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MRAM - Q1 2019 Everspin Technologies Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to Everspin Technologies First Quarter 2019 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, Wednesday, May 8, 2019.

I would now like to turn the call to Brett Perry of Shelton Group, Investor Relations. Brett, please go ahead.

Brett Perry - *Everspin Technologies, Inc. - IR, Shelton Group*

Good afternoon, and welcome to Everspin Technologies First Quarter 2019 Earnings Conference Call. I'm Brett Perry, Vice President at Shelton Group, Everspin's Investor Relations firm. Joining me today are Kevin Conley, Everspin's President and CEO; and Jeff Winzeler, Chief Financial Officer.

Before we begin the call, I want to remind you that this conference call contains forward-looking statements regarding future events, including, but not limited to, our expectations for Everspin's future business, financial performance and goals, customer and industry adoption of MRAM technology, successfully bringing to market and manufacturing products in Everspin's design pipeline and executing on its business plan. These forward-looking statements are based on estimates, judgments, current trends and market conditions and involve risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements. We would encourage you to review our SEC filings, including the 2018 Form 10-K filed with the SEC on March 15, 2019, and other SEC filings made from time to time in which we may discuss risk factors associated with investing in Everspin. All forward-looking statements are made as of the date of this call, and except as required by law, we do not intend to update this information.

This conference call will be available for audio replay for at least 90 days in the Investor Relations section of Everspin's website at www.everspin.com.

And now I'd like to turn the call over to Everspin's President and CEO, Kevin Conley. Kevin, please go ahead.

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

Thank you, Brett. Good afternoon to those joining us on today's call. Everspin executed well in the first quarter of 2019, delivering results above guidance under challenging market conditions.

The first quarter results represent the new baseline upon which we're building our future growth. I'd like to start with some important STT-MRAM updates. The first of which is that IBM, our largest STT-MRAM customer, announced in April that the NVMe flash core module using our 256-megabit part is now supported in its third enterprise storage array family. The Storewize V5000 family targets even greater end-customer affordability and expands our reach within this important customer. This further builds upon our existing design wins in the FlashSystem 9100 and the Storewize



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V7000 storage array families. Given the affordability focus of the V5000 product line, utilization will likely occur in the very high end of the line and as a result, we don't expect this particular line to drive significant volume. However, we believe this widening adoption signals the confidence our customer has in its STT-MRAM-based flash storage product.

A second important update is on our progress on STT-MRAM enablement with enterprise storage controller suppliers. These engagements are a key element to opening a broader opportunity for our STT-MRAM products and enterprise storage systems by building support for our products into storage controller ASICs, upon which these systems are based. We're excited to announce that support for our DDR4 based STT-MRAM is now designed into 3 enterprise SSD controller ASICs from well-positioned merchant-controller companies.

We're working closely to complete MRAM qualification in these platforms with these companies and hope to complete one or more this calendar year. These controllers will help to expand the market for our 1-gigabit STT-MRAM integration beyond FPGA-based designs. This is an important enabler, a broader penetration of our STT-MRAM into storage systems from leading OEMs in data center applications.

And finally, with a further update on our DDR4 based 1-gigabit STT-MRAM product, I'm pleased to announce that we are now designed into 2 OEM end products, one of which is our first data center application for STT-MRAM outside of storage. Furthermore, we have delivered our first unit shipments to allow end customer qualifications to begin. The manufacturing results from these early lots are encouraging, and our plan for production ramp in the second half of 2019 remains on schedule.

As we look beyond the meaningful near-term opportunities we have with our current STT-MRAM product portfolio, we're also focused longer-term on paving a path for larger opportunities within existing applications through reducing the bit cost of this crucial technology. We're actively engaged with the manufacturing equipment suppliers and our manufacturing partners to define the path that will get us to more cost-effective means of producing STT-MRAM memory.

Coupled with our efforts on the technology and manufacturing front, we're also analyzing a number of expanded-market opportunities that these advances make economically viable. We've been pleased with the engagements with strategic customers in these segments and the potential this holds for driving future growth of STT-MRAM adoption. We remain committed to the development of STT-MRAM discrete memory products as the path to high growth for Everspin.

Turning to our Toggle MRAM products. As we exited Q1, we saw distributor inventory of our products returning to historical levels in terms of weeks of supply. Also significant is that we are seeing growth and demand from North American customers, mainly driven by increases from the data center segments.

Additionally, we have 13 new Toggle design wins in Q1, across the board set of applications. The majority of which started production or expected to do so by the end of Q2. The breadth of our designed pipeline for Toggle MRAM continues to grow, and we expect will contribute to revenue growth in the coming quarters.

Following our strategic decision to shift away from manufacturing of sensor products and providing backend foundry services, we are now fully focused on adding high-value Toggle MRAM business to our healthy revenue base, while continuing to position STT-MRAM as the main growth driver for the company. This focus includes increased customer engagements, reducing -- reduced manufacturing costs and other business initiatives that improve the fundamentals of the business going forward and provide the path to profitability.

As we stated in last call, we believe the customer demand for MRAM in our core markets remained solid and that the long-term opportunity for this disruptive technology continues to grow. Our Toggle manufacturing expansion through our SilTerra partnership remains on track for 2020 production start. A key element of accelerating future Toggle MRAM sales is looking at new opportunities that can benefit from an extension of our current product portfolio. As we have stated in the past, the markets for this technology are very long lived, and as customer requirements evolve, it creates new opportunities for next generation Toggle products and provide unique value proposition in mission-critical memory applications.



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Working with customers over the past few months, we have identified opportunities in gaming and industrial automation applications that our extended roadmap will address. We're actively engaged with our customers in these segments to finalize our plans and expect to announce availability of new Toggle MRAM products in Q4.

We're excited about these accomplishments as demonstration of our MRAM leadership and the progress towards growing this important emerging market through penetration into applications with increasing potential. It's especially significant as we lead this market into the era of gigabit MRAM memory, bringing an even stronger solution to solving the data storage latency problems of data center operators.

In August, Everspin and our partners will participate in MRAM Developer Day and Flash Memory Summit, August 5th through 8th in Santa Clara, where we will present in detail where MRAM is, and where we intend to take it.

Near term, we still face challenging market conditions, but we believe that these are temporary. We remain focused on our journey to profitability and delivering the long-term disruptive potential of MRAM technology.

Now over to Jeff to take you through the details on the numbers.

Jeffrey G. Winzeler - Everspin Technologies, Inc. - CFO & Secretary

Thank you, Kevin. And good afternoon, everyone. I'll start by reviewing the first quarter 2019 income statement. Revenue in the quarter was above the high-end of guidance at \$10 million compared to \$14.9 million in the first quarter of 2018, which included \$5.5 million in licensing, royalty and other revenue and compared to revenue of \$12.3 million in the fourth quarter of 2018.

First quarter product sales represented 90% of total revenue or \$9 million, which was down slightly from \$9.4 million or 63% of total sales, during the same quarter last year, and down 12% from the \$10.2 million or 83% of sales in the previous quarter.

Licensing, royalties and other revenue in the first quarter of 2019 contributed approximately \$1 million compared to approximately \$5.5 million in the first quarter of 2018 and \$2 million in the previous quarter.

The first quarter of 2018 included a fee for the sensor IP license agreement we secured, as part of our strategy, to transition our sensor portfolio to our licensing model. The sequential decrease was a result of lower fab service revenue, reflecting our initiative to strategically reduce our exposure to less profitable foundry business.

MRAM product sales in the first quarter, which includes Toggle and STT-MRAM were \$8.5 million compared to \$8.9 million in the first quarter of 2018 and \$9.7 million in the previous quarter. The sequential decline in MRAM product revenue reflects high end of the year distributor inventory levels for Toggle products, exiting last year as well as the program reduction at a large Toggle customer that we discussed during our last call.

As a reminder, the short-term impact to Toggle revenues from this program will have minimal-to-no impact on our long-term gross profit dollars, while also freeing up Toggle manufacturing capacity to pursue additional higher value discrete Toggle business.

Gross profit for the first quarter of 2019 was \$4.8 million or 47.7% of revenue compared to \$10 million or 67% of revenue in the first quarter of 2018, which, again, included the benefit from our material one-time licensing agreement. Gross profit was \$5.4 million or 44.2% of revenue in the prior quarter. The 350 basis point sequential increase in Toggle gross margin -- I'm sorry, in gross margin reflects improved manufacturing yields on our Toggle products.

Operating expenses for the first quarter of 2019 were \$9 million compared to \$11.1 million in the first quarter of 2018 and \$8.8 million in the previous quarter. Breaking down our operating spend for the first quarter, research and development expenses were \$4 million compared to \$6.5 million in the same quarter a year ago and \$3.9 million last quarter. Research and development was up \$66,000 sequentially as a result of increased joint development spending, offset by reductions in other expenses.



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SG&A expenses were up \$63,000 sequentially, due to higher accounting and professional service expenses, associated with our year-end audit, partially offset by lower sales and marketing spending.

Interest expense for the first quarter of 2019 was \$211,000 compared to \$211,000 in the first quarter of 2018 and \$228,000 in the previous quarter.

Other income was \$127,000 in the first quarter of 2019 compared to \$44,000 of income in the first quarter of 2018 and \$142,000 of income in the fourth quarter of 2018.

GAAP net loss for the first quarter 2019 was \$4.3 million or \$0.25 loss per share based on 17.1 million weighted average shares outstanding. This compared with a GAAP net loss of \$1.3 million or \$0.09 loss per share during the same quarter a year ago and a loss of \$3.5 million or \$0.20 loss per share in the prior quarter.

Now turning to the balance sheet, cash and cash equivalents were \$18.5 million at the end of the first quarter compared to \$23.4 million at the end of the fourth quarter 2018. Total assets at the end of the first quarter were \$42.2 million compared to \$45 million in the previous quarter. Total liabilities were \$20.8 million in the first quarter as compared to \$20.1 million in the fourth quarter of 2018.

Stockholder's equity was \$21.4 million compared to \$24.9 million in the fourth quarter of 2018.

Looking ahead to the second quarter of 2019, we expect revenue to range between \$9.6 million and \$10 million. The resulting GAAP loss per share will range between \$0.27 loss per share and \$0.23 loss per share based on an average weighted share count of 17.2 million shares outstanding.

With that, we'd now like to open the call to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Richard Shannon with Craig-Hallum.

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

Kevin. Just thanks for taking my questions here. Congratulations on the 1-gig wins here. Maybe, that's the first couple of questions for me. Seems like these designs came pretty quickly or faster than you would have expected. If you can give us a sense of the urgency of design wins here? If we get a profile of these customers? And I think, Kevin, you mentioned one of the applications was outside of storage, maybe if you give us a sense of what that application is, we'd appreciate it?

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

Sure. Good to talk to you, Richard, and thanks for the questions. The urgency or at least the speed at which you see these designs happen is really a function of -- with getting to the point of having our customer qualifications samples ready, we're able to reengage with customers who had previously decided to wait on the 1-gig after we changed the priority regarding the 256 in terms of the primary STT-MRAM vehicle. So that really has paved the path to getting some of these customer engagements up and running on a very quick basis. With regard to the nature of the applications, I'm afraid, we're under a confidentiality, and I really can't provide much more clarity on that.



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

That's what I figured, but I thought I try it anyway. And Kevin, did I hear you correctly that your customers are moving to qualify their end -- their product with their customers, to get a sense of how fast that might occur?

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

So yes. I didn't say anything about their end customers, that's their program. This will be allowing our parts to be qualified within our customers' product.

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

Okay. All right. You also mentioned -- announced or maybe in the announcement, you mentioned something about the ASIC controllers are going to now support MRAM. Wondering how fast we can see those guys qualify and then get into end products like SSDs. And there's -- when does that lead to revenues? I'm assuming it sometime later in mid to later in 2020, but just want to get a sense of that time frame is if approved at all.

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

Sure. You know, while the timing of these releases isn't really within our control, our understanding is that one or more of these devices are at least planned to be available in late 2019, enabling OEMs to subsequently design products. OEM design cycles vary, but our expectation is that this will make revenue toward the end of 2020 or possibly, well, 2021 is likely where we'd expect the majority of volume from these designs to be enabled.

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

Okay. Fair enough. One last question for me, and I'll jump out of line. Kevin, in your prepared remarks, you talked about both last quarter and now this quarter about eventual return to growth here. Are you still believing that the second half will show growth over the first half or maybe, third quarter over second quarter in Toggle? Or maybe if you can give a little clarity as to your thought process there?

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

I think, we reiterated the previous statement we made, which is that we believe that, in the second half of this year, we'll return back to sequential growth.

Operator

And our next question comes from Kevin Cassidy with Stifel.

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

On your improvement on yields for the Toggle devices, is there a more room for improvement? Can we expect gross margins to expand based on better yields going forward?

Jeffrey G. Winzeler - *Everspin Technologies, Inc. - CFO & Secretary*

Yes. So I believe that there are continued improvements. We have specific goals for each of the products that we have in the Toggle product portfolio. We're making progress in moving toward those goals, and we've seen good improvement in manufacturing yields. We still have additional



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upside in terms of yields, and it's a very large focus for us, as you know, obviously, it increases our profitability. And -- so there's a lot of focus going on there, but in answer to your question, yes, we do have additional room, and we are confident that our manufacturing line will continue to improve.

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

Okay. Great. And I wonder if you could describe a little more of your pipeline or the funnel of the designs that you're working on, on the STT product, the 1-gigabit? How many samples do you have out to customers? Some information like that just to know what we can expect in the future?

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

Yes. I don't know if a lot of detail on how many customs we sampled is helpful. But I will say that we've sampled several customers, Kevin, and are engaged with several ecosystem partners as well beyond the design-ins that we mentioned during the leading script here. So we have announced 2 customer design-ins and 3 ecosystem design-ins at this point with several customers and ecosystem partners.

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

Okay. And one other question for me. On the embedded MRAM, can you say any progress that GLOBALFOUNDRIES has had? Or even -- is there an opportunity to move your technology to other foundries?

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

We have no indications beyond the public statements regarding GF, other than them starting production in 2019. That means that initial royalties would still be possible this year based upon them shipping product that contains MRAM. Beyond that we haven't remarked publicly about any other royalties from any other foundries.

Operator

And our next question comes from Ari Shusterman with Needham & Company.

Ari Shusterman - *Needham & Company - Equity Analyst*

I'm asking on behalf of Raji Gill. And when it comes to the mix between your STT-MRAM and Toggle product for the rest of, I guess, for this quarter and for the rest of the year, how should we think about the mix?

Jeffrey G. Winzeler - *Everspin Technologies, Inc. - CFO & Secretary*

Ari, we don't give guidance in terms of the mix of those products. They're both, as we've talked about, we believe they're both on a growth path. And so we're expecting them to continue along that path, but we don't break that out between Toggle and STT-MRAM.

Ari Shusterman - *Needham & Company - Equity Analyst*

Okay. And one more question. With regards to China tension, do you see any risks to your business, especially given recent news?



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

What I'd say is, we have seen the China situation having some impact in the -- especially in the industrial segment overall. And there's been a slowdown in China manufacturing. And that's definitely it or at least put some pressure on some of our customers. For the moment, that has stabilized for us. And we believe that with any improvement in the trade relations between the U.S. and China, that actually that pressure will hopefully return us back to the potential that, that segment holds for us.

Operator

Thank you. I'm not showing any further questions at this time. I would now like to turn the call back over to Kevin Conley for any closing remarks.

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

Thank you, operator. Before closing out today's call, I'd like to highlight that Everspin will be participating in the upcoming B. Riley FBR Institutional Conference in Beverly Hills on May 22, the Cowen TMT Conference in New York on May 29, and the Stifel Cross Sector Conference in Boston on June 12. Please contact your sales representatives at their respective firms or the Shelton Group, if you would like to schedule a meeting with us.

Thank you for your participation in today's call. And we look forward to reporting our continued progress next quarter. Operator, you may now disconnect the call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.

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