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Q1 2021 Everspin Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

Anuj Aggarwal *Everspin Technologies, Inc. - Interim CFO*

Darin G. Billerbeck *Everspin Technologies, Inc. - Interim CEO & President and Executive Chairman of the Board*

CONFERENCE CALL PARTICIPANTS

Sam Peterman

PRESENTATION

Operator

Good afternoon, and welcome to the conference call to discuss Everspin Technologies' first quarter 2021 financial results. (Operator Instructions) As a reminder, this conference call is being recorded today, Thursday, May 6, 2021.

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 annual reports on Form 10-K filed with the SEC on March 4, 2021, 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 date of this call. And except as required by law, we disclaim any obligations to update or alter these forward-looking statements in the future.

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 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 and was filed in the Securities and Exchange Commission on Form 8-K earlier today.

This conference call will also be available for audio replay until May 13, 2021, in the Investor Relations section of Everspin's website.

And now I'd like to turn the call over to Everspin's Executive Chairman and Interim CEO, Darin Billerbeck. Darin, please go ahead.

Darin G. Billerbeck *Everspin Technologies, Inc. - Interim CEO & President and Executive Chairman of the Board*

Thank you, operator, and thanks to everyone for joining us on the call today. Q1 results came in just below the midpoint of our guidance as we ended up recognizing no royalty revenue from our RAD-Hard licensing deal. We do expect to recognize the majority of the RAD-Hard licensing revenue over time. Even with that, our Q1 '21 revenue was up over 3% over Q4 2020 and in line with our goal of double-digit growth for the year. More importantly, we increased our gross margin significantly, lowered our cost, generated positive cash flow for the third quarter in a row while keeping our current distributor inventory in a healthy range of 8 to 10 weeks.

For Q1 2021, Toggle revenue was up approximately 10% and continues to gain traction as the market recovers. As mentioned in our last earnings call, we expected Toggle to continue to recover beyond the lows we saw in Q3 2020, and they seem to be doing just that. In fact, our current backlog suggests Toggle revenue is growing faster than we expected, a testament to what we seem to believe is a solid economic recovery in the industrial and factory automation areas, along with shipping to the new design wins we've been discussing for the past couple of years. We did see a strong start in Q2 backlog over Q1 for our industrial customers, and we're encouraged by the signs of all 4 regions coming back to growth.

STT revenue was a little off-plan. As we did see some small inventory adjustments, we expect to get back on track Q2 through Q4. Design wins continue to grow in Q1 2021 as they did in the overall year 2020, and we are back on track to match or slightly exceed the

MAY 06, 2021 / 9:30PM GMT, Q1 2021 Everspin Technologies Inc Earnings Call

design win total for all of last year. We have refocused our efforts on turning those opportunities into real revenue and even changed our compensation of our sales force to be more focused in that area. As mentioned last quarter, Everspin is providing production volume shipments to more end customers than ever before, which we believe reflects a strong future demand pipeline and growing adoption of MRAM in the marketplace.

On the operations front, we continue to focus on yield improvements and lowering our costs. We are finally seeing the results of our efforts in various improvements and implementation plans that have created healthy product gross margins across the board. The biggest risk to our gross margins moving forward is mix and getting the capacity we need at the committed pricing in a tight subcontractor network worldwide. Semiconductor companies appear to be struggling to keep up with demand as demand in many sectors is outpacing supply.

As we discussed last quarter, we won a RAD-Hard design-in and now have finalized that contract and collected \$3 million of the upfront payments for the related licenses. As we've mentioned in the press release in Q1 -- press release, our Q1 revenue did not include the \$1 million in licensing revenue we anticipated. As I mentioned earlier, we do get to recognize that royalty over time, which reaffirms our deliberate strategy to continue to monetize our IP.

Finally, our 28-nanometer next-generation industrial product is on track to tape out in Q3. Stay tuned for that.

I will now turn the call over to our interim CFO, Anuj Aggarwal, who will take you through our first quarter financials and second quarter 2021 guidance. Anuj?

Anuj Aggarwal *Everspin Technologies, Inc. - Interim CFO*

Thank you, Darin, and good afternoon, everyone. Today, I'll focus my discussion on GAAP financial results and highlight some key metrics. Highlights include cash flow from operations was positive for the third consecutive quarter. We also generated cash in the quarter, and gross margin was higher. Revenue for the first quarter of 2021 was \$10.3 million compared to \$10 million last quarter and \$10.1 million in the first quarter of 2020. MRAM product sales in the first quarter, which include both Toggle and STT-MRAM revenue, was \$9.1 million, lower than the prior quarter and first quarter of 2020.

Licensing, royalties and other revenue in the quarter contributed \$1.2 million compared to \$0.3 million in the previous quarter and \$0.5 million in the prior year period. The increase in revenue is due to the yearly true-up in royalty from a customer generally using our IP, which we have previously licensed to them. The RAD-Hard licensing deal is not included in the first quarter results.

Turning to gross margin. GAAP gross margin for the first quarter of 2021 was 58.2% versus 52.3% in the prior quarter. The higher gross margin is driven by royalty revenue.

GAAP operating expenses for the first quarter of 2021 were \$6.3 million, slightly lower than last quarter's \$6.4 million but down from \$6.9 million in the first quarter of 2020. GAAP operating expenses in the first quarter of 2021 included \$0.7 million of stock-based compensation compared to \$1.3 million last quarter and \$0.8 million a year ago quarter.

We expect to grow R&D expense in the remainder of 2021 as we prepare for the launch of our 28-nanometer STT-MRAM product targeted at industrial and other broad-based applications.

Getting to the bottom line. GAAP net loss for the first quarter of 2021 was \$0.46 million or negative \$0.02 per share based on 19 million weighted average shares outstanding. This compares to a GAAP net loss of \$1.6 million or negative \$0.08 per share in the first -- in the fourth quarter of 2020 and a GAAP net loss of \$1.7 million or negative \$0.10 per share in the first quarter of 2020.

Earnings per share of negative \$0.02 was better than our guidance range despite revenue coming in just below the midpoint, reflecting our tight operational discipline and strong gross margins.

Turning to the balance sheet. Cash and cash equivalents increased to \$15.5 million at the end of the first quarter compared to \$14.6

MAY 06, 2021 / 9:30PM GMT, Q1 2021 Everspin Technologies Inc Earnings Call

million at the end of the prior quarter. Cash flow from operations was a positive \$1.6 million in the first quarter, making this our best quarter for cash flow from operations and third consecutive quarter of positive cash flow.

Turning to our second quarter guidance. We expect revenue in a range of \$11 million to \$12 million, which, at the midpoint of \$11.5 million, represents 12% increase over \$10.3 million from the first quarter of this year. We expect a GAAP loss per share of between \$0.07 and \$0.11 primarily driven by expenses related to the next-generation 28-nanometer STT-MRAM product.

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

Darin G. Billerbeck *Everspin Technologies, Inc. - Interim CEO & President and Executive Chairman of the Board*

Thanks, Anuj. In summary, we continue to build towards the future of profitable growth. We believe Toggle -- the Toggle demand will continue to gain traction as the market recovers. We anticipate increasing our market penetration of our high-density STT-MRAM products for the data center, both at our top customer as well as other customers as we move through the next few years. We are on track to tape out our low-density STT-MRAM product targeted at industrial customers and NOR replacement in the middle of this year. And we will continue to monetize our IP with the RAD-Hard STT-MRAM license we mentioned being a big step, with still more to come.

Operator, you may now open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Sam Peterman of Craig-Hallum Capital.

Sam Peterman

Sam on for Richard here. I guess first, just kind of a lot of moving parts. In the numbers for first quarter and just thinking about going forward, obviously, a lot of this strength in this quarter was Toggle growing and some licensing revenue being recognized, too, that sounds like that's maybe a onetime bigger impact.

So I'm curious, STT-MRAM had a drop-off there. Curious what kind of recovery we should expect there. And can you give a little more color on whether that's kind of -- that supply constraint, if that's just customer inventory burns or what's going on in that area? That would be great.

Darin G. Billerbeck *Everspin Technologies, Inc. - Interim CEO & President and Executive Chairman of the Board*

Yes. So let me start. There was probably one -- more than one question on there, but I'll start with a couple of comments. So we did see some royalty uptick that's a true-up from one of our customers that we do a run rate. We don't have a lot of visibility, but obviously, they did much better in the markets that they serve on the royalty rates than we normally would get. And we would project that to be slightly higher than what we were anticipating through time.

On the specific STT deal, it was down slightly. I think at the end of last year, they actually believed that they would do better than they were in the end market. And we were looking at some of the data. And I think their business was soft. However, this quarter, going from Q1 to Q2, we expect some recovery. And then by Q3 and Q4, we expect that to be back to normal.

So you're going to see a little bit of a ramp-up from that. So nothing catastrophic in any way, but I think it's just the normal leveling off their inventory versus their end demand. So wasn't very concerned about that. It was a negative if you look at it from Q4 to Q1 as far as those numbers are. But the nice news is Toggle grew very well, which we were -- again, we believed it would continue to grow. We believed that the new design wins that we've been focused on the last 2 years would come to fruition, and that happened.

And we're really excited by the fact that Toggle for Q2 is already ahead of where we were in Q1, and we're feeling really comfortable about the backlog. And now it's changed the game where before, we were focused on, can we get enough demand? Now it's like, can you get enough supply? And I'm sure you hear that from everybody.

MAY 06, 2021 / 9:30PM GMT, Q1 2021 Everspin Technologies Inc Earnings Call

Sam Peterman

Yes, yes, hearing that quite a bit. That's really helpful color, though. And I guess on that last point on supply, I know you said in the last call, you'd been able to mitigate margin impacts from supply constraints pretty well. Have you been able to continue to do that? Is there a point where you could think we could see either margin pressure from supply constraints going forward or like you just said, a point at which demand is going to outstrip supply in your Toggle products?

Darin G. Billerbeck *Everspin Technologies, Inc. - Interim CEO & President and Executive Chairman of the Board*

Yes. So to answer that, I think clearly, our margins aren't going to stay at 58%. That was an artifact of a lot of great things that happened at one time. But we want our margins to have that 5 in front of it. And yes, I do think we're going to be impacted by some of the capacity constraints that are out there because there's people that -- we mentioned this in the last earnings call, that opportunistically raised their price in order for you to even get capacity.

Our strategy today is not to actually pass that on to our customers. And I think that's the right strategy as we're seeing a recovery in the marketplace. It's rightsized for our companies that we're going to suck it up as we go through that. But we still believe that our margins will start with that 5. And anything above that, as we're moving forward, is all within the plan that we have and that we submitted as we walk through this year.

So we feel comfortable about that today. But you're right, there's going to be an impact. But I don't think for us, from a fab perspective, lead times are so long that you wouldn't see a fab constraint for us for many quarters. It's more assembly and test today.

Operator

I am showing no further questions at this time. I would now like to turn the conference back to Mr. Anuj Aggarwal. You may proceed.

Anuj Aggarwal *Everspin Technologies, Inc. - Interim CFO*

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

Darin G. Billerbeck *Everspin Technologies, Inc. - Interim CEO & President and Executive Chairman of the Board*

Thank you.

Anuj Aggarwal *Everspin Technologies, Inc. - Interim CFO*

Thank you.

Operator

Thank you. This concludes today's conference call. Thank you for your participation, and have a wonderful day. You may now disconnect.

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