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PRESENTATION

Operator

Greetings, and welcome to the Fulgent Genetics Q4 2024 conference call and webcast. (Operator Instructions)

As a reminder, this conference is being recorded. It's now my pleasure to turn over to your host Melanie Solomon, Investor Relations. Please go ahead.

Melanie Solomon - *Fulgent Genetics Inc - IR Contact Officer*

Thanks, Kevin. Good morning, and welcome to the Fulgent's fourth-quarter and full-year 2024 financial results conference call. On the call today are Ming Hsieh, Chief Executive Officer; Paul Kim, Chief Financial Officer; and Brandon Perthuis, Chief Commercial Officer.

The company's press release discussing the financial results is available on the Investor Relations section of the company's website, ir.fulgentgenetics.com. A replay of this call will be available shortly after the call concludes on the Investor Relations section of the company's website.

Management's prepared remarks and answers to your questions on today's call will contain forward-looking statements. These forward-looking statements represent management's estimates based on current views, expectations and assumptions, which may prove to be incorrect.

As a result, matters discussed in any forward-looking statements are subject to risks, uncertainties and changes in circumstances that may cause actual results to differ from those described in the forward-looking statements. The company assumes no obligation to update any of the forward-looking statements it may make today to reflect actual results or changes in expectations.

Listeners should not rely on any forward-looking statements as predictions of future events and should listen to management's remarks today with the understanding that actual events, including the company's actual future results, may be materially different than what is described in or implied by these forward-looking statements.

Please review the more detailed discussions related to these forward-looking statements, including the discussions of some of the risk factors that may cause results to differ from those described in the forward-looking statements contained in the company's filings with the Securities and Exchange Commission, including the previously filed 10-K for the year ended December 31, 2023, and subsequently filed reports, which are available on the company's Investor Relations website.

Management's prepared remarks, including discussions of earnings and earnings per share, contain financial measures not prepared in accordance with accounting principles generally accepted in the United States or GAAP.

Management has presented these non-GAAP financial measures because it believes they may be useful to investors for various reasons, but these measures should not be viewed as a substitute for or superior to the company's financial results prepared in accordance with GAAP.

Please see the company's press release discussing its financial results for the fourth quarter and full year 2024 for more information, including the description of how the company calculates non-GAAP income or loss, earnings or loss per share, non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating profit or loss and margin and adjusted EBITDA and a reconciliation of these financial measures to income or loss, earnings or loss per share and operating margin, the most directly comparable GAAP financial measures.

With that, I'd now like to turn the call over to Ming.

Ming Hsieh - *Fulgent Genetics Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Melanie. Good morning, and thank you for joining our call today. I will start with some comments on the fiscal year 2024 and our two business lines. Then Brandon will review our product and go-to-market updates for our laboratory service business in the fourth quarter and 2024, and Paul will conclude with the financials and outlook before taking your questions.

We are pleased with our results for the fourth quarter and the year. We have shown growth in laboratory service business for the year and have good momentum in 2025 as we continue to invest in business. In our therapeutic development business, we now have a clinical pipeline. In 2024, we begin Phase 2 clinical trial of FID-007 in combination with Cetuximab in patients with recurrent or metastatic head and neck squamous cell carcinoma. So far, we have dosed 17 patients in this trial and are very encouraged by the preliminary results, which we anticipate to publish at the upcoming ASCO meeting in June. We expect to complete enrollment up to 46 patients by late 2025. We'll continue to estimate the total clinical trial costs for the Phase 2 trial to be approximately \$10 million.

Our second clinical candidate is FID-022, a nanoencapsulated SN-38 for the treatment of solid tumors, including potentially colon, pancreatic, ovarian and bile duct cancers. We submitted an investigational new drug application to US FDA in December 2024, and it was cleared in January 2025. We expect to enroll the first patient in the Phase 1 trial in the second quarter of 2025. We expect the trial cost for the Phase 1b trial is approximately \$8 million.

As a reminder, our drug candidates were formed with our novel nano encapsulation technology, which includes many issued active patents and active patent applications and the target therapeutic platform designed to improve therapeutic windows and the pharmacokinetics profile of both new and existing cancer drugs.

I'm excited about the progress we are making in our clinical pipeline and the potential for both FID-007 and FID-022. We are targeting heavily pretreated patients with few options left, and I hope we will be able to provide additional treatment options to further their life. Our anticipated cost for this program is very reasonable, and we believe our investment will be rewarded.

Finally, we have made a significant advancement in the development of antibody drug conjugates using our novel patent linker and payload platform technology. In preclinical study, we observed our ADC have better efficacy over various tumors with a broad range of targeting antigen expression level when compared with some of the upper ADC benchmarks on the market.

At the same time, ADC honing to novel targets using our novel platform technology are also being prepared for the goal of generating leading candidates for the clinical trials. Overall, I'm pleased with the growth we have seen year-over-year in our core laboratory services business and the progress we have made with our therapeutic development business.

We continue to be in a strong financial position to execute our strategy. I would like to thank our employees, partners and stakeholders for your hard work and loyalty in a great year for our business. We look forward to further progress in 2025.

I will now turn the call over to Brandon Perthuis, our Chief Commercial Officer, to talk more about our laboratory services businesses. Brandon?

Brandon Perthuis - *Fulgent Genetics Inc - Chief Commercial Officer*

Thanks, Ming. It was another strong quarter for Fulgent and a strong close to the year, delivering fourth quarter growth of 14% year-over-year and 6% growth sequentially, in addition to slightly exceeding our annual core revenue guidance of \$280 million.

Throughout the year, we executed on both the commercial and operational front. I'll discuss each as we break down and reflect on our three business areas within laboratory services. First, Anatomic Pathology had a great quarter, growing sequentially 9% as a result of our revised go-to-market plan. We believe this quarterly growth outpaced the market. We did scale the sales team throughout the year and plan to continue to do so in 2025.

This team was successful in driving new business by taking our excellent turnaround time and quality to physician clients who are not receiving the same level of service from their previous lab. To put it in perspective, it was not uncommon for our sales team to uncover accounts who are receiving two to three week turnaround time from another lab while we were delivering two to three day turnaround time.

Our sales team has built a robust pipeline of opportunities, which we believe will lead to continued momentum. In addition, we took several steps throughout the year to improve operational efficiency, including relocating our lab to our recently purchased building in Coppell, Texas and consolidating our New York lab into the Coppell operation.

Overall, we're pleased with the performance of our AP business and are optimistic about its future. Turning to Precision Diagnostics. This area continues to expand, delivering fourth quarter growth of 23% year-over-year, while flat sequentially. The sequential performance was in large part due to the timing of several new client wins that were pushed into early 2025.

Reproductive health outpaced some of our other tests due to the market adoption of our Beacon Expanded Carrier Screening product. Even with the strong growth in Beacon, we consistently delivered on our turnaround time and maintained exceptional quality. This is a true testament to our technology platform and operational excellence.

We also recently launched a significant new product, exome and genome RISE. RISE stands for RNA-Integrated Sequence Evaluation. With this service, we are co-analyzing the DNA and RNA, which could potentially increase diagnostic yield by as much as 30%. Integrating DNA-centric and RNA-centric analysis maximizes diagnostic utility by assessing the RNA level impact of coding regions, splice site changes and variant in non-coding regulatory regions of phenotypically relevant target genes.

This is a significant improvement and is the first major advancement in exome and genome testing in several years. Our rollout has seen significant interest from clients, and we believe this may be a paradigm shift in how we diagnose rare disease.

Our newly launched novel NIPT test, KNOVA, is performing well with our early adopters. Clinicians are realizing the value of a test that combines anoidies, microdeletions and de novo point mutations, leading to higher detection rates for severe genetic conditions. The focus in 2025 will be to build out the sales team to create additional awareness and demand.

Within our precision diagnostics space, we recently announced a very exciting new partnership with Foundation Medicine. Via this new partnership, Foundation Medicine will be launching two tests, FoundationOne Germline and FoundationOne Germline More. Both tests are powered by Fulgent's proprietary technology platform and analyze single nucleotide and copy number variants.

When combining the Foundation Medicine's comprehensive genomic profiling test, FoundationOne CDx, FoundationOne Liquid CDx, FoundationOne Heme and FoundationOne RNA, germline testing supports health care providers in building a more comprehensive molecular profile for their patients.

Foundation Medicine is one of the largest providers for tumor profiling services, and we are excited to partner with them to bring these germline tests to market. Foundation Medicine plans to begin accepting orders for these tests in March. This is the second partnership we have launched for germline oncology testing after previously announcing the large win with the VA hospitals. We are optimistic these wins can be transformational for oncology volume.

Our biopharma services had an excellent quarter, delivering 56% growth quarter-over-quarter, going from \$3.9 million in the third quarter to \$6.1 million in the fourth quarter. As we've mentioned in previous calls, our capability of biopharma services have drastically expanded, allowing us to address many more client research studies. These capabilities include high-demand services such as proteomic, transcriptomic, spatial biology and more.

While we still see some large swings quarter-to-quarter in this business, it is our hope that in the near future, we can hit a steadier state of growth leveraging an expanded client base and pipeline of opportunities. In closing, we are pleased with our performance in both the fourth quarter and the year. The growth we witnessed this year was organic, leveraging our expanded laboratory capabilities, sales team performance and strategic partnerships.

That said, we continue to evaluate opportunities for M&A and believe our strong balance -- strong cash balance puts us in an enviable position. We'd like to again thank our employees and stakeholders for their dedication, and we look forward to another great year in 2025.

I'll now turn the call over to Paul Kim, our Chief Financial Officer. Paul?

Paul Kim - Fulgent Genetics Inc - Chief Financial Officer

Thank you, Brandon. Full year core revenue, which excludes COVID-19 revenue totaled \$281.2 million, growth of 7% compared to revenue of \$262.1 million in 2023 and slightly exceeding our overall guidance of \$280 million. The full year revenue from our three revenue streams was as follows: \$168 million from Precision Diagnostics, \$97 million from Anatomic Pathology and the remaining \$16 million from biopharma services.

The 2024 GAAP loss was \$42.7 million or a loss of \$1.41 per share. We had non-GAAP income of \$15 million or \$0.49 per share for the year. Now for the quarterly results. Revenue for the fourth quarter totaled \$76.2 million compared to \$70.5 million in the fourth quarter of 2023. Revenue from COVID-19 testing is negligible. Revenue from our core business totaled \$76 million. GAAP gross margin was 41.8% and non-GAAP basis was 44.2%.

Gross margins improved over the course of the year and sequentially showing the benefit of our continued efficiencies and streamlining of our business. Now turning to operating expenses. Total GAAP operating expenses were \$48 million in the fourth quarter compared to \$43.9 million of 2024, primarily related to a reversal of legal accrual and lower R&D spend in Q3.

Non-GAAP operating expenses totaled \$37.4 compared to \$32.9 million in the third quarter of 2024. Non-GAAP operating margin increased approximately 1 percentage-point sequentially to a minus 5%, primarily due to higher revenue and gross margin.

Adjusted EBITDA income for the fourth quarter was approximately \$774,000, compared to a loss of \$6.8 million in the fourth quarter of 2023. On a non-GAAP basis and excluding equity-based compensation expense and intangible asset amortization, income for the quarter was approximately \$1.2 million or \$0.04 per share based on 31.2 million weighted average diluted shares outstanding.

Since the end of the fourth quarter as of today, we have repurchased approximately 185,000 shares at an aggregated cost of \$3.1 million. As of today, a total of approximately \$147 million remain available for future purchases of our common stock under the repurchase program.

Turning to the balance sheet. We ended the fourth quarter and the year with approximately \$828.6 million in cash, cash equivalents, restricted cash and marketable securities. The increase over the third quarter is primarily from federal tax refund received in the fourth quarter.

Moving on to our outlook for 2025. With minimal future revenue from COVID-19 testing expected or guiding to core revenue, which is total laboratory service revenue for the company without COVID-19, we expect total core revenue to be approximately \$310 million for 2025, representing core growth of 10% year-over-year. We expect growth for this year in all areas of our core business, which include precision diagnostics, anatomic pathology and biopharma services.

With recent customer wins, we believe reproductive health testing remains strong and help drive growth in precision diagnostics. Anatomic Pathology experienced a decline in 2024, but ended the year with a strong fourth quarter. We believe this momentum will carry into 2025 although we expect variability from quarter-to-quarter as these services are dependent on patients being treated by health care providers that may experience seasonality.

The biopharma services, which we sell to pharmaceutical businesses is dependent on those partners, so it may be variable from quarter-to-quarter. We have been building this business and expect moderate growth. The expected 2025 revenues from these three areas of the business are estimated as follows: \$187 million from Precision Diagnostics, \$106 million from Anatomic Pathology and the remaining \$17 million from BioPharma Services.

Turning to expected margins for 2025, excluding COVID-19 and stock-based compensation, we expect non-GAAP gross margins for the full year to slightly exceed 40%, continuing the strong momentum we've experienced in recent quarters. We expect to see lower non-GAAP operating margins at approximately minus 15% for the year as we continue to invest in business growth, develop further laboratory operations and enhance our existing laboratory facilities.

We remain focused on managing our spend and continue to believe that our foundational technology platform supports a strong margin profile longer term. We expect associated cash burn for therapeutics development business of approximately \$25 million this year, which is contemplated in our EPS and cash guidance.

We expect our GAAP EPS to be a loss of approximately \$1.95 per share, excluding any future onetime charges using a \$32 million average share count. Utilizing a non-GAAP tax provision and average share count of \$32 million, we expect our full year 2025 to be at a non-GAAP loss of \$0.65 per share, excluding stock-based compensation impairments and amortization of intangible assets as well as any one-time charges.

Finally, our cash position remains strong. We focused on efficient capital allocation that allows us to reinvest in our business, fund key initiatives and support future growth. Excluding any stock repurchases or other expenditures outside the ordinary course, which could include M&A, we anticipate ending 2025 with approximately \$780 million of cash, cash equivalents and investments in marketable securities.

Overall, we see strength in our core business, which has grown both organically and through strategic acquisitions as we see good momentum in the years ahead.

Thank you for joining our call today. Operator, now you may open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Westenberg, Piper Sandler.

David Westenberg - Piper Sandler Companies - Analyst

Hi, thank you for the question. I got a few. So I'll just start with Ming Hsieh, and the key milestones to look for in FID-007, endpoints and whatnot, the clinical trial is only going to cost \$10 million and what we should expect at ACOG? And then just finally, do you see head and neck as the biggest opportunity? Or are you more excited about the indications afterwards?

Ming Hsieh - Fulgent Genetics Inc - Chairman of the Board, Chief Executive Officer

Yeah, thank you, David. That is a great question. The cost for the clinical trials, we expect to enroll about 46 people. And you're using average around \$200,000 per patient and thus (technical difficulty) is pretty much on track with our spending so far.

So that's for the head and neck cancer. We are very encouraged with the preliminary results. As Dave, you remember last year at ASCO, we published the data for the FID-007 single agent for treatment of head and neck cancer, and we showed very, very promising results at last year's ASCO conference. And this year, we'll show the data we'll have with 17 patients or be more by the time in June in the combination with Cetuximab, and we see the great synergy between the two drugs work together.

David Westenberg - Piper Sandler Companies - Analyst

Okay, got it. And this one -- I don't know if this one would be for Paul or Brandon. I'm guessing Paul here. On Q4, but you had a 14% year-over-year growth that's really good growth. Can you talk about -- was there any onetime dynamics going on in the quarter that you got because you are guiding to a little bit of slowdown from that 14% in the following year?

Paul Kim - Fulgent Genetics Inc - Chief Financial Officer

Brandon, do you want to take that?

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Yeah, certainly. I can take that, and thanks for the question. No, I can't think of any onetime events that happened in the fourth quarter. I think it was blocking and tackling and gaining market share. So I think you are correct. Q1 of this year will be slightly down from Q4, but that's, in large part, due to some of the health care benefits resetting, meaning co-pays, coinsurance and deductibles resetting in the first quarter.

We also had two significant adverse weather events in Coppell in Dallas, Texas. And Texas doesn't do well with now and I. So there was just a couple of sort of seasonality type things that we experienced in Q1. That's going to bring it down a little bit from Q4. But I think maybe more applicable as looking at it year-over-year, and it normalizes those events that we experienced similar events every year in the first quarter.

So I think in 2024, in the first quarter, we were at \$63 million. And in this quarter in 2025 in the first quarter, will be well north of that. But we are coming off a record quarter in the fourth quarter. We have the sort of seasonality dynamics in the first quarter. So we expect it to come down a little bit, but no sort of macro issues or any onetime issues we experienced in the fourth quarter

David Westenberg - Piper Sandler Companies - Analyst

Perfect. And then, and that catch this right, did you say revised than on atomic pathology or did you say or precision diagnostics. And -- can you maybe talk about that 9%, what happened, what the actual revised plan was that would drive the 9% sequential growth? That would be my last question.

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Sorry, David. Are you saying what did we change in the anatomic pathology?

David Westenberg - Piper Sandler Companies - Analyst

Did I -- you mentioned there was a revised plan. I think you said on anatomic, I think you were saying at the anatomic pathology, although it could have been precision diagnostics, but you've highlighted a sequential growth of 9% because of the revised plan. I was hoping you could dig in a little bit further in terms of what that revised plan was?

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Yeah, certainly. Yeah, that was on the anatomic pathology. So the anatomic pathology business is diverse. We have GI services, GU services, derm services, general surgical pathology. And in 2024, we really made a decision to go pretty hard after the derm business. As I mentioned in the script, for whatever reason, there's just sort of a national issue right now as it relates to some of the derm turnaround times.

We have tremendous capabilities in dermatopathology. We have very good pathologies that have been subspecialty trained in dermatopathology. And our turnaround times have been fantastic. So as I mentioned, we're delivering two to three day turnaround time. We're seeing some of the competition out there two or three weeks. And these are patients who are anxious for results.

And they need to know the results of their biopsy if it's cancer or not, for example. So we really deployed the sales team throughout the year to go target that particular area of our business, and it's done well for us. We've captured a lot of dermatopathology business for the AP division. In addition, we did expand the sales team some. And I think we're going to continue to do so.

Almost every new salesperson we've brought on has been successful in growing their pipeline, their business. And I think it's a testament to our quality and turnaround time at the lab and good sales leadership and good sales recruiting. So we want to continue to scale the sales team this year. And I think we're pretty optimistic that AP had turned a bit of a corner and we've had a few down quarters since we acquired the business. But Q3 and especially into Q4, we're seeing some good growth, and we think that's going to carry into 2025.

Paul Kim - Fulgent Genetics Inc - Chief Financial Officer

Yeah, David, we've had a very strong fourth quarter that when we close out the year, Brandon talked about the dynamics of the anatomic pathology business, but we've had growth in other areas as well. And as Brandon talked about, we're going to continue to invest in the sales and marketing, probably more aggressively than we have before.

So for example, if you take a look at 2024, excluding stock-based compensation, our selling and marketing expense was \$32 million that's going to be close to \$40 million in 2025 because we like what we're seeing in that area, and we see specific parts of that business as good investments as we expand the sales organization.

David Westenberg - Piper Sandler Companies - Analyst

Thank you so much and congrats on the turning around of that business anatomic pathology. Thank you.

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Thanks David.

Operator

Lu Li, UBS.

Lu Li - UBS - Analyst

Good morning. Thank you for taking my questions. I guess like the first one, probably sticking to the guide. So 10% in 2025, but you just finished very good quarter as well. I wonder, specifically on position on diagnostics, you have like 23% year-over-year growth, but it seems like the 2025 will be lower, but you also have like a two new wins in VA, FMI. I wonder -- do we -- are we going to see any upside to the guide? Or is it more like a timing that will be like pushing back to 2026?

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Yeah, Paul, you need to take that one first? Can you hear me?

Lu Li - UBS - Analyst

Yeah, I can hear you.

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Yeah, I can take it to start with. And thank you for the question. Look, I think the guide is a number that we feel really good about. It's a number that we have really good visibility into. And that said, we certainly have opportunities and new wins that we've not built into that number only because they're not fully baked.

And these are new wins where we need some time to understand what they may mean to our revenue. You miss the Foundation Medicine. I mean that's a great example, right? Foundation Medicine is a great example. We're really excited about the new partnership with Foundation Medicine, but we don't have any Foundation Medicine in the 2025 guide, \$0. Why? It's a new win. We just don't know enough about it yet and we don't have the experience and data to feel comfortable to put a number on that partnership. That said, it's certainly something north of \$0, right? So yes, there could be some potential upside there.

So I think as we think about these new wins and partnerships, and as they begin to produce and we have a better understanding of their run rate and if they are meaningful, we can certainly adjust guidance in the following quarters.

But I think where we sit today with the clear visibility we have into this number, we feel really good about it.

Lu Li - UBS - Analyst

Got it. Understood. Can you give us a little bit update in terms of the VA hospital contract? What have you heard from the physician office? And how much of the revenue that you think will come in 2025?

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Yeah, I'm not ready to just kind of disclose how much revenue in 2025 because we're still a little bit early in that launch. I will say it's going extremely well, extremely well. I think we've been pretty conservative in how much VA revenue we've built into the guide for this year that could possibly be some upside there if it continues to go as well as it has. But so far, we're really pleased with the progress we've made with the VA.

Lu Li - UBS - Analyst

Got it. And then another question going back to the AP. So you mentioned that you've spent a lot of new accounts for very long term on time, and that appears to be a good opportunity for you. I wonder how like -- how fast you can capture like all the accounts? And do you need to like keep increasing the sales representatives in order to maintain the kind of like the momentum like i.e., like eventually, what will be the optimal size of the sales drop in the AP business?

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Yeah, that's a great question. I will say that the sales team is still subscale. I think we have an exceptionally good sales team, and I think we have exceptionally good sales leadership. But it is upscale. Look, our goal is to capture as much of this market as we can. It does take some time to find good salespeople to train good salespeople.

So I mean that's why we're -- that's why we scaled the team in 2024. That's why we can plan to continue to scale the team in 2025. I think our facility that -- our AP facility that we built in Coppell, Texas is absolutely state-of-the-art. It is amazing. It is built from the ground up, designed from the ground up to be efficient high capacity, it is just a really good operation.

So our sales team is out there in selling that, right? They're selling our quality. They're selling our turnaround time. We have the capacity. So I think when you bundle an exceptionally well-run pathology labs with great pathologists with a really good sales team, it's just been a recipe for success. So we want to continue to scale that team. We want to continue to capture more of that market, and that's going to be in the cards for 2025.

Lu Li - UBS - Analyst

Got it. Thank you.

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

You bet. Thank you.

Operator

Andrew Cooper, Raymond James.

Andrew Cooper - Raymond James - Analyst

Hi everybody, thanks for the questions. Maybe just first, you mentioned precision diagnostics having being a little bit light of where you had hoped on some slip out of new customer wins into the first quarter of '25. Can you give a little more context on the size of that and how that plays out as you think about sort of low double-digit growth in the guide in precision diagnostics, especially in context of things like VA and Foundation and Novo launch that presumably could drive additional growth there?

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Yeah, thanks for the question, Andrew. I think you're spot on. I mean, what you mentioned there are potential growth levers that we have not built into this guide. I've already said \$0 from Foundation Medicine, a modest amount for the VA, a very modest amount for KNOVA that's currently built into the guide.

So I don't want to give too much color for competitive reasons on the accounts that have slid a little bit into this quarter from the fourth quarter. But these are just -- these are large accounts, Andrew, with lots of locations and onboarding lots of doctors, lots of locations. It's just taken us a little bit longer than we thought. It's going well. We have a lot of these locations already onboarded with a lot left, but the locations that are onboarded are very happy with our turnaround time, quality, support we're giving them.

Is it taking a little bit longer than we had hoped to get every location onboarded for some of these big wins. But it should be happening here pretty soon in the fourth -- first quarter and maybe a little bit into the second.

Paul Kim - Fulgent Genetics Inc - Chief Financial Officer

Hey, Andrew, if you remember a year or two year ago, the split between anatomic pathology and precision diagnostics, it was about half-half. And as Brandon has indicated comprehensively, the success of the precision diagnostics, that's been absolutely wonderful for the company. When you take a look at how we ended 2024, we posted precision diagnostics was \$70 million higher than what we achieved in anatomic pathology. So those numbers are large.

And when we take a look at 2025 with our initial guide of \$310 million, what we're anticipating in precision diagnostics in each of those quarters, although it might be a low percentage number, it's higher than what we achieved in Q4. The other thing that you also see is the tremendous increase in the gross margins, right, as a result largely from the growth that we see in precision diagnostics, about a year ago or so, we had our gross margin target at close to 40%, and we ended the fourth quarter with gross margins higher than 40%.

So the overall business and what precision diagnostics is doing for our company, it's very, very important. And we always reserve the option to increase the guidance as we see more progress and color in some of these programs that Brandon mentioned.

Andrew Cooper - Raymond James - Analyst

Okay, super helpful. Maybe shifting gears a little bit to that AP business -- you mentioned some of the wins really stemming from the derm side of things. Is that where you had felt a little bit of pain when that business was kind of underperforming a little bit? And I ask that, meaning -- is this recapture of share that had maybe gone away?

Or is it capture of incremental and some of the other parts of the business continue to be maybe a little bit shy of where they had been a few years ago? And what do you need to do if the latter is the case to recapture that and get those other pieces of the business growing better as well?

Brandon Perthuis - Fulgent Genetics Inc - Chief Commercial Officer

Yeah, I mean that's a good question. Yeah. That's a good question, Andrew. I think we had two dynamics as it relates to our AP business. It's a large, what we call base book of business, right, our existing clients. And from the time we acquired the laboratory, our base book of business was going the wrong direction, right? So as the sales team would close the deal, we'd lose a base account, it was sort of one step forward, one step back.

And we've made a lot of improvement around our account management, our client health score, monitoring it proactively. And I can say in 2024, we did a really good job keeping and maintaining our base book of business.

So now it's not one step forward, one step back anymore. We -- our base book is solid. So now we're growing the sales team, layering on new wins, and that's how we've taken that business and returned it to growth. I've missed it during a couple of times, yes, I mean, derm was a big factor for us in 2024. But we've done well in GI.

We've done well in GU, been well in breadth and general surgical pathology. I just think overall, it's been a really successful turnaround story. We still a lot of market out there to capture. Again, our sales team is frankly, just scratched the surface of the opportunities and we can't really scale this team quick enough. And the reason is we want to take advantage of that state-of-the-art operation.

We've built in the fantastic services we have there. They're great products to sell. So we're trying to scale the sales team as quickly as we can, but I think we've just scratched the surface on the opportunities across the entire AP division.

Ming Hsieh - *Fulgent Genetics Inc - Chairman of the Board, Chief Executive Officer*

Yeah, I think adding Brandon's point, we made a heavy technology investment in that AP business. We're making the -- pretty much the digitization or using the advanced technology to make that entire business more efficient. That's what you can see what Brandon mentioned, the other labs have a total turnaround times around more than two weeks, and we are achieving in a few days. We like our position, and that's the way we do see the growth inside, we bought the business, it was in the decline mode. I think we believe we find the bottom and start to find growth from the bottom.

Andrew Cooper - *Raymond James - Analyst*

Okay. Helpful. And then maybe just one last one. I know you gave the color around the cost of some of the clinical trials in the pharma efforts. How should we think about the overall cash utilization from those efforts in 2025 and potentially beyond as you continue to push that pipeline forward ahead of any FDA approval or anything like that?

Ming Hsieh - *Fulgent Genetics Inc - Chairman of the Board, Chief Executive Officer*

Yeah, that's a very good question. Actually, we are from a policy financial disclosure, we expect the burn rate for that unit, so the former therapeutic development in the year 2025 does include R&D and the clinical studies around \$25 million. So that's very efficient to use our money and to develop two of the most critical drugs to treat the patients with the with not much options with the current drugs.

So we think we have very efficient the R&D team, and we will see the -- we will publish results in June at ASCO about our findings the FID-007 in terms of Phase 2 trials. And also, we expect to enroll the patients for the FID-022 in the second quarter. We are very excited about this opportunity, and we do believe for this nominal investment that we're doing will be rewarded.

Andrew Cooper - *Raymond James - Analyst*

Perfect, I will stop there. Thanks everybody.

Ming Hsieh - *Fulgent Genetics Inc - Chairman of the Board, Chief Executive Officer*

Thank you.

Operator

Thank you. We reach the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Paul Kim - *Fulgent Genetics Inc - Chief Financial Officer*

Thank you, everyone, for your continued interest at Fulgent, and we will be talking to you on our first quarter 2025 earnings call. Thank you very much.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

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