put our heads down, execute operationally. That'll take longer than we initially anticipated but in 2023 we're coming back and we're able to meet that demand.

<<Kyle Mikson, Analyst, Canaccord Genuity Group Inc.>>

Okay. I guess we can leave it there. Thanks Masoud. Thanks Mike.

<<Mike Doyle, Chief Financial Officer>>

Thanks Kyle.

<<Masoud Toloue, Chief Executive Officer>>

Good talking to you.

<<Mike Doyle, Chief Financial Officer>>

Appreciate it.