Everspin Technologies Third Quarter 2017 Financial Results Conference Call
November 13, 2017 at 4:30 p.m. Eastern

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

OPERATOR

Good afternoon and welcome to the Everspin Technologies Third Quarter 2017 Financial Results Conference Call. All participants will be in listen-only mode. [Operator Instructions]

After today's presentation, there will be an opportunity to ask questions.
At this time, I would like to turn the call over to Dave Allen. Please go ahead, sir.

Dave Allen - Darrow Associates, Inc. - Investor Relations for Everspin

Thank you, Gary, and thanks to all of you for joining Everspin's Third Quarter Fiscal Year 2017 Financial Results Conference Call.

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; and successfully bringing to market and manufacturing products in Everspin's design pipeline; and execute on its business plan and deliver shareholders an attractive opportunity with a long-term growth model and healthy profits.

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. I would encourage you to review our SEC filings, including Third Quarter 2017 Form 10-Q filed with the SEC on November 13, 2017, 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.

In today's call, we will be referencing GAAP and adjusted EBITDA numbers. Adjusted EBITDA numbers are provided to enhance the investors' understanding of Everspin's operating performance as it primarily excludes certain non-cash charges for depreciation and amortization stock-based compensation expense, and compensation expense related to the vesting of common stock held by GLOBALFOUNDRIES, resulting from our joint development agreement. The use of adjusted EBITDA is not meant to be a substitute for results presented in accordance with GAAP but, rather, should be evaluated in conjunction with GAAP.

This conference call will be available for audio replay in the Investor Relations section of the Everspin website at www.Everspin.com.

Joining me today are Everspin's CEO, Kevin Conley, and CFO, Jeff Winzeler, and I'd like to turn the call over to Kevin. Kevin?

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

Thank you, Dave. Good afternoon, everyone. I'm pleased to be speaking with you on my first Everspin quarterly earnings call. It has been a little over two months since I joined, and I want to reiterate how pleased I am to be working with a very talented team that possesses such leadership technology. Let me extend that by expressing my gratitude for the strong and supportive engagement I have received from many of our key customers and ecosystem partners.

I would like to start this call by announcing we achieved record shipments and revenue in the third quarter. While our revenue was below the guidance provided last quarter, we have beaten EPS guidance due to higher margins. Jeff will provide the financial specifics later in this call.

Now I would like to share with you our vision and how we see the market developing toward it. We believe that there is a strong trend that is creating a consistently growing appetite for ubiquitous data. As a result, computing, from edge devices to the data center, has an increasing demand for persistent or non-volatile memory that delivers critical performance gains and power savings. Today we already see this opportunity manifesting itself in the IoT space creating a significant opportunity for Spin Transfer Torque or STT-MRAM technology in embedded applications. We are pleased by the progress we have made with our joint development partner, GLOBALFOUNDRIES, in developing embedded STT-MRAM or eMRAM for industrial and wearable IoT SOC customers on their 22nm FDX technology node. GLOBALFOUNDRIES has further plans to develop and commercialize this 22FDX eMRAM technology for automotive applications. GLOBALFOUNDRIES' recent announcements, and announcements from others in this space, indicate that the STT-MRAM revolution is beginning and we are proud to enable GLOBALFOUNDRIES as our partner to provide high reliability low power solutions for their customers.

We also continue to be optimistic in our belief that discrete STT-MRAM will deliver value in applications demanding high performance non-volatile memory. As a result of a slow-down in Moore's law, DRAM manufacturing cost per bit gains are expected to diminish creating an opportunity for STT-MRAM to narrow the gap in cost. We also see additional benefits in the current supply capacity constraint holding memory pricing up, which we believe will also be a favorable factor in the adoption of STT-MRAM. It is still early in the development of the market for STT-MRAM components, but we believe our lead in product development and market engagement put us in good position to capitalize on this long-term opportunity.

With that goal in sight, what we must do is take our company from a developer of innovative MRAM technology and turn it into one that can develop markets, scale operations, and reduce costs to compete in what we expect to be a competitive MRAM market. In many ways, I see similarities in what we must accomplish that I experienced at SanDisk in the very early days.

With that as a backdrop, I would like to take this opportunity to communicate two shifts in strategy related to both our standalone components as well as our nvNITRO™ storage module products. These shifts are rooted in the analysis of our past efforts and are designed to bring us the surest and fastest path to standalone STT-MRAM revenue through a primary focus on memory development execution.

The first shift is that we have reprioritized 256Mb as the primary STT-MRAM vehicle for our customers to go to market. We are finding customer value in our 256Mb components that are ready for production in applications where performance, reliability and endurance outweigh the importance of memory density. This gives us a lower risk path to STT-MRAM revenue in the coming quarters. Our 1Gb technology requires more work to meet the demanding requirements of our customers. As a result, production milestones will be later than what was previously communicated. Nevertheless, we are increasing our diligence in execution focusing on reduced iteration cycles and more a predictable outcome on this 1Gb program. As our STT-MRAM products are coming to market, we are stepping up our ecosystem engagement to create more attach points for our ST-DDR3 and ST-DDR4 interfaces including the licensing of system technology that enhances memory performance.

The second shift in strategy is based on the recognition that our capabilities are strongest as a supplier of memory components and that differs tremendously from the capabilities of storage module suppliers. Therefore, we have shifted our strategy on module components strictly to one of market enablement and that the qualification, production and direct sales of our nvNITRO™ technology will be done through partners better suited to that task.

With these recent shifts, I'd like to provide to you an update on our progress with our customers. For clarity, I would like to explain the terminology I use in reference to customer product engagements. We consider our technology "designed in" when sample parts have been evaluated and our inclusion in development is communicated to us as plan of record by the customer. We will consider an engagement a "design win" when our products have completed qualification and we have a production forecast. As previously communicated, we had one customer evaluation of our 1Gb components in progress where we are designed in with a major flash array manufacturer. Recognizing with us that 256Mb could still meet their requirements and give a more secure path to market, that effort has now been migrated from 1Gb to 256Mb. While we never want to disappoint our customers, we believe we must ensure successful execution to build confidence in our company and its technology to bring them success. The customer qualification of the 256Mb with this major flash array manufacturer continues on the schedule that previously communicated for the 1Gb and we expect volume revenue to begin in the second quarter of 2018. We did provide engineering samples of our 1Gb components in Q3 as planned, but we now anticipate that the 1Gb qualification samples will be later than previously communicated. We expect some key internal 1Gb development milestones to occur this quarter and will communicate more on the 1Gb outlook after we have that data.

On modules, our partner SMART Modular Technologies is onboard with our shift in strategy and is ready to bring their full strength as a leading supplier of NVM modules to bear in making nvNITRO™ a success. Our strength in STT-MRAM components and their integration into systems, coupled with SMART's strengths in module design, manufacturing and supply are an ideal platform upon which to deliver value to the market. Our 256Mb component is designed in here as well and we expect their qualification to complete this quarter. We now turn our joint attention with them to bringing the benefits of this innovative product's ultra-low no-tail latency to key enterprise workloads.

While to date we have spent enormous energy in the creation of innovative MRAM solutions, we now turn to the task of bringing this innovation to the market and delivering value to our customers. We have initial traction in the enterprise storage space and will look to bring this value to other adjacent markets.

In past calls, much of our dialog centered on communicating the state of our future STT-MRAM products. But now I'd like to emphasize how very pleased I am to see the sustained value that our existing Toggle MRAM and legacy products continue to deliver to our customers. During the third quarter, we recognized record revenue and strong gross margin on these work horse products. As we looked deeply at what currently is holding us back in getting the most out of our fab, it was apparent that we need to increase the focus on Toggle yield stabilization that brings cost and capacity benefits. The challenge for a company our size is to do so without slowing us down on STT-MRAM development.

In pursuit of these critical goals, we are strengthening our management team and so I'm pleased to announce that Norm Armour has joined Everspin as Vice President of Operations. Norm brings a wealth of logic and memory fab experience from companies like GLOBALFOUNDRIES and Micron coupled with experience in magnetics manufacturing during his time at Western Digital. Norm assumes responsibility for our captive and partner fab management as well as general operations functions. He will drive his team to further our current profitability gains and prepare us for our operational scaling with the addition of a fabless business model. At this time, I'm also pleased to report that we are in the process of signing a two-year extension to our fab lease agreement with NXP securing us space for our Toggle production line into 2020.

As we build our team strength to grow our business and bring predictability in execution, we will also invest in further scaling the density and reducing the cost of our memory components, a key factor in opening up new market demand. I'm a strong believer in the need to maintain leadership through advanced development and the team is eager to increase focus on this core strength that has been at the center of Everspin's ability to lead the market. As such, we intend to continue investing in advanced MRAM R&D and maintain a strong technology roadmap.

With that, I'll now turn it over to Jeff, our CFO, who will walk you through the specifics of our financial performance in the third quarter and the guidance for Q4.

Jeffrey Winzeler - Everspin Technologies, Inc. - CFO and Secretary

Thank you, Kevin, and good afternoon everyone.

I will start by reviewing the third quarter, 2017 income statement. Revenue in the third quarter was a record $9.0 million, with product sales representing 99% of total revenue, or $8.9 million, while licensing, NRE and royalty contributed $75,000 in the quarter. While total revenues for Q3 2017 at $9 million were up $84 thousand or 1% higher than the revenue in Q2 2017, product sales were up $871 thousand, an increase of 11% quarter over quarter.

Q3 also marked a record for Toggle MRAM sales. Toggle MRAM sales were $7.6 million and were up $1.1 million or 18% from the second quarter of 2017. Though the third quarter of 2017, our Toggle MRAM revenues have grown by a 35% compounded annual growth rate over the past 4 quarters.

Last earnings call we provided $9.9 million as the midpoint for our Q3 revenue guidance, while our actual revenue for the quarter was $9.0 million. Late in the quarter, we had a tool that went down in the factory, preventing us from shipping approximately $300 thousand of sensor product. That tool is now fixed, and we expect that revenue in the fourth quarter. The remaining $600 thousand delta from guidance was Toggle MRAM product that we built and shipped into distributor inventories. The increased inventory levels at our distributors are a reflection of the strong demand for our products; customers are increasing their forecasts and the distributors are bringing in more product to support the growth. We were able to build, ship and invoice for this product, but will not recognize it as revenue until it ships out of the distributors.

Our Legacy product sales, which tend to fluctuate quarter over quarter, were $1.3 million and down 17% compared to Q2. Excluding nominal revenue from nvNITRO™ sampling, we did not record any meaningful STT-MRAM revenues in the third quarter of 2017

Gross profit for Q3 2017 was $5.3 million, a decrease of $537 thousand over Q2 2017. The decrease in gross profit quarter over quarter is primarily attributable to a $788 thousand decrease in Licensing and royalty revenue. As we have stated on previous calls, Licensing, NRE, and royalty revenue is a highly variable revenue item characterized by a small number of transactions annually with revenues based on size and terms of each transaction.

The gross margin for Q3 2017 was 58.3%, versus 64.9% in the prior quarter. When comparing the quarters, it is important to note that we achieved a one-time margin benefit of 2.3 margin points in Q2 due to reprocessing of previously rejected units. The remaining difference in gross margin when comparing the two quarters was the result of the lower Licensing and Royalty revenue in the third quarter. Q3 of 2017 marked the third consecutive quarter that our product margin exceeded our corporate target of 48 – 52%. Our current product mix, coupled with programs to increase yields and reduce costs, have allowed us to achieve these results.

Q3 2017 operating expenses were flat at $10.6 million, compared to $10.6 million in Q2 2017.

Breaking down operational spending, Research and Development expenses in Q3 were flat at $6.4 million vs. $6.4 million in Q2. SG&A spending for Q3 2017 was $4.1 million compared to $4.2 million in the previous quarter.

Interest expense for Q3 2017 was $178 thousand compared to $176 thousand in Q2. Other gains and losses were $40 thousand of income in Q3 2017 vs. a $222 thousand loss in the previous quarter.

GAAP net loss for Q3 2017 was $5.4 million compared to a $5.2 million net loss in the previous quarter. The Q3 GAAP loss per share was $0.43 compared to a $0.42 loss per share in the previous quarter.

Now turning to the balance sheet, cash and cash equivalents were $17.8 million at the end of the third quarter 2017, compared to $21.2 million at the end of the second quarter. Total assets at the end of the third quarter were $34.5 million compared to $36.8 million at the end of Q2 2017.

Total liabilities were $20.5 million at the end of the third quarter, compared to $18.8 million at the end of the second quarter, an increase of $2.2 million.

Stockholders' equity was $14.1 million at the end of the third quarter 2017, compared to $18.0 million at the end of the second quarter.

On November 3rd, the company filed a $100 million shelf registration statement. The S3 registration provides the company the flexibility to raise additional working capital though equity, debt securities, or warrants as needed.

Looking ahead to the fourth quarter of 2017, we expect revenue to range between $9.9 million and $10.3 million. We expect the resulting GAAP loss per share will range between a loss of $0.39 and $0.35 per share based on average weighted share count of 12.6 million shares.

I will now turn the call back to Kevin for closing comments.

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

I would like to close by extending gratitude to my predecessor, Phill LoPresti. His dedicated effort helped make Everspin what it is today and positioned us for our next chapter of success.

As I've settled into the role as Everspin's CEO, I am pleased with our progress in transforming our company from a technology innovator into one that is also a market innovator. Our focus on execution, technology leadership, team strength, operational excellence and strong partnerships will be the means by which we maintain that leadership.

We intend to invest in our vision through the addition of key resources, the development of new products, and R&D of advanced technologies. With our current outlook of a longer ramp to STT-MRAM revenues, it is therefore critical that we fund the activities that will keep us at the forefront while we develop the potential of this market. In preparation for fulfilling this need, we have filed our S3 registration as Jeff highlighted.

We will now open for questions.

Q&A

OPERATOR
The first question comes from Kevin Cassidy with Stifel.

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

Wondered about, if you could give us a little more details around the decision to go with the 256 Mb device for production? And again, how much difference is there in price? And was your customer able to adjust? I guess, how was the customer able to adjust if they wanted 1 Gb? Did you just have less density? Or are you able to get more devices on the card? And maybe can you give us an idea of what the content is per flash array?

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

I'm afraid I'm not at liberty to share details of our customers' design on this call. But going back to the first part of your question, the motivation for shifting to the 256 Mb was looking at a set of requirements that the customer had in terms of what had to be delivered when in their qualification schedule. And with the review of where we are at with the 1Gb, there was, there were certain risks that were better avoided through the scheduled that the 256Mb could provide. And in working with our customer, we're able to adjust the algorithms of the designs as well as bringing other elements to how we manage the interface for our memories that allowed it to still meet their requirements. In terms of the ASP differences, those are relatively minor in terms of differences between the 1Gb and 256Mb.

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

Okay. And going forward, you're going to be leading with the 256Mb device?

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

Yes.

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

Okay. And maybe one other question. Is there still a strategy for the 1Gb? And make sure I get this right, this is a 22-nanometer, but there might -- there'd be an offering of 256Mb, at that 22-nanometer also, for perhaps a lower cost solution?

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

Let me clarify. Our 256Mb is a 40-nanometer part. And that is the part that currently is preparing to ramp for production. Our 1Gb part is a 28-nanometer part, which we will communicate further once we've passed those milestones that I indicated in my prepared remarks.

OPERATOR

The next question comes from Robert Mertens with Needham.

Robert Mertens - Needham & Company, LLC, Research Division

I guess just going along with the questions around 256Mb and 1Gb designs. I know previously, there's been some commentary around 256Mb more targeting SSD towards 1Gb, I guess the densities where you can address the RAID market. In terms of how you look at the 2 different products from a customer's perspective, is there much of a difference for customers going with one product over the other besides for the timing of the products and of course, the densities? Are there any other challenges, I guess, with this customer going from the 1Gb product to 256Mb? Or any other potential customers that were looking at that 1Gb product?

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

There are some consumers who, due to their requirements, will need the 1Gb capacity point. This particular customer had a preference for the 1Gb, but given the situation was amenable to working with us to make the solution possible with the 256Mb. Did that answer your question, Robert?

Robert Mertens - Needham & Company, LLC, Research Division
Yes, I think that helps. And just -- if I can throw on a follow-through real quick. In terms of gross margins, I know we talked about the onetime benefits last quarter. And then, of course this quarter did pretty well, I mean, with the product mix coming in stronger than expected, when we look forward over the next quarter or so and then also throughout the next year, are you thinking that the target is going to be increased? Closer towards this 56% to 58%? Or is still trying to target

around that historical gross margin target that you've been talking about previously?

Jeffrey Winzeler - Everspin Technologies, Inc. - CFO and Secretary

Yes. So Robert, in the short term, we've had 3 consecutive quarters where our product margin has been above our corporate target. It's been running in the high 50s to low 60s. And so, on our current product mix of Toggle and our legacy products, we believe, as we've said in our prepared remarks that we can continue to operate at that kind of level. In terms of longer-term, it's really a matter of our future product mix and specifically, where we are in the ramp of any technology at any given time.

So as you can imagine, as we ramp 256Mb, the yields initially will be lower than high-volume manufacturer and therefore, possibly a little bit higher and margins will be a little bit depressed. As we get into high-volume manufacturing, clearly, we're trying to work to get those margins above this target margin percentage. So I think it's really situational. It depends on where we are in a given quarter, but we're working hard to try and move our overall corporate margin up from what our target has been in the past.

OPERATOR

The next question comes from Matt Ramsey with Canaccord Genuity.

Matthew Ramsay - Canaccord Genuity Limited, Research Division - Principal and Senior Analyst

Kevin, I guess I just wanted to ask, to maybe give you a chance to expand further upon the decision, sort of to come down from the Board and take over as an operating executive of the company, and any kind of background that you can share with us and investors about how that decision was come to? And why the Board felt the need for that decision to happen? I know obviously, lots of respect for what Phill and the team has done previously, but there's a change in direction here that I think is worth some time for discussion on this call. And I appreciate that it's a bit of an awkward question, but I still think it's something that investors sort of appreciate you talking about a bit.

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

Sure, Matt. Thanks for that question. I think what the Board recognized was that the company and its evolution was at a point where the hard work and the innovation of the memory technology now needs to be transformed into innovation that needs to happen in creating new markets. It's a large challenge in terms of developing these markets and finding those paths for these innovative components to come to market. And as we do that, of course, we also have to be building an operational machine that will be able to scale and support that business as we grow it. So really, it's that transformation in the company's life cycle, and that it needed to happen. And for that, the Board felt it appropriate to bring new leadership to the team to make that happen.

Matthew Ramsay - Canaccord Genuity Limited, Research Division - Principal and Senior Analyst

Got it. That makes sense. And then sort of along those lines of building out the operational strength, it'll be interesting to see as you guys go back to the market here, with the S-3 file and raise some additional funds for the company, any -- Kevin, you could talk, maybe rank order. Areas of investment. Is it people? Is it supply chain? Is it -- I'm just curious as to what the priorities are, as additional capital is brought into the company.

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

Well, people are certainly a priority for me as a leader in this company, both working with the team to -- and making sure that we have the strength and -- we need to do is develop the talent that the company has. I think as we look forward to this, it's to continue giving us the operational resources that are needed to keep the company moving forward. And I would say it's going to be a blend of different things that will drive the need for that capital. And part of that, as you've indicated, is people as part of the supply chain, part of that is investing in capabilities for advanced research and development.

Jeffrey Winzeler - Everspin Technologies, Inc. - CFO and Secretary

Yes. Matt, I would add to that. We're clearly increasing our margin profile, right? We're growing our revenue, we're increasing our margin profile. We're not generating enough gross profit right now to cover all of our operational spending. So we have some cash reserves, we need to be prudent in terms of potentially shoring up those cash reserves, to continue to fund the company so we can continue to build and grow.

Matthew Ramsay - Canaccord Genuity Limited, Research Division - Principal and Senior Analyst

Got it. That makes sense. And then, if I can just sneak one more in. I think I agree with the changing direction, with the nvNITRO™ program and seeing, maybe a bit out of the company's wheelhouse a bit. Maybe you could talk a little bit more about the new channel that you're using there? And what's the potential timing and magnitude is of revenue of that product as it spills out under the new business model?

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

Thanks for that question, Matt. I think the company had a standing relationship with Smart Modular Technologies. This change in direction only strengthens that partnership in terms of making it clear on building upon the strength of each of the partners in that relationship. So in terms of what it means going forward, I think we've had really strong engagement with them after making the shift. And have -- able to see progress in terms of how we'll go and attack that market together. In terms of when we're likely to see revenue from those products, it's difficult for me to comment on their customer sales profile. That's a better question for them. But in terms of our expectation, is that with the qualification of the nvNITRO™ completing, we would expect revenues starting from those products to be generated early next year.

OPERATOR

The next question comes from Richard Shannon with Craig-Hallum Capital Group.

Richard Shannon – Craig-Hallum Capital Group LLC - Senior Research Analyst

Maybe I'll ask a couple of more tactical questions to start off here. You've had some excellent results from your Toggle product line here in the last, so far, the first 3 quarters of the year. In terms of the third quarter, why don't you give us a sense of the end market drivers here? I know automotive to some extent, that's really been very good this year. I wonder if you can characterize that. And as kind of a secondary follow-on to that, as you look into your fourth quarter guidance, I wonder if you can give us a sense of kind of composition there? Toggle versus STT versus licensing for the fourth quarter, in terms of guidance?

Jeffrey Winzeler - Everspin Technologies, Inc. - CFO and Secretary

Yes. So as you indicated, our Toggle growth has been pretty, pretty good this year. I would say the majority of that growth is really within the existing 3 markets that we have. And we're continuing to sell more and more product, we're increasing our number of customers and the business is strong. And we had some commentary about the distributor inventory growing and it's really a function of availability of that product and then being ready and able to sell to end customers.

So we've been pleased. It's the same models that we've been selling into, are the same markets that we've been selling into, and we're seeing growth across-the-board. In terms of product mix for the fourth quarter, we really don't break that down in terms of Toggle versus royalty versus legacy product. As we said in our guidance, we do expect to see some pretty healthy revenue increases in the fourth quarter. We do expect to see the Toggle business continue to grow as well.

Richard Shannon – Craig-Hallum Capital Group LLC - Senior Research Analyst

Okay, sounds good. Let's see here, a follow -- a question on operating expenses. With the change in strategy on the nvNITRO™ or product side here, wondering if this has a change in the longer term, kind of trajectory of OpEx? Are you going to take the expense you had previously planned to put in there, and kind of put it back in the base technology development?

Jeffrey Winzeler - Everspin Technologies, Inc. - CFO and Secretary

Yes. So R&D spending, in general, which is where the majority of the OpEx for nvNITRO™ resides, we have some variability within that spending, although it's been surprisingly flat this year. I would expect some reduced spending in nvNITRO™ OpEx, but we also have increased OpEx, R&D spending relative to qualification of 256 Mb- and 1Gb products. Specifically through the JDA spending that we're doing with GLOBALFOUNDRIES as well as our own R&D consumables to get those products up and running.

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

So Richard, I might also add that beyond the product development expenses that would have been incurred, fully productizing this on our part would have been also complemented by another set of expenses doubling the capabilities of the company to become a modular supplier. And that's also -- that is something that we won't incur next year.

Jeffrey Winzeler - Everspin Technologies, Inc. - CFO and Secretary

Yes, Richard. I think that reduction in spending is really against a forecast as opposed to history, right? We've been building that capability as opposed to -- and so, any future reductions are really against that forecast.

Richard Shannon – Craig-Hallum Capital Group LLC - Senior Research Analyst

Okay. Fair enough. Guys, I'll just -- for one last question, and jump on the line here. But maybe back on the Toggle product line. I wonder, care to offer some sort of thought process or qualitative or quantitative forecast about how we should think about that product line growing into next year? Are we seeing the benefit of an up cycle here in spending in some of these markets that might trail off? Or you can expect it to continue to grow with this kind of a healthy rate going well into 2018?

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

I think in terms of the trends that driving these, we do think these are long-term and sustainable, in terms of the demand drivers in the markets that the serve. Many of the design wins are long in nature of their lifetime. And so, from that standpoint, we believe that demand will continue to be strong. We, additionally, will be putting more focus on bringing higher yields and more stability, which will also have positive impact on the metrics of the business going forward. That said, long-term, the expectations of how that growth eventually will be limited by the total amount of output. And at this time, we're not planning investment that significantly increases that beyond what an optimized fab will provide us.

OPERATOR

The next question is a follow-up from Kevin Cassidy with Stifel.

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

Just on your design or your sales pipeline or your design wins. Were there more engagements this quarter? Can we get a sense of what you're seeing in the market as you're moving into 2018, and the interest in MRAM technology?

Kevin Conley - Everspin Technologies, Inc. - CEO, President & Director
So Kevin, we continue to see new design win activity from our Toggle MRAM products. Those continue on -- at a healthy pace, which gives us the ability to continue to see that product line remain on its healthy growth track. In addition, in the past quarter we also did see new engagements on our Spin Torque products as well. That's helping give us a broader customer engagement on -- in those products as well.

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

Okay, and maybe just a comment on the competitive landscape. Have you seen new competitors? Or any healthier competitors, maybe?

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

So maybe I should split that question in 2 parts. From the competitive landscape on the embedded front, which is where most of the announcements have been, with the availability of competitive technology nodes. We see several players out there in the 2x-nanometer range offering their embedded MRAM technologies. And again, I think that's an indication that there is healthy demand for the technology in embedded STT applications, primarily being driven by industrial and IoT and consumer customers. And there will be, I think, follow-on demand from automotive as well. And so that landscape develops with a healthy amount of competition there. Today, in discrete memory components, we don't see any discrete MRAM component area. We don't see discrete competitors, any new announcements over the past quarter.

OPERATOR

(Operator Instructions) Showing no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to Kevin Conley for any closing remarks.

CLOSING REMARKS

Kevin Conley

I would like to leave you with some of our upcoming events: we will be demonstrating the nvNITRO™ solution this week at Supercomputing 2017 in Denver, CO in conjunction with our go-to-market partner SMART Modular. We will also be showing our STT-MRAM technology at the SNIA Persistent Memory Summit on January 24th in San Jose, CA and at Embedded World 2018 in Nuremberg, Germany. Thank you.

OPERATOR

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.