Cassie Corneau
Director, Head of Investor Relations and Strategic Finance

Thank you and good afternoon everyone. Earlier today, 10x Genomics released financial results for the first quarter ended March 31, 2024. If you have not received this news release, or if you would like to be added to the company's distribution list, please send an email to investors@10xgenomics.com. An archived webcast of this call will be available on the investor tab of the company's website, 10xgenomics.com, for at least 45 days following this call.

Before we begin, I'd like to remind you that management will make statements during this call that are forward looking statements within the meaning of Federal Securities Laws. These statements involve material risks and uncertainties that could cause actual results or events to materially differ from those anticipated and you should not place undue reliance on forward-looking statements. Additional information regarding these risks, uncertainties and factors that could cause results to differ appears in the press release 10x Genomics issued today – and in the documents and reports filed by 10x Genomics from time to time with the Securities and Exchange Commission.

10x Genomics disclaims any intention or obligation to update or revise any financial projections or forward-looking statements, whether because of new information, future events or otherwise.

Joining the call today are: Serge Saxonov, our CEO and Co-Founder and Justin McAnear, our Chief Financial Officer.

We will host a question-and-answer session after our prepared remarks. We ask analysts to please keep to one question so that we may accommodate everyone in the queue.

With that, I will now turn the call over to Serge.

Serge Saxonov
Chief Executive Officer, Co-founder

Thanks, Cassie, and good afternoon, everyone. During today's call, I'll start with an overview of our first quarter progress and performance, highlighted by the launch of four major new products that we believe set a new standard for single cell and spatial biology. Next, I will discuss the exciting opportunities we have ahead across our three platforms and the steps we're taking to deliver on this future. Then, I'll turn the call over to Justin for a more detailed look at our financials, business trends and outlook for the rest of the year.

For the first quarter, total revenue grew 5% to $141 million. We continued to drive strong growth in Spatial, led by our Visium franchise and the highly anticipated launch of Visium HD. We also saw strong interest in our new Chromium GEM-X technology, which delivers substantially higher performance at a lower price. A significant number of customers trialed the new architecture, contributing to lower-than-expected quarter-end orders for Chromium overall. Despite the near-term sales impact, we believe GEM-X will invigorate Chromium growth over the long term and ultimately enable wider single cell adoption.

And while we're working to deliver on the vast opportunity ahead in Chromium, our strategy has always been focused on the strength of the entire portfolio and on providing the full breadth of our capabilities to customers. With our three complementary platforms in single cell and spatial, we are committed to innovation that enables the scale and resolution necessary for researchers to better understand biology and disease. We believe that we're still early in this opportunity and in the adoption of these tools.

This year, we're introducing franchise-defining products in each platform to enhance our performance leadership and accelerate long-term growth. These products are a testament to the enduring strength and velocity of our innovation engine and its value for customers around the world. These launches also reflect how we listen closely to customers' feedback and build products that are most responsive to their needs.

Let me highlight a few of our latest advances and how we expect them to extend our technology leadership.

First, we were thrilled to officially start shipping Visium HD at the end of March. For our team, there is really no better feeling than seeing new products in the hands of researchers. That's especially true here: Visium HD has not only been the most requested product in our history, but also one of the most ambitious development projects we've ever taken on. It is precisely the kind of challenge 10x was built for. It is yet another example of our ability to tackle hard problems and arrive at the best solution possible for our customers and their research.

Visium HD enables whole transcriptome spatial analysis at single cell-scale resolution. It runs on existing CytAssist instruments, leverages the same robust and easy-to-use workflow as standard Visium, and brings the field of spatial discovery to a whole new level. While it's still very early, we are really pleased with the strong initial demand and tremendous enthusiasm we are seeing from our customers. The positive momentum further fuels our ambition to establish Visium HD as the platform for translational discovery.

This quarter, we also continued to deliver on our robust Xenium R&D pipeline. We began shipping both our multimodal Cell Segmentation product and our new immuno-oncology gene panel in March.

Cell Segmentation includes an add-on kit compatible with existing Xenium assays. It leverages advances in assay chemistry and sophisticated machine learning algorithms to significantly improve the determination of cell boundaries using multiple morphological features and modalities. While Xenium launched with a robust nuclear-based segmentation approach, many researchers had been waiting for this new solution to enable the most accurate biological interpretation for their Xenium runs.

Xenium is already well-recognized as the In Situ performance leader, and there is still much more to come. We're planning to launch our 5,000-plex capability mid-year, scaling up plex by an order of magnitude while still delivering high quality, sensitivity, specificity and throughput. We're also developing panels of 1,000 to 2,000 genes to give customers even more options and flexibility. We're moving forward with integrated protein profiling, which will significantly expand Xenium's existing protein capabilities. And longer term, we have architected Xenium to allow for tremendous technological headroom and enable more applications, higher throughput and lower cost.

With the long-awaited launch of Visium HD, the performance of Xenium in the field, and the interest and buzz around the Xenium pipeline, it's clear we're in the forefront of the spatial biology revolution. We're seeing some cutting-edge researchers and technologists start to reprioritize their team's resources and mindshare from single cell approaches to explore how spatial methods can push their research forward. We're also seeing spatial resonate with new researchers who have never done single cell or other genomics work before.

Take this year's Annual Meeting of the American Association of Cancer Research, or AACR, for example. There was resounding energy and conviction in spatial, which emerged as a huge theme of the conference. In fact, the majority of the plenary sessions featured or referenced 10x spatial data.

This burgeoning interest in spatial is drawing the attention of both new and existing customers, and we have work to do to ensure we can satisfy that interest and drive growth across the portfolio.

Turning to Single Cell, and the launch of our new GEM-X technology – the first major overhaul to our Chromium architecture since 2019. With its completely reengineered microfluidic chip design, GEM-X delivers superior performance at larger scale and lower cost.

In March, we began shipping the first two products on GEM-X: Our highest volume Chromium assays, 3' Gene Expression and 5' Immune Profiling. These assays take single cell analysis to the next level, giving researchers meaningful performance advantages across the board – from increased sensitivity and capture efficiency to improved robustness and scalability, all at a lower cost. In fact, the new technology provides researchers a more than two-fold reduction in cost per cell.

We believe GEM-X raises the bar for the field and sets a new standard for single cell analysis. Our customers have been eager to see – and validate – this for themselves. In Q1, more customers than expected trialed GEM-X to see first-hand the power of this technology on their own samples. And more recently, customers, including the Fred Hutch Innovation Lab, have started to share their own independent comparisons of GEM-X and our NextGEM technology, verifying our performance claims. We are encouraged by the early enthusiasm, adoption and feedback on GEM-X, despite the near-term headwinds as we help customers navigate this product transition.

GEM-X delivers great value to customers now and opens up meaningful possibilities to expand the field long term. As we have said before, we believe there is significant price elasticity in single cell, which presents a significant long-term opportunity for broader adoption. GEM-X is one of several steps we have planned to take advantage of the elasticity. By delivering superior performance and superior economics, we believe GEM-X will help us enable larger projects, reach new customers and encourage more routine use among existing researchers. We fully intend to expand the single cell opportunity through our robust Chromium roadmap and other efforts to drive better awareness and broader adoption at large scale. Put simply: Our goal is to make single cell analysis the standard for most biological research.

While we believe there's huge untapped potential for single cell, our conviction is not just in Chromium. It's in the combined performance, leadership and differentiation of all three platforms together. Our strategy has always been about the power of the full portfolio and the choice it enables for customers. Our goal is to ensure that researchers – and ultimately clinicians – have access to a comprehensive suite of the best performing products to resolve biology in the way that's best for their work. We intentionally designed distinct yet complementary platforms to support a broad spectrum of customers' use cases and how their research – and research questions – may evolve over time.

The strength of our execution in R&D and Operations has enabled us to deliver a full portfolio of groundbreaking products, and as we continue to evolve our Commercial execution, it will better position us to maximize and deliver on the incredible potential ahead. We believe there are clear opportunities to drive growth, utilization and scale with existing customers; to bring new researchers into the 10x ecosystem; and to accelerate translational and biopharma opportunities.

Owkin's MOSAIC study, which we first announced in November, is a powerful example of the progress we're making in translational applications. This large-scale project is on track to complete spatial profiles on thousands of tumor samples, across seven different cancer indications, by the end of the year. The team is looking to discover biomarkers and to build predictive models that could transform how we diagnose, treat and ultimately cure cancer.

In addition, we firmly believe there's a long runway ahead for single cell methods in biopharma. Importantly, we are not the only ones who share this conviction. Some of our pharma customers recently published on the value and impact of our products in therapeutic development. Sanofi reported that 90 percent of the company's disease targets are credentialed using single-cell genomics.

A recent preprint in MedRxiv helps shed light on why. The study analyzed single cell data across 30 diseases and 13 tissues, to examine associations between genes, cell types and diseases. They found that support from single cell analysis significantly increased the odds of clinical success for a given gene to be a viable drug target. In fact, the authors estimate that their approach could approximately triple the chances of a drug target reaching a phase III clinical trial.

So while we have established strong beachheads in translational and biopharma, it's still very early relative to the expected large potential. With all of the advances in our portfolio, we're in a better position than we've ever been to deliver. As one customer at AACR told me, "FFPE changes everything." Our FFPE capabilities – available on all three platforms – open up vast archives of biobanked samples, along with exciting possibilities for new biological discoveries. These capabilities reflect – yet again – how we listen to our customers, think deeply about their research, and build innovative products to accelerate and advance their work.

We believe the long-term potential for single cell and spatial is boundless. While we're focused on delivering in 2024, we will remain steadfast in maintaining the long-term orientation that has always guided us. I have every confidence when I say we are still just getting started.

With that, let me turn it over to Justin.

Justin McAnear
Chief Financial Officer

Thank you, Serge.

I'll start by reviewing our financial results for the three months ended March 31, 2024, and will then provide an update on our outlook for 2024. All growth rates provided will be on a year-over-year basis, unless otherwise noted.

Total revenue for the quarter was $141.0 million, up 5%. At a high level, the quarter played out largely in line with total revenue expectations, with stronger contributions from Spatial partially offsetting lower Chromium contributions.

Looking at our revenue breakout, total consumables revenue was $110.3 million, down 2%.

Spatial consumables revenue was $26.4 million, up 134%. This growth was driven primarily by our Xenium platform along with strong adoption of Visium HD, which started shipping at the end of Q1.

Chromium consumables revenue was $83.9 million, down 17%.

Some of this year-over-year decline was expected. As discussed on our year-end earnings call in mid-February, we anticipated headwinds for Chromium revenue in the first quarter while customers began their transition to the new GEM-X products. As part of this transition, we anticipated that customers would trial GEM-X and would not stock up on either the legacy or newly introduced products at quarter end. While we believe this increased trialing created stronger headwinds for Chromium consumables in Q1, we are nonetheless encouraged by the initial adoption and enthusiastic feedback from customers thus far. The lower price of GEM-X will continue to drive some near-term revenue pressure, but over time we believe there is elasticity that will more than offset the lower price.

We also believe that the stronger than anticipated Spatial demand took some customer mind and wallet share away from Chromium this quarter. As Serge shared, we are seeing both new and existing customers prioritize Spatial studies given the burgeoning interest in the space. How this plays out over time remains to be seen, but we continue to believe in the power of our full portfolio and offering customers a comprehensive suite of products to fit various needs.

Moving onto instruments, total instrument revenue increased 33% to $25.5 million.

Spatial instrument revenue was up 133% to $17.6 million primarily driven by Xenium instrument placements. We also saw sustained demand for our CytAssist instruments, as customers purchased the instrument along with Visium HD consumables.

Chromium instrument revenue was $7.9 million, down 32%, driven by fewer units sold.

Services revenue was $5.2 million, up 91%, driven by increased service contracts revenue and increased Xenium instrument training and installation revenue.

Looking at our revenue by geography, Americas revenue grew 1% to $79.6 million. EMEA revenue grew 22% to $34.7 million. And revenue in APAC decreased 2% to $26.7 million.

Turning to the rest of the income statement. Gross profit for the first quarter was $92.9 million compared to $98.4 million for the prior year period. Gross margin declined to 66% compared to 73% in the first quarter of 2023, primarily due to a change in product mix driven by Xenium instruments.

Total operating expenses for the first quarter increased to $154.4 million compared to $150.4 million for the prior year period, driven by higher legal expenses and costs for facilities and IT, partially offset by lower personnel expenses.

R&D expenses increased slightly to $68.6 million compared to $67.1 million for the prior year period, primarily driven by higher facilities and IT costs and increased personnel related expenses.

SG&A expenses increased to $85.8 million compared to $83.3 million for the prior year period, primarily driven by increased outside legal expenses and higher facilities and IT costs, offset by a decrease in personnel related expenses.

Operating loss for the first quarter was $61.5 million compared to a loss of $52.0 million in the first quarter last year. This includes $36.1 million of stock-based compensation compared to $42.1 million of stock-based compensation for the corresponding prior year period.

Net loss for the period was $59.9 million compared to a net loss of $50.7 million for the first quarter of 2023.

We ended the quarter with $371.8 million in cash and cash equivalents and marketable securities. We burned $17 million of cash over the course of Q1, while making a $20 million payment in January related to the asset acquisition that we recognized in Q4 2023.

Turning to our outlook for 2024, we continue to expect full year revenue to be in the range of $670 to $690 million, representing growth of 8% to 12% over full year 2023. We believe this range represents a balanced view for the year. It incorporates both the upside we've seen in Spatial and the headwinds we are experiencing now in Chromium, which we expect to continue into Q2 as additional customers trial and transition to GEM-X.

When looking out over the next 12 months, we are anticipating about $15 million to $20 million of total capital expenditures.

We are maintaining cash discipline in 2024. Overall, we believe we have a great setup to drive positive cash flow for the year while making targeted investments to continue driving growth. Ultimately, our goal is to self-fund our innovation and scale by investing cash generated back into our business.

At 10x, we continue to be laser-focused on execution to drive growth and impact. We are excited about the strong enthusiasm for the products we launched in Q1 and look forward to providing more updates on our progress throughout the year.

With that, we will now open it up for questions. Operator?

Forward Looking Statements

This communication contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. All statements included in this communication, other than statements of historical facts, may be forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "might," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential," "would," "likely," "seek" or "continue" or the negatives of these terms or variations of them or similar terminology, but the absence of these words does not mean that a statement is not forward-looking. These forward-looking statements include statements regarding 10x Genomics, Inc.'s product momentum and progress, our expected performance advantages and benefits of using our products and services, customer enthusiasm and adoption of our products and our financial performance and results of operations, including our expectations regarding revenue and guidance. These statements are based on management's current expectations, forecasts, beliefs, assumptions and information currently available to management, and actual outcomes and results could differ materially from these statements due to a number of factors. The material risks and uncertainties that could affect 10x Genomics, Inc.'s financial and operating results and cause actual results to differ materially from those indicated by the forward-looking statements made in this communication include those discussed under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the company's most recently-filed 10-K and elsewhere in the documents 10x Genomics, Inc. files with the Securities and Exchange Commission from time to time.

Although 10x Genomics, Inc. believes that the expectations reflected in the forward-looking statements are reasonable, it cannot provide any assurance that these expectations will prove to be correct nor can it guarantee that the future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or occur. These forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments 10x Genomics may make. The forward-looking statements in this communication are based on information available to 10x Genomics, Inc. as of the date hereof, and 10x Genomics, Inc. disclaims any obligation to update any forward-looking statements provided to reflect any change in our expectations or any change in events, conditions, or circumstances on which any such statement is based, except as required by law. These forward-looking statements should not be relied upon as representing 10x Genomics, Inc.'s views as of any date subsequent to the date of this communication.