NASDAQ:MRAM Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good afternoon and welcome to Everspin Technologies' second quarter 2026 financial results conference call. At this time, all participants are in a listen-only mode. At the conclusion of management's prepared remarks, instructions will be provided for the question and answer session. As a reminder, this conference call is being recorded. I would now like to turn the conference over to Monica Gould, investor relations for Everspin.

Monica Gould | Investor Relations, Everspin Technologies:

Thank you, Operator, and good afternoon, everyone. Everspin released results for the second quarter, 2026, ended June 30, 2026, this afternoon after market close. I'm Monica Gould, Investor Relations for Everspin, and with me on today's call are Sanjeev Aggarwal, President and Chief Executive Officer, and Bill Cooper, Chief Financial Officer. Before we begin the call, I would like to remind you that today's discussion may contain forward-looking statements regarding future events, including, but not limited to, the company's 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 the company's SEC filings, including the annual report on Form 10-K and other SEC filings made from time to time in which the company 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, the company undertakes no obligation to update or alter any forward-looking statements made on this call, whether as a result of new information, future events, or otherwise. The financial results discussed today reflect the company's 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. The company's actual results may differ materially from these estimates as a result of the completion of financial closing procedures, final adjustments, and other developments arising between now and the time that the financial results for the 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 gap net income to non-gap net income, which provide additional details. A copy of the press release is posted on the Investor Relations section of Everspin's website at www.everspin.com. And now, I would like to turn the call over to Everspin's President and CEO, Sanjeev Aggarwal. Sanjeev, please go ahead.

Sanjeev Aggarwal | President and Chief Executive Officer:

Thank you, Monica, and thanks, everyone, for joining us on the call today. We are pleased to report second quarter revenue of 18.7 million and non-GAAP EPS of 11 cents. These results reflect the highest revenue quarter in Everspin's history, which exceeded our guidance range on both the top and bottom line, driven by strong product revenue growth and the $40 million agreement we announced with a U.S. prime contractor on our last earnings call. During the quarter, we began to recognize non-product revenue under the two and a half year agreement. As a reminder, Everspin is a subcontractor on an existing prime contract and is providing engineering services to develop and qualify toggle MRAM process technology capabilities for U.S.

defense industrial-based customers. In addition to this new contract, we also recorded strong product revenue growth, which rose 38% year-over-year and was up 9% sequentially. This growth was driven by strength in industrial automation, energy management, and aerospace and defense applications. Growth in industrial and energy management was driven by a continued recovery in customer demand, particularly in Japan and Europe, respectively. In aerospace and defense, we saw continued broad-based growth across our customer base, including several low-orbit customers who are expanding the mission profile where Everspin MRAM delivers long-term reliability for mission-critical applications. Recently, Astro Digital selected Everspin's Persyst 64-megabit STT MRAM for use on an upcoming Raven bus Geosynchronous Earth Orbit, or GEO, satellite mission. Our MRAM is deployed as the primary fail-safe memory for the system boot memory, which stores the essential code needed in case of power loss and fast access to initialize spacecraft electronics during startup or recovery. As we noted last quarter, our 14.6 million contracts with our DoD contractor to develop a sustainment plan for our MRAM manufacturing facilities to provide continuous onshore MRAM capabilities to their aerospace and defense customers is beginning to wind down. In the second quarter, we recognized 0.5 million in other income related to this contract and 13.3 million to date. We expect this business to continue to wind down over the coming quarters with estimated completion in the first half of 2027. Turning to some of our product development efforts. Our first Unisys family of MRAM products, the 256 megabit XPI is on schedule to tape out later this year. As a reminder, this is a test chip designed on 16 nanometer FinFET CMOS at TSMC Engineering samples are expected to be available in early 2027 with ramp-through production later in the year. The Unisys family of products will serve the high-density standalone North Flash market, which will expand our addressable market by approximately $3 billion. Our goal is to capture 5% to 10% of this market in the early years and then grow further. We are pleased to announce that our high density 128 megabit and 256 megabit XPI high reliability parts were made available to our customers ahead of schedule. During the second quarter, we released 128 megabit high reliability parts to production. Subsequent to the quarter end, we released all SKUs of XPI 256 megabit density to production, including high reliability parts. Customers now have these parts on hand to evaluate them in their designs. We kicked off our project with Microchip in April to build MRAM capabilities in the Gresham, Oregon fab. This project comprises two phases, with the first phase focused on toggle MRAM and the second phase on STT MRAM. We are finalizing the installation of unique MRAM equipment and completing process gap analysis, if any, for the non-MRM equipment. This project is on schedule with a goal to deliver the first qualified silicon in 18 to 24 months from project kickoff. We continue to see strong growth across our existing business while executing on our product pipeline and developing solutions that will further expand EverSpin's addressable market and drive long-term growth. One of these future opportunities is focused on expanding our TAM in the data center market, and we are planning to introduce some new products over the next three years based on the Computer Express Link, or CXL, interface. To provide a little background in the memory hierarchy, there is a 100x to 1,000x latency gap between storage, with a latency of approximately 100 microseconds, and main memory, with a latency of approximately 100 nanoseconds. CXL-attached random access memory can provide approximately 100x lower latency when compared to SSD solutions available today. We continue to advance our development work on CXL interface-based MRAM solutions, which will address the demand for nanosecond-class persistent memory solutions, bringing storage closer to XPUs, enhancing compute and power. We are targeting to improve XPU utilization from 60% to 70% currently to as much as 90% to 95%, especially from small rights, for example, meta or log data. We are currently working on developing proof-of-concept demo vehicles to validate the expected gains. Subsequent to Quadrant, we signed a contract with a high-performance, Data Interface and Controller Company to develop and provide CXL controller IP for MRAM. We are collaborating on an AMD Ultra Scale Plus FPGA-based platform using the CXL controller IP under development to connect to Everspin MRAM DIMM dual inline memory modules. We plan to demonstrate this solution at the SNEA Developers Conference, or SDC, in September. We also recently announced that we signed a memorandum of understanding with MaxLinear to evaluate the use of Ericsson CXL-attached MRAM with MaxLinear storage accelerators for next-generation storage and acceleration architectures. Together, we will assess opportunities to apply persistent, byte-accessible, low-latency MRAM to storage functions such as metadata, log data, write buffers, and caches with the goal of improving system performance, reliability, power efficiency, and data persistence in next-generation storage architectures. By combining Everspin's industry-leading MRAM with MaxLinear's storage accelerators, we believe we can enable new persistent memory solutions for hyperscale cloud, AI infrastructure, and enterprise tier-one customers. I will now turn it over to our CFO, Bill Cooper, who will walk you through our second quarter financial and third quarter 2026 guidance.

Bill Cooper | Chief Financial Officer:

Bill? Thank you, Sanjeev. During the second quarter, we delivered record revenue of $18.7 million, up 42% year on year, exceeding our guidance range of $15.5 million to $16.5 million, driven by both strong product and non-product revenue growth. MRAM product sales which include both Toggle and STT MRAM revenue were 15.3 million, an increase of 38% over the second quarter of the prior year and up 9% sequentially. Licensing, royalty, engineering services, and other revenue increased to 3.4 million from 2.1 million in Q2 of 25, primarily due to initial revenue recognition on the 40 million subcontract agreement with the U.S. prime contractor we announced on our last earnings call. Our GAAP gross margin increased to 53.9% from 51.3% in the second quarter of 2025 due to a favorable mix from higher non-product revenues. GAAP operating expenses were $14.5 million up from $8.7 million in the second quarter of 2025 due primarily to litigation costs of $4 million and 1.1 million of non-recurring engineering costs. Other income of 0.5 million decreased from 0.8 million in the prior year quarter as our 14.6 million contract with the DOD contractor begins to wind down. We recorded second quarter non-GAAP net income of 2.9 million or 11 cents per diluted share based on 25.9 million weighted average diluted shares outstanding. This exceeded our guidance range of non-GAAP net income of $0 to $0.03 per share and compares to non-GAAP net income of $0.7 million or $0.03 per share in the second quarter of 2025. Our reported non-GAAP results exclude the impact of stock-based compensation, litigation expenses, as well as non-recurring engineering expenses related to the build-out of the MRAM manufacturing line at Microchips Fab in Oregon. Our balance sheet remains strong and debt free. We ended the quarter with cash and cash equivalents of $43.9 million, up $3.4 million from $40.5 million at the end of the prior quarter. Cash flow generated from operations decreased to $0.2 million for the second quarter, down from $0.6 million in the first quarter, primarily due to litigation costs. We believe our cash and cash equivalents are sufficient to meet our anticipated capital requirements to continue to execute on our Foundry Services Agreement with Microchip, our Subcontract Agreement with the U.S. Prime Contractor, and continued investment in product development to support our future roadmap and enable the company to drive growth. Turning to guidance, we expect Q3 total revenue to be in the range of $19.5 million to $20.5 million and GAAP results per fully diluted share to be between a net loss of $0.05 to $0.10 per share. on a non-GAAP basis, we anticipate earnings between 10 cents and 15 cents per fully diluted share. These non-GAAP figures exclude the impact of litigation costs, NRE related to the microchip, MRAM line, and stock-based compensation expense. In summary, we are pleased with our solid performance this quarter and remain committed to maintaining financial discipline while focusing on scaling our business and converting additional design links to revenue. and finally, I want to thank all of the Everspin employees for their continued contributions and supporting the company's growth. Operator, you may now open the line for questions.

Operator | Conference Operator:

Thank you. At this time, we will conduct the question and answer session. As a reminder, to ask a question, you will need to press star 11 on your telephone and wait for your name to be announced. To withdraw your question, please press star 11 again. Please stand by, we will compile the Q&A roster. Our first question comes from the line of Neil Young of Needham & Company. Your line is now open.

Neil Young | Analyst, Needham & Company:

Hey, everyone. Thanks for letting me ask a question. The first question I wanted to ask was sort of on end market strength. So I know you guys cited the industrial automation, energy management, and AMD as sort of the growth drivers. And you talked a lot about in the aerospace and defense being driven by LEO. But if I recall from some of your comments at conferences into a quarter, I thought you guys talked a little bit about drones and maybe some strength they're seeing there. So maybe if you could just expand on anything, you know, that you're seeing outside of the LEO satellites within defense. And yeah, thanks.

Bill Cooper | Chief Financial Officer:

Yeah, thanks, Neil. What I would say is certainly we continue to engage in that sector. We haven't announced any particular specific deals on that area, and certainly we still see very healthy demand across all segments of the business.

Operator | Conference Operator:

Okay, thanks.

Neil Young | Analyst, Needham & Company:

And then the second one I wanted to ask was about the $40 million contract. So last quarter you only had about, if I remember correctly, two months. of that was recognized in the quarter.

Operator | Conference Operator:

That's right.

Neil Young | Analyst, Needham & Company:

So, should we expect maybe another step up now in 3Q that's a full quarter or, you know, is it not going to scale sort of in an evenly manner? Thanks.

Bill Cooper | Chief Financial Officer:

Yes, that's correct. It won't necessarily scale in a, you know, very linear manner. So, I would expect to see non-product in, you know, in the similar area from Q2 to Q3.

Sanjeev Aggarwal | President and Chief Executive Officer:

Okay, great. Thank you.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Richard Shannon of Craig Collin. Your line is now open.

Richard Shannon | Analyst, Craig Collin:

Great. Thanks, Sanjeev and Bill, for taking my questions as well. Maybe I'll ask... A way of thinking about the last question more directly here in terms of the guidance for the quarter here and thinking about it holistically here. I'd love to get a sense of the degree to which products versus licensing will be growing here. And I guess I'd also love to quantify the amount of contribution in the second quarter from the $40 million contract so we can convey that over the third quarter as well. Let's start with that one. Thanks, Mike.

Bill Cooper | Chief Financial Officer:

Yeah, hey, Richard. A couple of things. I would say, yes, definitely the significant majority of the non-product revenue did come from the new $40 million subcontract and some of the revenue that was recognized for that. But, you know, as Neil rightly pointed out, it was only for a partial quarter. And then, you know, in terms of, again, as we go forward, you know, it won't necessarily be linear, and so we'll see, you know, and possibly something more like a bell curve in that as well. Okay.

Richard Shannon | Analyst, Craig Collin:

Okay, fair enough then. As I oftentimes ask here, I noticed in the second quarter your product gross margins were a bit lower than the first quarter and kind of similar to the range that you had most of 2025. I want to get a sense of kind of the forward outlook there. Is this kind of the baseline to think, or can we get back towards that 50% level, just to kind of high level here, how do you think about that?

Josh Sullivan | Analyst, Jones Trading:

Yes, good question.

Bill Cooper | Chief Financial Officer:

So what I would say is definitely saw some headwinds in product costs, you know, both in terms of in Q2. And so what we've always guided is, hey, we expect product gross margins to kind of be in that mid-upper 40s. and then in total we expect the company to be north 50% for total gross margins.

Sanjeev Aggarwal | President and Chief Executive Officer:

So Richard, just to add a little bit to that, we did see some headwinds like Bill was saying from price increases that we saw on the back end and I think that is impacting or directly showing up in the gross margins for our product revenue. So even though we might have made improvements from Q1 to Q2, some of them are lost in the price increases that we see with the back end. and by backend, I mean packaging and final test at the OSAPs.

Richard Shannon | Analyst, Craig Collin:

Right. Okay. That sounds like a sustainable dynamic here as well that you don't expect to improve anytime soon. Is that fair, Sanjeev?

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah. I mean, the price of gold, for example, right? It just keeps going up.

Richard Shannon | Analyst, Craig Collin:

Okay.

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah. Yeah.

Richard Shannon | Analyst, Craig Collin:

Okay. Fair enough. Maybe one quick question for Bill and then maybe one or two for Sanjeev here. So the difference here between the performance and the gap EPS here, I'm assuming this is mostly from legal expenses. I know you quantify this roughly $4 million in the second quarter. I didn't have time to do the math here, but is that a similar number that's baked into the third quarter as well, or how do you think about that?

Josh Sullivan | Analyst, Jones Trading:

Yes, yes, that's correct. We baked in a similar number.

Richard Shannon | Analyst, Craig Collin:

Okay, perfect. Sanjeev, I noticed that NXP has sold the, or has an agreement to sell the Chandler Fab, and obviously noting that you've already have an agreement with Microchip to expand capacity here. How do you think about this in the context of your needs here? Can you, you know, when the Chandler Fab conveys over completely, do you expect to be out of there or not? and to what degree does Microchip alone or do you expect them to be able to cover your needs for the products that are possibly affected by the Chandler fab sale?

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah, so what we understand, what has been communicated to us, Richard, by NXP is or actually by Nokia's announcement was that they would complete the acquisition of the Chandler facilities by Q1 of 2029. So NXP retains the ownership through the end of 2028. And one of the fabs, which is basically for gallium nitride, would be converted to indium phosphide through a lease that Nokia would get starting Q1 or Q2 of 2027. So we don't see any interruption to our operations, at least through the end of 2028. And we are in conversations, or we have some planned conversations with Nokia to understand What are their plans for Everspin? We've heard positive things, but we haven't directly spoken to them yet. So in an ideal case scenario, we would have both facilities. And if the business requires us to keep both facilities, that would be great. And if not, then we obviously brought on microchips so that we can actually scale production if Nokia had other plans for the fab.

Richard Shannon | Analyst, Craig Collin:

Okay. Good to hear that you – You have some continuity here, so that's good to hear. Last question for me, Sanjeev, I didn't get a chance to ask you about this after the announcement with Astro, I forget their full name, with the win for GeoSatellite. This is for GeoSatellite. I think this is your first win in the geo area after having talked about Leo satellites a lot. Let me get a sense of the importance of that win. and ultimately, do you see the opportunity here being bigger for GEO, LEO, MEO or just kind of characterize the opportunity holistically in satellites, please?

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah, that's a good question, Richard. You're right. This is our first design win for a GEO satellite mission using our commercially developed MRAM. I mean, obviously, it's qualified for extended temperatures. but we have not done any radiation hardening for these parts that Astro Digital has designed in their satellite mission. That's really good news. So I think they have figured out a way of how to take advantage of our reliability. They're using it for exactly what we've been talking about for so long. You know, the boot speed, reliability, recording the telemetry for the satellite, and they must have somehow figured out how to use this non-radiation-hardened or radiation-tolerant MRAM in this GEO application. So there must be some redundancy or I don't really know what they're doing. But yes, it's huge for us if they have figured it out and they have several customers, which means that it can actually perpetuate in the GEO, MEO and LEO missions over there. So overall, we're very excited with this partnership.

Richard Shannon | Analyst, Craig Collin:

Okay, that sounds very interesting. Thanks for that detail. I will jump out of line. Thank you.

Sanjeev Aggarwal | President and Chief Executive Officer:

Thank you, Richard.

Operator | Conference Operator:

Thank you. As a reminder, to ask a question, you'll need to press star 1-1. Our next question comes from the line of Josh Sullivan of Jones Trading. Your line is now open.

Josh Sullivan | Analyst, Jones Trading:

Hey, good evening. Just looking at the $40 million defense contract win, what does the pipeline look like in defense at this point?

Sanjeev Aggarwal | President and Chief Executive Officer:

Josh, thank you for joining the call and asking the question. Do you mean what is the pipeline for future contracts or how the revenue would be recognized from this $40 million contract?

Josh Sullivan | Analyst, Jones Trading:

Your bid pipeline within similar applications.

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah, so, you know, as you know, we've had a few contracts now over the last five years of the U.S. government. So we work very closely with them, keeping them informed of the technology development that we're doing at Everspin. And whenever there's an overlap between the goals of the U.S. government and Everspin's roadmap, it typically leads to a first a small contract and then a bigger contract to actually do the development. So we do have a few irons in the fire, but there's nothing concrete yet. So I do think that we will continue to work with the U.S. government on various STTM RAM, SOTM RAM projects as well. But obviously, all our contracts actually come. So we are a subcontractor in all our contracts to a prime contractor. So we're always a sub and not the prime.

Josh Sullivan | Analyst, Jones Trading:

And then I guess as far as the European market, growing drones and space exposure, what is your footprint as far as those markets?

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah. So basically, the European Space Agency and the DoD, I think those are two of our primary customers in the aerospace and defense industry. And we work very closely with both of them. and I would say that we have a pretty good footprint for the LEO satellites as well as any, you know, the helicopters, the helicopter taxis that we have, the eVTOLs is the phrase that we have in our investor deck. I think those are the applications that we designed and have activity ongoing for the last couple of years and we expect them to grow.

Josh Sullivan | Analyst, Jones Trading:

And I guess just lastly, as far as the CXL interface and three-year product roadmap you mentioned, can you just provide some color on what that rollout might look like and kind of the external guide points we might see?

Sanjeev Aggarwal | President and Chief Executive Officer:

I would say, first of all, that it's a huge market, and I think it's very, very well suited for using MRAM technology.

Josh Sullivan | Analyst, Jones Trading:

Having said that, I would also say that we are in the early stages of just building proof of concepts and prototypes.

Sanjeev Aggarwal | President and Chief Executive Officer:

And that's what I mentioned in my prepared remarks. So we'll have our first proof of concept here at the end of September that will actually hopefully successfully demonstrate the use of the CXL protocol using the MRAM technology. And with that solution, then we'll actually be able to work with MaxLinear, for example, in their storage accelerator systems to improve the efficiency of the accelerators that they're using. And we believe that we could actually impact the Thank you for your time. Thank you.

Operator | Conference Operator:

Thank you. This concludes the question and answer session. I'd like to thank you for your participation in today's conference. This does conclude the program and you may now disconnect.