

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

EVENT DATE/TIME: AUGUST 07, 2019 / 9:00PM GMT



AUGUST 07, 2019 / 9:00PM, MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Ariel Jonathan Shusterman *Needham & Company, LLC, Research Division - Associate*

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

Leanne K. Sievers *Shelton Group - President*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Everspin Technologies Second Quarter 2019 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Leanne Sievers of Shelton Group Investor Relations. Ma'am, you may begin.

Leanne K. Sievers - *Shelton Group - President*

Good afternoon, and welcome to Everspin Technologies Second Quarter 2019 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 2018 Form 10-K filed with the SEC on March 15, 2019, 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 as required by law, we do not intend to update this information.

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

And now I would 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, and good afternoon to those joining us on today's call. We're reporting to you today from Santa Clara during a week that includes our participation at MRAM Developer Day and Flash Memory Summit. So there's a lot of interesting information to report on a number of fronts.

Before going into that, I want to first start by acknowledging the challenging market conditions that we experienced in the second quarter that resulted in revenue coming in below our original guidance. While we had to revise our original guidance, it's important to recognize the strong performance that delivered much higher EPS results even than we originally forecast. We'll talk more about the contributing factors to these results later on the call.



AUGUST 07, 2019 / 9:00PM, MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

With regard to our operations this past quarter, product gross margins returned to our target operating model when excluding the inventory charge incurred in the quarter. This improvement was based upon strong yields for both Toggle and STT-MRAM products. It's important to recognize that this includes a growing contribution from the pilot production of our 1-gigabit device. This performance demonstrates solid execution by our operations team in partnership with our foundry and OSAT partners and lays the groundwork for lower-cost structure for our products in the coming quarters.

Our STT-MRAM revenue included 256-megabit STT-MRAM shipments that track to expectations despite demand pricing challenges the storage market has experienced in the most recent quarters. It also included revenue from growing shipments of qualification units of our 1-gigabit STT-MRAM.

In total, sales of STT-MRAM grew significantly in the quarter and reached a new quarterly record. Internally, we're on track to hit our 1-gigabit production qualification milestone for mass production cross-over yield by the end of this quarter. Our team has executed extremely well in working with our manufacturing partner, GLOBALFOUNDRIES, to achieve these results, which are making this important STT-MRAM technology relevant as a commercial reality today.

On the customer engagement side, we're achieving increased traction with our 1-gigabit part. At MRAM Developer Day this week, we are extremely pleased to hear IBM confirm the 1-gigabit part is part of its new next-generation FlashCore module development. We're pleased that they not only were the first to demonstrate our MRAM technology's advantages for enterprise storage but also are showing their confidence in our latest technology by including it in their next-generation architecture.

In other exciting development -- in another exciting development at FMS, the wraps were taken off the BittWare 3-terabyte OpenCAPI persistent memory card that is also using our 1-gigabit STT-MRAM part. This is an exciting new data center application that addresses the need for low-latency persistent memory in a large database applications and again demonstrate the unique value of high-performance nonvolatility that our technology brings.

As a result of our operational progress on production yield attainment and other cost reductions, coupled with our customer engagement progress, we anticipate our important 1-gigabit product to represent a significant portion of our revenue as we enter next year.

In other news at Flash Memory Summit this week, we announced that in addition to meeting the specific stringent requirements of data center applications, we are now able to bring this groundbreaking technology to additional usage models. Based upon the progress shown in our 1-gigabit technology qualification, our STT-MRAM technology will be able to operate reliably in extended temperature environments and support applications that require a decade or more of data retention. Combined with existing strengths of its performance, endurance and reliability, our STT-MRAM now takes another important step towards meeting the requirements of the universal memory technology. This is truly another significant advancement for STT-MRAM as demonstrated in a production or the 1-gigabit device.

On last quarter's call, we talked about growing traction with partners in the enterprise SSD controller ecosystem that will support our 1-gigabit STT-MRAM devices. In the previous 2 weeks, we jointly announced that 2 of these partners, Phison Electronics and Sage Micro, have integrated interface functionality for our DDR4-based chips into their next-generation enterprise SSD controller platforms to accelerate low-latency storage and eliminate the risks and limitations associated with capacitor-backed DRAM write buffers. We expect controllers from both of these companies to be available next year.

In addition, Cadence Design Systems announced general availability of STT-MRAM support in their DDR4 design IP, further enabling other system designers to build functionality into their controller designs. These are important steps that will enable broader penetration of our STT-MRAM into source systems from leading OEMs in the -- in data center applications. All in all, we are pleased with the progress being made on our 1-gigabit program and are working on many fronts to further expand this important set of product opportunities.

Now let me turn to our Toggle products. As stated in my opening remarks, we have experienced some headwinds in our business due to current market conditions. I want to emphasize that these challenges have not caused a lack -- a loss of active designs but yet have impacted underlying end market demand for our customers' products. Two of these deserve special mention based upon our observations. Significant application for



AUGUST 07, 2019 / 9:00PM, MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

our Toggle MRAM is factory automation systems, of which the majority are sold in China. With the slowdown in the China manufacturing sector, factory equipment purchases continue to run well below historic levels. This, in turn, has reduced the demand we see from some of our larger customers that serve this market. A major contributor has been the ongoing U.S.-China trade dispute, which has continued without resolution, and we, like many others, continue to experience an impact on product demand as a result.

Another significant market for our Toggle MRAM products has been in rate controllers that are installed into data center servers. Despite an increase in our market share with leading suppliers in the segment, the number of orders is running below expectations as a function of delayed server platform build-out. We believe this mostly has to do with temporary demand dynamics within the server segment and do not believe this is a long-term situation as we focused on maintaining our share position with our key customers in this space.

We believe the traction MRAM has established in our core markets remain solid and as the long-term opportunity for this disruptive technology continues to grow, our end customer base has expanded. And while demand has softened for some of the larger customers, we are seeing growth trend in second tier customers. Relative to last quarter, the breadth of our design pipeline for Toggle MRAM continues to grow, and we expect this to generate renewed growth especially once market conditions improve.

We also continue to see new design win activity at or better than what we have seen in the last 2 quarters. In fact, we had 14 new Toggle design wins that entered production in Q2 and will contribute measurable revenue in the coming 12 months. As a result, we feel confident that Toggle MRAM will be back on growth trajectory as we exit the year.

We also have been looking at how best to extend our Toggle road map to address new opportunities. Later this quarter, we will release our first 32-megabit Toggle MRAM parts to key customers and begin qualification in order to capitalize on new revenue opportunities. This is the first new Toggle product developed in over 5 years, and we expect this product to start contributing sales -- to sales in the second half of 2020 and beyond.

In summary, from an execution point of view, our team has made great strides this past quarter on a number of fronts: advancing on our new products, continuing to improve support to our growing customer base, improving our cost structure, reducing our expenses while continuing to expand our future market opportunities.

Jeff will now take you through second quarter financials and third quarter guidance.

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

Thank you, Kevin, and good afternoon, everyone. I'll start by reviewing the second quarter 2019 income statement. Revenue in the quarter was above the high end of our revised guidance at \$8.6 million and compared to \$10.8 million in the second quarter of 2018 and revenue of \$10 million in the first quarter of 2019.

Second quarter product sales represented 93% of total revenue or \$8 million compared to \$9.4 million or 88% of total sales during the same quarter last year and down from \$9 million or 90% of sales in the previous quarter. Licensing, royalties and other revenue in the second quarter of 2019 contributed approximately \$600,000 compared to approximately \$1.3 million in the second quarter of 2018 and \$1 million in the previous quarter.

Looking specifically at MRAM product sales in the second quarter, which includes Toggle and STT-MRAM. Revenue was \$7.9 million compared to \$9.1 million in the second quarter of 2018 and \$8.5 million in the previous quarter. The sequential decline in MRAM product revenue primarily reflects lower Toggle MRAM sales, which were partially offset by record STT-MRAM sales both sequentially and year-over-year.

Gross profit for the second quarter of 2019 was \$4 million or 46.5% of revenue compared to \$4.5 million or 42% -- 42.1% of revenue in the second quarter of 2018 and compared to \$4.8 million or 47.7% of revenue in the prior quarter.

Cost of goods sold in the second quarter included an inventory charge of approximately \$718,000 worth of material that was scrapped. Excluding this 830 basis point impact, gross margin for the quarter was 55%, reflecting improved manufacturing yields on new production.



AUGUST 07, 2019 / 9:00PM, MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

Operating expenses for the second quarter of 2019 were \$7.6 million compared to \$11.8 million in the second quarter of 2018 and \$9 million in the previous quarter. Breaking down our operating spend for the second quarter, research and development expenses were \$3.5 million compared to \$6.8 million in the same quarter a year ago and \$4 million last quarter. The reduction in R&D spending reflects the fact that our 1-gigabit STT-MRAM part has transitioned from R&D to production and is not the result of reduction in development of future technology and products, which continues to be an Everspin priority.

SG&A expenses were \$4.1 million compared to \$5 million in both the second quarter of 2018 and the first quarter of 2019, reflecting a strong focus on reducing our cash spending and positioning the company for profitability. Interest expense in the second quarter of 2019 was \$186,000 compared to \$222,000 in the second quarter of 2018 and \$211,000 in the previous quarter.

Other income was \$111,000 in the second quarter of 2019 compared to \$132,000 of income in the second quarter of 2018 and \$127,000 of income in the first quarter of 2019.

GAAP net loss for the second quarter 2019 was \$3.7 million or \$0.21 loss per share based on 17.1 million weighted average shares outstanding. This compared with a GAAP net loss of \$7.4 million or \$0.44 loss per share during the same quarter a year ago and a loss of \$4.3 million or \$0.25 loss per share in the prior quarter.

Now turning to the balance sheet. Cash and cash equivalents were \$15.3 million at the end of the second quarter compared to \$18.5 million at the end of the first quarter of 2019. The Q2 cash burn was comprised of \$1.8 million of debt service payments and \$1.4 million of operating burn. We've made significant progress in our cash management strategies since the last earnings call.

This week, we signed a revised loan agreement with Silicon Valley Bank that will push out principal payments on our existing debt for a year, significantly reducing cash going to service debt. Additionally, we have focused on improving the profitability of our products through product cost reductions and consuming less cash for operating expenses through a strong focus on spending reduction. This is evidenced by our Q2 OpEx levels, which were the lowest since the company went public in late 2016. These actions will better position the company to preserve cash in the short term and generate positive cash as our revenues ramp up.

To keep our balance sheet strong, we've put an equity facility in place that will enable the company to periodically raise cash through issuing equity and market pricing. Our intention is to use this facility in a measured way that minimizes dilution of our shareholders while providing capital as required. All of these actions give us the ability to keep the balance sheet healthy while growing our business.

Total assets at the end of the second quarter were \$37.5 million compared to \$42.2 million in the previous quarter. Total liabilities were \$18.8 million in the second quarter as compared to \$20.8 million in the first quarter of 2019. Stockholders' equity was \$18.6 million compared to \$21.4 million in the first quarter of 2019.

Looking ahead, we expect the market headwinds for Toggle MRAM that Kevin spoke of to continue through the third quarter of 2019. As a result, we expect revenue to range between \$8.5 million and \$9 million for the quarter. GAAP loss per share is anticipated to range between a \$0.21 loss per share and \$0.17 loss per share based on an average weighted share count of 17.2 million shares outstanding.

I'll now turn the call back over to Kevin.

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

Thanks, Jeff. Obviously, market conditions are difficult not just for us but for a number of other companies in the semiconductor segment. Nevertheless, there's a tremendous amount of new positive achievements as we have just reviewed on this call. Our focus is unwavering, our execution remains on track, and our progress is demonstrated by our bottom line results. We remain focused on responsibly managing our business, growing revenue and achieving profitability. And looking to the future, our expectation that our STT-MRAM technology can fulfill its promise as a universal memory is more compelling now than it ever has been.



AUGUST 07, 2019 / 9:00PM, MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

With that, operator, you may now open up the call for -- line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Richard Shannon with Craig-Hallum.

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

Let's see, a couple of questions maybe on the guidance here. I just want to get a level set. Want to get a sense of what you're expecting for Toggle versus MRAM trends for the second and third quarter. I have a guess but just like to get your view. And I know that you talked about in your pre-announcement about your second quarter some inventory reductions. Wondering if there's still some more inventory reductions going on? Or is there fillers that kind of balance?

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

So let me talk first about guidance. Our guidance statements, we really have not broken out our Toggle MRAM versus our STT-MRAM. If we characterize our guidance going forward as experiencing headwinds in the Toggle MRAM portion of our business, just really what we saw this quarter. So while we're not prepared to give exact numbers for each of these technologies, the continued headwinds in the market are very much as a result of our Toggle and customers' products.

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

Yes. Maybe we could address the 2 things that we did talk about on the call, Richard, which are, one, the U.S.-China trade dispute, which, again, we don't see a visible sign of ending at this point, and the other, the trends in server build-outs, which are expected to end. And yet we don't have specifics to forecast when that happens.

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

Okay. Maybe I'll ask along the lines of the STT-MRAM product revenues. You noted a record level in the second quarter. Are you expecting another record in the third?

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

Yes. Again, we prefer not to give the guidance relative to whether it's going to be increasing or decreasing from Q2. The challenge is to grow for us. We're guiding just very, very slight growth from where we are today. And again, I think that's a function of the fact that we still experience Toggle resistance in Q3, and we don't expect that same market softness to affect our STT-MRAM.

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

Okay. Fair enough. That's helpful. Question on gross margins. You mentioned the inventory reserve in the second quarter and that outside of that is about 55% for the second quarter. Given the similar level of revenues here, is it fair to think about a similar level of gross margins? Or any other mix or other dynamics affecting that?

AUGUST 07, 2019 / 9:00PM, MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

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

I think the important trend here, Richard, is that our underlying margins are returning back to kind of our business targets. So by that, I mean the material that we're actually producing that's coming out of the factory now allows us to get our business back to that mid-50s percent margin that we've been targeting.

The charge that we took in the second quarter was really reflective of a charge that we've taken before, and this relates to Toggle product that we produced in mid- to late last year when we were having the yield issues that we were. We subsequently retested some of these parts, and some of them, we were able to ship for revenue and others failed retest and therefore were scrapped, and that's really what the charge is about. We continue to have parts in inventory that were tested before and we're planning to retest going forward. I would characterize the exposure of that being significantly less than what we experienced this quarter.

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

Okay. That's fair enough. One last question or maybe a multi-part question for Kevin regarding STT-MRAM, specifically the 1-gig part here. Sounds like a great deal of enthusiasm here is building with customers. Maybe, A, could you relate the ramp-up of 1 gig versus what you experienced in 256 gig, how it's different in terms of customer breadth? And then also I think last quarter, you talked about being -- the 1 gig that's being designed and the 2 OEM products, 1 of which is outside of storage. You mentioned IBM as one of those customers. Wondered if you can give us an update, anything quantitatively or qualitatively on that.

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

In terms of the ramp itself, it's more or less at or above what we experienced with the 256 in terms of yield attainment, et cetera. So we're pretty pleased on that. We are sampling several customers as we've talked about in the past, so much broader distribution of our 1-gigabit parts than we had experienced with the 256 meg. I hope that's helpful in kind of understanding where we're at in the early days of this product.

The 2 OEM customers that we talked about, both were here at MRAM Developer Day. I talked about those on the call, one being IBM with their next-generation platform as well as BittWare with their persistent memory card.

Operator

And our next question comes from Ari Shusterman with Needham & Company.

Ariel Jonathan Shusterman - *Needham & Company, LLC, Research Division - Associate*

This is Ari taking the question for Raji Gill. So congrats on a strong quarter, and just want to start off by turning to the China situation. Has this effect been more pronounced this quarter compared to the last few quarters? I remember last earnings call you mentioned that having some effect. But yes, wondering if you've seen an exacerbation like with regards to it on your business and things you're seeing moving forward.

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

It's at or maybe slightly below what we saw last quarter, Ari, so it's not a big change. Really, the -- that impact started manifesting itself in Q1. And with those particular customers, we more or less saw it then continue on for the entire Q2 at that level.



AUGUST 07, 2019 / 9:00PM, MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

Ariel Jonathan Shusterman - *Needham & Company, LLC, Research Division - Associate*

Okay. That makes sense. And with regards to your moves towards profitability given the steps -- you guys have taken steps to reduce cash burn. Is there -- do you have a time line to profitability? Or maybe help -- things you can give on that?

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

Yes, Ari. So I would point to the fact that we've always talked about profitability for our company is a matter of revenues at 50% to 55% gross margin covering our OpEx. And the thing that we've done in this quarter and we kind of talk about going forward is we've significantly reduced the bar necessary to get to profitability by reducing that spending pretty dramatically. As I stated on the call, our total OpEx was the lowest it's been since the time we went public, and so we're really focused on that.

In terms of the time line to get to profitability, obviously, we're going to still need to ramp revenues above what we experienced this quarter. And a lot of that I think gets back to a return to growth for the Toggle portion of our business, which is something that we believe will happen. We're getting a lot of new design wins. We have new customers in Toggle. And as we see the kind of headwinds with our existing large customers start to ease, that should give us a very solid path to position the company for profitability.

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

Yes. So 3 things we'd ask -- just keep in mind 3 major factors are what sort of revenue we're able to drive, what sort of profitability we're able to do by means of what our products cost us to build and third is what we spent operationally. And so 2 of those are obviously within our control, and we put a lot of effort into driving the third one. So what I'd say is look at our progress that we've made on the operations side over the last quarter. We'll continue to do that, both improving our product cost and margins while we control our spend. And meanwhile, we'll work on driving that top line to help us get there sooner.

Ariel Jonathan Shusterman - *Needham & Company, LLC, Research Division - Associate*

Okay. That makes sense. Just one more question with regards to your progress of GLOBALFOUNDRIES on -- and then on MRAM. Have you seen any updates to that?

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

Yes. GLOBALFOUNDRIES was present here at MRAM Developer Day. In one of their sessions, they announced that they'd achieved their pilot production milestone. So that's allowing them now to go out and fully sample customers. They talked about a number of customers that they have in the pipeline that they'll be giving prototype parts to in the coming quarters. And so they're on track for customer shipments next year.

Operator

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

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

Thank you for the questions and for participating in today's call. For interested investors, we want to inform you that we'll be attending the Jefferies Semiconductor, Hardware & Communications Summit in Chicago on August 28, and the Dougherty Institutional Investors Conference in Minneapolis on September 5. We look forward to reporting our progress across our business on our next call next quarter.

Operator, you may now disconnect the call.

AUGUST 07, 2019 / 9:00PM, MRAM - Q2 2019 Everspin Technologies Inc Earnings Call

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.

