NASDAQ:MRAM Q3 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Good afternoon and welcome to Everspin Technologies' third 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 Bonnie Cagoule, Investor Relations for Everspin.

Monica Gould | Investor Relations:

Thank you, Operator, and good afternoon, everyone. Everspin released results for the third quarter 2026, ended September 30, 2026, this afternoon after market closed. 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 statement 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 adjustment, and other developments arising between now and the time that the 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 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'd 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 third quarter revenue of 20.6 million and non-GAAP EPS of 12 cents. These results reflect another record revenue quarter, the highest in Everspins history and at the high end of our guidance range, driven by strong product and non-product revenue growth. We recorded strong product revenue growth, which rose 34% year over year and was up 11% sequentially. This growth was driven by strength in industrial automation, data center, medical and energy management applications. Growth in industrial automation was led by a continued recovery in customer demand, particularly in Japan. In the data center market, we saw strong demand for rate storage configurations, while energy management benefited from the transition of new design events to

shipments in Europe. We have not discussed MRAM's role in medical applications in much detail before, so I would like to offer some additional perspective. Everspin MRAM is increasingly used in medical applications that demand high reliability, Data Retention During Power Loss, and Endurance Under Continuous Operation. MRAM's non-volatility, high-speed, and inherent endurance make it ideal for use in life-critical systems where memory failure is unacceptable. Medical devices most commonly using Everspin MRAM include both patient-critical equipment and diagnostic instruments. For example, in dialysis machines, MRAM records operational and sensor data such as pressure, flow rate, and alarms. In infusion pumps and portable diagnostic services, devices MRAM stores calibration data, dosing logs, and firmware states. And in defibrillators and patient monitors, MRAM retains event histories, shock delivery data, and configuration settings. We continue to make steady progress on our project with Microchip to build MRAM capabilities in the Gresham, Oregon fair. Process development and transfer activities are ongoing, including the tape out of masks for products. We remain on schedule with our goal of delivering first qualified silicon for our toggle and sensor products by the second half of 2027 and STD products by the first half of 2028. during some of our recent development efforts. We remain on track to have a 256-megabit prototype based on TSMC's 16-nanometer FinFET process technology in the first half of 2027. This prototype will verify our design and put us on the path to designing high-density Unisys unified code and data memory products later in the year and beyond. will be the first product in our Unisys family, which will then be expanded to include 1 gigabit, 2 gigabit, and 8 gigabit densities. These products will be deployed in low-Earth orbit satellites for secure boot memory, FPGA for configuration memory, and flight control systems for fast data logging and security, for example. all momentum with customers designing a persist toggle and STD MRAM into space-based machines continues with both new design wins and existing design wins, continuing the progress into production. To further accelerate the adoption of Everspins MRAM in the aerospace and defense segment, we recently signed a strategic partnership with Teledyne's HyREL semiconductor business unit. Through the partnership, Teledyne HyREL will offer our 64-megabit, 128-megabit, and 256-megabit persist STTM-run solutions as part of its memory products portfolio for military and aerospace customers. We target applications such as avionics, VPX, and single-board computer platforms, radar and electronic warfare payloads, satellite electronics, and autonomous systems. Last quarter, we discussed our strategy to expand our addressable market in the data center segment by developing products based on the Computer Express Link, or CXL, interface over the next few years. To further our efforts on this front, Savitzman successfully demonstrated the world's first CXL-connected MRAM at the Storage Networking Industry Association Developer Conference in September. CXL-MRAM combines standard high-speed connectivity with MRAM's persistence. This solution creates a fast, persistent buffer so data remains available through a power interruption or system restart without relying on battery-backed DRAM or having to first flush data to an SSD. Further, a CXL-MRAM solution enables nanosecond-class cache and writes up to 100x faster A key use for this application is to hold data generated during AI processing before transferring it to long-term storage. Other potential use cases include financial and algorithmic trading systems and in-memory databases, such as online transaction processing, or OTAP, and online analytical processing, or OLAP. Each of these use cases will benefit from CXLM-RAM's strong value proposition in small block or low latency write. We continue to explore ways to expand Everspin's market opportunity. To this end, Everspin led the effort to form a LPDDR persistent memory task group at JEDEC, the standards setting organization for the semiconductor industry during their August committee meeting. and our VP of Corporate Strategy, Stefan Helmold, is serving as the task group chair. This effort responds to strong industry demand for persistent memory solutions that can leverage the existing LPDDR ecosystem, thus creating a simpler path for system-level integration and ultimately easing the adoption of MRAM. The work is intended to enable controller support for both DRAM and persistent memory, as well as approaches that enable and many others. In closing, we remain focused on executing against our priorities, advancing our technology roadmap and delivering value for our customers and shareholders. Our technology, customer relationships, and disciplined approach to execution position as well to capitalize on the opportunities ahead. I want to thank our customers for their continued trust and our employees for their commitment and hard work. I will now turn it over to our CFO, Bill Cooper, who will walk you through our third quarter financials and fourth quarter 2026 guidance.

Bill Cooper | Chief Financial Officer:

Bill? Thank you, Sanjeev. During the third quarter, we delivered record revenue of $20.6 million, up 47% year-on-year, slightly exceeding our guidance range of $19.5 million to $20.5 million, driven primarily by strong product revenue growth. MRAM product sales, which include both toggle and SCT MRAM revenue, were $16.9 million, an increase of 34% over the third quarter of the prior year and up 11% sequentially. Licensing, royalty, engineering services, and other revenue increased to $3.7 million from $1.4 million in Q3 2025, primarily due to continued revenue recognition on our $40 million subcontract agreement with a U.S. prime contractor. Our GAAP gross margins of 51.4% were consistent when compared to 51.3% in the third quarter of 2025. A more favorable mix of high-margin non-product revenue was offset by higher manufacturing and production costs, which impacted product gross margins in the current quarter. To counter rising input costs, we began to institute pricing increases in the fourth quarter and expect product margins to improve sequentially. We continue to target long-term gross margins above 50%. Operating expenses were $18.5 million, up from $8.8 million in the third quarter of 2025. The increase was primarily driven by litigation costs of $6 million. Non-GAAP operating expenses of $8.5 million increased 13% from $7.5 million in the prior year third quarter, driven by increased spending on customer engagement and marketing initiatives. These investments are intended to strengthen customer relationships, expand our market presence, and support our long-term revenue growth objectives. Other income remains steady at $0.4 million as our $14.6 million contract with the DOD contractor continues to wind down. We recorded third quarter non-GAAP net income of $3.1 million, or $0.12 per diluted share, based on 24.4 million weighted average diluted shares outstanding. This was within our guidance range of non-GAAP net income of $0.10 to $0.15 per share, and compares to non-GAAP net income of $1.5 million or $0.06 per share in the third quarter of 2025. Our reported non-GAAP results exclude the impact of stock-based compensation, litigation expenses, and regulatory provision. Our balance sheet remains strong and debt-free, We ended the quarter with cash and cash equivalents of $43 million, down $2 million from $45 million at the end of the prior quarter. Cash flow generated from operations increased to $0.9 million for the third quarter, up from $0.2 million in the second quarter. Turning to guidance, we expect Q4 total revenue to be in the range of $21.5 million to $22.5 million, and GAAP results per fully diluted share to be between a net loss of and others. In summary, we are pleased with our continued solid execution and performance on our core business and remain committed to maintaining financial discipline while focusing on scaling our business Operator, you may now open the line for questions.

Operator | Conference Call Operator:

Thank you. And as a reminder, to ask a question, simply press star 1-1 to get in the queue and wait for your name to be announced. To withdraw your name from the queue, press star 1-1 again. One moment for our first question. It comes from Neil Young with Needham & Company. Please proceed.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

Hey, guys. Thanks for letting me ask a question. My first question I wanted to ask on litigation costs. So it looks like they stepped up in the quarter. I was hoping maybe you could discuss sort of what the cost assumption is embedded into the 4Q26 guide. And then, you know, maybe if possible, could you discuss OPEX directionally as a whole as we start to look into next year? And then I have a follow-up.

Bill Cooper | Chief Financial Officer:

Yeah. Hey, Neil. Yeah, good question. What we've seen, obviously, is an uptick in the litigation costs in Q3. What I would say is in Q4, we expect to see some still fairly substantial costs. I would expect that it is going to be slightly lower than what we saw in Q3. And then as we look forward in 2027, one of the things we did want to stress is This matter will go to the ALJ at the end of this year. And then as we move and look forward into

2027, those litigation expenses should reduce significantly.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

Great. Thanks. And then my last one. So, you provided some color on product sales by end market this quarter. That was very helpful. But specifically, I was curious in learning more about the new data center wins in Europe you mentioned. So any more detail you could provide there would be great. Thank you.

Sanjeev Aggarwal | President and Chief Executive Officer:

Hi, Neil. Thank you for the question. The storage configuration that we're basically talking about is the general memory. And these are mostly with the hyperscalers like Google, Amazon, and XP, those kind of design ones, which are basically what we've seen in Q2 and Q1 of this year as well. And as far as the shipments in Europe, these are mostly related to the energy management applications. that have actually turned in from design events to production in this quarter.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

Great. Thank you.

Operator | Conference Call Operator:

Thank you. Our next question comes from Jack Vanderaarde with Maxim Group. Please proceed.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

Okay, great. Good evening. Thanks for taking my questions, and good to see the solid revenue growth as well as solid outlook. You know, Sanjeev, maybe a quick question for you. Just in overall, you mentioned the design wins kind of across a few of your key segments and how those are ramping up. I'd like to get just a sense of, I'm not sure if you have this on hand, but I think last year you had over 238 design wins or something like that, to be close to that number, which are up from the prior year as well. are design wins overall just tracking this year? Are they up overall? Do you have a good sense of that? And just sort of the size and scope of those opportunities.

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah, hi, Jack. Good question. So we usually report our annual design wins at the end of the year in our 10K. But I think a good indication is the product revenue growth that you're seeing quarter over quarter and also year over year. that basically indicates the number of design wins that we've been able to turn into production and the new design wins that we're seeing. So I don't have a number to give you, but obviously they're going up into the north. Sorry, up into the right.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

And maybe just to follow up too, across your verticals that you highlighted, definitely spent a lot of time on defense and data center and then also across... and some of these newer medical as well, actually. What are some of the segments here, though, or end market verticals that you see actual potential, maybe exciting upside relative to your original thoughts? Where do you see some of the greatest upside potential relative to

your plan over the next few years? And then I'll have a follow-up for Bill.

Sanjeev Aggarwal | President and Chief Executive Officer:

Sure. So I would say, Jack, that I'm most excited about the low Earth orbit satellite in the aerospace and defense industry. We're also seeing a lot of traction in the data center market. Those are the two segments that are growing pretty rapidly, closely followed by industrial automation in general across the world, Japan as well as Europe.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

Fantastic. One more question for me for Bill. From a segment perspective, licensing, engineering, and other revenues picked up strongly as expected from the recent contract. It was good to see. But what I noticed is that the gross margin in that segment also stayed relatively stable, very strong, close to that 90%. Is there any, is that sort of a reasonable expectation going forward? Or just wondering how much visibility you have given these new, this new revenue stream?

Bill Cooper | Chief Financial Officer:

Yeah. Hey, Jack. Thanks for the question. What I would say is, you know, that area, the licensing royalty engineering services, you know, that really is a high margin area for us. You know, typically we certainly expect it to be, you know, again, fairly high margin. So you can kind of think of it in terms of the 70, 80, you know, up to 90% range. Certainly, again, it depends on a number of factors, depending on whether it's royalty or foundry services or licensing or engineering services. That's really what that mix of that really drives the margin. But again, it'll be high margin area.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

Okay, understood. I appreciate the time, guys, and congrats again on the results.

Bill Cooper | Chief Financial Officer:

Yeah, thank you, Jack. Appreciate that.

Operator | Conference Call Operator:

Thank you. Our next question comes from Richard Shannon with Craig Hallam Capital Group. Please proceed.

Bill Cooper | Chief Financial Officer:

Great. Thanks, Sanjeev and Bill, for taking my questions. First one I want to ask about is on gross margins and specifically product gross margins here. So, Bill, I think you mentioned in regards to the third quarter margins that you had a positive mix offset by some manufacturing costs. I wonder if you could help us understand both of those dynamics here. Is the mix here product or end market or geography related? And then what are these manufacturing costs and what's the sustainability of that dynamic?

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

Thank you.

Bill Cooper | Chief Financial Officer:

Yes, so what I would say is, Richard, you know, definitely saw some challenges or some small reduction, a couple of points there lower in terms of the product margins. And, you know, we had signaled, right, that we were going to see some, continue to see some product headwinds in terms of the cost, right, materials and services costs. And obviously there's a lot of pieces that go into that bucket. and, you know, we recognize that, right? We had seen it coming and for that reason we instituted a price increase in Q4 as well. You know, we continue to see a good product and non-product revenue mix. I think really we were trying to indicate that, you know, again, those headwinds are really confined to the product side of the equation.

Sanjeev Aggarwal | President and Chief Executive Officer:

Okay.

Bill Cooper | Chief Financial Officer:

That is helpful here. A very quick question here. You mentioned a regulatory provision. Can you explain what this is, where this comes from?

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

There's no other context here, so help us understand this one, please.

Bill Cooper | Chief Financial Officer:

Right, right, yeah. Good question. So on that one, we actually have a fine that's related to export controls from BIS, a government agency within the Department of Commerce. and so we took that particular provision in anticipation of settling that particular fine agreement. It's not settled yet, but that's our best estimate today, what we expect to close it out at.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

Okay, fair enough then.

Bill Cooper | Chief Financial Officer:

Let's see here, maybe kind of looking forward, a question for Sanjeev, looking forward to the opportunity to compete against the, into the Norflash space here with some products coming to market next year. Notice that Infineon sold its memory businesses, including Norflash, to, I think, an Asian supplier here. Within that context here, as well as what we've seen with some Norflash guys who are moving their capacity towards DRAM, maybe you can talk about the changing dynamics within Norflash and how, if anything, might your strategies change to enter that market next year.

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah, good question, Richard. And we are seeing the same thing, or we are hearing the same thing, I guess. that many of the fabs are converting their Norflash capacity into DRAM, which is creating a challenge for the Norflash capacity or availability. And based on that, we are seeing our distributors actually ask for MRAM parts that would actually replace Norflash. And we're starting to see traction over there, and I think you're seeing some of that revenue roll into our reported revenue for Q3 as well. So I think we are in the right place, and we have the right parts. So I think it's good news even for the Unisys part, the prototype that's coming out in Q1 of 27 and the follow-on product later in the year. So I think it'll be well-positioned for addressing the high-density Norflash market as well.

Bill Cooper | Chief Financial Officer:

Sanjeev, any way that you'd offer to quantify how much of your products that you think could be because distributors are looking to replace Norflash they can't find?

Sanjeev Aggarwal | President and Chief Executive Officer:

I don't think it's significant or material yet, but we do see traction where it could become significant in Q4 and Q1.

Bill Cooper | Chief Financial Officer:

Okay. Is that baked into your revenue guide for this fourth quarter?

Sanjeev Aggarwal | President and Chief Executive Officer:

It is, yes.

Bill Cooper | Chief Financial Officer:

Any way you'd try to quantify that for us?

Sanjeev Aggarwal | President and Chief Executive Officer:

We've typically not done that, so let me get back to you on that one.

Bill Cooper | Chief Financial Officer:

Okay. Fair enough.

Operator | Conference Call Operator:

You know, I think that's all for me. Thank you.

Sanjeev Aggarwal | President and Chief Executive Officer:

Thank you, Richard.

Operator | Conference Call Operator:

Thank you so much. And as a reminder, to ask a question, simply press star 11 to get in the queue. Our next question is from Josh Sullivan with Jones Trading. Please proceed.

Bill Cooper | Chief Financial Officer:

Hey, good evening. Hey, Josh. I just wanted to check in how the CXL MRAM works. Thank you for that question, Josh.

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah, the demo at CXL went actually very well. We were one of several demo tables over there, and I would say that we had visitors all day long or all day long for two days. and then we had several customers that actually were repeat trying to understand the application and the use. So since then, we've actually had several follow-on discussions trying to identify use cases. We obviously don't have anything yet, but we're hoping that we will have something identified here in Q4 or Q1. So a very, very positive response, very well understood that bringing persistence to the solution is very important and the fact that you can actually connect it to a CXL bus and not worry about compatibility was a huge win and success for us.

Bill Cooper | Chief Financial Officer:

And then on the JEDC task group, what's the timeline for kind of setting standards or those conversations to maybe translating into revenues for you guys or at least something that's observable?

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah, so the The JEDEC group is basically the standards group for the Electronic Devices Council. And that typically takes about 18 to 24 months to set the standard. So we expect that we will probably reach some kind of agreement with all the participants over the next 12 to 15 months. And that will probably take another quarter for that spec to get published.

Multiple Analysts | Neil Young, Jack Vanderaarde, Richard Shannon, and Josh Sullivan:

And our goal is to start the design

Sanjeev Aggarwal | President and Chief Executive Officer:

early next year so that we are actually ready to intersect when this spec is actually published. So six months later, hopefully we'll have samples on hand, which would be an LPDDR6 MRAM that we can then start sampling with our customers. So what I would say is samples by the end of 28, early revenue in 29. Okay, got it.

Bill Cooper | Chief Financial Officer:

And then you highlighted the medical market, an area you haven't typically talked about. Why now? What is it that's driving that market? I think you had mentioned that the memory shortage isn't necessarily driving sales, at least right now. But I'm curious why the medical market at this point in time is becoming something to highlight.

Sanjeev Aggarwal | President and Chief Executive Officer:

Yeah, basically we saw a significant uptick in our product revenue in that segment. So there are some new design wins that we're seeing over there and also some more pull from our customers. and that's the reason why we highlighted it in the prepared remarks today.

Bill Cooper | Chief Financial Officer:

Okay, I'll leave it there. Thank you.

Sanjeev Aggarwal | President and Chief Executive Officer:

Thank you, Josh.

Operator | Conference Call Operator:

Thank you. And this concludes our Q&A session. I will pass the call back to Sanjeev Aggarwal for closing remarks.

Sanjeev Aggarwal | President and Chief Executive Officer:

Thank you, everyone, for joining the call today. I really appreciate your time and look forward to our next call which will be in February sometime. Thank you.

Operator | Conference Call Operator:

Thank you for participating and you may now disconnect.