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Q1 2020 Everspin Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

Kevin Conley *Everspin Technologies, Inc. - CEO, President & Director*
Matthew Tenorio *Everspin Technologies, Inc. - Interim CFO & Principal Accounting Officer*

CONFERENCE CALL PARTICIPANTS

Ariel Jonathan Shusterman *Needham & Company, LLC, Research Division - Associate*
Leanne K. Sievers *Shelton Group - President*

PRESENTATION

Operator

Hello. Good afternoon, and welcome to the Everspin Technologies First Quarter 2020 Financial Results Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded today, Thursday, May 7, 2020. And I would now like to turn the call over to Leanne Sievers of Shelton Group Investor Relations. Leanne, please go ahead.

Leanne K. Sievers *Shelton Group - President*

Good afternoon, and welcome to Everspin Technologies First Quarter 2020 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 Matt Tenorio, Controller and Interim CFO.

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 plans.

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 2019 Form 10-K filed with the SEC on March 13, 2020 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 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. In these unprecedented times of global pandemics, let me say that I hope you're all healthy and safe, and that we appreciate you taking the time to participate in this earnings call. In the first quarter of 2020, we are pleased to report that revenue was well above guidance. This is our third consecutive quarter of revenue growth as data center demand and the broad diversity of our customer base continue to be positive factors for our business. Product sales were robust despite the marginal Q1 impact of COVID-19 that we discussed on our last earnings call. Solid gross margins, supported by our cost control measures, helped deliver earnings at the high end of our guidance. These results are especially notable when considering our usual first quarter seasonality, along with these compounding effects of the current market environment.

Almost 2 months ago, we responded to the COVID-19 pandemic by proactively putting measures in place to protect our workforce and to guard our business from disruption. We moved the majority of non-production personnel to remote working arrangements and



restructured team assignments to allow our employees to continue to operate safely and productively. Overall, we are optimistic on the direction of the business, while we remain alert to the changing dynamics of the current environment. As you will see in our Q2 guidance, demand, as a whole, still looks to be growing in a healthy fashion, with data center demand projected to be strong and memory demand in our core industrial segment relatively solid. While we see minor fluctuations in demand timing and some regional softness, this is being offset by other areas of increased demand.

As a reminder, we do not have exposure to the mobile market and minimal exposure to the auto market, which have experienced the greatest impact from the pandemic. We continue to work closely with our key customers and distribution partners, while monitoring other key indicators to maintain vigilance on potential implications of the pandemic on our future results.

One practical implication of our current work-from-home posture and travel restrictions is that our progress on the production ramp of our 1-gigabit STT-MRAM product is slower than we had hoped. The teamwork with our partners on ramping production and maturing yields has been extremely collaborative, yet the current circumstances have prevented us from ramping fast enough to satisfy all customer demand and achieve our cost targets. Working with our partners, we are actively managing the situation to get us back on track in the coming months. Given the increasing contribution of this product to our future revenue stream, we believe this may temporarily challenge our ability to achieve our gross margin targets in the near term. Nevertheless, our 1-gigabit product should continue to be our fastest-growing revenue driver. I want to reiterate that customer interest in the 1-gigabit product continues to expand as evidenced by increased sampling activity as well as the new data center customer design win that is expected to transition to mass production later this year.

More broadly, total design wins for our MRAM products in Q1 reached a new high, despite many customer engineering teams having limited access to the laboratories. Toggle design wins increased over Q4 and more than doubled compared to Q1 of 2019, indicating success in our efforts to drive Toggle MRAM growth.

Looking forward, market expectations are positive on enterprise demand for memory in both server and storage, which have seen increases due to many companies moving to remote working conditions, thus driving the need for increased data center capacity and bandwidth. Our business remains on solid footing, and we continue to focus on further strengthening its fundamentals. With a greatly improved expense structure, supported by reduced costs in our established product lines, we continue to align our efforts to achieve cash flow breakeven before year-end. Underlying that focus is driving increased design wins for new and existing Toggle products, converting engagements with customers and ecosystem partners into design wins for STT-MRAM products and continued expansion of our MRAM product portfolio. This includes continuing to build on the early success of our newly introduced Toggle capacities, 2-megabit, 8-megabit and 32-megabit as well as preparing our customers for future industrial STT products. Also, we continue to see increasing interest for use of MRAM in environments that require various levels of radiation immunity, such as space applications, a market we already have a proven track record in. We believe that despite the current environment, we are increasingly well positioned to drive long-term growth.

I'd like to make one final comment on our search for a permanent CFO. We have talked to a good number of qualified candidates and have been pleased with the level of interest. I hope to provide further positive updates in the near future.

With that, I will hand it over to our interim CFO, Matt Tenorio, who will now take you through our first quarter financials and second quarter guidance.

Matthew Tenorio *Everspin Technologies, Inc. - Interim CFO & Principal Accounting Officer*

Thank you, Kevin, and good afternoon, everyone. As part of my financial review today, I'll focus my discussion on non-GAAP financial results and refer you to today's press release for a detailed description of our GAAP results as well as a reconciliation of GAAP to non-GAAP results. The non-GAAP adjustments exclude stock-based compensation, restructuring and other charges as applicable.

Starting with a review of the first quarter 2020 income statement. Revenue in the quarter exceeded the high end of our guidance at \$10.1 million, compared to \$9.7 million in the fourth quarter of 2019 and \$10 million in the first quarter of 2019. Looking specifically at MRAM product sales in the first quarter, which includes Toggle and STT-MRAM, revenue was \$9.6 million compared to \$9.2 million in the previous quarter and \$9 million in the first quarter of 2019. The increase in product sales reflects continued growth of our Toggle



products, combined with strong contribution from STT-MRAM products. Licensing, royalties and other revenue in the first quarter of 2020 contributed approximately \$0.5 million compared to \$0.5 million in the previous quarter and approximately \$1 million in the first quarter of 2019.

Gross profit for the first quarter of 2020 was \$5.4 million or 52.9% of revenue compared to \$5.2 million or 53.6% of revenue in the prior quarter and \$4.8 million or 47.7% of revenue in the first quarter of 2019. The 520 basis point year-over-year increase in gross margin reflects the significant improvements in manufacturing yields of our mature products, as well as a onetime benefit from the sell-through of previously expensed, fully qualified, 1-gig STT-MRAM product.

Non-GAAP operating expenses for the first quarter of 2020 were \$6.2 million compared to \$6.3 million in the previous quarter and \$8.3 million in the first quarter of 2019. The breakdown of operating expenses for the first quarter was as follows: research and development expenses were \$2.9 million compared to \$3.1 million last quarter and \$3.9 million in the same quarter a year ago; SG&A expenses were \$3.3 million compared to \$3.2 million in the prior quarter and \$4.4 million in the first quarter of 2019; SG&A baseline expenses would have declined from the previous quarter without expenses related to year-end audit; interest expense for the first quarter 2020 was \$172,000 compared to \$179,000 in the previous quarter and \$211,000 during the first quarter of 2019.

Other income in the first quarter was \$22,000 compared to \$127,000 last quarter and \$127,000 during the same quarter a year ago. The non-GAAP net loss for the first quarter 2020 was \$1 million or a \$0.05 loss per share based on 18.1 million weighted average shares outstanding. This compares with a net loss of \$1.2 million or a \$0.07 loss per share in the prior quarter and a net loss of \$3.6 million or a \$0.21 loss per share during the same quarter a year ago. The significant improvement in year-over-year bottom line results underscores the benefits from our expense reduction initiatives combined with ongoing improvements in mature product cost reductions.

Adjusted EBITDA for the first quarter of 2020 was a loss of \$300,000 compared to a loss of \$600,000 in the previous quarter and a loss of \$2.9 million in the first quarter of 2019.

Now turning to the balance sheet. Cash and cash equivalents were \$14.0 million at the end of the first quarter compared to \$14.5 million at the end of the prior quarter. Cash used for operations plus capital expenditures was \$2.6 million in the first quarter, compared to \$3.0 million last quarter and \$3.4 million in the first quarter of last year. Cash used this quarter included installment payments based on timing of deliverables and some onetime payments, which we do not expect to recur.

As mentioned on our conference call last quarter in mid-March, we suspended trading on our at-the-market or ATM facility, prior to which we generated approximately \$2.1 million from the issuance of new stock in Q1. We currently have no plans to restart trading on our ATM.

During the quarter, we had an average balance of \$2.0 million utilization of our \$5.0 million line of credit. We continue to believe we have sufficient cash to support our operations and growth objectives. Total assets at the end of the first quarter were \$34.7 million compared to \$35.4 million in the previous quarter. Total liabilities were \$14.7 million in the first quarter as compared to \$16.9 million in the fourth quarter of 2019. Stockholders' equity was \$20.0 million compared to \$18.5 million in the fourth quarter of 2019.

I will now turn to our second quarter guidance. We expect second quarter revenue to increase to a range between \$11.5 million and \$12.5 million. We expect a GAAP loss per share of between \$0.12 and \$0.05, and on a non-GAAP basis, a loss of between \$0.06 and approximately breakeven per share. The ranges for both GAAP and non-GAAP EPS are based on an estimated average weighted share count of 18.6 million shares outstanding for the second quarter of 2020.

As Kevin mentioned, while demand as a whole looks relatively healthy, we remain vigilant on potential implications of the pandemic, including the impact of work from home and travel restrictions on our 1-gig STT-MRAM production ramp. These dynamics were factored into our guidance ranges, which, to reiterate, reflect revenue growth and breakeven results at the high end of our non-GAAP EPS.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We have our first question from Ari Shusterman.

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

This is Ari Shusterman on behalf of Raji Gill. So, I want to first start off by asking about the impact of COVID on data center demand, particularly as it relates to increased demand for MRAM technology within data center applications? Any color on that would be appreciated.

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

Thanks for the question, Ari. Data center demand, as we have put in our commentary over the past couple of quarters, has been on the increase as the normal cyclical had led to increased server builds. As we entered Q1, that continued to strengthen, and has continued to strengthen even further as we completed the quarter. So data center demand, we do see some positive factors as a function of demand on data centers driven by the, we believe, by the COVID-19 pandemic.

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

Got you. Yes. And then with regards to your new Toggle products, particularly 8-megabit and 32-megabit. Can you talk about traction you've been seeing in those?

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

We can. We talked on our last call that we had actually already qualified the 8-gig -- I'm sorry, the 32-megabit part and have also gotten qualification of our 8-megabit part. So those 2 parts already have production orders being placed that will start helping us this year.

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

Got you. That's helpful. And then just switching a bit towards GLOBALFOUNDRIES. So with regards to your 12-nanometer process that you guys have been doing with GLOBALFOUNDRIES, so when can you give some color on that? And when do you expect the substantial sales with regards to those embedded MRAM products?

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

So the announcement that we made was a technology partnership that we have had in long-standing with GLOBALFOUNDRIES that has, so far, produced 3 different technology nodes of MRAM that -- our original 40, the 28-nanometer, which is our 1-gigabit product as well as a GLOBALFOUNDRIES 22-nanometer FDX embedded MRAM. So, we should look at the 12-nanometer as the next chapter of that and the next logical step of that technology development road map. We've opened the door now for that collaboration to go to a deeper level. And at this point, we're not putting specifics out there with regard to technology availability or product at this time.

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

Got you. So I'm sorry, just one more question with regards to your restructuring efforts. So, can you talk about the progress regarding that? And how can we expect OpEx to trend for the remainder of the year?

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

What we talked about on the restructuring that we completed on January 31 was that our target was to reduce operating expenses in 2020 by \$5 million over what we spent in 2019. You now have the first glimpse of how that's played out in Q1 of this year. And you can see that we significantly reduced our expenses relative to last year, quarter-over-quarter. And given that the completion of our restructuring happened at the end of January in this quarter, we didn't enjoy a full quarter of the total benefits from that, plus we have ongoing restructuring expenses that will continue for some months. So, it will gradually be played out over the coming quarters and should give us a pretty significantly reduced run rate.



Operator

(Operator Instructions)

We have no questions at this time. You may continue with the presentation.

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

Thank you. In closing, I would like to recognize the efforts of the entire Everspin team as well as our partners who have done so much to keep our people safe and allow our business to continue to strengthen despite the current challenges. The growth implied by the guidance we provided in the current environment distinguishes us from many of our industry peers, and we will work to continue to successfully deliver on our objectives. Before we go, I want to remind investors that we plan to participate virtually at the Oppenheimer Emerging Growth Conference on May 12. We also are scheduling virtual investor meetings with Needham on the 13th and 14th, followed by the Craig-Hallum virtual conference on May 27.

For those interested in scheduling a meeting, please contact the Shelton Group or the hosting firm. We look forward to reporting our progress with our new products and business results on our call next quarter.

Thank you all for joining us today. Operator, you may now disconnect the call.

Operator

Thank you, presenters. This concludes today's conference call. Thank you for participating. You may now disconnect.

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