



Natera Reports Third Quarter 2020 Financial Results

November 5, 2020

SAN CARLOS, Calif., Nov. 5, 2020 /PRNewswire/ -- Natera, Inc. (NASDAQ: NTRA), a pioneer and global leader in cell-free DNA testing, today reported financial results for the third quarter ended September 30, 2020 and provided an update on recent business progress.



Recent Accomplishments & Highlights

- Processed approximately 262,000 tests in the third quarter of 2020 compared to approximately 200,200 tests processed in the third quarter of 2019, an increase of 31%.
- Generated total revenues of \$98.1 million in the third quarter of 2020 compared to \$77.9 million in the third quarter of 2019, an increase of 26%. Generated product revenues of \$93.3 million in the third quarter of 2020 compared to \$66.9 million in the third quarter of 2019, an increase of 39.5%.
- Practice Bulletin published by American College of Obstetrics and Gynecology (ACOG) and Society of Maternal Fetal Medicine (SMFM) supporting use of Non-Invasive Prenatal Testing (NIPT) for all pregnancies.
- Received positive final coverage decision from Medicare for Signatera™ in colorectal cancer and commenced full commercial launch.
- Received draft local coverage determination from Medicare for Signatera in immunotherapy monitoring.
- Presented new Signatera data at the 2020 European Society for Medical Oncology.
- Announced two prospective phase 2 trials to evaluate early stage breast cancer patients with leading pharmaceutical companies.
- Successfully completed \$287.5 million follow-on equity offering.

"Q3 was an exceptional quarter," said Steve Chapman, Natera's Chief Executive Officer. "We delivered a significant increase in volumes over an already strong second quarter. We are pleased with the initial positive reaction to the ACOG/SMFM Practice Bulletin, and continue to execute nicely on our oncology and organ health commercialization plans. After years of hard work, we're now seeing the new businesses contribute to our strong revenue growth. We are very excited about our current trajectory and are significantly raising our 2020 revenue guidance."

Third Quarter Ended September 30, 2020 Financial Results

Total revenues were \$98.1 million in the third quarter of 2020 compared to \$77.9 million for the third quarter of 2019. The increase in total revenues was driven primarily by a 39.5% increase in product revenues compared to the third quarter of 2019. Natera processed 262,000 tests in the third quarter of 2020, including approximately 249,300 tests accessioned in its laboratory, compared to 200,200 tests processed in the third quarter of 2019 including approximately 187,200 tests accessioned in its laboratory.

In the three months ended September 30, 2020, Natera recognized revenue on approximately 238,600 tests for which results were reported to customers in the period (tests reported), including approximately 226,700 tests accessioned in its laboratory, compared to approximately 189,600 tests reported, including approximately 178,000 tests accessioned in its laboratory, in the third quarter of 2019.

Gross profit* for the three months ended September 30, 2020 and 2019 was \$46.3 million and \$34.0 million, respectively, representing approximately 47% and 44% gross margin*, respectively. The company was able to achieve higher margins in the third quarter of 2020 primarily due to improved cost of goods sold per test and increased revenues.

Total operating expenses, representing research and development expenses and selling, general and administrative expenses, for the third quarter of 2020 were \$102.1 million, compared to \$69.5 million in the same period of the prior year. The increases were primarily driven by headcount growth to support new product offerings.

Loss from operations for the third quarter of 2020 was \$55.8 million compared to \$21.1 million for the same period of the prior year, which included a gain from the sale of the Evercord cord blood banking business of approximately \$14.4 million.

Net loss for the third quarter of 2020 was \$58.3 million, or (\$0.72) per diluted share, compared to net loss of \$23.1 million, or (\$0.33) per diluted share, for the same period in 2019. Weighted average shares outstanding were approximately 80.9 million in the third quarter of 2020.

At September 30, 2020, Natera held \$809.7 million in cash, cash equivalents, short-term investments and restricted cash, compared to \$441.0 million

as of December 31, 2019. As of September 30, 2020, Natera had a total outstanding debt balance of \$250.0 million, comprised of \$50.1 million with accrued interest under its \$50.0 million line of credit with UBS at a variable interest rate of 30-day LIBOR plus 110 bps and a net carrying amount of \$200.0 million under its seven-year convertible senior notes. The convertible senior notes were issued in April 2020 for net proceeds of \$278.9 million, of which a portion was used to repay the \$79.2 million obligations under the company's 2017 term loan with OrbiMed Advisors. The gross principal balance outstanding for the convertible senior notes was \$287.5 million as of September 30, 2020.

Financial Outlook

Natera anticipates 2020 total revenue of \$380 million to \$390 million; 2020 cost of revenues to be approximately 51% to 54% of revenues; selling, general and administrative costs to be approximately \$270 million to \$280 million; research and development costs to be \$90 million to \$95 million, and net cash burn to be \$140 million to \$150 million**.

* Gross profit is calculated as GAAP total revenues less GAAP cost of revenues. Gross margin is calculated as gross profit divided by GAAP total revenues.

** Cash burn is calculated as the sum of GAAP net cash used by operating activities (estimated for 2020 to be between \$132 million and \$142 million) and GAAP net purchases of property and equipment (estimated for 2020 to be approximately \$8 million).

Test Volume Summary

Unit	Q3 2020	Q3 2019	Definition
Tests processed	262,000	200,200	Tests accessioned in our laboratory plus units processed outside of our laboratory
Tests accessioned	249,300	187,200	Test accessioned in our laboratory
Tests reported in our laboratory	226,700	178,000	Total tests reported in our laboratory less units reported outside of our laboratory including Evercord units in prior periods

About Natera

[Natera](#) is a global leader in cell-free DNA testing. The mission of the company is to change the management of disease worldwide with a focus on women's health, oncology, and organ health. Natera operates an ISO 13485-certified and CAP-accredited laboratory certified under the Clinical Laboratory Improvement Amendments (CLIA) in San Carlos, Calif. It offers proprietary genetic testing services to inform obstetricians, transplant physicians, oncologists, and cancer researchers, including biopharmaceutical companies, and genetic laboratories through its cloud-based software platform.

Conference Call Information

Event: Natera's Third Quarter 2020 Financial Results Conference Call
 Date: Thursday, November 5, 2020
 Time: 1:30 p.m. PT (4:30 p.m. ET)
 Live Dial-In: (877) 823-0171, Domestic
 (617) 500-6932, International
 Conference ID: 7780257
 Webcast: <https://edge.media-server.com/mmc/p/dpgmrrrok>

Forward-Looking Statements

This release contains forward-looking statements, including regarding the company's business operations in light of the COVID-19 pandemic. Any forward-looking statements contained in this release are based upon Natera's current plans, estimates, and expectations, as of the date of this release, and are not a representation that such plans, estimates, or expectations will be achieved. Subsequent events may cause these expectations to change, and Natera disclaims any obligation to update the forward-looking statements in the future.

These forward-looking statements are subject to known and unknown risks and uncertainties that may cause actual results to differ materially, including: we face numerous uncertainties and challenges in achieving our financial projections and goals; we may be unable to maintain our business and operations as planned in light of the COVID-19 pandemic; we may be unable to further increase the use and adoption of Panorama and Horizon, through our direct sales efforts or through our laboratory partners, or to develop and successfully commercialize new products, including Signatera and Prospera; we have incurred losses since our inception and we anticipate that we will continue to incur losses for the foreseeable future; our quarterly results may fluctuate from period to period; our estimates of market opportunity and forecasts of market growth may prove to be inaccurate; we may be unable to compete successfully with existing or future products or services offered by our competitors; we may not be successful in commercializing our cloud-based distribution model; our products may not perform as expected; the results of our clinical studies, including our SNP-based Microdeletion and Aneuploidy RegisTry, or SMART, Study, may not be compelling to professional societies or payors as supporting the use of our tests, particularly in the average-risk pregnancy population or for microdeletions screening, or may not be able to be replicated in later studies required for regulatory approvals or clearances; if our primary CLIA-certified laboratory facility becomes inoperable, we will be unable to perform our tests and our business will be harmed; we rely on a limited number of suppliers or, in some cases, single suppliers, for some of our laboratory instruments and materials and may not be able to find replacements or immediately transition to alternative suppliers; if we are unable to successfully scale our operations, our business could suffer; the marketing, sale, and use of Panorama and our other products could result in substantial damages arising from product liability or professional liability claims that exceed our resources; we may be unable to expand third-party payer coverage and reimbursement for Panorama, Horizon and our other tests, and we may be required to refund reimbursements already received; third-party payers may withdraw coverage or provide lower levels of reimbursement due to changing policies, billing complexities or other factors, such as the increased focus by third-party payers on requiring that prior authorization be obtained prior to conducting a test; if the FDA were to begin

actively regulating our tests, we could incur substantial costs and delays associated with trying to obtain premarket clearance or approval and incur costs associated with complying with post-market controls; litigation or other proceedings, resulting from either third party claims of intellectual property infringement or third party infringement of our technology, is costly, time-consuming and could limit our ability to commercialize our products or services; any inability to effectively protect our proprietary technology could harm our competitive position or our brand; and we cannot guarantee that we will be able to service and comply with our outstanding debt obligations or achieve our expectations regarding the conversion of our outstanding convertible notes.

Additional risks and uncertainties that could affect our financial results are included under the captions, "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent filings on Forms 10-K and 10-Q and in other filings that we make with the SEC from time to time. These documents are available on our website at www.natera.com under the Investor Relations section and on the SEC's website at www.sec.gov.

Natera assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

Contacts

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Investor Relations

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Natera, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	September 30, December 31,	
	2020	2019
	(Unaudited)	(1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 209,351	\$ 61,926
Restricted cash	178	55
Short-term investments	600,205	379,065
Accounts receivable, net of allowance of \$3,080 in 2020 and \$2,919 in 2019	70,674	53,351
Inventory	20,377	12,394
Prepaid expenses and other current assets, net	15,227	16,376
Total current assets	916,012	523,167
Property and equipment, net	28,249	23,283
Operating lease right-of-use assets	20,296	23,730
Other assets	12,156	12,476
Total assets	<u>\$ 976,713</u>	<u>\$ 582,656</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 9,250	\$ 8,604
Accrued compensation	22,450	16,088
Other accrued liabilities	62,893	49,043
Deferred revenue, current portion	51,227	56,016
Short-term debt financing	50,052	50,123
Total current liabilities	195,872	179,874
Long-term debt financing	199,959	73,656
Deferred revenue, long-term portion	23,128	23,808
Operating lease liabilities, long-term portion	21,444	26,297
Other long-term liabilities	310	310
Total liabilities	440,713	303,945
Commitments and contingencies		
Stockholders' equity:		
Common stock (2)	9	8
Additional paid in capital	1,383,727	976,955
Accumulated deficit	(852,906)	(699,171)
Accumulated other comprehensive income	5,170	919
Total stockholders' equity	<u>536,000</u>	<u>278,711</u>
Total liabilities and stockholders' equity	<u>\$ 976,713</u>	<u>\$ 582,656</u>

(1)The condensed, consolidated balance sheet at December 31, 2019 has been derived from the audited consolidated financial statements at that date included in the company's Annual Report on Form 10-K for the year ended December 31, 2019.

(2)As of September 30, 2020, there were approximately 85,281,000 shares of common stock issued and outstanding.

Natera, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(in thousands, except per share data)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
Revenues				
Product revenues	\$ 93,286	\$ 66,936	\$ 260,746	\$ 195,399
Licensing and other revenues	4,857	10,973	17,881	23,689
Total revenues	98,143	77,909	278,627	219,088
Cost and expenses				
Cost of product revenues	46,873	40,138	131,124	123,125
Cost of licensing and other revenues	4,948	3,742	12,614	7,883
Research and development	26,421	12,796	67,651	36,355
Selling, general and administrative	75,678	56,715	209,547	147,589
Gain from disposal of business	—	(14,388)	—	(14,388)
Total cost and expenses	153,920	99,003	420,936	300,564
Loss from operations	(55,777)	(21,094)	(142,309)	(81,476)
Interest expense	(4,270)	(2,672)	(10,772)	(8,117)
Interest and other income, net	1,749	673	5,661	1,962
Loss on debt extinguishment	—	—	(5,848)	—
Loss before income taxes	(58,298)	(23,093)	(153,268)	(87,631)
Income tax expense	(25)	(44)	(63)	(2,013)
Net loss	\$ (58,323)	\$ (23,137)	\$ (153,331)	\$ (89,644)
Unrealized gain (loss) on available-for-sale securities, net of tax	(600)	63	4,251	1,410
Comprehensive loss	\$ (58,923)	\$ (23,074)	\$ (149,080)	\$ (88,234)
Net loss per share:				
Basic and diluted	\$ (0.72)	\$ (0.33)	\$ (1.93)	\$ (1.33)
Weighted-average number of shares used in computing basic and diluted net loss per share:				
Basic and diluted	80,908	70,456	79,430	67,198

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