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Q1 2022 Everspin Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

Anuj Aggarwal *Everspin Technologies, Inc. - CFO*
Sanjeev Aggarwal *Everspin Technologies, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Rajvindra S. Gill *Needham & Company, LLC, Research Division - Senior Analyst*
Richard Cutts Shannon *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Good afternoon, and welcome to the conference call to discuss Everspin Technologies' First Quarter 2022 Financial Results. At this time, all participants are in a listen-only mode. At the conclusion of today's conference call, instructions will be given for the question-and-answer session. As a reminder, this conference call is being recorded today, Wednesday, May 11, 2022. 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 our quarterly report on Form 10-Q, which will be filed with the SEC on May 12, 2022, 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 undertake no obligation to update any forward-looking statements made on this call to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

The financial results discussed today reflect our preliminary estimates, are based on the information available as of the date hereof and are subject to further review by Everspin and its external auditors. Our actual results may differ materially from these estimates as a result of the completion of our financial closing procedures, final adjustments and other developments arising between now and the time that our financial results for this period are finalized.

Additionally, the company's press release and statements made during this conference call will include discussions of certain measures and financial information in GAAP and non-GAAP terms. Included in the company's press release are definitions and reconciliations of GAAP net income or loss to adjusted EBITDA, which provide additional details. A copy of the press release is posted in the Investor Relations section of Everspin's website at www.everspin.com. This conference call will be available for audio replay for at least 5 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 CEO, Sanjeev Aggarwal. Sanjeev, please go ahead.

Sanjeev Aggarwal *Everspin Technologies, Inc. - President, CEO & Director*

Thank you, Operator, and thanks to everyone joining us on the call today. Everspin delivered a quarterly revenue of \$14.3 million, an increase of 39% year-over-year and above the high end of guidance. We were GAAP net income positive for the fourth quarter in a row, which continues to be a focus of the company. We improved product yields to keep our gross margins in a healthy range and controlled operational spending while growing our top line.

A few highlights for Q1 2022, revenue was \$14.3 million, up 39% year-over-year. GAAP net income was \$1.9 million compared to a net loss of \$0.5 million for the prior year period. During the first quarter, we shipped samples of our next-generation STT-MRAM xSPI product family.

The product backlog for the balance of 2022 is at an all-time high. Overall, demand continues to outpace supply, leading to lean inventories at distributors across all products. We continue to work with our foundry partners for more wafers and assembly and test

houses for more capacity. We expect these supply chain constraints to tighten in second half of 2022, impacting our ability to meet demand. As mentioned in previous quarters, we have over \$2 million of unfulfilled Toggle demand, which is expected to carry over into upcoming quarters.

Our next-generation low-density STT-MRAM xSPI product family is on schedule for volume production in the second half of 2022. We verified performance on first silicon, which showed no significant issues, and successfully began customer sampling in March. This product delivers extremely high bandwidth, low latency and nonvolatile writing capability across the industrial temperature range. It is compatible with industry standards and offered in standard packages. We believe this new product will be revolutionary in its ability to serve as a fast serial RAM or as a NOR flash replacement in industrial IoT and embedded system applications. I will now turn it over to our CFO, Anuj Aggarwal, who will take you through our first quarter financials and second quarter guidance. Anuj?

Anuj Aggarwal Everspin Technologies, Inc. - CFO

Thank you, Sanjeev, and good afternoon, everyone. We are excited to report Everspin's quarterly results. Despite supply constraints, Everspin continues the profitability trend into 2022. We delivered solid quarterly results beating top end of guidance with revenue of \$14.3 million compared to \$18.2 million last quarter and \$10.3 million in the first quarter of 2021. We also had positive net income of \$1.9 million and cash flow from operations of negative \$1 million for the first quarter of 2022.

MRAM product sales in the first quarter, which included both Toggle and STT-MRAM revenue was \$12.7 million versus \$12.6 million in the prior quarter and \$9.1 million in Q1 '21. Licensing, royalties, patents and other revenue in the quarter was \$1.7 million compared to \$5.6 million in the previous quarter and \$1.2 million in the prior year period. Q4 '21 includes \$3.9 million of revenue recognized from a one-time IP [monetization] (corrected by company after the call) deal. Shipments to suppliers for our largest end customer, who we serve with our high-density STT product for data center applications, represented 19% of revenue in the quarter versus 17% of revenue in Q4 and 26% a year ago quarter.

Turning to gross margin, GAAP gross margin for the first quarter of 2022 was 58% versus 62.8% in the prior quarter and 58.2% in Q1 '21. The higher gross margin for the prior quarter was driven by the IP monetization deal. GAAP operating expenses for the first quarter of 2022 were \$6.3 million versus \$7.7 million in the prior quarter and \$6.3 million in the same quarter one year ago. The higher operating expenses in the prior quarter was primarily for the 28-nanometer product development.

GAAP operating expenses in the first quarter of 2022 included \$0.8 million of stock-based compensation compared to \$0.75 million last quarter and \$0.7 million in the year ago quarter. We expect R&D expense to grow in 2022 as we launch the 28-nanometer STT-MRAM product targeted at industrial and other broad-based applications.

We are pleased to report for first quarter positive net income of \$1.9 million or \$0.10 per basic share based on 19.9 million basic weighted average shares outstanding. This compares to a GAAP net income of \$3.7 million or \$0.19 per basic share in the fourth quarter of 2021 and a GAAP net loss of \$0.5 million or \$0.02 per basic share in the first quarter of 2021.

Basic EPS of \$0.10 was better than the top end of our guidance range and reflects our strategic operational discipline and strong gross margins in the face of tightening supplies. Cash and cash equivalents decreased to \$19.9 million at the end of the first quarter compared to \$21.4 million at the end of the prior quarter and \$15.5 million in Q1 '21. Cash flow from operations was negative \$1 million for the current quarter compared to \$6.4 million positive in the prior quarter and \$1.7 million positive for Q1 of last year.

Turning to our second quarter 2022 guidance, demand for our Toggle products remains strong. We expect industry supply constraints to limit supply and push some unfulfilled customer demand to the second half of the year. We expect Q2 revenue between \$13.6 million to \$14.6 million. We expect a GAAP income per basic share of between negative \$0.06 and \$0.00 per share, primarily driven by expenses related to the next-generation 28-nanometer STT-MRAM product and price increases from our suppliers.

I will now turn it back over to Sanjeev for some brief additional commentary before we open it up for questions.

Sanjeev Aggarwal Everspin Technologies, Inc. - President, CEO & Director

Thanks, Anuj. In summary, we continue to build towards a future of profitable, sustainable growth at Everspin. Q1's GAAP positive net income speaks to the continued focus of the Everspin team in controlling our costs, improving our yields and shipping what we could in a constrained supply chain environment. I'm excited for the new STT-MRAM xSPI product that Everspin launched this quarter and look forward to its positive impact on industrial IoT and embedded systems. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Just a question on the guidance. You mentioned that the OpEx should be higher related to the tape out. Just wondering if you could maybe talk about the OpEx quarter-over-quarter related also to the gross margin quarter-over-quarter to get to the midpoint of the EPS loss. Do we expect gross margins to kind of trend down too, given the higher input costs? Or is it going to be more of kind of the OpEx related to the tape-out? Thank you.

Anuj Aggarwal Everspin Technologies, Inc. - CFO

Hi, Raji, this is Anuj. Yes, from a gross margin perspective, as you know, we don't guide to gross margin. But I think from a modeling standpoint, I'd suggest sticking to the internal model that we've continued to share with the group. Low mid-50s seems about right, for gross margin. Q1 '22 gross margin was a little richer because of the product mix, so we were able to see some good news there. But I think with that said, the revenue is limited by supply, right? And the cost to goods sold does have some pressure related to higher supplier pricing. We feel comfortable giving guidance at that level. We are being conservative, but I just want to share that.

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

Appreciate that. And the \$2 million of unfulfilled demand being pushed in the second half of 2022 based on the supply constraints, I guess you're confident that that demand will still be there in the second half, it won't go away. Just any kind of clarity there in terms of the type of demand, maybe type of end market, what type of products it was related to.

Anuj Aggarwal Everspin Technologies, Inc. - CFO

Yes. We're very confident that the \$2 million in backlog that's moving out to the second half will be fulfilled. As we look at it, backlog is the highest it's been ever from historic ranges. And things are looking good in terms of industrial automation and automotive. The backlog is looking good in those areas and so we're confident.

Sanjeev Aggarwal Everspin Technologies, Inc. - President, CEO & Director

So Raji, just to add a little bit to that, we are pretty confident that the demand is not predictable. If you just look at our backlog, it's pretty high and it's actually gone up 10%, 15% year-over-year. So as long as we can actually obtain more supply, I think we'll be able to meet the demand, and it's not going to go away over the next 2 or even 3 quarters.

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

Very good. And just my last question, following up on that point, wondering kind of what the lead times are. I think the last time we spoke that the lead times were pushing 25 weeks. You guys were kind of actively fighting for additional wafers. It's a long process obviously, to get the wafers to go back end, and so the supply chain situation is challenging. Your customers are ordering earlier than expected, and so maybe you can give a sense also in terms of kind of if there are any signs of kind of order reschedule or even cancellations. But just kind of -- just some thoughts in terms of current lead times, how are -- what's the updated process of getting more wafers quarter-over-quarter? Any insights there would be quite helpful. Thank you.

Sanjeev Aggarwal Everspin Technologies, Inc. - President, CEO & Director

Sure, Raji. Basically, whether we are able to fulfill -- first of all, on the lead times, I think our lead times are still about 25 to 26 weeks. The only way to improve those is by getting some expedites with our foundry partners or in the backend, and we are constantly working

with both our foundry partners and the assembly and test partners to make that happen. But I don't have anything concrete to give you right now. However, I can say this, that if we are able to secure supply by July, August or get that intimation from our foundry partners that we'll get those wafers in that timeframe, we should be able to meet that extra demand of \$2 million in this year.

Operator

(Operator Instructions) 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*

Thanks, Sanjeev and Anuj. Maybe following up on the topic of product gross margins, if my calculations are right, it's the best number you've had other than one in the history here. I think you characterized it as mostly coming from mix. I just want to verify that you didn't have any benefit from yield. And then maybe if you can describe that mix, is that within the change in density or change in applications or from more smaller customers? Or how would you characterize that?

Anuj Aggarwal *Everspin Technologies, Inc. - CFO*

Yes. Hi, Richard. Yes, for Q1, gross margin was definitely richer than our internal model expectations. We did see some product mix goodness. We were able to sell some lower costing parts, and so that allowed us to get a better gross margin. There's some good news there. And then we also, if you recall, we had increased some prices in December to offset some of our component cost increases that happened last year. You see that benefit as well to help some of that. In addition to that, thinking about the gross margin, looking at it from 62% last quarter to 58% here, we did have that IP monetization deal, and so you did see it a lot richer than the internal model, and so there's some differences there.

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

Second question, on the topic of input costs, can you characterize how much prices have increased? Are they -- do you think this is only increase this year? Whether these cost increases are durable? And then you just mentioned some products you were able to raise prices back in December. Do you see any increased ability to pass those costs along here? Or is that something you don't see able to do so?

Anuj Aggarwal *Everspin Technologies, Inc. - CFO*

Yes. One of the things I want to comment on right away is that any of the price increases that we've done was specifically as a reaction to the higher input costs that we were experiencing. We believe in having that long-term relationship with the customers, and so that's the only increases we've done is to meet that. And if the prices go back down, and we're always considering alternatives as far as what we need to do.

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

Okay. That is helpful. Sanjeev, maybe a question on the new STT family here. I think you said you started to sample. Maybe you can give us a sense of the engagements. When you said you're going to be in volume production in the second half of the year, what's your visibility on getting wins and ramping up here? And what kind of an impact can this have on revenues, either dollar or percentage terms for next year?

Sanjeev Aggarwal *Everspin Technologies, Inc. - President, CEO & Director*

Yes, Richard, let me comment on -- we obviously have been very excited about this part and also some of our customers. We actually shipped fully functional samples in Q1. And as you saw last week, we actually announced availability of these parts across the market space. This part actually can replace a high-speed serial memory or NOR Flash. And then in addition, it can actually also go into FPGA systems. And we have actually sampled 3 FPGA companies using basically this part as a NOR Flash replacement. In terms of impact to revenue, I think it's too early to say, but I can say that our customers that we have actually sampled with, they are excited to actually test it out and evaluate it. So hopefully, we'll see some design wins this year that can actually go into production in 2023 timeframe.

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

Okay, perfect. One last question for me and I'll jump out of line. On your high-capacity STT products, we haven't heard a lot of positive commentary on the last couple of conference calls. I'm assuming it's kind of flat to down here. I think your largest customer consumes a good chunk of this. Maybe if you can just talk to the overall focus and importance of the high-density product and any product development going on there? And do we see this continuing to grow at all in the next 1 to 2 years? Or is this kind of a defocused area?

Sanjeev Aggarwal Everspin Technologies, Inc. - President, CEO & Director

Yes. Richard, I think the way to think about it is, I mean it has been a very consistent customer that we've actually supplied these parts to over the last 4 or 5 years, and we have a very healthy relationship with this customer. Even though the demand is a little bit lower because of the supply constraints, we are happy to announce, or I think we have mentioned this before, we have already designed into that next-generation product Flash products. I think we continue to see demand or supply of this part to our largest customer for a while into the future, at least the next 2 or 3 years.

Operator

(Operator Instructions) There are no further questions at this time. I will now turn the call over back to our CFO, Anuj Aggarwal.

Anuj Aggarwal Everspin Technologies, Inc. - CFO

Okay. With that said, we conclude today's call. Thank you all for joining us, and we look forward to reporting our progress and results on next quarter's call. Operator, you may now disconnect the call.

Operator

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

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