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FLGT.OQ - Q2 2026 Fulgent Genetics Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2026 / 8:30PM GMT





LSEG DATA & ANALYTICS

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Karan Patel** *Piper Sandler - Analyst*

## PRESENTATION

**Operator**

Greetings and welcome to the Fulgent Genetics second-quarter 2026 conference call and webcast. (Operator Instructions) As a reminder, this conference is being recorded. (Operator Instructions)

It's now my pleasure to turn the call over to Lauren Sloane, Investor Relations. Lauren, please go ahead.

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**Lauren Sloane** - *The Blueshirt Group LLC - Investor Relations*

Good afternoon and welcome to Fulgent's second-quarter 2026 financial results conference call. On the call 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 the future 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 discussion 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, 2025, and subsequently filed reports, which are available on the company's Investor Relations website.

Management's prepared remarks, including discussions of non-GAAP profit, loss, operating expense, margin, earnings, and earnings per share, and adjusted EBITDA 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 second quarter 2026 for more information, including the description of how the company calculates non-GAAP income and loss, non-GAAP earnings and loss per share, non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating profit and loss and margin and adjusted EBITDA, and a reconciliation of these financial measures to income and loss, earnings loss per share, and operating margin, the most directly comparable GAAP financial measures.

The company does not provide reconciliations of forward-looking non-GAAP measures to the most directly comparable GAAP measures because the information necessary to calculate such reconciliations, including equity-based compensation, tax effects, acquisition-related items, and potential impairments, any of which may be material, is unavailable on a forward-looking basis without unreasonable effort, and the probable significance of those items cannot be predicted.

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

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

Thank you, Lauren. I will start with some comments on our two business lines. Then Brandon will review our product and go-to-market update for our laboratory service business. And Paul will conclude with the financials and outlook before we take your questions.

I'm pleased with the momentum in our therapeutic development business as we progress on our clinical pipeline. In June, we presented the findings from the Phase 2 trial data for FID-007, which demonstrated encouraging activity in recurrent or metastatic head and neck squamous cell carcinoma. Fulgent has taken a differentiated approach with FID-007. It is a novel nanoencapsulated paclitaxel candidate developed with Fulgent's CleanChemo platform.

The platform is designed to reduce toxicity typically associated with conventional chemotherapy while maintaining or improving efficacy, a profile Fulgent believes is preferable in combination oncology regimens.

With the Phase 2 complete and the encouraging data now presented to public at ASCO, we are focused on the next milestone. We have confirmed the end-of-Phase-2 meeting with the FDA, which is scheduled later this summer. We believe the Phase 2 we have generated provides a strong foundation going into the FDA's discussion.

Our Phase 3 study is in preparation, and we hope to enter into a Phase 3 registration trial for the treatment of recurrent or metastatic head and neck squamous cell carcinoma patients in the first half of 2027. We are encouraged by our clinical trial progress achieved so far, and I believe entering into the Phase 3 registration trial will further increase the probability of the success of the commercialization of FID-007 for treatment of recurrent metastatic head and neck squamous cell carcinoma patients who currently have very few effective treatment options.

We also want to reiterate our position on partnerships. We have financial strength to advance through the Phase 2 with our own, but we are open to collaboration discussions. We intend to approach those conversations with a focus on partners who bring both resources and long-term strategic alignment.

Our second clinical candidate, FID-022, is progressing to the Phase 1 dose escalation with the fourth dose level successfully completed. We expect to determine the maximum tolerated dose level later this year. FID-022 is a nanoencapsulated SN38 for the treatment of solid tumors, including potentially colon, pancreatic, ovarian, and bile duct cancers.

Please note that both FID-007 and 022 are derived from the same proprietary CleanChemo delivery platform, patented and fully owned by Fulgent. Similar to FID-007, FID-022 can also be used in various oncology drug combinations. In the laboratory service business, we continue to see our AI and the digital pathology solution work at an accelerated pace and continue to expand our AI portfolio.

As we drive the innovation across our business and have seen sustained demand and a consistent testing volume, we are also managing the transition of our billing and the revenue cycle management system. This transition has caused delays in billing and the processing of claims and impacted our ability to collect at our historical rates and reduce the amount of revenue we are able to recognize from the tests we have performed. Addressing revenue cycle landings is our top operational priority, and we are making progress.

I would like to thank our employees, partners, and stakeholders for your hard work and loyalty. I will now turn the call over to Brandon Perthuis, our Chief Commercial Officer, to talk more about our laboratory service business. Brandon?

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

Thank you, Ming. We ended the quarter at $85.4 million, an increase of 4% year over year and 20% sequentially. In the second quarter, we did have the new acquisitions of Bako and StrataDX integrated, which contributed to the overall performance.

Breaking it down further, Precision Diagnostics ended at $41.5 million, a decrease of 13% year over year, but increased 3% sequentially. Anatomic Pathology came in at $37.5 million, an increase of 33% year over year and 50% sequentially. And BioPharma Services ended the quarter at $6.4 million, an increase of 3% year over year and 11% sequentially.

These numbers were affected by delays in billing and a decline in collection rates related to the ongoing transition of our revenue cycle management and billing system, which I will address in more detail shortly. Paul will also discuss the related financial impact.

We continue to see a real impact on operations from the development and use of AI. This quarter, we expanded our AI portfolio with a novel staining-aware algorithm designed to automate mast cell quantification in gastrointestinal biopsies, an important biomarker in diseases such as systemic mastocytosis and mastocytic enterocolitis.

Traditional AI approaches have struggled to accurately quantify mast cells due to diffuse tryptase staining associated with cell degranulation, limiting the reliability of automated analysis. Our proprietary Mast AI platform overcomes this challenge through a DAB-guided deep learning approach that accurately separates individual mast cells from surrounding extracellular staining. In validation study, the platform demonstrated strong performance across multiple staining methods, delivering highly accurate and reproducible quantification without requiring manual perimeter adjustments.

This represents another example of our ability to solve complex pathology challenges using proprietary AI. Beyond improving workflow efficiency and diagnostic consistency, the technology establishes a foundation for advanced spatial biomarker analysis and quantitative pathology applications in eosinophilic esophagitis and other gastrointestinal inflammatory diseases. As we continue to expand our AI-enabled diagnostic portfolio, we believe these capabilities further differentiate our end-to-end digital pathology platform and create additional opportunities to deliver value to clinicians, pharmaceutical partners, and healthcare systems.

The second quarter was our first full quarter of having Bako and StrataDX integrated. From the operations perspective, things have gone incredibly well. There has been minimal disruption to turnaround time and client ordering patterns. The focus going forward is to move the operation to digital pathology so we can both use and develop new AI tools to improve efficiency and quality.

I would like to congratulate the operation teams on both sides for doing such an excellent job. These represented our fourth and fifth acquisitions. We believe we have proven we can successfully acquire and integrate new assets.

In terms of the sales team, the Bako and StrataDX teams have been fully cross-trained and are now selling our legacy Anatomic Pathology services in dermatology and GI, in addition to their previous services. So far, the initial progress has been encouraging with the team building a robust pipeline of opportunities quickly. The new combined Anatomic Pathology team is at approximately 40, which is nearly double our size pre-acquisition.

Previously, we mentioned we entered into an agreement with Epic to be added to their Aura platform. Aura is Epic's specialty diagnostics platform offering genetic testing services within health systems' electronic medical records to send orders and receive results. Both sides have been working diligently to complete the integration, and we are scheduled to go live with early adopters in the third quarter.

Once live, it streamlines the process of interfacing with clients and improves access to genetic testing information within the EMR. We look forward to going live with Aura and using it as a conduit to make ordering easier for our clients and strengthening our client relationships.

We continue to push the envelope related to what can be accomplished with whole genome sequencing. Our standard whole genome sequencing service is now on the Illumina TruPath system, which is a short-read light technology that maintains high accuracy while providing long-range genomic insights not achievable with standard short-read sequencing.

With this new approach, our mean sequencing coverage increased from 40x to 60x to 70x. In addition, we are now able to expand the number of repeat expansions we cover. Coverage grew from 21 to 64, broadening the diagnostic scope for patients presenting with a wide range of neurological, neuromuscular, and other expansion-associated conditions.

This new whole genome sequencing test can be ordered with our RNA integrated sequencing evaluation or RISE. RISE provides functional insights into genetic variants, enabling deeper characterization of pathogenicity. RISE also detects aberrant gene expression, monoallelic gene expression, and aberrant splicing of expressed target genes. These features combine to cast the widest net possible, enabling improved diagnostic yield for those patients and families seeking answers to complex phenotypes.

As Ming touched on, we are managing the final phase of the transition of our billing and revenue cycle management system. We originally undertook this transition to achieve greater consistency across our operations and to drive long-term efficiency, and we successfully finished Phase 1 and Phase 2 of the implementation. However, the most significant impact has been in the final phase of this transition.

The system is very complex, and we have encountered challenges mostly related to implementing the customizations needed in this new system to maximize reimbursement that were not fully built into the initial launch. That customization work remains ongoing today. We have made progress implementing a number of the required customizations and remain focused on completing the remaining work as quickly as possible.

As the remaining customizations are completed and integrated across our revenue cycle, we expect our collection rates to improve, though we cannot predict the exact timing of that improvement. Thanks for your time today. We appreciate you joining our call.

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

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

Thank you, Brandon. Revenue in the second quarter of 2026 totaled $85.4 million, including $16.9 million from Bako Diagnostics and StrataDX, compared to $71.1 million in the first quarter of 2026. The increase in our Q2 revenue was primarily due to the integration of Bako Diagnostics and StrataDX for the full quarter.

GAAP gross margin was 30.1%, and non-GAAP gross margin for the second quarter was 31.3%. The decline in gross margin reflects fixed costs spread over a lower revenue base, driven by the lower collection rate. We expect gross margins to normalize as our collection rate returns to historical norms and as revenue increases. Now turning to operating expenses.

Total GAAP operating expenses were $61.8 million for the second quarter, which increased when compared to $56.1 million in the prior quarter. The increase in operating expenses was due to Bako Diagnostics and StrataDX being integrated for the full quarter. The GAAP operating expenses also include a one-time impairment charge on customer relationship intangible assets of $2.2 million related to loss of a customer in the therapeutic development segment.

Non-GAAP operating expenses also increased in Q2, totaling $49.2 million compared to $42.6 million in the previous quarter. GAAP operating margin improved to a minus 42.3% in Q2 compared to a minus 48.7% in Q1. Non-GAAP operating margin improved sequentially to a minus 26.2% in Q2 compared to a minus 27.7% in Q1. Our GAAP loss in the current quarter was $29.5 million, an increase from prior quarter's GAAP loss of $24.8 million, and a GAAP loss of $1.05 per share based on 28 million weighted average diluted shares outstanding.

On a non-GAAP basis and excluding equity-based compensation expense, intangible asset amortization, impairment loss, and acquisition-related costs and severance, loss for the quarter was approximately $16.2 million, or $0.58 per share, based on 28 million weighted average diluted shares outstanding. Adjusted EBITDA for the second quarter was a loss of approximately $17.1 million compared to a loss of $15.2 million in the prior quarter.

In the second quarter, we repurchased over 1.5 million shares of our stock repurchase program. Since the inception of the stock repurchase program in March 2022, a total of over 7.5 million shares of our common stock have been repurchased under the program with approximately $75.8 million currently remaining available for future repurchases of our common stock.

Turning to the balance sheet, we ended the second quarter with approximately $551.5 million in cash, cash equivalents, restricted cash, and marketable securities. The $53.2 million decrease in cash from the previous quarter is primarily driven by $23.8 million spent on our stock repurchase program, a one-time $13.5 million payment towards a legal settlement, which was originally discussed and accrued in Q4 of 2025, and $14.1 million cash used in operations and CapEx. As of quarter end, we have not yet received the $106.1 million federal income tax refund, which has been delayed due to constrained resources at the IRS.

Before providing our guidance for 2026, I'd like to provide an update on certain drivers shaping our expectations for the year and anticipated impact from our recent acquisition of Bako Diagnostics and StrataDX. Our revised outlook for 2026 is based on lower than originally anticipated rate of collections. Core customer volume assumptions remain consistent with the original outlook, but we've also moderated our new business growth expectations.

Additionally, we anticipated and mentioned on our calls in February and April, we saw a decrease in revenue from our largest customer, which is moving its testing capabilities in-house. Revenue from this customer this quarter decreased $4.6 million from the prior quarter. We anticipate a continued decline in revenue from this customer through the second half of the year.

We believe this decrease in revenue from our largest customer will be partially or fully offset by the estimated contribution of approximately $53 million from Bako and StrataDX contributing to overall revenue growth in the second half of the year. Bako's revenue will primarily be categorized as Anatomic Pathology. We continue to forecast that for full year 2026, no single customer will account for more than 10% of our total revenue, reflecting an improvement in our customer concentration profile.

We are revising our full year revenue guidance. We now expect total revenue to be in the range of $330 million to $340 million for 2026, down from our prior guidance of $350 million. This represents a year-over-year growth of 2.3% and 5.4%. We now estimate Precision Diagnostics' revenues to be approximately $161 million to $166 million, Anatomic Pathology to be approximately $146 million to $150 million, and BioPharma Services to be approximately $23 million to $24 million.

On margins, we now expect full-year non-GAAP gross margins to be in the mid-30% range, reflecting product mix shifts tied to our changing customer composition and lower collection rates associated with the transition of our new revenue cycle management and billing system. We expect non-GAAP operating margins to be in the mid-minus 20% for the year. We continue to prioritize investment across two key areas: R&D, where we are advancing our laboratory testing capabilities; and clinical study pipeline, and sales and marketing, where we have grown the team.

Our sales and marketing spend this year reflects a full year of our expansion that began last year, combined with the recent Bako and StrataDX acquisition, which more than doubled their sales team. The anticipated spend for the therapeutic development business remains at approximately $26 million in 2026 as we continue advancing clinical trials for FID-022 and FID-007.

We remain committed to strategic investment in our business, including operational improvements and targeted upgrades to our laboratory infrastructure. These investments are designed to strengthen our competitive position and enhance throughput capacity over time. We believe our foundational technology platform is highly scalable, capable of driving meaningful operating leverage and margin expansion as volumes grow. The updates to our EPS and cash guidance are attributable to our revised revenue guidance and the decreased shares resulting from the stock repurchase program and the cash used for these repurchases.

Our forecasted average fully diluted share count for 2026 has decreased from approximately 29 million shares to approximately 28 million shares due to additional shares purchased under our stock repurchase program since our last earnings call.

Using the updated average share count of 28 million and revised revenue guidance, we now expect full-year 2026 non-GAAP EPS guidance to be a loss of $2.22 to $2.35 per share. This excludes stock-based compensation, impairment loss, acquisition-related costs, amortization of intangible assets, and any further share repurchases as well as any one-time charges.

Finally, our cash position remains strong. For fiscal year 2026, assuming capital purchases of $12 million, spend on our therapeutic development business of $26 million, and excluding any future stock repurchases or other expenditures outside of ordinary course, which could include additional M&A, we anticipate ending the year with approximately $610 million of cash, cash equivalents, restricted cash, and investments and marketable securities.

The decrease from our prior forecast of $636 million is mainly attributable to the $15.2 million of stock repurchases made since our last earnings call and revised revenue guidance. We continue to have conviction in the strength of our business and our technology platform and are remedying the internal operations challenge. We're executing against our strategic initiatives to drive AI and digital solutions across our laboratory services business and are proud of the momentum on our pharmaceutical pipeline. We believe we're well-positioned for longer-term growth as our strategic investments, innovations, and expanded offerings deliver value.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) David Westenberg, Piper Sandler.

**Karan Patel** - *Piper Sandler - Analyst*

Hi guys. This is Karan Patel on for David Westenberg. I guess I'll start with some of the RCM transition issue. Maybe if you could help us pinpoint what specifically in this final phase is causing these maybe weight issues. And do you have maybe an estimated timeline for resolution here? And I have a few follow-ups.

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

Yeah, certainly. This is Brandon. Thank you for the questions. I think as we mentioned, you know, we did make the change in our billing software. We completed Phase 1 and Phase 2 of that. And as we moved into Phase 3, we really began to realize there was just certain key features or customization that was in the previous software that did not carry over to the new platform.

I think we've identified those features. We're working on implementing those features. It will take some time to get some feedback from the payers. But in terms of timing, I think we do expect to get back to our historical collection rates in the coming quarters.

**Karan Patel** - *Piper Sandler - Analyst*

That's helpful. Thank you. And I guess, maybe if you can help us pinpoint maybe what percentage of Q2 revenues were lowered because of this suppressed collection rate? And then, I guess, separately, are these delayed collections, are they maybe recoverable down the road and they show up as true-ups in future quarters? Or is it a fully loss of revenue?

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

Karan, this is Paul Kim. In terms of the shortfall for Q2 as well as for the rest of the year, without this issue that Brandon he described, we would have reiterated our fiscal year guidance, and Q2 would have been in line with our original expectations.

If you kind of like take a step back and look at the overall business, our capabilities and our services, they haven't changed at all. Actually, they've gotten better. And the volume and the volume projections for the business are intact. It actually looks very promising. It's just the collection rate that we're using to record revenues. It's been lower than our historical rates.

And you also had a question on recoverability. Assuming -- and we can't assume this because we experienced this before, we can get back to the historical rates. Our business would have been fine in terms of posting our Q2 results as well as for the year. And should we get additional synergies from better contracts and better effort that we have here at the company, there could be potentially upside to our collection rate.

I mean, that's getting a little too far ahead of ourselves. For right now, what we want to do is to remedy this issue. We want to be able to get back to our historical collection rates and then go on from there.

**Karan Patel** - *Piper Sandler - Analyst*

That is helpful. Thank you for that color. And maybe one last one on the large carrier screening customer moving volumes in-house. I guess, can you help us maybe -- is that transition kind of fully complete? I know you've mentioned that earlier, and maybe what is a residual run rate? How can we think about that going forward?

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

Yeah, that transition is nearly fully complete. And if I'm not mistaken, Paul, I think we don't have much revenue built into the model for them in the back half of the year.

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

We are getting some.

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

Yeah.

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

But we don't have a whole lot built into our projections.

**Karan Patel** - *Piper Sandler - Analyst*

Understood, guys. Well, thank you so much, and no more from me.

**Operator**

Thank you. We reached the end of our question-and-answer session. And ladies and gentlemen, that does conclude today's teleconference and webcast. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.