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Q4 2020 Everspin Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

Daniel Alan Berenbaum *Everspin Technologies, Inc. - CFO & Principal Accounting Officer*

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

CONFERENCE CALL PARTICIPANTS

Denis Pyatchanin *Needham & Company, LLC, Research Division - Research Analyst*

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

Michael Seiler *SRT*

PRESENTATION

Operator

Good afternoon, and welcome to the conference call to discuss Everspin Technologies' preliminary, unaudited fourth quarter and full-year 2020 financial results. At this time, all participants are in 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, Thursday, February 25, 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 quarterly report --on Form 10-Q filed with SEC on November 5, 2020, and other SEC filings made from time to time in which we may discuss risk factors associated with investing in Everspin. All forward-looking statements are made as of the date of this call, and except as required by law, we do not intend to update this information. 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 events 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 loss to adjusted EBITDA, which provide additional details. 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 would now 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, Suzanne, and thanks to everyone for joining us on the call today. Q4 revenue came in below guidance, as our distributors managed their inventory mix. Our current distributor inventory remains at a healthy range of 8 to 10 weeks. Even with that, our revenue in Q4 '20 was up 3% over Q4 '19. More importantly, we generated positive cash flow for the second quarter in a row.

For 2020, revenue was up 12.1%, due to strong first half growth of our Toggle MRAM, primarily before the pandemic took hold, along with high-growth for our STT-MRAM across the entire year. As mentioned in our last earnings call regarding Q3, the demand from industrial applications for our MRAM products remained soft, due to the ongoing pandemic affecting worldwide factory demand and new product rollouts. Unfortunately, we don't plan -- we don't play significantly in any of the 2020 growth markets, such as smartphones, PC, AI, and the 5G rollout.

We did see improvement in our Q1 '21 starting backlog for our industrial customers and expect Q4 to have been our low point. Design

wins continued to grow throughout 2020, and Q4 was no exception. Design wins more than doubled in 2020, and Everspin provided production volumes to more end customers than any year in its history, reflecting a strong future demand pipeline and growing adoption of MRAM in the marketplace. More than 1,300 customers have purchased production volume of Everspin MRAM.

On the operations front, we continue to focus on recovering from the yield issues that plagued us earlier in the year. We believe now that we have line of sight on various improvements and implementation plans that will get us back on track with respect to having healthy product gross margins across the board. We expect to see consistent gross margins in this range throughout the year. Our biggest risk to our plan this year is about getting the capacity we need in an abnormally tight capacity situation worldwide. In addition, we're beginning to see certain suppliers opportunistically trying to raise their prices. Currently, we don't see any material impacts to our plan, but we are clearly tight in certain areas.

Everspin has a long production history of MRAM silicon for radiation hardened application. Springboarding off that expertise enabled us to win a new design in Q4 that will result in licensing revenue beginning in Q1 of 2021, followed by foundry revenue in the future. Importantly, this is our first rad-hard project based on our STT-MRAM. We expect to be able to provide more information on this project at the next earnings call.

We also received our first royalties in Q4 from GlobalFoundries sales of embedded MRAM. Our partnership with GlobalFoundries has delivered tremendous benefits, both to our own STT program and their embedded MRAM offerings.

I will now turn it over to our CFO, Dan Berenbaum, who will take you through our Q4 financials and our Q1 quarter 2021 guidance. Dan?

Daniel Alan Berenbaum *Everspin Technologies, Inc. - CFO & Principal Accounting Officer*

Thank you, Darin, and good afternoon, everyone. Today, as usual, I'll focus my discussion on GAAP financial results, and I'll also highlight some important cash flow metrics.

Revenue for the fourth quarter of 2020 was \$10.0 million, compared to \$10.1 million last quarter and \$9.7 million in the fourth quarter of 2019. MRAM product sales in the fourth quarter, which includes both Toggle and STT-MRAM revenue, was \$9.7 million, flat from the prior quarter and up slightly from \$9.2 million in the fourth quarter of 2019.

Licensing, royalty, and other revenue in the quarter contributed \$0.3 million, compared to \$0.5 million in the prior quarter and \$0.5 million in the prior-year period. The decline in that revenue was due to lower foundry revenue, MRAM manufacturing that we complete for some of our highly specialized customers on their products, generally using our intellectual property, which we have previously licensed to them. The lower foundry revenue was due to some of those supply chain issues with the base silicon wafers, which we source from traditional CMOS foundries.

Shipments to suppliers for our largest end customer, who we serve with our high-density STT product for data center applications, represented 40% of revenue in the quarter versus 38% of revenue in Q3 and 26% in the year-ago quarter.

Turning to gross margin, GAAP gross margin for the fourth quarter of 2020 was 52.3%. Our cost of goods sold included \$0.2 million of non-cash, excess and obsolescence charges. This 52.3% gross margin compares favorably to the prior quarter's gross margin of 23%, which you will recall included \$2.1 million of noncash excess and obsolescence and accelerated depreciation charges. With this nice step-up in our gross margin, we expect to remain roughly at these gross margin levels, plus or minus, depending on product mix and royalty revenue, over the course of 2021.

GAAP operating expenses for the fourth quarter of 2020 were \$6.4 million, slightly higher than the prior quarter's \$6.0 million, but down significantly from \$8.2 million in the fourth quarter of 2019. GAAP operating expenses in the fourth quarter of 2020 included \$1.3 million of stock-based compensation, compared to \$0.9 million last quarter and \$1.1 million in the year-ago quarter. I would note that the \$1.3 million stock-based compensation in the fourth quarter of 2020 included a \$0.3 million reclassification of cash compensation to stock-based compensation from prior quarters in 2020. This was related to how we've decided to structure incentive compensation. Also, as you compare to prior periods, I would note that the expenses in the fourth quarter of 2019 included \$0.8 million of restructuring

charges. We expect to grow R&D expense in 2021, as we prepare for the launch of our STT-MRAM product targeted at industrial and other broad-based applications. During the fourth quarter of 2020, we also recorded a \$0.3 million non-cash uncertain tax position related to certain foreign jurisdictions.

Getting to the bottom line. GAAP net loss for the fourth quarter of 2020 was \$1.6 million, or a loss of \$0.08 per share, based on 19 million weighted average shares outstanding. This compares to a GAAP net loss of \$3.9 million, or a loss of \$0.21 per share in the third quarter of 2020, and a GAAP net loss of \$3.1 million, or a loss of \$0.17 per share in the fourth quarter of 2019. This \$0.08 loss was in the middle of our guidance range, despite revenue coming in below our guidance range, reflecting our tight operational discipline.

Turning to the balance sheet, cash and cash equivalents increased to \$14.6 million at the end of the fourth quarter, compared to \$13.9 million at the end of the prior quarter. Cash flow from operations was once again positive at \$0.6 million in the fourth quarter, compared to \$0.7 million in the prior quarter and negative \$2.7 million in the fourth quarter of last year. At the end of the quarter, we had a balance of \$2 million on our \$5 million line of credit. We continue to believe we have sufficient cash to support our operations and our growth objectives.

Turning to our first quarter guidance, we expect revenue in the range of \$10.0 million to \$10.8 million, which, at the midpoint of \$10.4 million, represents a 3% increase over the \$10.1 million in the year-ago quarter and a 4% increase over the fourth quarter of 2020. We expect a GAAP loss per share of between a loss of \$0.12 and a loss of \$0.06 per share, which reflects expected stock-based compensation expenses of approximately \$1 million.

I'll 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, Dan. In summary, we continue to build towards a future of profitable growth. We believe the bottom of Toggle revenue is behind us. We anticipate increasing our market penetration for our high-density STT-MRAM products for the data center, both at our top customer as well as others, as we move through the next 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 the next step, with more to come.

Operator, you may now open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Michael Seiler from SRT.

Michael Seiler SRT

I appreciate the opportunity to ask a couple of questions here. The first one, I know that in the past, we've -- the business has moved a little bit away from the automotive business. I'm just curious, with some of the recent developments in the EV space, is that if you're getting any renewed interest there, specifically with respect to -- I know there was a large recall with one of the -- with Tesla, 150,000 of their NAND chips were defective. It just seems like it would be a good application for MRAM.

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

No, it absolutely is. This is Darin, by the way. It absolutely is a great opportunity for us, specifically because our products have extended temperature ranges. And what we're finding is, there's kind of 2 different models in the cars. One is obviously under the hood or near the battery, and the other one is in the cabin. And we feel like our future products, especially in some of the lower-density areas where we have high temperature range and we have high-performance with long endurance, both from a write cycle and also from a data retention. So we feel that's -- that's a good place for us to go.

I think the only place that we're really going to suffer a little bit is if they go for the high-densities, because, again, our 1-gig McKinley isn't

really suited for that. Our big STT product is not necessarily suited for that, but all the other product offerings we have are. So, absolutely, a target focus of ours, and that's one thing, and our future products are also going to have that extended temperature range, just so that we can enable ourselves to get more market penetration there.

Michael Seiler SRT

Okay. Great. Just real quick, you mentioned that design wins doubled year-over-year. Do you have the actual figure for Q4? Or will that be in the Q or the K?

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

It should be -- that should be in the K. That information will be available in the K.

Michael Seiler SRT

Okay. Great. And just one quick question. Can you comment on the progress on taping out of ASIC this year?

Daniel Alan Berenbaum Everspin Technologies, Inc. - CFO & Principal Accounting Officer

You mean the ASIC related to the 1 gig STT product for data center?

Michael Seiler SRT

That's correct.

Daniel Alan Berenbaum Everspin Technologies, Inc. - CFO & Principal Accounting Officer

So nothing new to report. As we've discussed before publicly, we are working with partners on getting that taped out and getting qualified on that. So nothing else to report. We still do plan on having that done this year. And hopefully, we'll be able to talk about that a little bit more next quarter.

Operator

Our next question comes from the line of Denis Pyatchanin from Needham Company.

Denis Pyatchanin Needham & Company, LLC, Research Division - Research Analyst

I'm here to ask a few on behalf of Raji Gill. If you don't mind, could you tell us a little bit more about that inventory buildup you guys reported back in November for the data center customers? What's the latest on the demand front there? And has the inventory been moving? And how are the kind of supply chain kind of constraints in the industry currently impacting you?

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

So let me jump -- we'll answer the first question. So, as far as an inventory buildup, we did see a slight buildup as we were walking through the year. We do expect to burn that off the middle of this year, so you'll start to see the second half a lot more balanced. The big concern we have is these are long lead items, so having a little inventory doesn't really hurt you in that standpoint. So we're comfortable with the inventory position that we currently have.

The second question, say that again? Sorry.

Denis Pyatchanin Needham & Company, LLC, Research Division - Research Analyst

How are the supply chain constraints that are currently in the industry kind of impacting you guys from the wafer supply, et cetera? Is that impacting you, or are you seeing any issues there?

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

Well, it's impacting everyone, because you're starting to see a lot of these consumer and also the data centers, you're starting to see some pretty big ramp-up, and some of the capacity is getting utilized at full tilt, which is good for the foundries. But everyone's struggling to get their fair share, and as a small supplier, typically, we're not as impacted as the bigger suppliers, because we're in the noise. So we will see some constraints, as we mentioned, but we're able to pound our way through because, again, a few wafers here or there are not a big deal when people are asking for hundreds of lots. So I think in that case, we're protected.

The note that I did bring up in the earnings that there are people out there opportunistically raising prices, and we're concerned of that than anything. Because, again, that can negatively impact our gross margins if our costs go up. But so far, we've been able to mute any of that pretty effectively.

Daniel Alan Berenbaum Everspin Technologies, Inc. - CFO & Principal Accounting Officer

And let me elaborate just a little bit. Our -- obviously, our large foundry partners are great partners for us. And I know that in a situation where supply across the board is tight, they are working hard to get us, and everyone else, all the wafers that they need, so we're fortunate to have sort of strong foundry partners there. I will say that the opportunistic price increases that we are seeing for some of our other suppliers, and right now, we're working through that, but it's definitely something for us to keep an eye on as we go through the year.

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

And specifically, the assembly test houses.

Denis Pyatchanin Needham & Company, LLC, Research Division - Research Analyst

I see, and so it's specifically, the assembly and test houses that are raising some of the prices?

Daniel Alan Berenbaum Everspin Technologies, Inc. - CFO & Principal Accounting Officer

Yes, we've seen assembly and test; we've seen a little bit on the material side as well.

Denis Pyatchanin Needham & Company, LLC, Research Division - Research Analyst

Got it. And then, is there anything more that you can share about kind of the STT-MRAM kind of pipeline? So I think you mentioned that you started shipping in Q3, and now we have the rad-hard license that's in the pipeline as well. Is there anything more? How are some of the kind of older contracts going? And is there anything else you can share both the STT-MRAM product?

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

Well, we've been shipping the STT-MRAM product for years, so it's not new. I think shipping it into the data center, we've been doing that consistently. The rad-hard program that we're discussing, that would be new, and that will take time. As we talked about a little bit, I think we've talked about that in the past, rad-hard is typically a long design product, but it's also an extremely long-running product. Not particularly high volumes, but it can be lucrative, which is why we engage in it. And it's a very extended temperature and extreme conditions, so it's one that, for us, it's part of our strategy, both short and long term, so we expect to try to sign more of those agreements through time.

Daniel Alan Berenbaum Everspin Technologies, Inc. - CFO & Principal Accounting Officer

And (inaudible) to put a little bit more perspective as well. I think when we talked about in Q3, we talked about shipping to our second high-density STT-MRAM customer. So we've been shipping the high-density STT-MRAM to our lead customer for quite some time, both in the 256 Meg as well than the 1 gig densities. So this STT-MRAM project that we're talking about now on the rad-hard project, we've been doing rad-hard on Toggle for many years. This is our first rad-hard project using the STT technology, so that's yet another application of the STT technology.

We've talked about taping out our next STT product. That will be a little bit lower density than the high-density stuff we're doing for data center, and that's what eventually gets geared towards more industrial markets, as well as NOR replacement. So the message there is, we've been shipping STT for quite some time. We have the industry-leading STT technology. This is the best MRAM technology out there, we believe. And there are multiple applications for it, ranging from data center to rad-hard to eventual NOR replacement.

Denis Pyatchanin Needham & Company, LLC, Research Division - Research Analyst

That's all for me. I think, actually, Roger has just joined the line, so I think he has a few of his own. So I'm going to jump back in the queue and let Raji ask the next ones.

Daniel Alan Berenbaum Everspin Technologies, Inc. - CFO & Principal Accounting Officer

We're happy to take questions from either you or Raji. No problem, Dennis. Thank you.

Operator

Next question comes from the line of Raji Gill from Needham & Company.

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

I appreciate it. And sorry I joined a little bit late. I was just on a previous call. So you had mentioned that the company had -- part of the strategy of the company was trying to -- looking to standardize the interface, particularly around ASIC and MRAM-enabled SSDs, to allow easier integration for customers. And this will be done by partnering with ASIC developers, particularly on the higher end of the product. So I was just wondering if of kind of can update us in terms of how that process is going in terms of the partnerships, trying to develop the ecosystem of MRAM in order to try to generate a higher proliferation of MRAM.

Daniel Alan Berenbaum Everspin Technologies, Inc. - CFO & Principal Accounting Officer

Yes, Raji, thanks for the question. And so, I was going to say it's okay to jump on late. That question was actually asked a bit earlier, though, so I'm going to give you some grief for it. But the short answer is, we don't have anything to update now. We continue to work with our partners. We do expect to have that ASIC, to be qualified on that ASIC this year, and we should have more to update on that over the coming months, if not on the next quarter's earnings call. It is still a very important focus for us.

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

Yes. And in addition to that, all of our future products will have standard interfaces all the way across the board, so we don't plan on having anything that would disable people from drop-in compatibility.

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

Okay. Got it. And on the -- you're talking about MRAM in the data center, and it's really all about caching. And so, just curious in terms of kind of kind of the enhanced capabilities of MRAM in the data center and kind of what value that your customers are starting to see as they start to now come up with a few iterations of MRAM in their products.

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

Yes. You nailed it. It's about caching and high-performance, and the highest performance in the data center is provided by that technology and the architecture. So it's a combination of what we provide from both the write speed and an endurance perspective, but it's also a combination of how they parallelize the architecture. And that's the fastest speed drives, or fastest speed drives that are in the marketplace today, so that's what we focus on. And there are going to be commodity that are competition that you compete against, but they're not the performance segment of the market. So we're targeted primarily at the highest-end performance end of that data center market.

Operator

(Operator Instructions) I am showing no further questions at this time. I would like to turn the call back to Daniel Berenbaum.

Daniel Alan Berenbaum Everspin Technologies, Inc. - CFO & Principal Accounting Officer

Great. Thanks, Suzanne. So, with that, we conclude today's call. Thank you all for joining us. We look forward to reporting our progress and the next quarter's results in our next quarter's call. Suzanne, you can now disconnect the call. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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