NASDAQ:INVE Q2 2025 Earnings Call Transcript

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filed from time to time with the SEC, including the company's latest annual report on Form 10-K, as well as our second quarter 10-Q once filed. Identificers assume no obligation to update these forward-looking statements. I will now turn the call over to CEO Kirsten Neuquist for her comments. Ms. Neuquist, please proceed.

Kirsten Neuquist | Chief Executive Officer:

Thanks, Operator, and thank you all for joining our quarter two 2025 earnings call. Before we begin, I'm very pleased to announce that Ed Kernbauer has been officially appointed Chief Financial Officer by the Identis Board of Directors. Ed has been serving as Acting CFO since last month, and today's announcement marks his permanent transition into the role. Ed has been with Identis since 2015, most recently serving as our global corporate controller. He also stepped in as interim CFO in late 2021. Prior to joining Identis, Ed held senior finance positions in the technology and manufacturing sectors and began his career at KPMG. We're excited to welcome him into this leadership position as he continues to bring deep expertise and steady guidance to our finance organization. Now turning to our second quarter business update. We continue to see macro trends driving strong demand for RFID and next generation technologies like BLE, even amidst ongoing global market volatility. Businesses are seeking deeper intelligence into their operations and customer engagement to strengthen their competitive position and better differentiate their offerings. Identiv is enabling that deeper intelligence as we help our customers add digital identities to physical products through RFID. This increased demand is being accelerated by several key factors. The rapid expansion of IoT connected devices, evolving regulatory landscapes, rising anti counterfeiting pressures, and the growing global emphasis on sustainability. RFID and related technologies generate the real world data needed to power digital transformation and increasingly AI. As businesses adopt AI to improve forecasting, logistics, and operations, they need accurate real time data from the physical world. Our products serve as a critical bridge, turning physical items into data generating assets. Identiv is helping to lead this transformation. Our specialized IoT inlays, tags, and labels provide digital IDs that solve real world challenges across sectors. From cold chain logistics to smart packaging to healthcare and consumer electronics. Our devices enable real time tracking, condition monitoring, compliance, security, and more engaging consumer experiences. Financially, our quarter to revenue was $5 million within our previously announced guidance. Our core channel business remains on track, but we are seeing increased competition, particularly within our standard product lines, where several competitors have recently expanded manufacturing capacity. We are also closely monitoring macroeconomic risks, particularly regarding US trade with Thailand. On July 31st, the White House announced a 19% tariff on imports from Thailand. This was generally seen as a positive for electronics manufacturers based in Thailand, as it is a significant reduction from the previously announced 36% rate and positions Thailand as a reliable manufacturing alternative to China. However, the requirements around the amount of Thailand-made components needed to obtain a Thailand certificate of origin is still a source of uncertainty, particularly with new US measures aimed at preventing transshipment. As we noted on our May call, approximately a quarter of our business is exposed to US import tariffs due to our manufacturing footprint in Thailand. We developed a responsible pass-through strategy to protect margins, and to date, all affected customers have agreed to absorb the additional costs. The potential indirect effect on customer demand, especially in more discretionary segments, is less clear. A key highlight this quarter. Earlier this week, we announced a strategic partnership with grocery logistics leader, ISCO, to enhance traceability, efficiency, and sustainability across the fresh grocery supply chain. ISCO is the world's leading provider of reusable packaging solutions for grocery products, and we have been closely collaborating with the ISCO team for several months to develop and launch a BLE smart label that will enable real-time tracking and temperature monitoring of ISCO's extensive global pool of reusable packaging containers, RPCs. With over 400 million RPCs in circulation, the value expected to be provided by our smart label in reducing the waste of fresh produce is significant. The goal is to tag the entire pool of 400 million-plus RPCs over the next four to five years, representing a major volume opportunity. This initiative is a top strategic priority as we are currently producing prototypes for pilot-scale runs and expect to begin mass production in 2026. Operationally, we achieved a major milestone in quarter two by completing the transfer of production from Singapore to our lower-cost facility in Thailand. All customers have been successfully re-qualified, and the Thailand team is progressing well toward full productivity by early next year. A small transition team remains in Singapore to manage the site closure and support continued training in Thailand. Strategically, we are now six months into executing our Perform, Accelerate, Transform, PAT strategy. The key objectives of PAT are 1. To strengthen and optimize the performance of our core channel business, 2. Accelerate our growth through high-value applications, and 3. Ultimately transform identities into a market leader of specialty IoT solutions. We've made measurable progress across all three pillars this quarter, and I will provide more detail after Ed reviews the financials. In closing, despite a challenging macro backdrop, we believe our customers clearly see the value Identiv provides. Our specialized IoT tags, inlays, and labels are not only enabling digital transformation, but are solving real-world industry challenges. These long-term trends not only remain intact and in many ways are accelerating. As a focused, pure-play IoT solutions company, we are executing our PAT strategy with discipline, and we believe this positions us well for sustainable long-term growth. Ed, over to you.

Ed Kernbauer | Chief Financial Officer:

Thanks, Kirsten. Having been with Identiv for nearly 10 years, I'm excited to move into the CFO role at this transformative time in our company's history. I look forward to meeting with the investment community in the upcoming months. In the second quarter of 2025, we delivered $5.0 million in revenue, which was within our previously announced guidance range, compared to $6.7 million in Q2 2024. This -over-year decrease was due to lower sales of RFID transponder products as we continue to exit lower margin business and reduce sales to our largest customer who is working through inventory they built up in 2024 in anticipation of transitioning production to Thailand. Second quarter gap and non-gap gross margin was negative .4% and negative .8% respectively, compared to gap and non-gap gross margin of .1% and .6% respectively in Q2 2024. Factors impacting the decrease in gross margin included incremental costs related to the transition of production to Thailand and the dual manufacturing sites required during that transition, as well as decreased utilization due to lower -over-year revenues. In addition, we recorded adjustments, which included approximately 0.6 million associated with obsolete inventory at our single-part facility. As Kirsten mentioned, we have completed production of RFID devices in Singapore and requalified our customers in our Thailand production facility. Facility shutdown activities in Singapore are progressing as planned and are expected to be substantially completed by year end. Gap and non-gap operating expenses for the second quarter of 2025, including research and development, sales and marketing, and general and administrative expenses totaled $5.9 million and $4.5 million respectively, as compared to $7.3 million and $4.7 million respectively in Q2 2024. The -over-year decrease in gap operating expenses was driven primarily by a reduction in one-time strategic review related costs. The decrease in non-gap operating expenses reflects management's targeted resource allocation to support the company's organic growth initiatives as outlined in the PAT strategic framework. Second quarter gap loss from continuing operations was $6.0 million or $0.26 per basic and diluted share, compared to gap net loss from continuing operations of $6.9 million or $0.31 per basic and diluted share in the second quarter of 2024. This decrease in net loss was primarily due to strategic review related costs of $1.6 million incurred in the second quarter of 2024 that did not occur in the second quarter of 2025. And unrealized foreign currency losses of $0.9 million, partially offset by interest income of $1.3 million. Non-gap adjusted EBITDA loss for Q2 2025 was $4.6 million, compared to $3.7 million in the second quarter of 2024. The decrease was primarily due to Thailand transition costs and adjustments for obsolete inventory at our Singapore production facility. In the appendix of today's presentation, we have provided a full reconciliation of gap to non-gap financial information, which is also included in our earnings release. Moving now to the balance sheet. We exited Q2 2025 with $129.6 million in cash, cash equivalents, and restricted cash. In the second quarter of 2025, we use $3 million in cash. This brings our total net operating cash use for the nine months following September 30, 2024 to $10.3 million. Previously, we expected net operating cash used for the 12 month period following September 30, 2024 to be in the range of $14 million to $16 million. Given our cash usage through Q2 2025 and current expectations for Q3, we are revising this range to $13 million to $15 million for the period ending September 30, 2025. Our working capital exiting Q2 was $137.5 million. Our balance sheet position remains strong, enabling us to pursue our organic and inorganic growth initiatives within the PAT strategic framework. In our 10Q filing, we will be providing a full reconciliation of the year to date cash flows. For completeness, we have included the full balance sheet in the appendix of today's earnings release. Lastly, our financial outlook. We're continuing to monitor macroeconomic risks, particularly those related to US trade with Thailand, as Kirsten mentioned. We're also looking at any indirect impacts these risks could have on customer demand and project timelines. In addition to these risks, we are also mindful of the ongoing competitive pressures on our standard product lines, which have been impacted by increased manufacturing capacity from some of our key competitors. This is causing some headwinds in the shorter term with standard product opportunities. As the macroeconomic environment evolves and we gain more visibility, we're prepared for a variety of possible outcomes. As we continue to exit lower margin business, we anticipate our largest customer will continue to reduce their inventory position. Based on this outlook, as of today's call for Q3 2025, we currently expect net revenue in the range of $4.8 million to $5.2 million. This concludes the financial discussion. I'll now pass the call back to Kirsten.

Kirsten Neuquist | Chief Executive Officer:

Thanks, Ed. With that financial context in mind, I'd like to share an update on the progress we are making under our Perform, Accelerate, Transform strategic framework. Our first pillar, Perform, is focused on strengthening and growing our core channel business. To achieve this, we are prioritizing higher margin opportunities with existing customers and channel partners, expanding gross margins by completing the transition to Thailand, and focusing on executing our new product development, or NPD, pipeline, with discipline. Our goal is to consistently exceed customer expectations through exceptional support and reliable on-time delivery. As we execute this strategy, we're building a solid operational foundation to ensure a competitive cost structure, adding key customer-facing roles, and putting in place the processes needed to drive NPD. This work is already showing results. Our commercial team is fully in place, and sales momentum is building, with a 33% increase in new opportunities in our sales pipeline this quarter compared to last quarter. Our commercial efforts are strongly supported by our new marketing team. Through their dedicated work, this past quarter we have successfully completed 22 marketing initiatives in collaboration with 10 strategic partners, including webinars, white papers, press releases, and joint trade shows, driving a remarkable 300% increase in requests for information from our website compared to the second quarter of last year. We believe this surge of customer interest is directly contributing to a stronger pipeline of new opportunities and will result in growing momentum for our business. As I mentioned earlier, we have completed all production in Singapore, and the site shutdown is progressing as planned. This transition to Thailand is key to expanding our gross margins. To support continuous improvement in our Thailand operations, we have launched CRM and MRP initiatives designed to automate our key processes, strengthen our operational foundation, and ensure the business is scalable. Moving to the second pillar of our PAT framework, Accelerate. We are advancing three specific growth initiatives to build our pipeline and drive long-term revenue and margin expansion. One, expanding our BLE technology platform and multi-component MCL manufacturing capabilities. Two, targeting growth in three healthcare high-value applications. And three, further driving growth in three consumer and logistics high-value applications. Beginning with BLE expansion, we are making meaningful progress. As we've discussed, BLE is a next-generation technology for IoT, providing significant benefits for applications that require real-time traceability or condition monitoring, which are challenging to address with traditional RFID technologies. Over the past several months, we have seen increasing interest in specialized BLE labels, spanning logistics, pharmaceuticals, and asset tracking applications. These BLE-enabled solutions not only provide real-time visibility, but also generate high-frequency data streams that can be used to power AI models, unlocking predictive insights, operational optimization, and automated decision making. We have several significant BLE projects in our MPD pipeline, including the food logistics project I mentioned earlier, and an industrial track and trace application, all with the potential to improve business efficiency and reduce waste through the analytics they generate. The technical demands of BLE smart label design and manufacturing play to our engineering strengths and offer a clear competitive edge. Over the past six months, we invested in new MCL manufacturing equipment at our Munich, Germany R&D Center, expanded our engineering team with RF and software engineers, and strengthened product management capability dedicated to BLE innovation. In May, we introduced our new BLE smart labels at RFID Journal Live, marking an important step toward commercialization. We are collaborating with Inplay on a new portfolio of BLE-enabled battery-powered smart labels designed for high-value logistics applications. The upcoming smart label portfolio will be powered by Inplay's IN100 NanoBeacon, an -low-power BLE system on a chip, and is expected to be available late this year. A full launch of this secure, scalable BLE portfolio is targeted for early 2026. We continue to work closely with Williat on the production of their next-generation IoT pixels. Our teams have been actively collaborating to ensure we are prepared to support volume production for Williat's customers and partners in the coming months. Williat IoT pixels are small, battery-free Bluetooth sensors powered by harvesting ambient radiofrequency energy, enabling continuous transmission of data like temperature, motion, and location for smart supply chain and IoT applications. We are highly encouraged by the momentum building in BLE and the increasing interest from the market. The second and third Accelerate initiatives focus on driving growth across six high-value, high-volume applications, three in healthcare, two in consumer, and one in logistics. To support these initiatives, we've expanded our business development and product management teams to drive market engagement through strategic partnerships and direct OEM relationships, and to ensure our product roadmaps are aligned with the specific requirements of each target application. Strategic partnerships are essential to the development and deployment of solutions in these key markets. While Identiv delivers a critical component of any IoT solution, our inlays, tags, and labels, customers also require robust application-specific data analytics to generate meaningful insights. Over the past six months, we've prioritized building relationships that complement our technology and will continue pursuing partnerships where strong strategic alignment exists. In addition to IFCO, we also announced a strategic partnership with Naravero, a global SaaS platform for digital product passports, or DPPs, and supply chain transparency. The collaboration comes in anticipation of new EU regulations requiring DPPs, which are scheduled to go into effect starting in 2027. A DPP is a digital record that contains detailed information about a product's materials, origin, environmental impact, and lifecycle, enabling greater transparency and sustainability across the supply chain. By combining Identiv's NFC inlays for dynamic product data with Naravero's robust data management platform, this collaboration is intended to offer a comprehensive, integrated solution that streamlines DPP deployment for companies. Based on current projections and regulatory scope, we estimate the EU's DPP framework could apply to more than 3 billion products annually across categories such as apparel, electronics, and industrial goods. We believe this positions our collaboration with Naravero as a high-volume opportunity, potentially enabling Identiv to deliver millions of NFC inlays per year as DPP regulations roll out over time across multiple product categories. We're also advancing collaborations launched earlier this year, including our strategic partnerships with Novanta for medical device applications and Tag and Track for Pharmaceutical Coal Chain Management. Last week in Chicago, we joined our partner Novanta for the ADLM Diagnostics Industry Trade Show. At their booth, we showcase our combined solution for advanced diagnostics, demonstrating how Identiv's RFID tags and Novanta's STING Magic Reader technology can be integrated into diagnostic test equipment. This innovative solution allows for the seamless monitoring of test samples and medical consumables, which helps ensure accurate test results and enhances patient safety. Our strategic partnership with Tag and Track combines our advanced BLE smart labels with Tag and Track's Relativity SaaS platform and is intended to offer pharma customers an integrated IoT solution that delivers item-level visibility and actionable insights for coal chain tracking within the pharmaceutical industry supply chain. In June, we co-hosted a keynote session with Tag and Track at the AI PIA and AWA Smart Packaging World Congress 2025 in Amsterdam and were enthusiastic about the potential opportunities in the pipeline. Turning now to the third part of our strategic framework, Transform. This pillar focuses on driving business expansion and capability growth through M&A. Our objective is to accelerate reaching EBITDA breakeven by gaining scale, broadening our product portfolio, and enhancing our technical capabilities through strategic acquisition. We continue to evaluate, with our financial advisor Raymond James, our strategic alternatives. We have also strengthened our board and standing M&A committee with the addition of our newest board member Mick Lopez. As a former public company CFO, Mick brings deep expertise in M&A and corporate finance, along with a strong shareholder-focused perspective that is already proving valuable to our strategic decision-making. Starting last quarter, we began reporting several metrics to monitor our progress across our strategic objectives. Throughout this year, we will be developing our baseline and will be refining our learning. Based on our findings, we intend to establish targets for these metrics in 2026. The new metrics are 1. New sales pipeline and conversion rate. This metric tracks the number of opportunities with new customers, or customers we have not sold to in over two years. At the end of quarter two, we had 100 new opportunities in our pipeline. This is an increase from the 75 we had at the end of quarter one. We have converted 14% of our new opportunities to sales in the first half of the year. NPD, new product development projects. This metric tracks the number of active NPD initiatives. These projects involve the development of entirely new RFID or BLE tags, inlays, or labels. As of the end of quarter two, there were 19 active NPD projects, 12 customer-driven, and seven internally driven. Four of the customer-driven projects target healthcare applications, and five utilize BLE technology, which represent the largest share of potential volume and steady-state revenue. Three, NPD project completion. This metric captures the number of NPD projects completed within the quarter. In quarter two, we completed one internally driven project, the specialized new conductive adhesive that forms the critical connection between the chip and the antenna on the inlay. Finally, I would like to provide an update on our corporate governance. At the 2025 annual meeting held on June 10th, stockholders approved the proposal to amend the company's charter to declassify the board. Therefore, the class two director nominees were re-elected for one-year terms, and the board's classified structure will end at the end of 2026 annual meeting of stockholders, at which time all nominees for election as director will stand for one-year terms. As a reminder, the board previously announced plans to declassify its structure as part of its ongoing corporate governance review, which aims to better align the company's governance with best practices and enhance accountability to shareholders. In closing, while we expect the global macroeconomic uncertainty to continue, Identus' value proposition remains strong and consistent. The long-term secular trends that are driving demand for RFID and BLE-enabled solutions remain solid. As a focused, pure-play IoT solutions provider, we believe we have the right team in place to execute our PAT strategic framework. By reinforcing our core channel strengths, expanding through new strategic partnerships and innovative product development, and working expeditiously through our transform process with our financial advisor, we believe we can create value for all of our stakeholders. With that, I'd like to open the call for your questions. Operator, please open the question queue.

Operator | Conference Operator:

Certainly. Everyone at this time will be conducting a question and answer session. If you have any questions or comments, please press star 1 on your phone at this time. We do ask that while posing your question, please pick up your handset if you're listening on speakerphone to provide optimum sound quality. Once again, if you have any questions or comments, please press star 1 on your phone. Your first question is coming from Jason Smith from Lake Street. Your line is live.

Jason Smith | Analyst, Lake Street:

Thanks for telling my questions. I just want to start with your announcement this week and thinking about this opportunity in the grocery space, understanding that it's pilot testing here in 2025 and then full scale deployment in 2026. Can you help us get a sense of the size of this opportunity longer term and when it can be impactful to the model?

Kirsten Neuquist | Chief Executive Officer:

Well, yes, certainly. We're really excited and pleased about this partnership, and it is a significant potential volume opportunity for us. So, if they have over 400 million plastic containers that they ultimately want to get tagged, the goal is to to tag all of them over the next four to five years. And then there's an ongoing opportunity because there's roughly 10% or more of those plastic containers that need to get replenished every single year. So excited about the opportunity. It is still very much an active development program. And so the goal is to be able to launch mass production in 2026. But there is always a little bit of uncertainty when you're doing a development program. It is a very innovative product. It's using the next generation chip. There's some kind of real interesting innovation related to the manufacturing process. So all that still is being developed. But the goal will be to start mass production in 2026.

Jason Smith | Analyst, Lake Street:

Gotcha. And then just curious if you had to talk about sort of order patterns so far here in the first six weeks of the quarter.

Kirsten Neuquist | Chief Executive Officer:

Sir, are you saying specifically for the third quarter?

Jason Smith | Analyst, Lake Street:

Yes.

Kirsten Neuquist | Chief Executive Officer:

Yeah, I mean, I think the order patterns seem to be on track with the guidance that we have provided.

Jason Smith | Analyst, Lake Street:

Gotcha. And then last one for me and I'll jump back into Q. How should we think about gross margin? I know there were some dynamics impacting it in Q2, but looking here in Q3 and Q4, how should we think about sort of the general level?

Kirsten Neuquist | Chief Executive Officer:

Yeah, so definitely and Ed can weigh in on this as well. But we definitely in the first half of the year, we were significantly impacted in our gross margin with our dual manufacturing sites, both Thailand and Singapore. And then also just some additional transition costs that we had in terms of, you know, doubling up with training and so on and so forth. So we were really happy to hit our goal. There are milestones of completing production in Singapore in Q2 and that has been achieved. So that is done. At this point, we have a very small skeleton crew that remains to really support the shutdown. You know, we have to pack up the final equipment and ship it off and we have to shut down the site. But we definitely expect to see a benefit for sure in the second half as we close down the site. And then maybe, Ed, any other color?

Ed Kernbauer | Chief Financial Officer:

I would agree with that. With the closing of production in Singapore, we will definitely see a positive impact of margin as we go forward. So Q3 as well as Q4.

Jason Smith | Analyst, Lake Street:

Okay, perfect. Thanks a lot,

Kirsten Neuquist | Chief Executive Officer:

guys. Thank you.

Operator | Conference Operator:

Thank you. And once again, everyone, if you have any questions or comments, please press star then one on your phone. Please hold while we poll for questions. Thank you. That concludes our Q&A session. I'll now hand the conference back to CEO Kirsten Newquist for closing remarks. Please go ahead.

Kirsten Neuquist | Chief Executive Officer:

Thanks, operator. And thank you all again for joining us today. We appreciate the continued support of our customers, partners, shareholders, and employees. In terms of investor outreach, we'll be attending the B. Riley CMC Conference in New York on Wednesday, September 10th. And Lake Street will be hosting a virtual NDR on Tuesday, September 16th. So thank you again for joining us this afternoon and evening. And have a nice night. Bye bye.

Operator | Conference Operator:

Thank you, everyone. This concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.