UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2022

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-40323

RECURSION PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware 46-4099738

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

41 S Rio Grande Street
Salt Lake City, UT 84101
(Address of principal executive offices) (Zip code)
(385) 269 - 0203
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value $0.00001	RXRX	Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Non-accelerated filer	☒
Accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 31, 2022, there were 181,694,536 and 7,861,209 of the registrant's Class A and B common stock, par value $0.00001 per share, outstanding, respectively.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” about us and our industry within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “would,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential,” or “continue” or the negative of these terms or other similar expressions. Forward-looking statements contained in this report may include without limitation those regarding:

- the initiation, timing, progress, results and cost of research and development programs, current and future preclinical and clinical studies, including statements regarding the design of, and the timing of initiation and completion of, studies and related preparatory work, as well as the period during which the results of the studies will become available;
- the ability of our clinical trials to demonstrate the safety and efficacy of our drug candidates, and other positive results;
- the ability and willingness of our collaborators to continue research and development activities relating to our development candidates and investigational medicines;
- future agreements with third parties in connection with the commercialization of our investigational medicines and any other approved product;
- the timing, scope, or likelihood of domestic and foreign regulatory filings and approvals, including our ability to maintain any such approvals;
- the size of the potential market opportunity for our drug candidates, including our estimates of the number of patients who suffer from the diseases we are targeting;
- our ability to identify viable new drug candidates for clinical development and the rate at which we expect to identify such candidates, whether through an inferential approach or otherwise;
- our expectation that the assets that will drive the most value for us are those that we will identify in the future using our datasets and tools;
- our ability to develop and advance our current drug candidates and programs into, and successfully complete, clinical studies;
- our ability to reduce the time or cost or increase the likelihood of success of our research and development relative to the traditional drug discovery paradigm;
- our ability to improve, and the rate of improvement in, our infrastructure, datasets, biology, technology tools and drug discovery platform, and our ability to realize benefits from such improvements;
- our expectations related to the performance and benefits of our BioHive-1 supercomputer;
- our ability to realize a return on our investment of resources and cash in our drug discovery collaborations;
- our ability to scale like a technology company and to add more programs to our pipeline each year;
- our ability to successfully compete in a highly competitive market;
- our manufacturing, commercialization and marketing capabilities and strategies;
- our plans relating to commercializing our drug candidates, if approved, including the geographic areas of focus and sales strategy;
- our expectations regarding the approval and use of our drug candidates in combination with other drugs;
- the rate and degree of market acceptance and clinical utility of our current drug candidates, if approved, and other drug candidates we may develop;
- our competitive position and the success of competing approaches that are or may become available;
- our estimates of the number of patients that we will enroll in our clinical trials and the timing of their enrollment;
- the beneficial characteristics, safety, efficacy and therapeutic effects of our drug candidates;
- our plans for further development of our drug candidates, including additional indications we may pursue;
- our ability to adequately protect and enforce our intellectual property and proprietary technology, including the scope of protection we are able to establish and maintain for intellectual property rights covering our current drug candidates and other drug candidates we may develop, receipt of patent protection, the extensions of existing patent terms where available, the validity of intellectual property rights held by third parties, the protection of our trade secrets, and our ability not to infringe, misappropriate or otherwise violate any third-party intellectual property rights;
- the impact of any intellectual property disputes and our ability to defend against claims of infringement, misappropriation, or other violations of intellectual property rights;
- our ability to keep pace with new technological developments;

- our ability to utilize third-party open source software and cloud-based infrastructure, on which we are dependent;
- the adequacy of our insurance policies and the scope of their coverage;
- the potential impact of a pandemic, epidemic, or outbreak of an infectious disease, such as COVID-19, or natural disaster, global political instability or warfare, and the effect of such outbreak or natural disaster, global political instability or warfare on our business and financial results;
- our continued reliance on third parties to conduct additional clinical trials of our drug candidates, and for the manufacture of our drug candidates for preclinical studies and clinical trials;
- the pricing and reimbursement of our current drug candidates and other drug candidates we may develop, if approved;
- Our ability to obtain and maintain collaboration, licensing or other arrangements required for the research, development and commercialization of our platform and drug candidates.
- our estimates regarding expenses, future revenue, capital requirements and need for additional financing;
- our financial performance;
- the period over which we estimate our existing cash and cash equivalents will be sufficient to fund our future operating expenses and capital expenditure requirements;
- our ability to raise substantial additional funding;
- the impact of current and future laws and regulations, and our ability to comply with all regulations that we are, or may become, subject to;
- the need to hire additional personnel and our ability to attract and retain such personnel;
- the impact of any current or future litigation, which may arise during the ordinary course of business and be costly to defend;
- our expectations regarding the period during which we will qualify as an emerging growth company under the JOBS Act;
- our anticipated use of our existing resources and the net proceeds from our initial public offering; and
- other risks and uncertainties, including those listed in the section titled “Risk Factors.”

We have based these forward-looking statements largely on our current expectations and projections about our business, the industry in which we operate, and financial trends that we believe may affect our business, financial condition, results of operations and prospects. These forward-looking statements are not guarantees of future performance or development. These statements speak only as of the date of this report and are subject to a number of risks, uncertainties and assumptions described in the section titled “Risk Factors” and elsewhere in this report. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we undertake no obligation to update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, or otherwise.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this report. While we believe such information forms a reasonable basis for such statements, the information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and you are cautioned not to unduly rely upon them.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Recursion Pharmaceuticals, Inc.
Condensed Consolidated Balance Sheets (unaudited)
(in thousands, except share and per share amounts)

	September 30, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 454,646	$ 285,116
Restricted cash	2,090	1,552
Accounts receivable	—	34
Other receivables	11,635	9,056
Investments	—	231,446
Other current assets	13,247	7,514
Total current assets	481,618	534,718
Restricted cash, non-current	8,154	8,681
Property and equipment, net	85,777	64,725
Operating lease right-of-use assets	33,726	—
Intangible assets, net	1,457	1,385
Goodwill	801	801
Other non-current assets	—	35
Total assets	$ 611,533	$ 610,345
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 3,890	$ 2,819
Accrued expenses and other liabilities	26,757	32,333
Unearned revenue	46,753	10,000
Notes payable	95	90
Operating lease liabilities	5,541	—
Lease incentive obligation	—	1,416
Total current liabilities	83,036	46,658
Deferred rent	—	4,110
Unearned revenue, non-current	93,909	6,667
Notes payable, non-current	561	633
Operating lease liabilities, non-current	45,993	—
Lease incentive obligation, non-current	—	9,339
Total liabilities	223,499	67,407
Commitments and contingencies (Note 7)		
Stockholders' equity		
Common stock, $0.00001 par value; 2,000,000,000 shares (Class A 1,989,032,117 and Class B 10,967,883) authorized as of September 30, 2022 and December 31, 2021; 174,072,906 shares (Class A 166,187,697 and Class B 7,885,209) and 170,272,462 shares (Class A 160,906,245 and Class B 9,366,217) issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	2	2
Additional paid-in capital	970,096	943,142
Accumulated deficit	(582,064)	(400,080)
Accumulated other comprehensive loss	—	(126)
Total stockholders' equity	388,034	542,938
Total liabilities and stockholders' equity	$ 611,533	$ 610,345

See the accompanying notes to these condensed consolidated financial statements.

Recursion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Operations (unaudited)
(in thousands, except share and per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Revenue				
Operating revenue	$ 13,053	$ 2,500	$ 26,005	$ 7,500
Grant revenue	107	34	162	145
Total revenue	13,160	2,534	26,167	7,645
Operating costs and expenses				
Cost of revenue	15,409	—	37,435	—
Research and development	40,836	33,246	111,716	86,979
General and administrative	19,488	15,690	61,761	38,481
Total operating costs and expenses	75,733	48,936	210,912	125,460
Loss from operations	(62,573)	(46,402)	(184,745)	(117,815)
Other income (loss), net	2,128	(1,026)	2,761	(3,731)
Net loss	$ (60,445)	$ (47,428)	$ (181,984)	$ (121,546)
Per share data				
Net loss per share of Class A and B common stock, basic and diluted	$ (0.35)	$ (0.28)	$ (1.06)	$ (1.10)
Weighted-average shares (Class A and B) outstanding, basic and diluted	173,435,970	168,533,550	172,122,974	110,513,231

See the accompanying notes to these condensed consolidated financial statements.

Recursion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Comprehensive Loss (unaudited)
(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Net loss	$ (60,445)	$ (47,428)	$ (181,984)	$ (121,546)
Unrealized gain on investments	197	2	87	2
Net realized loss on investments reclassified into net loss	—	—	39	—
Other comprehensive income	197	2	126	2
Comprehensive loss	$ (60,248)	$ (47,426)	$ (181,858)	$ (121,544)

See the accompanying notes to these condensed consolidated financial statements.

Recursion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit) (unaudited)
(in thousands, except share amounts)

	Convertible Preferred Stock		Common Stock (Class A and B)		Additional Paid-in-Capital	Accumulated Deficit	Accumulated other comprehensive loss	Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of June 30, 2022	—	$ —	172,815,409	$ 2	$ 959,393	$ (521,619)	$ (197)	$ 437,579
Net loss	—	—	—	—	—	(60,445)	—	(60,445)
Other comprehensive gain	—	—	—	—	—	—	197	197
Stock option exercises and other	—	—	1,257,497	—	1,794	—	—	1,794
Stock-based compensation	—	—	—	—	8,909	—	—	8,909
Balance as of September 30, 2022	—	$ —	174,072,906	$ 2	$ 970,096	$ (582,064)	$ —	$ 388,034

	Convertible Preferred Stock		Common Stock (Class A and B)		Additional Paid-in-Capital	Accumulated Deficit	Accumulated other comprehensive loss	Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2021	—	$ —	170,272,462	$ 2	$ 943,142	$ (400,080)	$ (126)	$ 542,938
Net loss	—	—	—	—	—	(181,984)	—	(181,984)
Other comprehensive gain	—	—	—	—	—	—	126	126
Stock option exercises and other	—	—	3,800,444	—	6,740	—	—	6,740
Stock-based compensation	—	—	—	—	20,214	—	—	20,214
Balance as of September 30, 2022	—	$ —	174,072,906	$ 2	$ 970,096	$ (582,064)	$ —	$ 388,034

See the accompanying notes to these condensed consolidated financial statements.

Recursion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit) (unaudited)
(in thousands, except share amounts)

	Convertible Preferred Stock		Common Stock (Class A and B)		Additional Paid-in-Capital	Accumulated Deficit	Accumulated other comprehensive income	Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of June 30, 2021	—	$ —	168,425,907	$ 2	$ 930,431	$ (287,719)	$ —	$ 642,714
Net loss	—	—	—	—	—	(47,428)	—	(47,428)
Other comprehensive gain	—	—	—	—	—	—	2	2
Stock option exercises and other	—	—	209,052	—	382	—	—	382
Stock-based compensation	—	—	—	—	3,362	—	—	3,362
Balance as of September 30, 2021	—	$ —	168,634,959	$ 2	$ 934,175	$ (335,147)	$ 2	$ 599,032

	Convertible Preferred Stock		Common Stock (Class A and B)		Additional Paid-in-Capital	Accumulated Deficit	Accumulated other comprehensive income	Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2020	112,088,065	$ 448,312	22,314,685	$ —	$ 7,312	$ (213,601)	$ —	$ (206,289)
Net loss	—	—	—	—	—	(121,546)	—	(121,546)
Other comprehensive gain	—	—	—	—	—	—	2	2
Common stock issuance for initial public offering, net of issuance costs	—	—	27,878,787	1	462,353	—	—	462,354
Conversion of preferred stock to common stock	(112,088,065)	(448,312)	115,598,018	1	448,311	—	—	448,312
Stock warrant exercises	—	—	129,963	—	2,340	—	—	2,340
Stock option exercises and other	—	—	2,713,506	—	3,359	—	—	3,359
Stock-based compensation	—	—	—	—	10,500	—	—	10,500
Balance as of September 30, 2021	—	$ —	168,634,959	$ 2	$ 934,175	$ (335,147)	$ 2	$ 599,032

See the accompanying notes to these condensed consolidated financial statements.

Recursion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Nine months ended September 30,	
	2022	**2021**
Cash flows from operating activities		
Net loss	$ (181,984)	$ (121,546)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,542	6,169
Stock-based compensation	20,214	10,501
Fixed asset impairment	2,806	—
Lease expense	5,747	—
Loss on debt extinguishment	—	827
Other, net	377	2,940
Changes in operating assets and liabilities:		
Other receivables and assets	(5,574)	(6,746)
Unearned revenue	123,995	(7,500)
Accounts payable	1,072	5,252
Accrued development expense	3,696	1,524
Accrued expenses, deferred rent and other current liabilities	(12,740)	11,123
Operating lease liabilities	(4,927)	—
Net cash used in operating activities	(38,776)	(97,456)
Cash flows from investing activities		
Purchases of property and equipment	(29,080)	(35,334)
Purchase of an intangible asset	(300)	—
Purchases of investments	—	(184,167)
Sales and maturities of investments	230,608	—
Net cash provided by (used in) investing activities	201,228	(219,501)
Cash flows from financing activities		
Proceeds from initial public offering of common stock, net of issuance costs	—	462,901
Proceeds from equity incentive plans	7,156	4,620
Repayment of long-term debt	(67)	(12,777)
Net cash provided by financing activities	7,089	454,744
Net change in cash, cash equivalents and restricted cash	169,541	137,787
Cash, cash equivalents and restricted cash, beginning of period	295,349	267,167
Cash, cash equivalents and restricted cash, end of period	$ 464,890	$ 404,954
Supplemental schedule of non-cash investing and financing activities		
Conversion of preferred stock to common stock	$ —	$ 448,312
Accrued property and equipment	3,093	413
Deferred issuance costs recorded in equity	—	547
Right-of-use asset additions and modifications	3,950	—
Supplemental schedule of cash flow information		
Cash paid for interest	$ 42	$ 665
Cash paid for operating leases	4,927	—

See the accompanying notes to these condensed consolidated financial statements.

Recursion Pharmaceuticals, Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1. Description of the Business

Recursion Pharmaceuticals, Inc. (Recursion, the Company, we or our) was originally formed as a limited liability company on November 4, 2013 under the name Recursion Pharmaceuticals, LLC. In September 2016, the Company converted to a Delaware corporation and changed its name to Recursion Pharmaceuticals, Inc.

Recursion is a biotechnology company that combines automation, artificial intelligence, machine learning, in vivo validation capabilities and a highly cross-functional team to discover novel medicines that expand our collective understanding of biology. Recursion's rich, relatable database of biological images generated in-house on the Company's robotics platform enables advanced machine learning approaches to reveal drug candidates, mechanisms of action, novel chemistry and potential toxicity with the eventual goal of decoding biology and advancing new therapeutics that radically improve people's lives.

As of September 30, 2022, the Company had an accumulated deficit of $582.1 million. The Company expects to incur substantial operating losses in future periods and will require additional capital to advance its drug candidates. The Company does not expect to generate significant revenue until the Company successfully completes significant drug development milestones with its subsidiaries or in collaboration with third parties, which the Company expects will take a number of years. In order to commercialize its drug candidates, the Company or its partners need to complete clinical development and comply with comprehensive regulatory requirements. The Company is subject to a number of risks and uncertainties similar to those of other companies of the same size within the biotechnology industry, such as the uncertainty of clinical trial outcomes, uncertainty of additional funding and a history of operating losses.

The Company has funded its operations to date primarily through the issuance of convertible preferred stock and the issuance of Class A common stock in an Initial Public Offering (IPO), which was completed in April 2021 (see Note 8, "Common Stock" for additional details). Additionally, we have received payments of $180.0 million from our strategic partnerships. Recursion will likely be required to raise additional capital. As of September 30, 2022, the Company did not have any unconditional outstanding commitments for additional funding. See Note 14, "Subsequent Events" for details of a Stock Purchase Agreement for a private placement (the "Private Placement") with certain qualified institutional buyers and institutional accredited investors that closed subsequent to September 30, 2022. If the Company is unable to access additional funds when needed, it may not be able to continue the development of its products or the Company could be required to delay, scale back or abandon some or all of its development programs and other operations. The Company's ability to access capital when needed is not assured and, if not achieved on a timely basis, could materially harm its business, financial condition and results of operations.

The Company believes that the Company's existing cash and cash equivalents will be sufficient to fund the Company's operating expenses and capital expenditures for at least the next 12 months.

Note 2. Basis of Presentation

Basis of Presentation

The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) have been condensed or omitted. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 31, 2021.

In April 2021, the Company completed a 1.5-for-1 forward stock split of common and convertible preferred stock. All shares presented within these condensed consolidated financial statements were adjusted to reflect the forward stock split for all periods presented. See Note 8, "Common Stock" for additional details.

In April 2021, the Company's Board of Directors authorized two classes of common stock, Class A and Class B. Certain shares of Class A were exchanged for Class B on a one-for-one basis. The creation and issuance of the

Class B common stock did not affect the loss per share for the Class A or Class B shares for any period. The Company presented the net loss per share amounts as if the authorization and exchange occurred as of the start of the 2021 reporting period. All share amounts presented prior to the authorization are referred to as Class A common stock. See Note 8, “Common Stock” for additional details.

It is management’s opinion that these condensed consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the Company’s financial statements. Revenue and net loss for any interim period are not necessarily indicative of future or annual results.

Emerging Growth Company

The Company is an emerging growth company (EGC), as defined by the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). The JOBS Act exempts EGCs from being required to comply with new or revised financial accounting standards until private companies are required to comply. Recursion has elected to use the extended transition period for new or revised financial accounting standards, although the Company may adopt certain new or revised accounting standards early. This may make comparisons of the Company’s financial statements with other public companies difficult because of the potential differences in accounting standards used.

Recursion may remain an EGC until the earlier of (1) December 31, 2026; (2) December 31 of the year in which we (a) become a “large accelerated filer;” or (b) have annual gross revenues of $1.07 billion or more; or (3) the date on which we have issued more than $1.0 billion of non-convertible debt over a three-year period. The Company expects to be an EGC until December 31, 2022.

Recent Accounting Pronouncements

On January 1, 2022, Recursion adopted Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). Under Topic 842, lessees are required to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with terms greater than 12 months. The guidance also expanded the disclosure requirements of lease arrangements. The Company adopted Topic 842 using the modified retrospective method. Recursion elected the following practical expedients when assessing the transition impact: i) not to reassess whether any expired or existing contracts as of the adoption date are or contain leases; ii) not to reassess the lease classification for any expired or existing leases as of the adoption date; and iii) not to reassess initial direct costs for any existing leases as of the adoption date.

Results for reporting periods beginning after December 31, 2021 are presented in accordance with the standard, while results for prior periods are not adjusted and continue to be reported in accordance with Recursion’s historical accounting. The January 1, 2022 adjustment to record lease right-of-use assets and lease liabilities was $32.9 million and $47.8 million, respectively. The impact to the condensed consolidated statements of income and cash flows was insignificant.

Note 3. Supplemental Financial Information

Property and Equipment

(in thousands)	September 30, 2022	December 31, 2021
Lab equipment	$ 42,692	$ 33,076
Leasehold improvements	14,175	13,936
Office equipment	20,005	20,005
Construction in progress	35,957	16,445
Property and equipment, gross	112,829	83,462
Less: Accumulated depreciation	(27,052)	(18,737)
Property and equipment, net	$ 85,777	$ 64,725

Depreciation expense on property and equipment was $2.9 million and $8.3 million during the three and nine months ended September 30, 2022, respectively, and $2.5 million and $6.3 million during the three and nine months ended September 30, 2021, respectively. The Company recorded an impairment of $2.8 million during the nine months ended September 30, 2022 related to a construction project for leasehold improvements as the Company no longer intended to use them. The impairment was recorded in “General and Administrative” in the Condensed Consolidated Statements of Operations.

The construction in progress balance primarily relates to leasehold improvements under construction for several leased locations.

Accrued Expenses and Other Liabilities

(in thousands)	September 30, 2022	December 31, 2021
Accrued compensation	$ 11,814	$ 11,738
Accrued development expenses	6,546	4,682
Accrued early discovery expenses	1,950	2,114
Accrued construction	1,889	4,665
Accrued professional fees	148	1,793
Accrued other expenses	4,410	7,341
Accrued expense and other liabilities	$ 26,757	$ 32,333

Notes Payable

In 2018, the Company borrowed $992 thousand, which was available as part of a lease agreement for use on tenant improvements. Under the terms of the lease, the note will be repaid over a 10-year period at an 8% interest rate.

In September 2019, the Company entered into a lending agreement with Midcap Financial Trust (Midcap) and the other lenders party thereto (the Midcap loan agreement) for borrowing $11.9 million. In July 2021, the Company paid the balance due under the Midcap loan agreement. The total amount paid was $12.7 million. The Company recorded an early extinguishment loss of $996 thousand, which was included in “Other income (loss), net” on the Condensed Consolidated Statements of Operations.

Interest Income (Expense), net

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2022	2021	2022	2021
Interest expense	$ (13)	$ (220)	$ (42)	$ (2,971)
Interest income	1,833	50	2,572	94
Interest income (expense), net	$ 1,820	$ (170)	$ 2,530	$ (2,877)

For the three and nine months ended September 30, 2022, interest income primarily related to the investment portfolio. See Note 4, “Investments” for additional details on the investment portfolio. For the three and nine months ended September 30, 2021, interest expense primarily related to changes in fair value of the Series A and B warrants (see Note 10, “Stock-based Compensation” for additional details on the warrants). The Company also had expenses for the Midcap loan and tenant improvement allowance notes. Interest expense was included in “Other income (loss), net” on the Condensed Consolidated Statements of Operations.

Note 4. Investments

In August 2021, the Company invested cash in an investment portfolio. The primary objectives of the investment portfolio are to preserve principal, maintain prudent levels of liquidity and obtain investment returns. Recursion’s

investment policy limits investments to certain types of debt and money market instruments issued by institutions with investment-grade credit ratings and places restrictions on maturities and concentration by asset class and issuer.

The following tables summarize the Company's investment portfolio by type of security:

	September 30, 2022			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair values
Money market funds	$ 401,847	$ —	$ —	$ 401,847
Total	$ 401,847	$ —	$ —	$ 401,847

	December 31, 2021			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair values
Money market funds	$ 155,731	$ —	$ —	$ 155,731
U.S. government debt	19,960	—	(33)	19,927
Corporate bonds	61,451	—	(74)	61,377
Certificates of deposit	21,450	—	(10)	21,440
Commercial paper	140,911	3	(12)	140,902
Total	$ 399,503	$ 3	$ (129)	$ 399,377

The following table summarizes the classification of the Company's available-for-sale investments on the Condensed Consolidated Balance Sheets:

(in thousands)	September 30, 2022	December 31, 2021
Cash and cash equivalents	$ 401,847	$ 167,931
Investments	—	231,446
Total	$ 401,847	$ 399,377

As of September 30, 2022, the Company did not have any available-for-sale investments outstanding. As of December 31, 2021, all of the Company's available-for-sale investments mature in one year or less.

There were no significant realized or unrealized losses during the three and nine months ended September 30, 2022 and 2021. No impairments were recorded during the three and nine months ended September 30, 2022 and 2021. Realized gains and losses on interest-bearing securities are recorded in "Other income (loss), net," in the Condensed Consolidated Statements of Income.

Note 5. Leases

The Company has entered into various long-term real estate leases primarily related to office, research and development and operating activities. The Company has elected to utilize the package of practical expedients under the transition guidance of Accounting Standards Codification (ASC) Topic 842, *Leases*, which allows Recursion to not reassess whether any existing contract contains a lease, the classification of any existing leases and initial direct costs for any existing leases. The Company's leases have remaining terms from 1 to 10 years and some of those leases include options that provide Recursion with the ability to extend the lease term for five years. Such options are included in the lease term when it is reasonably certain that the option will be exercised.

Certain leases include provisions for variable lease payments which are based on, but not limited to, maintenance, insurance, taxes and usage-based amounts. Recursion will recognize these costs as they are incurred. The Company has also elected to apply the practical expedient for short-term leases whereby Recursion does not recognize a lease liability and right-of-use asset for leases with a term of less than 12 months. The Company has

also elected to not separate consideration in the contract between lease and non-lease components of a contract that contains a lease.

Recursion classifies leases as operating or finance at the lease commencement date. All outstanding leases are operating leases. Certain leases have free rent periods or escalating rent payment provisions. The Company recognizes lease cost on a straight-line basis over the term of the lease.

Lease liabilities and right-of-use assets are calculated and recognized at the lease commencement date based on the present value of minimum lease payments over the lease term. The incremental borrowing rate is equal to the rate of interest that Recursion would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment. For operating leases that commenced prior to the Company's adoption of Topic 842, Recursion measured the lease liabilities and right-of-use assets using the incremental borrowing rate as of January 1, 2022.

For the nine months ended September 30, 2022, Recursion entered into several lease modifications resulting in a decrease to the right-of-use assets and lease liabilities of $2.7 million and $2.8 million, respectively. The modifications resulted in an insignificant impact to the Condensed Consolidated Statements of Operations.

In February 2021, the Company entered into a lease agreement for laboratory and office space with approximately 51,869 square feet (the "Industry Lease"). This lease was separated into multiple lease components based on the intended use of the portions of the space. The right of use asset is expected to begin in the first quarter of 2023. The Industry Lease term is five years with a five-year renewal option. The lease includes provisions for escalating rent payments and a tenant improvement allowance of up to $2.1 million. Total fixed lease payments are expected to be approximately $7.6 million with additional variable expenses, including building and amenity expenses. The Company did not control the space or any of the assets being constructed as of September 30, 2022 and therefore no right of use asset or lease liability was recorded on the Condensed Consolidated Balance Sheet as of September 30, 2022.

In May 2022, the Company entered into a lease agreement for laboratory and office space in Toronto, Ontario with approximately 26,320 square feet (the "Toronto Lease"). This lease was separated into multiple lease components based on the intended use of the portions of the space. For some of those components, the right of use began May 2022 when the control of the assets were obtained. The right of use asset for the remaining lease component is expected to begin in the second quarter of 2023. The Toronto Lease terms for each component are ten years with a five-year renewal option. The Toronto Lease includes provisions for escalating rent payments and a tenant improvement allowance of up to $1.5 million. Total fixed payments are expected to be approximately $10.8 million with additional variable expenses, including building expenses.

The components of the lease cost are as follows:

(in thousands)	Three months ended September 30, 2022	Nine months ended September 30, 2022
Operating lease cost	$ 2,017	$ 5,801
Variable lease cost	102	772
Lease cost	$ 2,119	$ 6,573

Lease term and discount rates as of September 30, 2022 were:

(in thousands)	
Operating leases	
Weighted-average remaining lease term (years)	7.8
Weighted-average discount rate	7.3 %

Maturities of operating lease liabilities as of September 30, 2022 were:

(in thousands)	Operating leases
Remainder of 2022	$ 2,168
2023	9,490
2024	8,428
2025	8,612
2026	8,863
Thereafter	32,963
Total lease payments	70,524
Less: imputed interest	(18,990)
Present value of lease liabilities	$ 51,534

Prior to adoption of ASC 842, future minimum lease payments as of December 31, 2021, as disclosed in our 2021 Annual Report, were:

(in thousands)	Amount
2022	$ 3,977
2023	7,053
2024	7,325
2025	7,513
2026	7,739
Thereafter	26,448
Total minimum payments	$ 60,055

Total rent expense was $1.7 million and $4.4 million during the three and nine months ended September 30, 2021, respectively.

Note 6. Goodwill and Intangible Assets

Goodwill

There were no changes to the carrying amount of goodwill during the three and nine months ended September 30, 2022 and 2021. No goodwill impairment was recorded during the three and nine months ended September 30, 2022 and 2021.

Intangible Assets, Net

The following table summarizes intangible assets:

	September 30, 2022			December 31, 2021		
(in thousands)	Gross carrying amount	Accumulated Amortization	Net carrying amount	Gross carrying amount	Accumulated Amortization	Net carrying amount
Definite-lived intangible asset	$ 1,211	$ (658)	$ 553	$ 911	$ (430)	$ 481
Indefinite-lived intangible asset	904	—	904	904	—	904
Intangible assets, net	$ 2,115	$ (658)	$ 1,457	$ 1,815	$ (430)	$ 1,385

Amortization expense was $76 thousand and $228 thousand during the three and nine months ended September 30, 2022 and 2021, respectively. Amortization expense was included in research and development in the Condensed Consolidated Statements of Operations.

The indefinite-lived intangible asset represents the Recursion domain name that the Company purchased. No indefinite-lived intangible asset impairment charges were recorded during the three and nine months ended September 30, 2022 and 2021.

Note 7. Commitments and Contingencies

Contract Obligations

In the normal course of business, the Company enters into contracts with clinical research organizations, drug manufacturers and other vendors for preclinical and clinical research studies, research and development supplies and other services and products for operating purposes. These contracts generally provide for termination on notice and are cancellable contracts.

Indemnification

The Company has agreed to indemnify its officers and directors for certain events or occurrences, while the officer or director is or was serving at the Company's request in such capacity. The Company purchases directors and officers liability insurance coverage that provides for reimbursement to the Company for covered obligations. This is intended to limit the Company's exposure and enable it to recover a portion of any amounts it pays under its indemnification obligations. The Company had no liabilities recorded for these agreements as of September 30, 2022 and December 31, 2021, as no amounts are probable or estimable.

Employee Agreements

The Company has signed employment agreements with certain key employees pursuant to which, if their employment is terminated following a change of control of the Company, the employees are entitled to receive certain benefits, including accelerated vesting of equity incentives.

Legal Matters

The Company is not currently a party to any material litigation or other material legal proceedings. The Company may, from time to time, be involved in various legal proceedings arising in the normal course of business. An unfavorable resolution of any such matter could materially affect the Company's future financial position, results of operations or cash flows.

Note 8. Common Stock

Each share of Class A common stock entitles the holder to one vote per share and each share of Class B common stock entitles the holder to 10 votes per share on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, as may be declared by the Company's Board of Directors. As of September 30, 2022 and December 31, 2021, no dividends had been declared.

Initial Public Offering

On April 20, 2021, the Company closed its IPO and issued 27,878,787 shares of its Class A common stock at a price of $18.00 per share for net proceeds of $462.4 million, after deducting underwriting discounts and commissions of $35.1 million and other offering costs of $4.3 million. In connection with the IPO, all shares of convertible preferred stock converted into 115,598,018 shares of Class A common stock.

Stock Split

In April 2021, the Board of Directors approved a 1.5-for-1 forward stock split of the Company's common and convertible preferred stock. Each shareholder of record on April 9, 2021 received 1.5 shares for each then-held share. The split proportionally increased the authorized shares and did not change the par values of the Company's stock. The split affected all stockholders uniformly and did not affect any stockholder's ownership percentage of the Company's shares of common stock. All shares and per share amounts presented within these Condensed Consolidated Financial Statements were adjusted to reflect the forward stock split for all periods presented.

Class A and B Common Shares Authorization

In April 2021, the Company's Board of Directors authorized two classes of common stock, Class A and Class B. The rights of the holders of Class A and B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 10 votes per share and is convertible at any time into one share of Class A common stock.

All Class B common stock is held by Christopher Gibson, Ph.D., the Company's Chief Executive Officer (CEO), or his affiliates. As of September 30, 2022, Dr. Gibson and his affiliates held outstanding shares of Class B common stock representing approximately 32% of the voting power of the Company's outstanding shares. This voting power may increase over time as Dr. Gibson vests in and exercises equity awards outstanding. If all the exchangeable equity awards held by Dr. Gibson had been fully vested, exercised and exchanged for shares of Class B common stock as of September 30, 2022, Dr. Gibson and his affiliates would hold approximately 35% of the voting power of the Company's outstanding shares. As a result, Dr. Gibson will be able to significantly influence any action requiring the approval of Recursion stockholders, including the election of the Board of Directors; the adoption of amendments to the Company's certificate of incorporation and bylaws; and the approval of any merger, consolidation, sale of all or substantially all of the Company's assets, or other major corporate transaction.

Note 9. Collaborative Development Contracts

Roche and Genentech

Description
In December 2021, Recursion entered into a collaboration and license agreement with Roche and Genentech (collectively referred to as Roche). Recursion is constructing, using the Company's imaging technology and proprietary machine-learning algorithms, unique maps of the inferred relationships amongst perturbation phenotypes in a given cellular context with the goal to discover and develop therapeutic small molecule programs in a gastrointestinal cancer indication and in key areas of neuroscience. Roche and Recursion will collaborate to select certain novel inferences with respect to small molecules or targets generated from the Phenomaps for further validation and optimization as collaboration programs. Roche and Recursion may also combine sequencing datasets from Roche with Recursion's Phenomaps and collaborate to generate new algorithms to produce multi-modal maps from which additional collaboration programs may be initiated. For every collaboration program that successfully identifies potential therapeutic small molecules or validates a target, Roche will have an option to obtain an exclusive license to develop and commercialize such potential therapeutic small molecules or to exploit such target in the applicable exclusive field.

Pricing
In January 2022, Recursion received a $150.0 million non-refundable upfront payment from the Company's collaboration with Roche. Recursion is eligible for additional milestone payments based on performance progress of the collaboration. Each of the Phenomaps requested by Roche and created by Recursion may be subject to either an initiation fee, acceptance fee or both. Such fees could exceed $250.0 million for 16 accepted Phenomaps. In addition, for a period of time after Roche's acceptance of certain Phenomaps, Roche will have the option to obtain, subject to payment of an exercise fee, rights to use outside the collaboration the raw images generated in the course of creating those Phenomaps. If Roche exercises its external use option for all 12 eligible Phenomaps, Roche's associated exercise fee payments to Recursion could exceed $250.0 million. Under the collaboration, Roche may initiate up to 40 programs, each of which, if successfully developed and commercialized, could yield more than $300.0 million in development, commercialization and net revenue milestones for Recursion, as well as tiered royalties on net revenue.

Accounting
This agreement represents a transaction with a customer and therefore will be accounted for in accordance with ASC 606. Recursion has determined that it has three performance obligations, one related to gastrointestinal cancer and two in neuroscience. These performance obligations are for performing research and development services for Roche to identify targets and medicines. The performance obligations also include potential licenses related to the intellectual property. The Company concluded that licenses within the contract are not distinct from the research and development services as they are interrelated due to the fact that the research and development services significantly impact the potential licenses. Any additional services are considered customer options and will be considered as separate contracts for accounting purposes.

The Company has determined the transaction price to be $150.0 million, comprised of the upfront payment. Recursion will fully constrain the amounts of variable consideration to be received from potential milestones considering the stage of development and the risks associated with the remaining development required to achieve each milestone. Recursion will re-evaluate the transaction price each reporting period.

The transaction price was allocated to the performance obligations based on the estimated relative stand-alone selling price of each performance obligation as determined using an expected cost plus margin approach. The Company recognizes revenue over time based on costs incurred relative to total expected costs to perform the research and development services. Recursion determined that this method provides a faithful depiction of the transfer of control to the customer. This method of recognizing revenue requires the Company to make estimates of total costs to provide the services required under the performance obligations. Significant inputs used to determine the total costs included the length of time required, service hours performed by Company employees and materials costs. A significant change in these estimates could have a material effect on the timing and amount of revenue recognized in future periods. Recursion has estimated the completion of the performance obligations by 2025.

Bayer AG

Description
In August 2020, the Company entered into a Research Collaboration and Option Agreement (the Bayer Agreement) with Bayer AG (Bayer) for a five-year term pursuant to which the Company and Bayer may initiate approximately 10 research projects related to fibrosis across multiple organ systems, including the lung, liver and heart. Under the agreement, the Company contributed compounds from its proprietary library and Bayer contributed compounds from its proprietary library and will contribute scientific expertise throughout the collaboration. Under each research project, the Company will work with Bayer to identify potential candidates for development. Under the agreement, Bayer has the first option for licenses to potential candidates.

Pricing
In October 2020, the Company received a $30.0 million non-refundable upfront payment. Each such license could potentially result in option exercise fees and development and commercial milestone payments payable to the Company, with an aggregate value of up to approximately $100.0 million (for an option on a lead series) or up to approximately $120.0 million (for an option on a development candidate), as well as tiered royalties for each such license, ranging from low- to mid-single digit percentages of sales, depending on commercial success.

Accounting
The Company determined that it has one performance obligation under the agreement, which is to perform research and development services for Bayer. Recursion determined the transaction price to be $30.0 million, comprised of the upfront payment. The Company allocated the amount to the single performance obligation. The Company is recognizing revenue over time by measuring progress towards completion of the performance obligation. This method of recognizing revenue requires the Company to make estimates of the total time to provide the services required under the performance obligation. A significant change in these estimates could have a material effect on the timing and amount of revenue recognized in future periods. For the nine months ended September 30, 2021, cost of revenue for this agreement was insignificant and was included within “Research and development” in the Condensed Consolidated Statement of Operations. Recursion has estimated the completion of the performance obligation by 2023.

Additional Revenue Disclosures
Recursion recognized $13.1 million and $26.0 million of operating revenue during the three and nine months ended September 30, 2022, respectively, of which $2.5 million and $7.5 million were included in the unearned revenue balance as of December 31, 2021. All revenue recognized during the three and nine months ended September 30, 2021 was included in the unearned revenue balance as of December 31, 2020. Revenue recognized was from upfront payments received at the inception of the related contracts, which decreased the initial unearned revenue recognized. Unearned revenue of $150.0 million was recorded on the Condensed Consolidated Balance Sheet during the nine months ended September 30, 2022 related to the upfront payment from the Roche collaboration. As of September 30, 2022, the Company had $6.5 million of costs incurred to fulfill a contract on its Condensed Consolidated Balance Sheet within “Other current assets.”

Unearned revenue was classified as short-term and long-term on the Condensed Consolidated Balance Sheets based on the Company's estimate of revenue that will be recognized during the next twelve months.

Note 10. Stock-Based Compensation

In April 2021, the Board of Directors and the stockholders of the Company adopted the 2021 Equity Incentive Plan (the 2021 Plan). Under the 2021 Plan, 16,186,000 shares of Class A common stock were reserved. Additionally, shares were reserved for all outstanding awards under the previous 2016 Plan. The Company may grant stock options, restricted stock units (RSUs), stock appreciation rights, restricted stock awards and other forms of stock-based compensation.

As of September 30, 2022, 15,161,662 shares of Class A common stock were available for grant.

The following table presents the classification of stock-based compensation expense for stock options and RSUs for employees and non-employees within the Condensed Consolidated Statements of Operations:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2022	2021	2022	2021
Cost of revenue	$ 732	$ —	$ 1,560	$ —
Research and development	3,674	1,305	7,404	3,000
General and administrative	4,247	1,791	10,534	6,771
Total	$ 8,653	$ 3,096	$ 19,498	$ 9,771

Stock Options

Stock options generally vest over four years and expire no later than 10 years from the date of grant. The following table summarizes Recursion's stock option activity during the nine months ended September 30, 2022:

(in thousands except share data)	Shares	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding as of December 31, 2021	19,191,714	$ 3.78	8.1	$ 260,867
Granted	2,483,336	11.10		
Cancelled	(1,435,146)	5.63		
Exercised	(3,063,033)	1.79		21,904
Outstanding as of September 30, 2022	17,176,871	$ 5.04	7.7	$ 113,301
Exercisable as of September 30, 2022	8,769,773	$ 3.36	6.9	$ 69,776

The fair value of options granted to employees is calculated on the grant date using the Black-Scholes option valuation model. The weighted-average grant-date fair values of stock options granted during the nine months ended September 30, 2022 and 2021 were $6.57 and $6.41, respectively.

The following weighted-average assumptions were used to calculate the grant-date fair value of stock options:

	Nine months ended September 30,	
	2022	2021
Expected term (in years)	6.2	6.2
Expected volatility	63 %	66 %
Expected dividend yield	—	—
Risk-free interest rate	1.9 %	1.0 %

As of September 30, 2022, $32.8 million of unrecognized compensation cost related to stock options is expected to be recognized as expense over approximately the next three years.

RSUs

In April 2021, Recursion redesigned certain aspects of its long-term incentive program. As a result, equity awards granted to employees since the redesign generally consist of a combination of stock options and RSUs. RSUs awarded to employees pursuant to the 2021 Plan generally vest over four years. The weighted-average grant-date fair value of RSUs generally is determined based on the number of units granted and the quoted price of Recursion's common stock on the date of grant.

The following table summarizes Recursion's RSU activity during the nine months ended September 30, 2022:

	Stock units	Weighted-average grant date fair value
Outstanding as of December 31, 2021	478,136	$ 23.40
Granted	7,300,841	7.22
Vested	(476,567)	6.74
Forfeited	(323,970)	9.35
Outstanding as of September 30, 2022	6,978,440	$ 8.13

The fair market value of RSUs vested was $5.6 million during the nine months ended September 30, 2022. As of September 30, 2022, $51.2 million of unrecognized compensation cost related to RSUs is expected to be recognized as expense over approximately the next four years.

Warrants

In December 2016, the Company issued fully vested warrants to purchase 84,486 shares of Series A Preferred Stock (First Series A warrant) at a purchase price of $0.71 per share. In May 2017, the Company drew on additional borrowing capacity, which required the Company to issue additional fully vested warrants to purchase for 28,161 shares of Series A Preferred Stock at a purchase price of $0.71 per share (Second Series A warrant and together with the First Series A warrant, the Series A warrants). These Series A warrants were exercised in April 2021.

In July 2018, the Company drew on additional borrowing capacity pursuant to an amended agreement. This required the Company to issue fully vested warrants to purchase 25,762 shares of Series B Preferred Stock (Series B warrants) at a purchase price of $2.79 per share. These Series B warrants were exercised in April 2021.

The FASB has issued accounting guidance on the classification of freestanding warrants and other similar instruments for shares that are redeemable (either puttable or mandatorily redeemable). The guidance requires liability classification for certain warrants that are exercisable into convertible preferred stock. The initial fair values of the Series A and B warrants were recorded as debt issuance costs, which resulted in a reduction in the carrying value of the debt and subsequent accretion. The Company remeasured the Series A and B warrants on each Condensed Consolidated Balance Sheet date. The change in valuation was recorded in the Condensed Consolidated Statements of Operations in "Other income (loss), net." The liability was recorded to equity upon the exercise of the Series A and B warrants.

The following is a summary of the changes in the Company's Series A and B warrant liability balance during the nine months ended September 30, 2021:

(in thousands)	
Balance as of December 31, 2020	$ 125
Increase in fair value of warrants	2,215
Recorded in equity upon exercise	(2,340)
Balance as of September 30, 2021	$ —

Note 11. Income Taxes

The Company did not record any income tax expense during the three and nine months ended September 30, 2022 and 2021. The Company has historically incurred operating losses and maintains a full valuation allowance against its net deferred tax assets. Foreign taxes were insignificant during the three and nine months ended September 30, 2022 and 2021.

Net operating losses (NOLs) and tax credit carryforwards are subject to review and possible adjustment by the Internal Revenue Service ("IRS") and may become subject to annual limitation due to ownership changes that have occurred previously or that could occur in the future under Section 382 of the Internal Revenue Code, as amended and similar state provisions. These ownership changes may limit the amount of carryforwards that can be utilized annually to offset future taxable income. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain shareholders or public groups in the stock of a corporation by more than 50% over a three-year period. The Company has not conducted a study to assess whether a change of control has occurred or whether there have been multiple changes of control since inception due to the significant complexity and cost associated with such a study. If the Company has experienced a change of control, as defined by Section 382, at any time since inception, utilization of the net operating loss carryforwards or research and development tax credit carryforwards would be subject to an annual limitation under Section 382, which is determined by first multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax-exempt rate and then could be subject to additional adjustments, as required. Any limitation may result in the expiration of a portion of the net operating loss carryforwards or research and development tax credit carryforwards before utilization. Further, until a study is completed and any limitation is known, no amounts are being presented as an uncertain tax position.

The Company files income tax returns in the United States, Canada, Utah, California and Massachusetts. The Company is not currently under examination in any of these jurisdictions. The Company is subject to income tax examinations on all federal returns since the 2018 tax return.

Note 12. Net Loss Per Share

For the three and nine months ended September 30, 2022 and 2021, Recursion calculated net loss per share of Class A and Class B common stock using the two-class method. Basic net loss per share is computed using the weighted-average number of shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of shares and the effect of potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of stock options, RSUs and other contingently issuable shares. For periods presented in which the Company reports a net loss, all potentially dilutive shares are anti-dilutive and as such are excluded from the calculation. For the three and nine months ended September 30, 2022 and 2021, the Company reported a net loss and therefore basic and diluted loss per share are the same.

The rights, including the liquidation and dividend rights, of the holders of the Company's Class A and Class B common stock are identical, except with respect to voting. As a result, the undistributed earnings for each period are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the period had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis and the resulting amount per share for Class A and Class B common stock was the same during the three and nine months ended September 30, 2022 and 2021.

The following tables set forth the computation of basic and diluted net loss per share of Class A and Class B common stock:

(in thousands, except share amount)	Three months ended September 30, 2022		Nine months ended September 30, 2022	
	Class A	Class B	Class A	Class B
Numerator:				
Allocation of undistributed earnings	$ (57,685)	$ (2,759)	$ (173,167)	$ (8,817)
Denominator:				
Weighted average common shares outstanding	165,518,152	7,917,818	163,783,626	8,339,348
Net loss per share, basic and diluted	$ (0.35)	$ (0.35)	$ (1.06)	$ (1.06)

(in thousands, except share amounts)	Three months ended September 30, 2021		Nine months ended September 30, 2021	
	Class A	Class B	Class A	Class B
Numerator:				
Allocation of undistributed earnings	$ (44,763)	$ (2,664)	$ (111,133)	$ (10,413)
Denominator:				
Weighted average common shares outstanding	159,065,667	9,467,883	101,045,348	9,467,883
Net loss per share, basic and diluted	$ (0.28)	$ (0.28)	$ (1.10)	$ (1.10)

The Company excluded the following potential common shares from the computation of diluted net loss per share for the periods indicated because including them would have had an anti-dilutive effect:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Convertible preferred stock	—	—	—	46,324,206
Stock based compensation	12,570,320	16,801,940	10,849,853	15,511,538
Warrants	—	163,958	—	180,479
Total	12,570,320	16,965,898	10,849,853	62,016,223

Note 13. Fair Value Measurements

The fair value hierarchy consists of the following three levels:

- Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets that the company has the ability to access;
- Level 2 — Valuations based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations in which all significant inputs are observable in the market; and
- Level 3 — Valuations using significant inputs that are unobservable in the market and include the use of judgment by the company's management about the assumptions market participants would use in pricing the asset or liability.

The Company is required to maintain a cash balance in a collateralized account to secure the Company’s credit cards. Additionally, the Company holds restricted cash related to an outstanding letter of credit issued by J.P. Morgan, which was obtained to secure certain Company obligations relating to tenant improvements.

The following tables summarize the Company's assets and liabilities that are measured at fair value on a recurring basis:

(in thousands)	September 30, 2022	Basis of fair value measurement Level 1	Level 2	Level 3
Assets				
Cash equivalents:				
Money market funds	$ 401,847	$ 401,847	$ —	$ —
Restricted cash	10,244	10,244	—	—
Total assets	$ 412,091	$ 412,091	$ —	$ —

(in thousands)	December 31, 2021	Basis of fair value measurement Level 1	Level 2	Level 3
Assets				
Cash equivalents:				
Money market funds	$ 155,731	$ 155,731	$ —	$ —
Commercial paper	12,000	—	12,000	—
Corporate bonds	200	—	200	—
Restricted cash	10,233	10,233	—	—
Investments:				
U.S. government debt	19,927	—	19,927	—
Corporate bonds	61,177	—	61,177	—
Certificates of deposit	21,440	—	21,440	—
Commercial paper	128,902	—	128,902	—
Total assets	$ 409,610	$ 165,964	$ 243,646	$ —

In addition to the financial instruments that are recognized at fair value on the Condensed Consolidated Balance Sheet, the Company has certain financial instruments that are recognized at amortized cost or some basis other than fair value. The carrying amount of these instruments are considered to be representative of their approximate fair values.

The following tables summarize the Company's financial instruments that are not measured at fair value:

(in thousands)	Book values September 30, 2022	Book values December 31, 2021	Fair values September 30, 2022	Fair values December 31, 2021
Liabilities				
Current portion of notes payable	$ 95	$ 90	$ 95	$ 90
Notes payable, net of current portion	561	633	561	633
Total liabilities	$ 656	$ 723	$ 656	$ 723

Note 14. Subsequent Events

On October 27, 2022, Recursion closed on a Stock Purchase Agreement for a Private Placement with certain qualified institutional buyers and institutional accredited investors, pursuant to which the Company sold an aggregate of 15,336,734 shares of the Company's Class A shares at a purchase price of $9.80 per share for gross proceeds of approximately $150.3 million, before deducting placement agent fees and other expenses. As of the time of the closing of the Private Placement, the shares issued were not registered under the Securities Act of 1933, as amended. In connection with the Private Placement, the Company and the purchasers entered into a Registration Rights Agreement providing for the registration for resale of the shares. On October 28, 2022,

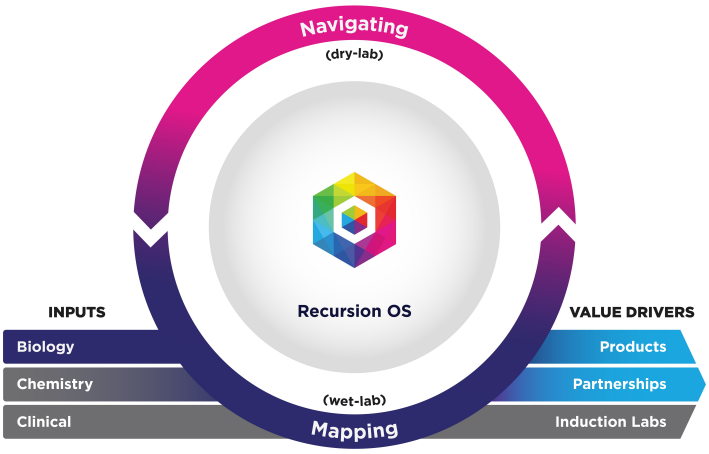
Recursion filed a prospectus supplement, registering the shares issued in the Private Placement for resale. The Company has agreed to use commercially reasonable efforts to keep the registration statement continuously effective until such date that all Registrable Securities (as such term is defined in the Registration Rights Agreement) covered by the registration statement or prospectus supplement have been sold.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is a discussion and analysis of the financial condition of Recursion Pharmaceuticals, Inc. (Recursion, the Company, we, us or our) and the results of our operations. This commentary should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and accompanying notes appearing in Item 1, "Financial Statements," the Company's audited consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Annual Report on Form 10-K. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading "Note About Forward-Looking Statements" in this Quarterly Report on Form 10-Q. You should review the disclosure under the heading "Risk Factors" in our Annual Report on Form 10-K and in this Form 10-Q for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements.

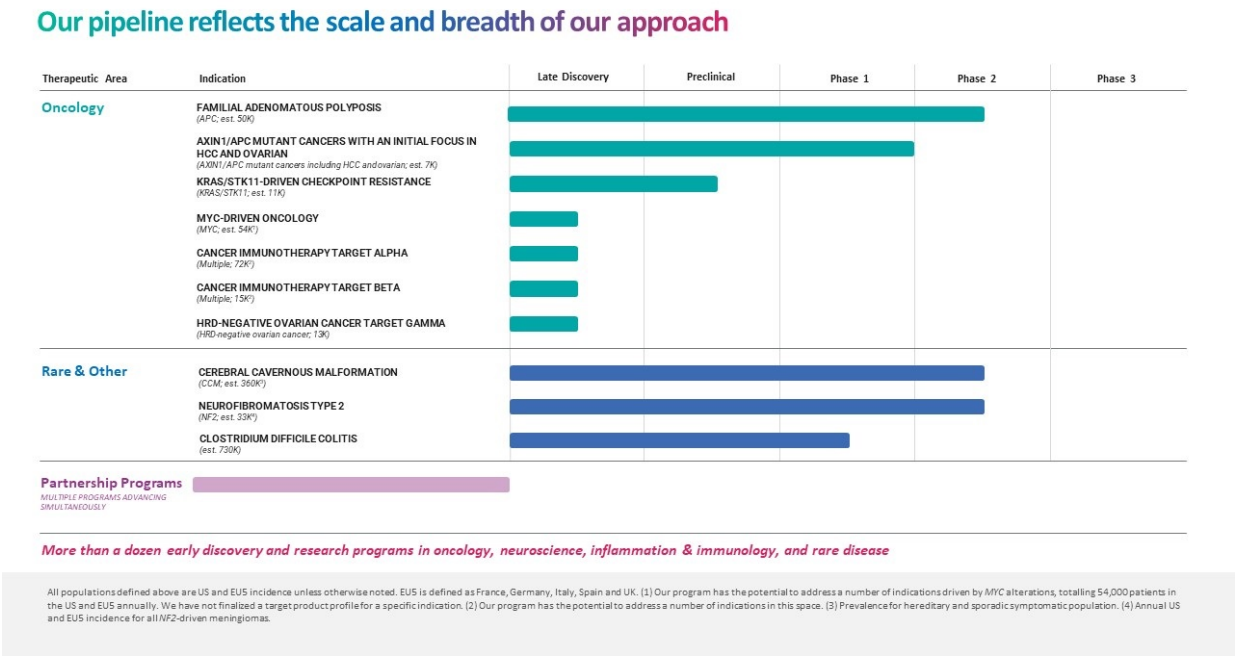
Overview

We are a clinical-stage biotechnology company industrializing drug discovery by decoding biology. Central to our mission is the Recursion Operating System (OS), a platform built across diverse technologies that enables us to map and navigate trillions of biological and chemical relationships within one of the world's largest proprietary biological and chemical datasets, the Recursion Data Universe. Scaled 'wet-lab' biology and chemistry tools are organized into an iterative loop with 'dry-lab' computational tools to rapidly translate map-based hypotheses into validated insights and novel chemistry, unconstrained by published literature or human bias. Our focus on novel technologies spanning target discovery through translation, as well as our ability to rapidly iterate between wet lab and dry lab in-house and at scale, differentiates us from other companies in our space. Further, our balanced team of life scientists and computational and technical experts creates an environment where empirical data, statistical rigor and creative thinking are brought to bear on our decisions. To date, we have leveraged our Recursion OS to enable three value drivers: i) an expansive pipeline of internally-developed programs, including several clinical-stage assets, focused on genetically-driven rare diseases and oncology with significant unmet need and market opportunities, in some cases expected to be in excess of $1.0 billion in annual sales; ii) strategic partnerships with leading biopharma companies to map and navigate intractable areas of biology, including fibrosis with Bayer and neuroscience with Roche and Genentech, to identify novel targets and translate potential new medicines to resource-heavy clinical development overseen by our partners; and iii) Induction Labs, a growth engine created to explore new extensions of the Recursion OS both within and beyond therapeutics. We are a biotechnology company scaling more like a technology company.



Recursion finished the third quarter of 2022 with a portfolio of clinical stage, preclinical and discovery programs and continued scaling the total number of phenomic experiments to over 163 million, the size of its proprietary data universe to approximately 19 petabytes and the number of biological and chemical relationships to over 2.9 trillion. Data have been generated on the Recursion OS across 47 human cell types, an in-house chemical library of over

1.5 million compounds and an *in silico* library of 12 billion small molecules, by a growing team of approximately 500 Recursionauts that is balanced between life scientists and computational and technical experts.



Summary of Business Highlights

Internal Pipeline

- **Cerebral Cavernous Malformation (CCM) (REC-994):** In March 2022, we announced the initiation of our Phase 2 SYCAMORE clinical trial, which is a double-blind, placebo-controlled safety, tolerability and exploratory efficacy study of this drug candidate in 60 participants with CCM. At this time, we continue to actively enroll participants.
- **Neurofibromatosis Type 2 (NF2) (REC-2282):** In June 2022, we announced the initiation of our Phase 2/3 POPLAR clinical trial, which is a parallel group, two stage, randomized, multicenter study of this drug candidate in approximately 90 participants with progressive *NF2*-mutated meningiomas. At this time, we continue to actively enroll participants.
- **Familial Adenomatous Polyposis (FAP) (REC-4881):** In September 2022, we announced the initiation of our Phase 2 TUPELO clinical trial, which is a multicenter, randomized, double-blind, placebo-controlled two-part clinical trial to evaluate efficacy, safety, and pharmacokinetics of REC-4881 in patients with FAP.
- **AXIN1/APC Mutant Cancers (REC-4881):** Subsequent to the nine months ended September 30, 2022, in October 2022, we announced the nomination of REC-4881 for the potential treatment of AXIN1/APC mutant cancers with an initial focus on hepatocellular carcinoma and ovarian cancer. We have prioritized resources to accelerate planning to initiate a Phase 2 trial. The advancement of this program highlights our intent to focus our internal pipeline on oncology and oncology-like opportunities.
- ***Clostridium difficile* Colitis (REC-3964):** In September 2022, we announced the initiation of our Phase 1 clinical trial, which is a first-in-human protocol evaluating single and multiple doses of REC-3964 in healthy volunteers and will assess the safety, tolerability and pharmacokinetic profile of REC-3964.
- **GM2 Gangliosidosis (REC-3599):** Due to the advancement of our program in AXIN1/APC mutant cancers and the increasing number of oncology programs moving towards the clinic, we deprioritized our GM2 gangliosidosis program and redirected resources. We will make efforts to work with patient foundations to transfer relevant scientific knowledge.

Transformational Collaborations

We continue to advance efforts to potentially discover new therapeutics with our strategic partners in the areas of fibrotic disease (Bayer) as well as neuroscience and a single indication in gastrointestinal oncology (Roche and Genentech).

Recursion OS

- **Transcriptomics and Industrialized Validation:** We continue to build out our scaled transcriptomics platform which has now been adopted into the research operating plans of the majority of Recursion's active programs in order to drive validation, lead selection, and optimization. We are developing an end-to-end industrialized validation process in order to translate phenomic and transcriptomic insights from our maps of biology and chemistry.
- **InVivomics and Digital Tolerability:** Digital tolerability is a novel in vivo method for analytical dose selection and interpretation prior to initiating efficacy studies. By the end of the year, we are planning to have 100% of new chemical entities evaluated using digital tolerability before starting any long-term efficacy studies in animals. Furthermore, we continue to increase the dimensionality of digital biomarker signals measured in our preclinical in vivo studies.
- **Chemical Technology and Machine Learning:** We have completed the design of the remaining core component modules of our automated chemical microsynthesis platform. We envision advanced machine learning approaches as guiding experiment design and drug candidate selection while exploring new ways of building maps of biology and chemistry in order to improve our ability to predict treatments and understand causal mechanisms. Likewise, in the third quarter, we began an initiative in molecular modeling to use predictive and generative methods to drive chemistry optimization.

Additional Corporate Updates

- **Private Placement Offering:** On October 27, 2022, we completed a Private Placement of common stock, raising gross proceeds of approximately $150.3 million, before deducting placement agent fees and other expenses. See Note 14, "Subsequent Events" to the Condensed Consolidated Financial Statements for additional details.
- **ESG Reporting:** In August 2022, we announced receiving a Prime Rating for ESG performance from the industry-renowned Institutional Shareholder Services (ISS). A Prime Rating is awarded to companies with ESG performance above a sector-specific threshold and is assessed by ISS using an "absolute best in class" methodology.

Financing and Operations

We were incorporated in November 2013. On April 20, 2021, we closed our Initial Public Offering (IPO) and issued 27,878,787 shares of Class A common stock at a price of $18.00 per share, raising gross and net proceeds of $501.8 million and $462.4 million, respectively. Prior to our IPO, we had raised approximately $448.9 million in equity financing from investors in addition to $30.0 million in an upfront payment from our collaboration with Bayer AG (Bayer). In December 2021, we announced a collaboration with Roche and received an upfront payment of $150.0 million in January 2022. See Note 9, "Collaborative Development Contracts" to the Condensed Consolidated Financial Statements for additional information. On October 27, 2022, Recursion completed a Private Placement, pursuant to which the Company sold an aggregate of 15,336,734 Class A shares at a purchase price of $9.80 per share for gross proceeds of approximately $150.3 million, before deducting placement agent fees and other expenses. See Note 14, "Subsequent Events" to the Condensed Consolidated Financial Statements for additional details.

We use the capital we have raised to fund operations and investing activities across platform research operations, drug discovery, clinical development, digital and other infrastructure, creation of our portfolio of intellectual property and administrative support. We do not have any products approved for commercial sale and have not generated any revenues from product sales. We had unrestricted cash and cash equivalents of $454.6 million as of September 30, 2022. Based on our current operating plan, we believe that our cash and cash equivalents will be sufficient to fund our operations for at least the next twelve months.

Since inception, we have incurred significant operating losses. Our net losses were $60.4 million and $182.0 million during the three and nine months ended September 30, 2022, respectively. Our net losses were $47.4 million and $121.5 million during the three and nine months ended September 30, 2021, respectively. As of September 30, 2022, our accumulated deficit was $582.1 million. We anticipate that our expenses and operating losses will increase substantially over the foreseeable future. The expected increase in expenses will be driven in large part by our ongoing activities, if and as we: continue to advance our platform; continue preclinical development of our current and future product candidates and initiate additional preclinical studies; commence clinical studies of our current and future product candidates; establish our manufacturing capability, including developing our contract development and manufacturing relationships and building our internal manufacturing facilities; acquire and license technologies aligned with our platform; seek regulatory approval of our current and future product candidates; expand our operational, financial and management systems and increase personnel, including personnel to support our preclinical and clinical development, manufacturing and commercialization efforts; continue to develop, grow, perfect and defend our intellectual property portfolio; and incur additional legal, accounting, or other expenses in operating our business, including the additional costs associated with operating as a public company.

We anticipate that we will need to raise additional financing in the future to fund our operations, including the potential commercialization of any approved product candidates. See Note 14, “Subsequent Events” to the Condensed Consolidated Financial Statements for details on a Stock Purchase Agreement for a Private Placement with certain qualified institutional buyers and institutional accredited investors that closed subsequent to September 30, 2022. Until such time, if ever, as we can generate significant product revenue, we expect to finance our operations with our existing cash and cash equivalents, any future equity or debt financings and upfront, milestone and royalty payments, if any, received under current or future license or collaboration agreements. We may not be able to raise additional capital on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations and financial condition may be adversely affected.

Components of Operating Results

Revenue

To date, our business has generated revenue from two sources: (i) operating revenue and (ii) grant revenue.

Operating Revenue—Operating revenue is generated through research and development agreements derived from strategic alliances. We are entitled to receive variable consideration as certain milestones are achieved. The timing of revenue recognition is not directly correlated to the timing of cash receipts.

Grant Revenue—We recognize grant revenue in the period in which the revenue is earned in accordance with the associated grant agreement, which is the period in which corresponding reimbursable expenses under the grant agreement are incurred.

Cost of Revenue

Cost of revenue consists of the Company’s costs to provide services for drug discovery required under performance obligations with partnership customers. These primarily include materials costs, service hours performed by our employees and depreciation of property and equipment.

Research and Development

Research and development expenses account for a significant portion of our operating expenses. We recognize research and development expenses as they are incurred. Research and development expenses consist of costs incurred in performing activities including:

- costs to develop and operate our platform;
- costs of discovery efforts which may lead to development candidates, including research materials and external research;
- costs for clinical development of our investigational products;
- costs for materials and supplies associated with the manufacture of active pharmaceutical ingredients, investigational products for preclinical testing and clinical trials;
- personnel-related expenses, including salaries, benefits, bonuses and stock-based compensation for employees engaged in research and development functions;
- costs associated with operating our digital infrastructure; and

- other direct and allocated expenses incurred as a result of research and development activities, including those for facilities, depreciation, amortization and insurance.

We monitor research and development expenses directly associated with our clinical assets at the program level to some degree, however, indirect costs associated with clinical development and the balance of our research and development expenses are not tracked at the program or candidate level.

We recognize expenses associated with third-party contracted services as they are incurred. Upon termination of contracts with third parties, our financial obligations are generally limited to costs incurred or committed to date. Any advance payments for goods or services to be used or rendered in future research and product development activities pursuant to a contractual arrangement are classified as prepaid expenses until such goods or services are rendered.

General and Administrative

We expense general and administrative costs as incurred. General and administrative expenses consist primarily of salaries; employee benefits; stock-based compensation; and outsourced labor for personnel in executive, finance, human resources, legal and other corporate administrative functions. General and administrative expenses also include legal fees for corporate and patent matters; professional fees for accounting, auditing, tax and administrative consulting services, insurance costs, facilities and depreciation expenses.

We expect that our general and administrative expenses will increase in the future to support personnel in research and development and to support our operations as we increase our research and development activities and activities related to the potential commercialization of our drug candidates.

Other Income (Loss), Net

Other income (loss), net consists of interest earned primarily from investments, interest expense incurred under our loan agreements and gains and losses from investments.

Results of Operations

The following table summarizes our results of operations:

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
(in thousands, except percentages)	**2022**	**2021**	**$**	**%**	**2022**	**2021**	**$**	**%**
Revenue								
Operating revenue	$ 13,053	$ 2,500	$ 10,553	>100%	$ 26,005	$ 7,500	$ 18,505	>100%
Grant revenue	107	34	74	>100%	162	145	17	12.1 %
Total revenue	13,160	2,534	10,627	>100%	26,167	7,645	18,522	>100%
Operating costs and expenses								
Cost of revenue	15,409	—	15,409	n/m	37,435	—	37,435	n/m
Research and development	40,836	33,246	7,590	22.8 %	111,716	86,979	24,736	28.4 %
General and administrative	19,488	15,690	3,798	24.2 %	61,761	38,481	23,280	60.5 %
Total operating costs and expenses	75,733	48,936	26,797	54.8 %	210,912	125,460	85,451	68.1 %
Loss from operations	(62,573)	(46,402)	(16,170)	34.8 %	(184,745)	(117,815)	(66,929)	56.8 %
Other income (loss), net	2,128	(1,026)	3,154	>100%	2,761	(3,731)	6,492	>100%
Net loss	$ (60,445)	$ (47,428)	$ (13,016)	27.4 %	$ (181,984)	$ (121,546)	$ (60,437)	49.7 %

n/m = Not meaningful

Summary

Our financial performance during the three and nine months ended September 30, 2022 compared to the prior periods included; (i) a decrease in platform research and development costs due to a reallocation of spending to

cost of revenue for our strategic partnerships; (ii) an increase in revenue recognized due to our strategic partnership with Roche; and (iii) the incurrence of cost of revenue due to our strategic partnerships. Additionally, our financial results reflected added funding to support our emerging early- and mid-stage pipeline assets and continued growth of the Company.

Revenue

The following table summarizes our components of revenue:

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
(in thousands, except percentages)	**2022**	**2021**	**$**	**%**	**2022**	**2021**	**$**	**%**
Revenue								
Operating revenue	$ 13,053	$ 2,500	$ 10,553	>100%	$ 26,005	$ 7,500	$ 18,505	>100%
Grant revenue	107	34	74	>100%	162	145	17	12.1 %
Total revenue	$ 13,160	$ 2,534	$ 10,627	>100%	$ 26,167	$ 7,645	$ 18,522	>100%

For the three and nine months ended September 30, 2022, the increase in revenue compared to prior period was due to revenue recognized from our strategic partnership with Roche, which commenced in January 2022.

Cost of Revenue

The following table summarizes our cost of revenue:

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
(in thousands, except percentages)	**2022**	**2021**	**$**	**%**	**2022**	**2021**	**$**	**%**
Total cost of revenue	$ 15,409	$ —	$ 15,409	n/m	$ 37,435	$ —	$ 37,435	n/m

For the three and nine months ended September 30, 2022, the increase in cost of revenue compared to prior period was due to our strategic partnerships. For the three and nine months ended September 30, 2021, cost of revenue was insignificant and was included within “Research and development” in the Condensed Consolidated Statement of Operations.

Research and Development

The following table summarizes our components of research and development expense:

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
(in thousands, except percentages)	**2022**	**2021**	**$**	**%**	**2022**	**2021**	**$**	**%**
Research and development expense								
Platform	$ 11,376	$ 13,212	$ (1,836)	(13.9)%	$ 27,376	$ 35,082	$ (7,706)	(22.0)%
Discovery	12,119	10,302	1,817	17.6 %	36,878	26,888	9,990	37.2 %
Clinical	11,927	4,944	6,983	>100%	35,590	13,480	22,110	>100%
Stock based compensation	3,772	1,386	2,386	>100%	7,702	3,157	4,545	>100%
Other	1,642	3,402	(1,760)	(51.7)%	4,170	8,372	(4,202)	(50.2)%
Total research and development expense	$ 40,836	$ 33,246	$ 7,590	22.8 %	$ 111,716	$ 86,979	$ 24,737	28.4 %

Significant components of research and development expense include the following allocated by development phase: Platform, which refers primarily to expenses related to screening of product candidates through hit identification; Discovery, which refers primarily to expenses related to hit identification through development of candidates; and Clinical, which refers primarily to expenses related to development of candidates and beyond.

For the three and nine months ended September 30, 2022, the increase in research and development expenses compared to prior period was primarily due to increased clinical costs as studies progressed. The Company initiated three Phase 2 or Phase 2/3 studies and one Phase 1 study in 2022. Additionally, discovery costs have increased driven by additional personnel as the Company continues to expand its capabilities in this area including in transcriptomics, invivomics, ADMET and DMPK. These increases were partially offset by a decrease in platform costs due to a reallocation of spending to cost of revenue for our strategic partnerships.

General and Administrative Expense

The following table summarizes our general and administrative expense:

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
(in thousands, except percentages)	**2022**	**2021**	**$**	**%**	**2022**	**2021**	**$**	**%**
Total general and administrative expense	$ 19,488	$ 15,690	$ 3,798	24.2 %	$ 61,761	$ 38,481	$ 23,280	60.5 %

For the three and nine months ended September 30, 2022, the increase in general and administrative expense compared to prior period was due to the growth in size of the Company's operations including increased salaries and wages of $4.0 million and $12.4 million, respectively, a fixed asset write-down during the nine months ended September 30, 2022 of $2.8 million, increased rent expense during the three and nine months ended September 30, 2022 of $0.4 million and $2.2 million, respectively, and increases in other administrative costs associated with operating a public company.

Other Income (Loss), Net

The following table summarizes our components of other income (loss), net:

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
(in thousands, except percentages)	**2022**	**2021**	**$**	**%**	**2022**	**2021**	**$**	**%**
Interest expense	$ (13)	$ (220)	$ 207	(93.9)%	$ (42)	$ (2,971)	$ 2,929	(98.6)%
Interest income	1,833	50	1,783	>100%	2,572	94	2,478	>100%
Loss on debt extinguishment	—	(827)	827	(100.0)%	—	(827)	827	(100.0)%
Other	308	(29)	337	n/m	231	(27)	258	n/m
Other income (loss), net	$ 2,128	$ (1,026)	$ 3,154	n/m	$ 2,761	$ (3,731)	$ 6,492	n/m

For the three and nine months ended September 30, 2022, the increase in other income (loss), net compared to the prior year was driven by a decrease in interest expense from the 2021 the Midcap loan settlement and an increase in interest income from our investment portfolio. See Note 3, "Supplemental Financial Information" to the Condensed Consolidated Financial Statements for additional details on the Midcap loan agreement and see Note 4, "Investments" for additional details on the investment portfolio.

Liquidity and Capital Resources

Sources of Liquidity

We have not yet commercialized any products and do not expect to generate revenue from the sales of any product candidates for at least several years. Unrestricted cash, cash equivalents and investments totaled $454.6 million and $516.6 million as of September 30, 2022 and December 31, 2021, respectively.

We have incurred operating losses and experienced negative operating cash flows and we anticipate that the Company will continue to incur losses for at least the foreseeable future. Our net loss was $60.4 million and $182.0 million during the three and nine months ended September 30, 2022, respectively. Our net loss was $47.4 million and $121.5 million during the three and nine months ended September 30, 2021, respectively. As of September 30, 2022 and December 31, 2021, we had an accumulated deficit of $582.1 million and $400.1 million, respectively.

We have financed our operations through the private placements of preferred stock and an IPO. As of September 30, 2022, we have received proceeds of $448.9 million from the sale of preferred stock. We received net

proceeds of $462.4 million from the IPO. See Note 8, “Common Stock” to the Condensed Consolidated Financial Statements for additional details on the IPO. Subsequent to September 30, 2022, on October 27, 2022, Recursion completed a Private Placement, pursuant to which the Company sold an aggregate of 15,336,734 Class A shares at a purchase price of $9.80 per share for gross proceeds of approximately $150.3 million, before deducting placement agent fees and other expenses. See Note 14, “Subsequent Events” to the Condensed Consolidated Financial Statements for additional details.

In January 2022, we received an upfront payment of $150.0 million from our strategic partnership with Roche. In October 2020, we received a $30.0 million upfront payment from our strategic partnership with Bayer. See Note 9, “Collaborative Development Contracts” to the Condensed Consolidated Financial Statements for information on these collaborations.

Cash Flows

The following table is a summary of the Condensed Consolidated Statements of Cash Flows:

	Nine months ended September 30,	
(in thousands)	**2022**	**2021**
Cash used in operating activities	$ (38,776)	$ (97,456)
Cash provided by (used in) investing activities	201,228	(219,501)
Cash provided by financing activities	7,089	454,744
Net increase in cash and cash equivalents	$ 169,541	$ 137,787

Operating Activities
Cash used by operating activities decreased from the nine months ended September 30, 2021 as we received an upfront payment of $150.0 million from our strategic partnership with Roche. That cash inflow was offset by cash used for cost of revenue, research and development and general and administrative expenses. Cash used by operating activities increased from the nine months ended September 30, 2020 as a result of higher costs incurred for research and development and general and administrative expenses due to the Company’s growth.

Investing Activities
Cash provided by investing activities during the nine months ended September 30, 2022 was driven by sales and maturities of investments of $230.6 million, partially offset by purchases of property and equipment of $29.1 million.
Cash used by investing activities during the nine months ended September 30, 2021 primarily consisted of investment purchases of $184.2 million and property and equipment purchases of $35.3 million, which included $17.9 million for the purchase of a Dell EMC supercomputer.

Financing Activities
Cash provided by financing activities during the nine months ended September 30, 2022 primarily included proceeds from equity incentive plans of $7.2 million. Cash provided by financing activities during the nine months ended September 30, 2021 primarily included $462.4 million of net proceeds from the IPO. Financing cash flows also included an outflow of $12.7 million for the repayment of long-term debt on the Midcap loan.

Critical Accounting Estimates and Policies

A summary of the Company’s significant accounting estimates and policies is included in Note 2, “Summary of Significant Accounting Policies” in our 2021 Annual Report. There were no significant changes in the Company’s application of its critical accounting policies during the nine months ended September 30, 2022.

Recently Issued and Adopted Accounting Pronouncements

See Note 2, “Basis of Presentation” in Item 1 of this Quarterly Report on Form 10-Q for information regarding recently issued and adopted accounting pronouncements.

Emerging Growth Company

The Company is an emerging growth company (EGC), as defined by the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). The JOBS Act, among other things, exempts EGCs from compliance with new or revised

financial accounting standards until private companies are required to comply. Recursion has elected to use the extended transition period for new or revised financial accounting standards during the period in which we remain an EGC. However, the Company may adopt certain new or revised accounting standards earlier. This could make comparisons of the Company's financial statements with other public companies difficult because of the potential differences in applicable accounting standards.

The Company expects to remain an EGC until December 31, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Inflation Risk and Market Volatility

In recent months, inflation has continued to increase significantly in the U.S. and overseas resulting in rising costs for transportation, wages, construction and other goods and services. Inflation and supply chain disruptions have increased our overall operating expenses. In addition, the capital and credit markets have been experiencing volatility and disruption, which has exerted downward pressure on stock prices and credit capacity. There is no assurance that such markets will be a source of future financing for Recursion, nor that other funding sources would be available or sufficient, particularly if current levels of market disruption and volatility continue or worsen. Although we do not believe that the above conditions have materially changed our overall financial position, if our costs continue to increase, we may not be able to fully offset those increased costs through reduced spending or additional financing efforts and failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures.

The Company has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including the principal executive officer (our Chief Executive Officer) and principal financial officer (our Chief Financial Officer), to allow timely decisions regarding required disclosure. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives as management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2022, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company may, from time to time, be involved in various legal proceedings arising in the normal course of business. An unfavorable resolution of any such matter could materially affect the Company's future financial position, results of operations or cash flows. For more information pertaining to legal proceedings, see Part I, Item 1, Note 7, which is incorporated herein by reference.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. For a detailed discussion of the risks that affect our business, please refer to the sections titled "Risk Factor Summary" and "Part I. Item 1A. Risk Factors" in our 2021 Form 10-K.

The risk factors set forth below represent new risk factors or those containing changes to the similarly titled risk factor included in the sections titled "Part I. Item 1A. Risk Factors" of our 2021 Form 10-K and "Part II. Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q filed with the SEC for the quarter ended June 30, 2022.

Healthcare legislative reform measures in the U.S. and abroad, such as changes in healthcare spending and policy, may have a material adverse effect on our business and results of operations.

We operate in a highly regulated industry, and new laws and regulations, or new interpretations of laws and regulations by regulatory bodies or the courts, related to healthcare availability and the method of delivery of, or payment for, healthcare products and services could negatively impact our business. The U.S. and many foreign jurisdictions have enacted or proposed legislative and regulatory changes affecting the healthcare system that could impact our clinical trials; prevent or delay marketing approval of our current or future drug candidates; restrict or regulate potential post-approval activities; and/or affect our ability to profitably sell a product for which we obtain marketing approval. For any of our drug candidates that receive marketing approval, such laws and regulations could require, for example, (i) changes to our manufacturing arrangements; (ii) additions or modifications to product labeling; (iii) the recall or discontinuation of our products; and/or (iv) additional record-keeping and data-transfer requirements.

There have been, and likely will continue to be, legislative and regulatory proposals at the U.S. federal and state levels and abroad directed at increasing the availability of healthcare and containing or lowering healthcare costs. For example, the Affordable Care Act (ACA) substantially changed the way healthcare is financed by both governmental and private insurers in the U.S., and significantly impacted the pharmaceutical industry. Since the ACA was enacted, there continue to be changes to certain aspects of the law by Congress, Executive Order and court decisions.

There also have been U.S. Congressional inquiries and proposed federal and state legislation designed to, among other things, (i) bring more transparency to drug pricing, including that of specialty drugs; (ii) reduce the cost of prescription drugs under Medicare, which may result in a similar reduction in payments from private payors; (iii) review the relationship between pricing and manufacturer patient programs; and (iv) reform government program reimbursement methodologies for drugs. For example, the recently enacted federal Inflation Reduction Act (IRA) contains provisions that could have an adverse effect on our ability to generate revenue, attain profitability, or commercialize our product candidates if approved, as the statute includes provisions intended to reduce the cost of prescription drugs under Medicare. In addition to the direct impact of the IRA on federal drug reimbursement, the statute may also lead to similar reductions in payments from private payers. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare and/or impose price controls may adversely affect:

- the demand for our current or future drug candidates, if we obtain regulatory approval;
- our ability to set a price that we believe is fair for our products;
- our ability to obtain coverage and reimbursement approval for a product;
- our ability to generate revenue and achieve or maintain profitability;
- the level of taxes that we are required to pay; and
- the availability of capital.

Any such legislative or other reform measures and changes in healthcare spending and policy could result in increased costs to us, reduced demand for our current or future drug candidates and additional pricing pressures, which could have a material adverse effect on our business, results of operations and prospects.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Sales of Unregistered Securities

Stock Option Exercises

For the nine months ended September 30, 2022, we issued 163,950 shares of our Class A common stock to our employees, directors, advisors and consultants upon the exercise of stock options under our Key Personnel Incentive Stock Plan for aggregate consideration of approximately $49 thousand. The shares of Class A common stock issued upon the exercise of stock options were issued pursuant to written compensatory plans or arrangements with our employees, directors, advisors and consultants, in reliance on the exemption provided by Rule 701 promulgated under the Securities Act of 1933, as amended, or pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, relative to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required. All recipients either received adequate information about our company or had access, through employment or other relationships, to such information.

Item 6. Exhibits.

Exhibit Index:

		Incorporated by Reference				
Exhibit number	**Description**	**Form**	**File No.**	**Exhibit No.**	**Filing Date**	**Filed / Furnished Herewith**
3.1	Amended and Restated Certificate of Incorporation of Recursion Pharmaceuticals, Inc.	8-K	001-40323	3.1	April 21, 2021	
3.2	Amended and Restated Bylaws of Recursion Pharmaceuticals, Inc.	8-K	001-40323	3.2	April 21, 2021	
4.1	Amended and Restated Investors' Rights Agreement by and among the Registrant and certain of its stockholders, dated September 1, 2020.	S-1/A	333-254576	4.1	April 15, 2021	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on November 8, 2022.

RECURSION PHARMACEUTICALS, INC.

By: /s/ Christopher Gibson
Christopher Gibson
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Michael Secora
Michael Secora
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Christopher Gibson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Recursion Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Christopher Gibson
Christopher Gibson, Chief Executive Officer (principal executive officer)

Date: November 8, 2022

Exhibit 31.2

Certification of Principal Financial Officer
Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Michael Secora, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Recursion Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael Secora
Michael Secora, Chief Financial Officer (principal financial officer)

Date: November 8, 2022

Exhibit 32.1

Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with Quarterly Report of Recursion Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), The undersigned certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher Gibson
Christopher Gibson, Chief Executive Officer (principal executive officer)

/s/ Michael Secora
Michael Secora, Chief Financial Officer (principal financial officer)

Date: November 8, 2022