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MRAM - Q4 2018 Everspin Technologies Inc Earnings Call

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Leanne Sievers

PRESENTATION

Operator

Good afternoon, and welcome to the Everspin Technologies Fourth Quarter and Fiscal Year 2018 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, March 14, 2019. I would now like to turn the call over to Leanne Sievers, President of Shelton Group, Investor Relations. Leanne, please go ahead.

Leanne Sievers

Good afternoon, and welcome to Everspin Technologies Fourth Quarter and Full Year 2018 Earnings Conference Call. I'm Leanne Sievers, President of Shelton Group, Everspin's Investor Relations firm. Joining me today are Kevin Conley, Everspin's President and CEO; and Jeff Winzeler, Chief Financial Officer.

Before we begin the call, I want to remind you that this conference call contains forward-looking statements regarding future events including, but not limited to, our expectations for Everspin's future business, financial performance and goals, customer and industry adoption of MRAM technology, successfully bringing to market and manufacturing products in Everspin's design pipeline and executing on its business plan. These forward-looking statements are based on estimates, judgments, current trends and market conditions and involve risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements. We would encourage you to review our SEC filings, including the 2017 Form 10-K filed with SEC on March 15, 2018, and other SEC filings made from time to time in which we may discuss risk factors associated with investing in Everspin. All forward-looking statements are made as of the date of this call, and except by as required by law, we do not intend to update this information.

This conference call will be available for audio replay for at least 90 days in the Investor Relations section of Everspin's website at www.everspin.com

And now I'd like to turn the call over to Everspin's President and CEO, Kevin Conley. Kevin, please go ahead.

Kevin Conley - Everspin Technologies, Inc. - CEO, President & Director

Thank you, Leanne. Good afternoon, everyone. 2018 was a transformational year for Everspin as the MRAM market leader. It was a year of continuing growth and measurable progress on our MRAM product initiatives. We executed well, putting an increased focus on discrete MRAM products and technology while evolving our customer mix and supply chain. We successfully commercialized a new class of MRAM products with our 256-megabit STT-MRAM product launch and even introduced a second-generation preproduction 1-gigabit part before the end of the year.



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Our total revenue for the year increased approximately 38% over 2017, and we maintained an average gross margin above 50%. We ended 2018 with fourth quarter revenue increasing 21% year-over-year and 7% sequentially to \$12.3 million, exceeding the high end of our guidance range. Q4 results also showed a more targeted spending in R&D, reflecting our focus on continued MRAM technology leadership, consistent with our long-term strategic objectives.

I will start with Toggle MRAM, which was sequentially lower in Q4 mainly due to an impactful reduction of a relatively significant but low margin automotive program engagement. This is contributing to our expectations for lower revenue in the first quarter of 2019. However, the long-term impact of this on our gross margin dollars will be minimal, as Jeff will talk about later on this call. This is in line with our strategy to transition Everspin's Toggle business towards higher value discrete memory opportunities. A number of these opportunities were in focus as Everspin exhibited at Embedded World Conference in Germany a couple of weeks ago. There we met with several customers that use our MRAM in industrial automation, gaming machines, human machine interface, automotive and transportation applications, all with new programs in the works utilizing Toggle MRAM.

Battery management systems are one prominent area of growing activity, including exciting new adoption in electric and hybrid vehicles. The common thread in all these discussions was an appreciation for the unique value that Toggle MRAM brings to these mission-critical applications, combining unmatched performance, quality and reliability.

In manufacturing, we saw improving yields on production of Toggle MRAM in the latter part of 2018 and expect these improvements to continue making an increasingly positive contribution to gross margins going forward.

Our Toggle customer base remains solid with a healthy long-term pipeline of design wins. Assuming a stable demand environment, we anticipate that our new design pipeline will move us back to sequential growth in the second half of this year. Driving Toggle revenue growth remains a core focus for our sales and marketing teams. To support growth for the longer term, our execution on qualifying the SiTerra fab as a new source of captive Toggle MRAM supply remains on track for production start in 2020.

Turning to STT-MRAM developments. The STT-MRAM industry continues to gain momentum with the announcement of production readiness and production shipments of embedded MRAM for SOC customers from 2 separate logic foundries. We view this as strong validation that the joint investments we have made with our technology and manufacturing partner GLOBALFOUNDRIES are well aligned with meeting a growing demand for sub-28-nanometer embedded persistent memory for SOC customers.

Moreover, ecosystem announcements such as Synopsis' support for GF 22-nanometer FDX embedded MRAM and their libraries is another indicator that this technology is maturing into mainstream readiness. We believe that our long-standing partnership and experience in manufacturing and shipping over 100 million units of MRAM over the years gives Everspin a distinct advantage over the competition as the only supplier of discrete MRAM memory chips in the market.

As I mentioned earlier, demand for our ST -- for our first STT-MRAM discrete product, a 256-megabit component targeting data center persistent memory applications, has had a well performing production ramp and shipments continue to grow throughout the year-end. This revolutionary product was successfully adopted in IBM's NVMe flash core module in the flash system 9100 family of all-flash arrays and subsequently expanded into the storewide V7000 array family. This unique architecture of the flash core module built around our STT-MRAM delivers unsurpassed performance, density and consistent low latency, showcasing the benefits of our groundbreaking persistent memory technology. We expect this expanding success to lead to further opportunity in this important customer and in other new accounts.

Building upon this first year of production of STT-MRAM, we ended 2018 achieving a significant milestone for our 1-gigabit STT-MRAM product, shipping the world's first preproduction customer samples of our 28-nanometer device. Customer evaluation has been progressing well throughout the first quarter and feedback has been very positive. Our team is working hard in preparation for customer qualification and production ramp in the second half of this year. Our team's work with the store's technology ecosystem to expand available opportunities for our STT-MRAM products picked up momentum in the second half of 2018, driven by the growing interest from end customers. Support for our products is now designed into several leading merchant controllers that will become available in the market this year.



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STT-MRAM support in these controller ASICs opens the possibility for a wide variety of storage providers to develop a new class of low latency, high-density NVMe SSDs utilizing Everspin STT-MRAM in 2020 and beyond.

Between now and then, we remain focused on expanding the opportunities in FPGA-based data acceleration platforms that readily support integration of our products today.

With that, I'd now like to turn the call over to Jeff, who will review the details of our fourth quarter results while also providing our first quarter 2019 guidance.

Jeffrey G. Winzeler - Everspin Technologies, Inc. - CFO & Secretary

Thank you, Kevin, and good afternoon, everyone. I'll start by reviewing the fourth quarter and full year 2018 income statement.

Revenue in the quarter was up 21% year-over-year to \$12.3 million from \$10.1 million in the fourth quarter of 2017 and up 7% from \$11.5 million in the third quarter of 2018.

Full year 2018 revenue increased 38% from \$49.4 million from \$35.9 million in 2017. Fourth quarter product sales represented 83% of total revenue or \$10.2 million, which was up 18% from \$8.7 million or 86% of total sales during the same quarter last year and down 2% from \$10.5 million or 91% of sales in the previous quarter.

For the full year 2018, product sales were up 28% to \$39.5 million from \$30.8 million in 2017. Licensing royalties and other revenue in fourth quarter of 2018 contributed approximately \$2 million compared to \$1.5 million in the fourth quarter of 2017 and \$1 million in the previous quarter. The increase in this revenue in the fourth quarter was largely the result of higher-than-normal back-end foundries service revenue. For the full year, licensing, royalties and other revenue increased 94% to \$9.9 million from \$5.1 million in 2017.

MRAM product sales in the fourth quarter, which includes Toggle and STT-MRAM, were \$9.7 million, a 29% increase from the \$7.5 million in the fourth quarter of 2017 and a 6% decrease from the \$10.4 million in the previous quarter. The sequential decline in MRAM product revenue primarily reflects reductions in a large Toggle automotive MRAM customer, partially offset by strong sequential growth in STT-MRAM product revenue during the fourth quarter. While short-term impact to Toggle revenues of the automotive program slowed the record revenue growth that we've achieved in 2018, we believe that it'll have minimal to no impact on our long-term gross profit dollars while freeing up existing Toggle manufacturing capacity to pursue additional higher value discrete Toggle business.

For the full year 2018, MRAM products sales increased 40% to \$38.1 million from \$27.2 million in 2017 as a result of strong growth in both Toggle and STT-MRAM revenues. Gross profit for the fourth quarter of 2018 was \$5.4 million or 44.2% of revenue compared to \$6.2 million or 61.5% of revenue during the fourth quarter of 2017 and \$5.4 million or 47% of revenue in the prior quarter. While our overall manufacturing yields continued to improve in the fourth quarter, we took two actions that reduced our overall gross margin percentage.

In the fourth quarter, we reduced the inventory valuation of Toggle material that was on hold awaiting retest, which increased our cost of goods sold and reduced our gross margin by approximately 5 points.

Additionally, we moved or reclassified labor cost of approximately 10 employees from admin and R&D into cost of goods sold due to the changing nature of their work. While this reclassification of labor did not affect EPS, it did result in a 3-point degradation to our gross margin run rate.

For the full year 2018, gross profit was \$25.3 million or 51.3% of revenue compared to \$21.5 million or 59.8% in 2017. Operating expenses for the fourth quarter 2018 were \$8.8 million compared to \$10.5 million in the fourth quarter of 2017 and \$10.9 million last quarter. The sequential reduction in operating expenses was due to reduced R&D spending related to STT-MRAM process and product development per our joint development agreement with GLOBALFOUNDRIES.



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Breaking down our operating spending for the fourth quarter, research and development expenses were \$3.9 million compared to \$6.2 million in the same quarter a year ago and \$6.5 million last quarter.

SG&A spending was \$4.9 million in the fourth quarter compared to \$4.3 million in the fourth quarter of 2017 and \$4.5 million in the prior quarter. For the full year 2018, operating expenses were \$42.7 million compared to \$41.7 million in 2017. Full year operating expenses reflect a \$1.8 million decrease in R&D expenses offset by a \$2.8 million increase in SG&A spending, as the company's emphasis on STT-MRAM technology has shifted from development to marketing and sales during the year.

Interest expense for the fourth quarter 2018 was \$228,000 compared to \$180,000 in the fourth quarter of 2017 and \$229,000 in the previous quarter. Other income was \$142,000 in the fourth quarter 2018 compared to \$35,000 of income in the fourth quarter of 2017 and \$139,000 of income in the third quarter of 2018.

GAAP net loss for the fourth quarter 2018 was \$3.5 million or \$0.20 loss per share based on 17.1 million weighted average shares outstanding. This compares with a GAAP net loss of \$4.4 million or \$0.35 loss per share during the same quarter a year ago and a loss of \$5.6 million or \$0.33 loss per share in the prior quarter.

For the full year 2018, the net loss was \$17.8 million or \$1.08 loss per share compared to \$21.1 million or \$1.69 loss per share in 2017.

Now turning to the balance sheet, cash and cash equivalents were \$23.4 million at the end of the fourth quarter compared to \$31.4 million at the end of the third quarter of 2018. Our operating cash burn was down 22% to \$14.7 million in 2018 from \$18.9 million in 2017 -- I'm sorry, that was \$14.7 million in 2018 from \$18.9 million in 2017.

Total assets at the end of the fourth quarter were \$45 million compared to \$51.4 million in the previous quarter. Total liabilities were \$20.1 million in the fourth quarter compared to \$23.8 million in the third quarter of 2018.

Stockholders' equity was \$24.9 million compared to \$27.6 million in the third quarter of 2018. Looking ahead to the first quarter of 2019, we expect revenue to range between \$9.5 million and \$9.9 million, reflecting the reduction in Toggle automotive revenues and lower back-end foundries service revenue. The resulting GAAP loss per share will range between \$0.28 loss per share and \$0.24 loss per share, based on an average weighted share count of 17.4 million shares outstanding.

Now I'll turn the call back over to Kevin for some closing remarks.

Kevin Conley - Everspin Technologies, Inc. - CEO, President & Director

Thanks, Jeff. In summary, 2018 was an exciting year of transformation for Everspin, making significant gains in cultural strength, operational excellence, product development, executional discipline, ecosystem and customer engagement. We demonstrated our persistence in building a strong enterprise with continuing legacy of delivering business results from our innovation promises. Looking ahead, conditions in the semiconductor market that we are seeing at the beginning of 2019 are creating some pressure industry-wide. We see some signs that global trade friction is having some effect in our key industrial and automotive market segments and may create pressure on demand for our Toggle products. While this makes us cautious in our near-term outlook, our focus remains on new design wins, operational excellence and technology leadership. We will continue laying the foundation for long-term growth through Toggle MRAM expansion and continued STT-MRAM adoption.

In keeping with our theme of Everspin transformation, I'm proud to announce that Troy Winslow is joining us as VP of Worldwide Sales starting next week. Troy comes to us with relevant memory and storage sales and marketing experience gained at Microsemi, PMC-Sierra and Intel. Troy brings passionate team leadership and deeply relevant experience in driving customer adoption and sales growth of disruptive memory and storage technology through a variety of sales channels. Adding Troy to our team will be a key to growing Everspin's business and enhancing the valued relationship we have with our customers. We're excited to have him join us on our mission to take MRAM to the next level.

We'll now open the call for your questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Kevin Cassidy with Stifel.

Kevin Edward Cassidy - *Stifel, Nicolaus & Company, Incorporated, Research Division - Director*

Congratulations on getting the 1-gigabit device out. But I wonder if -- can you give us some type of feel for the number of engagements you have on the 1-gigabit, say, compared to the 256-gigabit when it was first introduced. And you mentioned that you're still getting some 256-gigabit interest, can you just give us a relative feel of -- is it up 20%, 50%, any numbers like that?

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

Kevin, probably the best way to characterize it is, when we talked about the original push out on the schedule, we indicated that there were a number of interested customers that were going to wait for that 1-gig. And so they have continued to remain engaged with us. So the number is certainly higher than it was on the 256, but it's hard for me to give you a specific percentage.

Kevin Edward Cassidy - *Stifel, Nicolaus & Company, Incorporated, Research Division - Director*

Okay. And the -- there's also been recent announcements of embedded MRAM from both Intel and Samsung. Has this accelerated the interest in embedded MRAM at GLOBALFOUNDRIES?

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

I don't have that detailed view of the customer engagement. I think as far as I view the industry outlook, I think GLOBALFOUNDRIES is first out there talking about customer engagements and I know that they have a pipeline of significant interest that they're engaged with on the embedded side. I think the way our commentary was phrased here is relatively was -- is positive in terms of how this underscores the maturing of the technology as an industry-wide offering.

Operator

Our next question comes from the line of Rajiv Gill with Needham & Company.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst of Microcontrollers, Analog & Mixed Signal, Consumer IC & Multi-Market*

Question on the Toggle automotive product. Maybe can you elaborate on why that business is coming down in auto? Is it because of alternative technologies, is it because of that particular OEM, market share loss, any kind of clarity on that particular automotive customer?

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

Well, as I said in the commentary there, Rajiv, it was a significant engagement for us but also one that had some misalignment with our overall business objectives. We are a very customer-oriented company. We try our best to find the best way for us to support their needs. In this particular case, for a variety of reasons, that engagement did not have what it needed to continue.



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Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst of Microcontrollers, Analog & Mixed Signal, Consumer IC & Multi-Market*

Okay. And the comment with respect to new design pipeline, given your confidence about sequential growth in the second half of 2019 if I heard that correctly, is that based on the expansion at IBM? Is it based on new customers at Toggle -- I mean, with Toggle or with the STT-MRAM? Trying to get a sense of what the confidence is of sequential growth in the second half.

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

Yes, Rajiv, it's really a combination of both of those. We have a pipeline of new design wins with Toggle. And as I said, with the 1-gig starting to ramp at the end of this year, we think STT will also be a contributor to growth.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst of Microcontrollers, Analog & Mixed Signal, Consumer IC & Multi-Market*

Okay, got it. And you're -- and just to clarify, are you expanding your products at IBM? So you talked about the 9100 all-flash array, I think I heard you say they're extending it to storage array 1000. So IBM is incorporating more MRAM in their products, is that correct?

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

That's right. The adoption of the flash core module has expanded in terms of the number of families that it supports since its original introduction.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst of Microcontrollers, Analog & Mixed Signal, Consumer IC & Multi-Market*

Okay, very good. And last question for me, with respect to the GLOBALFOUNDRIES arrangement, in the past you talked about potential licensing revenue in 2019, 2020, any update with respect to that agreement, now that we see more interest and more demand for embedded MRAM for SOCs and MCUs?

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

Well, the agreement is still in place with regard to our licensing and royalties with them. And as I said, their production -- their commentary on mass production has remained pretty consistent with 2019 as their objective to enter mass production. And based upon the royalty agreement as wafers are shipped with MRAM technology on them licensed from us, it would then follow that royalty payments would come to us from them.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst of Microcontrollers, Analog & Mixed Signal, Consumer IC & Multi-Market*

So we're expecting some mass production of GLOBALFOUNDRIES for those products and anticipating some royalty revenue in 2019.

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

The precise timing of royalty revenue is hard for me to comment, I don't have specific visibility on that. It could happen that soon, but probably the majority of that would be starting in 2020.



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Operator

Our next question comes from the line of Richard Shannon with Craig-Hallum.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Maybe I'll ask a couple of financial ones. Jeff, I want to make sure I caught your comments regarding the effects of gross margin in the fourth quarter. So you said you had inventory valuation that increased COGS or hit gross margin by 5 points and then you also had shifting of labor cost in the COGS and R&D that it impacted it by 3 points. Is that correct?

Jeffrey G. Winzeler - *Everspin Technologies, Inc. - CFO & Secretary*

That's correct.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

So is this inventory valuation in the fourth quarter, is that going to continue to some degree, was it just a one-time situation?

Jeffrey G. Winzeler - *Everspin Technologies, Inc. - CFO & Secretary*

I would characterize it much more as a onetime. So to give you the mechanism behind it, throughout the year we had yield issues which we've talked pretty extensively about. Some of those units that have gone through final test may have failed final test, but may still be good for other test characteristics that would allow them to be good units. So we've held onto a lot of those. But what we've done is we have written down the value of those on our -- in our inventory based on the yields that we're seeing of retesting those units. So it's a natural inventory evaluation step for us to take, we look at that every quarter. I would not characterize that as an ongoing issue. With regard to the people movement, that one is a little different. We move people into manufacturing and cost of goods sold. Many of these are process engineers that help develop the MRAM Toggle technology and their skill-set is now being used to maximize the output of our manufacturing. So they're truly moving into a more operational role and we need to reflect the cost of that in our cost of goods sold. That doesn't change our model. We're still targeting 55% as the gross margin target for the company. We do know that we've got roughly \$250,000 more spending in cost of goods sold that we will have to make sure we're able to compensate for. Of course, the good news is, it's not a hit to EPS because this truly is a transfer from below the line spending into our cost of goods sold.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. That second part makes sense. So if I just try to bridge or kind of think of a 2 run rates in a fourth quarter, we really want to add 5 points of the 44 change you already did. And so I guess my ultimate question here is just trying to think about what kind of gross margins you're thinking about for the first quarter here? Obviously, a step down in revenues. We don't really know what the licensing mix here is, although you're losing a big chunk of the lost revenues from what you're characterizing as low gross margin business. So I wonder if you can help us of think of how to formulate a thought on what you're thinking for gross margin for the first quarter.

Jeffrey G. Winzeler - *Everspin Technologies, Inc. - CFO & Secretary*

Yes, there is obviously a number of dynamics that play into what that gross margin number will be. I think we've talked about the fact that our manufacturing yields are recovering, and we're clearly seeing that. We're getting better yields coming out of the back end in the final tests. So that's a good indicator that we fixed a lot of those problems that created the yield issues in the first place. So in general, our yields are trending up, which is good for us from a margin perspective. We talked about moving the equivalent of 3 points of spending into our COGS, so clearly that will be somewhat of a tax that will serve to depress margins in the short term.



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The other things that are happening along that line is, we're talking about reduced revenue. So to the extent you're not running your factory full out, you have additional overhead cost that you have to account for as part of cost of goods sold. For us that's not a huge hit because, look, our -- in our factory it's largely variable spending. Most of our equipment is fully depreciated or near fully depreciated. So our overhead costs are relatively low. All of that said, I think we're trending kind of back toward what our target margin is, but we do have a couple of short-term margin challenges from the additional spending in COGS as well as the underloading of the factory that will have an effect.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay, that is helpful. Kevin, maybe a question for you regarding the 1-gig. I think you mentioned kind of a general application clash regarding NVMe-based application SSDs. I wonder if maybe you can expand on that or help us understand some of the other applications, which you expect to or already seeing strong engagement on with that 1-gig product.

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

Sure. Our primary focus does remain in the SSD area, which is why we put so much effort into not just the customer base but also into the ecosystem of source controllers that supply to it, making sure that the enablement is there for the 1-gigabit STT DDR4 interface. Beyond that, there are other applications that are still having early days of their development, but areas like fabric accelerators, things that help reduce the latency of data transfer over storage fabrics as well as some interesting applications such as network video recorders, things where you have large deployments of cameras sending high-definition video in the hundreds to recorders that have to do -- make inferences and do analytics on those video streams and have the -- an ability to be able to protect the data that's in-flight. So those are a couple of areas outside the SSD arena that we see developing with some interest.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay, very interesting. My last question, I'll jump at a line back to Jeff quickly. In terms of cash burn for the first quarter, does that approximate your net loss in dollar terms or is there a delta from that you're expecting?

Jeffrey G. Winzeler - *Everspin Technologies, Inc. - CFO & Secretary*

Are you talking the fourth quarter?

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

First quarter, first quarter, expected first quarter cash burn, excuse me.

Jeffrey G. Winzeler - *Everspin Technologies, Inc. - CFO & Secretary*

Yes, so we really don't provide the guidance for cash burn. I think the way to think about cash burn for us though is, our operating cash burn in 2018 was \$14.7 million, which was down \$4 million from what we burned the previous year. And our model, as you know, is largely based on keeping OpEx flat while ramping revenue. I think what you saw in the fourth quarter is that model continued to work. We reduced our operational spending and our revenue grew. Going into Q1, that revenue as we've guided will likely come down. We're expecting better gross margins, which should contribute better cash for that revenue. So I think the models continue to work. It's predicated on us, keeping our spending flat to down in OpEx while growing revenue.



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Operator

Our next question comes from the line of Aman Golini with B. Riley.

Aman Raj Gulani - *B. Riley FBR, Inc., Research Division - Associate Analyst*

You talked about production yield improvement. Is there more room for yield improvement in 2019? And if so, are you able to maybe quantify what that could look like from a gross margin perspective?

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

Yes, reviewing our performance in yields in the earlier part of the year last year, it was a very challenging environment, as we reflected in the calls that we did at those -- subsequent to those quarters. Our team has been working very diligently to improve those. The early signs of improvement started the end of Q2, we really saw things start to approach baseline toward the Q3 and really recovery started showing up meaningfully in Q4. So we do expect that will have ongoing uplift to the product gross margins and helping reduce the cost of the production on an ongoing basis into 2019. There's certainly more room for improvement. We continue to work on our global yield improvement initiatives in the fab and that's certainly an opportunity that will continue putting a lot of effort into throughout this year.

Aman Raj Gulani - *B. Riley FBR, Inc., Research Division - Associate Analyst*

Got it. I have one more question for me. I just want to get a bit more color on the 1-gigabyte product, you said your sampling that. Are you able to talk about maybe how many customers your sampling that product with? And you did mention that you do expect that to hit production at the end of this year, again, is that with just one customer or is that with multiple engagements?

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

We haven't provided any specifics. So just to -- the way we usually talk about customers is until we get to the point where we can talk about specific design wins, we don't disclose those customers as a function of the agreements that we have with them for confidentiality. We provided those samples, the first customer samples, again, preproduction parts that need all the specifications for production parts at the end of last year. We're very narrow in those engagements right now as we're -- we haven't flipped the switch to early ramp production yet. And so that will get progressively broader in terms of engagement as we get towards the middle part of this year.

Operator

At this time I'm showing no further questions. I would now like to turn the call back over to Kevin Conley for closing remarks.

Kevin Conley - *Everspin Technologies, Inc. - CEO, President & Director*

Okay. Well, thank you for all those questions. And again, let me say my deep appreciation to the entire Everspin team and our partners for making 2018 such a successful year of transformation. We now turn with enthusiasm and persistence to making 2019 another successful chapter in this evolving story. Before we conclude today's call, I'd like to let you know that we'll be traveling to the Midwest in early April on a non-deal roadshow with Craig-Hallum. We'll also be attending B. Riley FBR's conference in Santa Monica May 22 and 23rd and Stifel's conference in Boston June 10 through 12th.

We encourage you to contract -- contact your sales representative at each of these respective firms or the Shelton Group if you would like to schedule a meeting. Thank you, again, for joining us today, and I look forward to reporting our future progress during our next call. Operator, you may now disconnect the call.



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Operator

Thank you. Ladies and gentlemen, thank you for participating in today's call. You may now disconnect. Everyone, have a wonderful day.

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