TEMPUS

Q2 2024 Overview

Our hope in writing this quarterly letter is to provide you a summary of our financial and operating results, along with some context as to how we view those results, as it relates to both the near and long term. We hope to do so in as clear and concise a manner as possible.

Our Revenues in Q2 2024 were $166.0 million versus $132.4 million in Q2 2023, an increase of 25.3% on a year-over-year basis. Our Genomics business delivered $112.3 million of revenue in Q2 2024 versus $91.9 million in Q2 2023, an increase of 22.2% year-over-year. Our Data & Services business delivered $53.6 million of revenue in Q2 2024 versus $40.5 million in Q2 2023, an increase of 32.5% year-over-year.

We delivered Non-GAAP Gross Profit of $94.3 million, or 56.8%, in Q2 2024 versus $71.6 million in Q2 2023, an increase of 31.6% year-over-year. Our Genomics business had 49.4% Non-GAAP gross margin and our Data & Services had 72.4% Non-GAAP gross margin. In the aggregate our Non-GAAP gross margin was 270 basis points higher than the same quarter last year.

Our Non-GAAP Operating Expenses were $134.7 million in Q2 2024 versus $116.8 in Q2 2023, an increase of $18.0 million year-over year. Our expenses are broken down into three categories: Non-GAAP Technology, was $26.2 million, Non-GAAP Research and Development, was $25.1 million, and Non-GAAP Selling General and Administrative expense was $83.4 million.

Our Adjusted EBITDA was ($31.2) million in Q2 2024 versus ($37.0) million in Q2 2023 and ($43.9) million in Q1 2024, an improvement of $5.8 million year-over-year and $12.7 million quarter-over-quarter.

Revenues came in largely as we expected, Non-GAAP Gross Profit was a bit ahead of where we expected related to strong Data & Services performance, and our Non-GAAP Operating Expenses were in line with our expectations, resulting in $12.7 million of Adjusted EBITDA improvement quarter-over-quarter, which was better than we expected. Overall - it was a good quarter.

<u>Genomics</u>

We ran ~66,500 NGS tests in Q2 2024 versus ~62,700 last quarter and 55,300 in Q2 2023. On an annual basis, the ~4,000 more tests we ran in Q2 2024 versus Q1 2024 equates to 20% volume growth, and 22% revenue growth. If we grow our units by another 4,000 tests next

quarter, which we expect, Q3 would have ~27% volume growth on an annual basis. In other words, we may experience what looks like quarterly fluctuations in growth rates, which is why annual metrics are more reflective of our true growth rate. We expect our 2024 growth rates in Genomics, on both a unit and revenue basis, to be in the 25-30% range. Our goal is to maintain similar growth rates for a long horizon of time, as such we are operating squarely within the range of what we consider optimal.

All of our main assays performed well in the quarter with solid growth in solid tumor profiling, liquid biopsies, and inherited cancer risk. Of note, we launched our minimal residual detection (MRD) and monitoring platform at ASCO, with a series of posters outlining the performance of our tumor naive MRD assay in colorectal cancer, and Personalis (our partner in tumor informed) announced the results of their ultrasensitive assay which is now available in breast, lung, and IO treated patients. While we are just entering the MRD space, we believe our portfolio is now sufficiently broad to address the needs of oncologists, from identifying the earliest signs of risk, to helping them with therapy selection, to monitoring their patients who might be recurring post treatment.

Data

Our Data and Services business experienced accelerated growth in the quarter, delivering $53.6 million in revenue versus $40.5 million in Q2 2023, up 32.5% year-over-year, largely driven by our Insights business (Data Licensing), which not only grew faster than our Services business (Clinical Trials), but also had higher Non-GAAP gross margin of 72.4% for the quarter. We ended the quarter with >$900 million in total remaining contract value, which highlights the continued adoption and progress of our Data and Services offerings. Most of these contracts are multi-year, with total remaining contract value representing data and services that will be provided over the remaining term of each contract.

Notably, we signed an agreement with Novartis to expand the amount of data we license them which we expect to deliver throughout 2024, we signed a five year agreement with Takeda which was a significant expansion in size and scope to our existing agreement, we renewed our agreement with Astellas adding two more committed years to their data license, and we signed a large study with United Therapeutics to work on pulmonary hypertension models. All were big wins in the quarter for our Data & Services business, so we're excited to see the momentum continue.

Apps

The Applications side of our business received the most attention during our IPO, so we thought we would take a minute and provide some context. We historically called our "Applications" product our "AI Applications" product, and the use of the "AI" qualifier gave some the impression that this is the only segment of our business that leverages AI. That is not the case. AI, and in particular large language models (LLMs) and the proprietary agents we have built to leverage generative AI, are found throughout our Genomics and Data products. One, our primary AI agent, is a core feature within our genomics software, and we leverage LLMs throughout our analytics platform. As such, AI is not just part of a single digit percent of our business, but a key component of our entire business. So to avoid confusion, we will refer to what used to be called our "AI Applications" business as "Applications" or "Apps" going forward.

As a reminder, our Apps product line primarily consists of 3 main products and we made progress on all during the quarter:

Next: We signed an expansion with a large pharma partner to deploy Next, our product that leverages AI to identify care gaps and help close them. Initially this product was focused on NSCLC in oncology, and a variety of cardiac conditions, but we believe it can scale across many care gaps and many diseases over time.

Time: We continued to make progress with Time, our product that leverages AI to identify patients that might be fit for clinical trials in a just-in-time manner. We have now enrolled over 250 clinical trials that touch ~3,500 oncologists to date. While still early, we believe Time has the potential to materially increase clinical trial enrollments in the United States.

Algos: We added to our portfolio of purely algorithmic diagnostics. Our PurIST algo, which identifies the molecular subtype of patients with pancreatic cancer, was the first CPT code created by the AMA to describe an algorithm-only analysis from previously-sequenced RNA. Our Immune Profile Score (IPS) algo was just released on an RUO basis last month; it assesses a combination of biomarkers to predict who might respond to immunotherapy. And our AFIB predictor, which augments ECG results, received FDA clearance.

While we made progress in the quarter throughout our Apps product line, we are still in the early stage of scaling this business. AI in healthcare is new and like anything new, it will require time for the larger life science ecosystem to figure out when to deploy it, how to pay for it, and how to measure it. In a system riddled with inefficiency, AI has the potential to be

transformative, for economics and outcomes, and those companies that can yield its power have the potential to impact countless lives.

Financials

We were pleased with our performance in the quarter, demonstrating our ability to grow each of our product lines, expand margins, and continue our path towards profitability on an Adjusted EBITDA basis.

Before diving into the numbers, it's worth noting that we recognized a significant amount of stock compensation expense and related payroll taxes in the second quarter in conjunction with our IPO. As a result, we are providing each of gross profit, gross margin, and operating expenses on a Non-GAAP basis to exclude stock compensation expense and related payroll taxes so they are comparable with prior periods. See "Non-GAAP Financial Measures" below.

TEMPUS

Second Quarter 2024 Financial Results

	Three months ended June 30, 2024		
	2024	2023	Change
	(in thousands, except per share figures)		
GAAP Results			
Revenue	$ 165,969	$ 132,417	25.3%
Genomics gross margin	39.2%	48.9%	NM(1)
Data gross margin	58.7%	65.9%	NM(1)
Operating expenses	$ 609,005	$ 116,787	NM(1)
Net income (loss)	$(552,212)	$ (55,832)	NM(1)
Non-GAAP Results			
Non-GAAP Genomics gross margin	49.4%	48.9%	50 bps
Non-GAAP Data gross margin	72.4%	65.9%	650 bps
Non-GAAP Operating Expenses	$ 134,742	$ 116,787	15.4%
Adjusted EBITDA	$ (31,186)	$ (36,967)	15.6%

(1) Not meaningful due to the impact of including stock compensation expense and related employer payroll taxes

Revenue

Our revenues were $166.0 million, representing 25.3% year-over-year growth.

Our Genomics revenues were $112.3 million, representing 22.2% year-over-year growth. The growth was largely driven by 20% volume growth in our clinical oncology business and continued improvement in our average reimbursement per clinical oncology report - which was

approximately $1,500 in the quarter, representing an increase of approximately $50 per report quarter-over-quarter. This increase was driven by payor mix shift and increases in reimbursement for our xG assay. We continue to make incremental improvements to our average reimbursement and in July, announced that xT CDx had been granted ADLT status by CMS with an initial price of $4,500. While the pricing process will occur in the second half of 2024, we anticipate additional reimbursement tailwinds in 2025 as we begin to migrate volume to that version of the assay.

Our Data and Services revenues were $53.6 million, representing 32.5% year-over-year growth, largely driven by strong growth in our Insights (data licensing) business - which grew 40% year-over-year. This growth was a result of delivering on contracts in place, adding new customers, and expanding relationships with customers that we are already working with. As noted above, we signed several notable new contracts / extensions during the quarter, further highlighting our differentiated business model and the value of the database that we have generated over the past several years.

Gross Profit

We generated $75.5 million of gross profit in the quarter. Non-GAAP gross profit was $94.3 million, representing an aggregate Non-GAAP gross margin of 56.8%. This was a 270 basis point improvement year-over-year, largely the result of growth in our Data and Services product line which operates at a higher margin.

Our Non-GAAP gross margin for our Genomics business was 49.4% compared to 48.9% in Q2 2023. Average cost per clinical oncology report was $746 for the quarter, compared to $737 in Q2 2023. While we continue to see efficiencies in both labor and consumables as volume in our RTP lab continues to increase, the slight increase is largely the result of increased adoption of our xF+ assay - our larger liquid biopsy panel. Our Non-GAAP gross margin for the Data and Services business was 72.4%, compared to 65.9% in Q2 2023, again highlighting the year-over-year growth in the Insights business.

Operating Expenses

Operating expenses for the quarter were $609.0 million - including stock-based compensation of $474.3 million. Non-GAAP operating expenses were $134.7 million, representing an increase of 15.4% year-over-year.

The year-over-year increases in Non-GAAP operating expenses were largely driven by increases in the salesforce related to expanding territories to account for growth in overall

testing volume and the launch of our MRD assays, along with modest investments in R&D and Technology R&D. We held our headcount relatively flat quarter over quarter, which allowed us to demonstrate additional operating leverage.

Adjusted EBITDA and Net Loss

Adjusted EBITDA for the quarter was ($31.2) million, compared to ($37.0) million in Q2 2023 and ($43.9) million in Q1 2024, an improvement of $5.8 million year-over-year and $12.7 million quarter-over-quarter. We plan on continuing to operate the business in a manner that evaluates the level of investment in operating expenses based on increases in gross profit dollars, such that we anticipate continued improvement in Adjusted EBITDA.

Net loss for the quarter was ($552.2 million), including stock compensation and related taxes of approximately ($493.1 million). Adjusting for stock compensation, related taxes and other non-operating items, Non-GAAP net loss for the quarter was ($52.0 million).

We finished the quarter with ~$490.1 million of cash, cash equivalents, and marketable securities. While our cash used by operating activities of $97.1 million in Q2 2024 was higher than anticipated due to the timing of certain payables and receivables, we anticipate operating cash flows will normalize in the second half of the year and operating cash flows will track closer to operating income, excluding stock-based compensation, as they have historically.

Guidance

We expect to finish the year with approximately $700 million in Revenue, and approximately ($105 million) in Adjusted EBITDA. Given the unique nature of our business it's difficult to predict these numbers with complete accuracy; as such, the word approximately implies a modest range.

Eric & Jim

TEMPUS

Forward-Looking Statements

This letter contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, about Tempus AI Inc. ("Tempus") and Tempus' industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this letter are forward-looking statements, including, but not limited to, statements regarding Tempus' plans, goals and objectives for its business and expectations concerning Tempus' future financial and operating performance. In some cases, you can identify forward-looking statements because they contain words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "going to," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," or "would" or the negative of these words or other similar terms or expressions. Tempus cautions you that the foregoing may not include all of the forward-looking statements made in this letter.

You should not rely on forward-looking statements as predictions of future events. Tempus has based the forward-looking statements contained in this letter primarily on its current expectations and projections about future events and trends that it believes may affect Tempus' business, financial condition, results of operations and prospects. These forward-looking statements are subject to risks and uncertainties related to: changing Medicare rates; the intended use of Tempus' products and services; Tempus' financial performance; the ability to attract and retain customers and partners; managing Tempus' growth and future expenses; competition and new market entrants; compliance with new laws, regulations and executive actions, including any evolving regulations in the artificial intelligence space; the ability to maintain, protect and enhance Tempus' intellectual property; the ability to attract and retain qualified team members and key personnel; the ability to repay or refinance outstanding debt, or to access additional financing; future acquisitions, divestitures or investments; the potential adverse impact of climate change, natural disasters, health epidemics, macroeconomic conditions, and war or other armed conflict, as well as risks, uncertainties, and other factors described in the section titled "Risk Factors" in Tempus' Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, filed with the Securities and Exchange Commission ("SEC"), as well as in other filings Tempus may make with the SEC in the future. In addition, any forward-looking statements contained in this letter are based on assumptions that Tempus believes to be reasonable as of this date. Tempus undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of this letter or to reflect new information or the occurrence of unanticipated events, except as required by law.

TEMPUS

Non-GAAP Financial Measures

In addition to the financial information presented in accordance with accounting principles generally accepted in the United States of America (GAAP), Tempus also presents adjusted EBITDA, non-GAAP gross profit, non-GAAP gross margin and non-GAAP operating expenses (collectively, the "non-GAAP financial measures"). For definitions of each of these non-GAAP financial measures, as well as reconciliation of each non-GAAP financial measure to its most comparable GAAP financial measure, please see the section titled "Non-GAAP Financial Measures" in Tempus' second quarter earnings release and the tables accompanying such release, which can be found on Tempus' investor relations website at this link.

Tempus does not provide guidance for net loss, the most directly comparable GAAP measure to Adjusted EBITDA, and similarly cannot provide a reconciliation between its forecasted adjusted EBITDA and net loss without unreasonable effort due to the unavailability of reliable estimates for certain components of net income and the respective reconciliations. These forecasted items are not within Tempus' control, may vary greatly between periods and could significantly impact future financial results.