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MRAM - Q4 2019 Everspin Technologies Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Everspin Technologies Fourth Quarter and Fiscal 2019 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Ms. Leanne Sievers, Shelton Group Investor Relations. Please go ahead.

Leanne K. Sievers - *Shelton Group - President*

Good afternoon, and welcome to Everspin Technologies Fourth quarter and 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 Matt Tenorio, Corporate 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 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 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, and good afternoon to those joining us on today's call. I'm very pleased to announce the progress achieved in our fourth quarter results with revenue at the high-end of guidance, supported by significantly improved margins. Revenue increased for the second consecutive quarter with positive contributions from both Toggle and STT-MRAM, which is especially noteworthy in light of the difficulty faced by the broader industrial semiconductor market last year.

As we had projected last quarter, components sold into the data center segment were again a major positive factor in our growth as a function of the rising number of new server builds coupled with continued strong demand on the storage side through the end of the year. We saw further increase in RAID controller card builds in enterprise server applications, which benefits our Toggle products as well as ongoing progress in storage arrays for our STT-MRAM products. Demand from this important market segment has continued to be strong as we entered 2020.

We also began to see a broader recovery in the market as reflected by channel and customer inventories returning to historical norms through the end of the year, which remain at healthy levels. Demand across the broad markets we serve was solid at the beginning of the new year and grew at a good pace prior to Chinese New Year. With the extended Chinese factory shutdowns that resulted from the coronavirus outbreak, like many companies, we experienced longer than usual pause in new orders and a slowdown in demand growth in the weeks since then. However, as indicated by our Q1 guidance, we are still seeing healthy demand signals and despite the first quarter typically being a seasonally lower quarter for Everspin.

To protect ourselves from COVID-19 related supply chain disruption, we have put in place contingency plans for those parts of our supply chain that are in China, but to date have not had a need to invoke them. And we are working closely with our manufacturing partners in other parts of the world to manage any possible issues while we focus on responding to our rising demand. As a precaution, we've stopped international travel, reduced domestic travel and moved to virtual meetings where practical, but continue to operate at otherwise normal levels. We'll continue to monitor the situation and be prepared for possible changes that could impact our business in future quarters.

Overall, in 2019, shipments of both 256-megabit and 1-gigabit STT-MRAM products have ramped throughout the year, contributing record revenue for the past 2 quarters and growing to well over 10% of our total revenue. Demand for our 1-gigabit product remains in line with our expectations.

As announced in December, we have achieved customer qualification of the 1-gigabit component in a major data center customer, and now, have also achieved qualification in a second data center customer and received production orders. Additionally, we continue to work with ecosystem partners, including the enterprise storage controller companies announced at FMS as well as others, to cultivate a broader set of customers in the data center segment.

We also announced last week that we're in development of an industrial STT product line. We've been actively engaged with customers that are excited about this new market expansion opportunity. Our latest product line will deliver unprecedented performance and reliability in a nonvolatile memory to address what we see as a growing opportunity for universal memories in industrial IoT endpoint applications. Using our established 28-nanometer STT technology allows us to deliver these capabilities at very competitive economics in these cost-sensitive applications.

In our Toggle portfolio, the 8-megabit and 32-megabit Toggle MRAM products announced last quarter have both completed qualification with select end customers and have already produced initial production orders in Q1. The speed of these qualifications reflects how well these products address the needs of our customers that we identified for these sweet-spot capacities. Design wins for the broader Toggle MRAM product line doubled in the second half of 2019 over the first half, signaling continued healthy forward-looking growth in new business for this workhorse product portfolio.

On the licensing front, we're proud to see the public production readiness announcement from GLOBALFOUNDRIES this quarter on its 22-nanometer FDX-embedded MRAM or eMRAM. This is an important milestone, along with the associated customer engagements, and we expect to see our first royalty revenue from this partnership by year-end.

We are also pleased to announce that we have signed another extension of our joint development agreement with GLOBALFOUNDRIES and now expands our partnership to further cooperation in the development of MRAM technology for GF 12-nanometer technology node. We are proud to be part of what has been the most productive partnership in the MRAM industry and are excited about what this next step will mean for further extending MRAM's reach.

As announced in January, we completed the restructuring of the company that significantly reduces our operating expenses, while enabling us to continue investing in our current growth objectives as well as our future product and technology leadership. The net result is a stronger, more integrated customer engagement team to drive the top-line growth, combined with more cost-effective operational footprint. That, in turn, better supports our needs to expand our product portfolio and continue to lead the market with our disruptive MRAM technology. While these were difficult decisions to implement, our team has adapted well to our reorganized structure and is driving hard on our key priorities.

As we look ahead to the coming year, our primary focus is on driving growth across the business which includes increasing design wins for both our existing Toggle products as well as our new, expanded capacity products into additional applications. Converting an increasing number of engagements with ecosystem partners and end customers into design wins for our STT-MRAM products within the data center segment and then ultimately reaching cash flow breakeven by driving revenue growth on an improved cost structure.

Before turning the call over to Matt Tenorio, our interim CFO, I wanted to provide a quick update on our search for a permanent CFO. First, I want to say that I'm very pleased to have worked directly with Matt, who previously served as our Corporate Controller. In that role, Matt has done a solid job over the last few quarters building our operations' finance strength. I've been pleased with his ability to step up to this leadership role and the positive support he's received from our finance team. My confidence in Matt's ability to fulfill these responsibilities in the interim provides the opportunity to focus on finding the right candidate to be our next CFO. We will provide updates as appropriate during the process.

Now I'll turn the call over to Matt, who will take you through our fourth quarter and full year 2019 financials as well as our first quarter 2020 guidance.

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

Thank you, Kevin, and good afternoon, everyone. Starting with a review of the fourth quarter 2019 income statement, revenue in the quarter was at the high-end of our guidance at $9.7 million compared to $9.2 million in the third quarter of 2019 and $12.3 million in the fourth quarter of 2018. For the full year 2019, revenue was $37.5 million compared to $49.4 million in 2018.

Looking specifically at MRAM product sales in the fourth quarter, which includes Toggle and STT-MRAM, revenue was at $9.2 million compared to $8.4 million in the previous quarter and $10.2 million in the fourth quarter of 2018. The sequential increase in MRAM product revenue was driven by record STT-MRAM revenue, combined with another quarter of growth for our Toggle products. For the full year, MRAM product sales were at $34.6 million as compared to $39.5 million in 2018. This decline reflects the ending of our engagement with an automotive program, which reduced our year-over-year revenue, but with minimal impact to our gross profit.

Licensing, royalties and other revenue in the fourth quarter of 2019 contributed approximately $454,000 compared to $808,000 in the previous quarter and approximately $2 million in the fourth quarter of 2018. For the full year, licensing, royalties and other revenue was $2.9 million as compared to $9.9 million in 2018, which included a sizable multiyear licensing agreement in the first quarter of 2018, adding to the natural variability of this revenue stream. Gross profit for the fourth quarter of 2019 was $5.2 million or 53.6% of revenue compared to $4.4 million or 47.4% of revenue in the prior quarter and $5.4 million or 44.2% of revenue in the fourth quarter of 2018. The sequential and year-over-year increases in gross margin primarily reflect our continued improvement in manufacturing yields throughout the year.

For the full year, gross profit was $18.3 million or 48.9% of revenue compared to $25.3 million or 51.3% of revenue in 2018, which reflects the benefit of the $9.9 million in licensing, royalty and other revenue. GAAP operating expenses for the fourth quarter of 2019 were $8.2 million, which included a one-time restructuring charge of $0.8 million compared to $7.9 million in the previous quarter and $8.8 million in the fourth quarter of 2018.

The breakdown of operating expenses for the fourth quarter was as follows: research and development expenses were $3.3 million compared to $3.4 million last quarter and $3.9 million in the same quarter a year ago. And SG&A expenses were $4.1 million compared to $4.5 million in the prior quarter and $4.9 million in the fourth quarter of 2018. For the full year 2019, operating expenses were $32.7 million, which included the restructuring charge of $0.8 million in the fourth quarter, compared to $42.7 million in 2018.

As evidence of our successful cost reduction efforts, full year 2019 operating expenses decreased by approximately $10 million compared to 2018, with an additional $5 million reduction targeted this year from our recent restructuring. These collective actions are expected to accelerate our path toward achieving cash flow breakeven by year-end.

Interest expense for the fourth quarter 2019 was $179,000 compared to $170,000 in the previous quarter and $228,000 during the fourth quarter of 2018. Other income in the fourth quarter was $127,000 compared to $89,000 last quarter and $142,000 during the same quarter a year ago.

The GAAP net loss for the fourth quarter 2019 was $3.1 million or a $0.17 loss per share, including the $0.8 million restructuring charge as well as stock-based compensation of approximately $1.1 million, and was based on 17.7 million weighted-average shares outstanding. This compares with a net loss of $3.7 million or $0.21 loss per share in the prior quarter and a GAAP net loss of $3.5 million or a $0.20 loss per share during the same quarter a year ago.

For the full year 2019, GAAP net loss was $14.7 million or $0.85 per share, which included the fourth quarter restructuring charge of $0.8 million as well as stock-based compensation of approximately $3.6 million, and was based on 17.3 million weighted-average shares outstanding. For the full year 2018, GAAP net loss was $17.8 million or $1.08 per share.

Adjusted EBITDA for the fourth quarter of 2019 was a loss of $0.6 million compared to a loss of $2.2 million in the previous quarter and a loss of $2.2 million in the fourth quarter of 2018. For the full year 2019, adjusted EBITDA was a loss of $7.9 million compared to a loss of $12 million for 2018. The improvement, both sequentially and year-over-year, are attributed to our operating expense reduction efforts and improved manufacturing yields.

Now turning to the balance sheet. Cash and cash equivalents were $14.5 million at the end of the fourth quarter compared to $14.8 million at the end of third quarter of 2019. Cash used for operations plus capital expenditures was $3.0 million in the fourth quarter compared to $770,000 last quarter and $8.2 million in the fourth quarter of last year.

For the full year 2019, cash used for operations plus capital expenditures amounted to $9.0 million compared to $16.6 million in 2018.

During the fourth quarter, we raised $2.6 million from the issuance of new stock through our at-the-market, or ATM, facility that we put in place last August. We have used a portion of the cash proceeds to strengthen our balance sheet and reduce the company's debt balance, including a $2 million paydown of our line of credit after quarter end. The $5 million line of credit is still available to us. With these actions and our recent cost reduction efforts, we believe we have sufficient cash to support operations and our growth objectives. We have confidence in our financial plan and have suspended the utilization of our ATM facility. Total assets at the end of the fourth quarter were $35.4 million compared to $35.1 million in the previous quarter. Total liabilities were $16.9 million in the fourth quarter as compared to $17.1 million in the third quarter of 2019. Stockholders' equity was $18.5 million compared to $18.1 million in the third quarter of 2019.

Now turning to our guidance. Beginning with the first quarter of 2020 and going forward, we will begin providing guidance for both GAAP and non-GAAP earnings per share. Our non-GAAP results will exclude stock-based compensation. With that said, we expect first quarter revenue to range between $9.5 million and $9.9 million. We expect GAAP loss per share of between $0.15 and $0.11; on a non-GAAP basis, a loss of between $0.09 and $0.05 per share. The ranges for both GAAP and non-GAAP EPS are based on an estimated average share count of 18.1 million shares outstanding for the first quarter of 2020. This compares to GAAP loss per share of $0.25 in the first quarter of 2019 on $10 million of revenue, highlighting the significant progress we have made over the past year on our cost reduction initiatives to drive increased operating leverage and improve the company's bottom line results.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Raji Gill from Needham & Co.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

And congrats on the positive momentum. Kevin, a question on the new -- the extension of the agreement with GLOBALFOUNDRIES to 12-nanometer, that's a very good indication. You talked though about that you expect to see some royalty revenue from the 22-nanometer FDX solution for embedded-MRAM. Wanted to try to understand how to think about that from a revenue impact at a high level? How should we think about that in terms of the potential royalty opportunity there?

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

As we've talked in the past, GLOBAL has talked in their public forums about a sizable pipeline of revenue that will be based on the 22-nanometer FDX eMRAM. However, I'm not in a position to provide any insights on the shape or timing of that ramp. I think the significant thing that we look at is the start of that, which will then, of course, be growing in significance over time.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

And the kind of traction that you're seeing for the 1-gig product with your second data center customer, can you talk about how you're seeing kind of the ramp there? And also the attach rates, as you -- for MRAM as you kind of move to non-storage data center customers, what's the value proposition for the non-storage data center customers?

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

So most of our engagements, as we've talked about, are in that data center. The parts were specifically designed for data center applications and more specifically, around the non-volatile write buffer utilized in many storage and data center applications. So while we have the initial orders and we'll start the initial ramps, we do expect that, that will probably be more significant in -- toward the end of the year.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

And just last question on the gross margins. The margins have improved based on the manufacturing yields. It's been lumpy in the past, obviously, but how do we -- because of a different royalty and licensing puts and takes, is there -- how do we think about the gross margin profile going forward? Is it going to be smoother or should we expect kind of more volatility in the margins?

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

Well, our efforts have been threefold. I guess, what I would comment on is the first is, we focused a lot on stabilizing some of the legacy manufacturing that we do of our own Toggle products. It's been a strong focus for us for a couple of years. And our intention is to keep those more stable going forward and improve on them. The margins of the STT, as we've talked about fit along with our Toggle products into our long-term financial model that we published, where we're looking for greater than 50% gross margins from the set of products that we sell to the market.

And then with regard to how we see licensing, that is something which is opportunistic, and the timing of which is not something that we can provide a lot of insight on. Although we do look for new sources of license revenue that, over time, we believe will become increasingly more important.

Operator

And your next question comes from the line of Richard Shannon from Craig-Hallum.

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

Maybe I'll ask a couple of tactical financial-related questions. Your product gross margin in the fourth quarter, very nice, up quite a bit here. I think you called out yield. Is that the only effect or was any effect from mix in the fourth quarter?

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

There are always product-mix effects in our margins from quarter-to-quarter. I would say, in this case, the overwhelming reason for the improvements that we saw was what Matt talked about, which was the improvement in yields.

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

Okay. Any reason to think that they're not sustainable or even? And can they be improved from there?

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

We have constant ongoing efforts to improve the margin of the products. And as we have stated, our efforts are designed to keep our margins firmly in line with our long-term financial model.

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

Okay, fair enough. Let me ask a question or 2 on the financial guidance you gave for the quarter. Obviously, very nice to see revenues up sequentially in your seasonally down quarter. Just want to see if there's any color you can give about the licensing contribution, just to make sure that it's not, I guess, more than we've seen in the past couple of quarters. Will it be noticeably higher? Or is that sequential growth driven by products?

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

Richard, we don't give guidance on specific contributors there in terms of what those are. And as I talked about in terms of what our view of things is this quarter, that the reason why we're confident in giving the guidance that we did is really the product demand signals that we see.

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

Okay. That's what I figured. I just wanted to make sure. So as I'm trying to go from your top line to your bottom line, trying to think of the kind of range of gross margins and OpEx, it sounds like you're confident in gross margins here. So that would suggest that OpEx should be down sequentially a fair amount. You talked about a $5 million OpEx savings this year, and I'm not sure if we should kind of expect that kind of quarterly -- that yearly run rate in the first quarter or not quite as much? Or any way you can help us think about fitting those variables together?

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

What I would guide you to is look at -- as we said in the press release that we did in January that our target was to complete our restructuring by the end of January, and that did happen on schedule. As you might imagine, not all of the cost savings initiatives happen on that date and will be timed throughout the year. So the number -- the way to think about it is a yearly number for this year, not as a run rate number.

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

Okay. Fair enough. I will think about that one, and maybe follow-up offline. My last question is on the 1-gig success you're having with data centers. From a prior question, you talked a little bit about the application, maybe you can give us a sense of how diversely these are deployed? And I guess, in your first customer and whether the second customer, you may see a similar or even greater attach rates to their server infrastructure over time.

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

At the current time, I'm really not at liberty to talk about the specific application there. But as we've talked in the past, we do look at different applications in the data center, where we're seeing traction, right? We've talked about historically for a long time in the storage side and talked about all-flash arrays and SSDs. But we've also talked about things like fabric accelerator for NVMe over fabrics. We've talked about persistent memory cards and those types of applications. Obviously, some of these are very mainstream and some are emerging applications. It's a bit hard to make commentary on the speed at which the emerging applications will take hold, but they are -- these are the types of applications that have very broad interest and deliver a lot of value to the data centers to solve some of their key objectives.

Operator

I'm showing no further questions at this time. I would now like to turn the conference back to Mr. Kevin Conley for closing remarks.

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

Thank you all for the questions and for participating in today's call. In closing, I'd like to express my gratitude for the persistence of the entire Everspin team and those partners who continue to support us and our growth objectives. We ended the quarter with strong performance on the top and bottom line, and we significantly strengthened our balance sheet throughout the year in the face of tough market conditions. With our Q1 outlook, we remain encouraged by the near-term opportunity for continued demand. And with our restructured operation, we have significantly improved our financial position with the goal to achieve cash flow breakeven by year-end. We'll continue to plan carefully for contingencies as we monitor the current market uncertainties and strive to make decisions that serve our near- and long-term objectives for growth and profitability.

Longer term, we remain optimistic about the growth potential enabled by our traction, expanded product portfolio and the 12-nanometer engagement with GF. For interested investors, we want to inform you that if permitted by the COVID-19 situation, we plan to participate at the Oppenheimer Emerging Growth Conference in New York on May 12. We also plan to arrange additional investor meetings on the East Coast with Needham. So 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 next call, next quarter.

Operator, you may now disconnect the call.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may now all disconnect.
