

NASDAQ:NVEC Q3 2025 Earnings Call Transcript

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Dan Baker | President and CEO:

Good afternoon and welcome to the NV Corporation conference call for the quarter ended December 31st, 2024. I'm Dan Baker, NV's President and CEO. I'm joined by Controller and Principal Financial Officer Daniel Nelson. This call is being webcast live via YouTube and Amazon Chime, and it's being recorded. A replay will be available through our website, nve.com, and our YouTube channel, youtube.com slash nvecorporation. All participants are currently in listen-only mode. After our presentation, there will be a question-and-answer session. After my opening comments, Daniel Nelson will present our financial results. I'll cover R&D, sales and marketing, and CapEx, and we'll open the call to questions. We issued our press release with financial results and filed our quarterly report on Form 10-Q in the past hour following the close of market. Links to the press release and 10-Q are available through the SEC's website, our website, and on X, formerly known as Twitter. Please refer to the Safe Harbor Statement on your screen. Comments we may make that relate to future plans, events, financial results, or performance are forward-looking statements that are subject to certain risks and uncertainties, including among others such factors as uncertainties related to the economic environments and the industries we serve, and risks and uncertainties related to future sales and revenue, as well as the risk factors listed from time to time in our filings with the SEC, including our annual report on Form 10-K for the year ended March 31, 2024. Actual results could differ materially from the information provided, and we undertake no obligation to update forward-looking statements we may make. We're pleased to report strong earnings despite continued challenges in the semiconductor industry. Daniel Nelson will cover the financials. Daniel?

Daniel Nelson | Controller and Principal Financial Officer:

Thanks, Dan. Total revenue for the quarter ended December 31, 2024 decreased 25% compared to the quarter ended December 31, 2023 due to a 22% decrease in product sales and a 74% decrease in contract research and development revenue. The decrease in product sales was due to continued inventory gluts, particularly in the distributor channels, driven by weak chip demand and a slow recovery in industry sectors and markets we serve. The decrease in contract R&D revenue was due to the completion of certain contracts. Gross margin for the quarter was 84% compared to 80% the prior year quarter. The increase in gross margin percentage was due to more profitable product mix and a larger portion of direct rather than distributor sales. Total expenses increased 40% for the third quarter of fiscal 2025 compared to the third quarter of fiscal 2024 due to a 61% increase in R&D and a 12% increase in SG&A. The increase in R&D was due to increased investments in new product development activities. The increase in SG&A was primarily due to increased sales and marketing activities and additional sales staff in the past quarter. Interest income for the third quarter of fiscal 2025 decreased 4% due to a decrease in marketable securities and lower yields on recently purchased marketable securities. In addition to operating income, we reported other income in the third quarter of fiscal 2025 of \$135,000, primarily from the reclaiming of precious metals used in our manufacturing process. Net income for the quarter decreased 27% with a decrease in revenue. It was a profitable quarter with 84% gross margin, 58% operating margin, 60% net margin, and earnings of 63 cents per share. For the first nine months of fiscal 2025, total revenue decreased 18% due to a 20% decrease in product sales, partially offset by a 72% increase in contract R&D. Net income for the first nine months was \$11.2 million, or \$2.31 per diluted share. For the fiscal year to date, gross margin was 85%, operating margin was 63%, and net margin was 60%. Now I will turn the call back to Dan Baker to cover the business. Back to you, Dan.

Dan Baker | President and CEO:

Thanks, Daniel. I'll cover R&D, sales and marketing, and CapEx. As Daniel mentioned, we've significantly increased our investment in R&D. We spent 17% of revenue in the past quarter on R&D. Additionally, we do customer-sponsored R&D, which is included in the cost of sales. As a result of the efforts of our R&D team, we introduced new wafer-level chip scale products in the past quarter. The new products are billed as the world's smallest devices of their type, which allows for smaller, less obtrusive medical devices, and more precise robotics and mechatronics. Our YouTube channel has a demonstration. A key element of our sales and marketing strategy is evaluation boards. Evaluation boards allow customers to easily visualize, create, and implement great new designs with our unique products. A new evaluation platform connects to the popular Arduino line of single board computers and uses one of a dozen angle or rotation sensor breakout boards. There's more information on our website and our YouTube channel has a demonstration of the new platform. Turning to CapEx. We've previously discussed plans for \$4 to \$5 million in capital investments over the next two fiscal years, fiscal 2025 and 2026. We've already spent \$1.16 million through three quarters of this fiscal year, fiscal 2025. We deployed one new machine in the second quarter. We're working on another new machine now. and we'll have a several million dollar machine scheduled to arrive next quarter, the June quarter. In the past quarter, we reached an agreement to extend our building lease an additional 62 months through May 2031. The agreement also includes a \$100,000 improvement allowance. We believe the allowance will cover our expansion. We filed the amendment to the lease agreement with the SEC. Links to the amendment are available on our website and the SEC's website. Construction work for expansion began in November, shortly after we agreed to the lease extension, and was completed last week. Next up is a new electrical service and other infrastructure upgrades to support new equipment. The investments in facilities and equipment will increase our capacity and capabilities, including the capability to manufacture wafer-level chip scale parts, such as the ones we recently introduced, in high volume. Now we'd like to open the call for questions. To ask a question from a phone, press star seven to unmute, or from a browser or chime app, click the raise my hand icon under the meeting chat that's at the bottom of the left column and unmute yourself to speak. Please state your name and affiliation before your question. To prevent background noise, please mute your line after asking your question.

Jeff Bernstein | Analyst:

Hey, Dan, it's Jeff Bernstein.

Dan Baker | President and CEO:

Hi, Jeff.

Jeff Bernstein | Analyst:

How are you? A couple questions here. Just give us a little better feeling about what's going on in direct business. You talked about inventory liquidation continuing in distribution. What are you seeing in terms of orders fulfilled in the quarter, turns kind of business, any other feel for how the demand is at end customers.

Dan Baker | President and CEO:

That's a good question, Jeff. Our direct sales have held up relatively well. Those customers tend not to buy through distribution, and as Daniel mentioned in the prepared remarks, there's a lot of inventory in the distribution channel that needs to be burned off. So those sales, those direct sales, tend to be higher margins because we don't have distributor discounts in the middle. And so that's the reason that our margins are so exceptional and our profitability metrics, despite the downturn in the revenue, are quite strong.

Jeff Bernstein | Analyst:

Gotcha. Any color you can put around how bookings have been going with those direct customers or anything around your book and ship kind of business?

Dan Baker | President and CEO:

In general, the outlook has been positive. When we talk to our customers, when we even talk to our distributors, they see things improving. They see industry conditions improving. It's taking longer than anyone would like, but we're very optimistic about the future and the fundamentals of our business are strong.

Jeff Bernstein | Analyst:

Gotcha. And so do you get the sense that consumption is actually above what you're selling into the channel now?

Dan Baker | President and CEO:

uh yes uh almost certainly uh because the distributors uh in the channel are trying to bleed down their inventories so they're selling but they're often not buying until their inventories are back to historical levels gotcha okay and then just a couple questions on on end markets um so both sunova and starkey that you know big traditional

Jeff Bernstein | Analyst:

hearing aid players are out with new platforms that incorporate real-time AI chips, et cetera. Seem like they probably draw a lot of power in what's a very tiny package. Can you just remind us the offerings that you have that go into, potentially go into hearing aids and what your thoughts are around your TAM development there?

Dan Baker | President and CEO:

We provide sensors, so as you mentioned, Sonofa, for example, has introduced a platform with artificial intelligence, and the technology helps the so-called speech and noise problem, which is a significant problem for hearing aids. So it's a great development and hopefully will improve uptake of hearing aids as they can help more people. NDE sensors provide inputs for artificial intelligence. Better information about the environment means better results from AI. So we're optimistic about those trends, about the need for more inputs and richer data to feed these artificial intelligence and other increasingly sophisticated algorithms.

Jeff Bernstein | Analyst:

Okay. And then the puff business has been a source of volatility for you guys. I think it was stronger last quarter. What's happening? What happened there this quarter?

Dan Baker | President and CEO:

So those those sales, as you know, can be lumpy and very quarter to quarter based on procurement schedules. But that business has been strong. It's a relatively small part of our business, but we received some orders recently spread out through the future. But we're certainly optimistic about long term defense

sales based on what we see now.

Jeff Bernstein | Analyst:

Gotcha. And And just Abbott reported today it looked like all of the product areas that you might play in were reasonably strong, and obviously they have some exciting new products there. Any color on just the medical device business overall?

Dan Baker | President and CEO:

As you can imagine, we also look at Abbott's reports and we communicate with them. They reported decent growth, 6% overall growth in rhythm management, which is an area that we participate in. That's encouraging. And they've reported that that's more than the overall growth in the cardiac rhythm management market. As far as the specifics, we're bound by confidentiality, but our technology enables smaller devices, which is important for leadless pacemakers and other emerging technology. And we can detect extremely small magnetic fields, which is another key advantage for deeply implanted medical devices. So it's an area where we see considerable future potential.

Jeff Bernstein | Analyst:

All right. Thanks very much, Dan.

Dan Baker | President and CEO:

Thank you, Jeff.

Pete Previtt | Shareholder:

Hey, Dan. This is Pete Previtt from Florida. I met you at the shareholders meeting. How are you?

Dan Baker | President and CEO:

Yes. Good to talk to you, Pete. We might be warmer than you are.

Pete Previtt | Shareholder:

it's very rare dan but that's probably the case i had a couple questions actually jeff um mentioned something about ai chips and i was wondering um with your mtj parts are are they i know you're focused on sensors but um mtj does that have potential to be part of uh ai chips and for energy reduction you know power consumption reduction

Dan Baker | President and CEO:

Yeah, so, uh, stands for magnetic tunnel junction and it's 1 of the core platform technologies that we have and it, uh, it's useful in a number of areas. Sensors is certainly 1 also useful in memory and we make. memory and memory-related devices for the defense business and the puff business that Jeff alluded to in his comments. Yes, they're low power, which allows for ubiquitous sensing, and much as the possibilities for

artificial intelligence for medical devices for hearing aids, artificial intelligence and the artificial intelligence of things is driven by data. So the intelligence is only as good as the data that comes into it, and sensors provide that data. So while we don't directly make artificial intelligence processors, we participate in that revolution by providing the information that feeds the intelligence of the AI engines.

Pete Previtt | Shareholder:

Great. Thank you. And then with GMR sensors, I mean, your sensors are much more accurate than Hall sensors. I mean, and we spoke about this at the shareholder meeting. What's the potential over time for NVE spintronic sensors to replace Hall sensors?

Dan Baker | President and CEO:

Well, we see excellent potential for GMR, which is giant magneto resistance, which is our legacy technology, the technology that the company was really founded on. But we still sell a lot of those sensors. They're still best in class. And Hall effect sensors, as you know, are semiconductor type sensors. They are not as precise, as accurate, or as power efficient as our spintronic sensors. So we see excellent opportunities to replace those sensors in many applications. The one area that where we don't try to compete with Hall effect sensors is they can be very inexpensive because it's mature technology. the tooling is probably long since been written off and they can be sold pretty cheap so our goal is not to sell cheap sensors it's to sell the world's best sensors so we do see ample opportunities for spintronic sensors replacing older types of sensors correct thank you and i just want to say good luck with the expansion sounds like you've got the new lease in place and equipment's coming in so

Pete Previtt | Shareholder:

keep up the good work. Thanks, Dan. Appreciate it.

Dan Baker | President and CEO:

Well, thank you. We hope if you're, uh, if you're here this year that, uh, we'll have some exciting things to show you.

Pete Previtt | Shareholder:

Fantastic. Thank you.

Dan Baker | President and CEO:

Any other questions? You can press star seven from a phone to unmute or unmute from the Chime app or browser.

Jeff Bernstein | Analyst:

Hey, Dan, it's, uh, it's, it's Jeff Bernstein again. I meant to ask you about, uh, There was a mention of an additional expense in selling and some

Dan Baker | President and CEO:

increased staff i guess uh can you just give us the lowdown on what you're doing in terms of adding sales folks exactly yes so i'm glad you asked we are doing more direct sales so more trips more trade shows and more marketing so that's newsletters i mentioned in the prepared remarks we design evaluation boards and we almost have a continuous flow of evaluation boards so that our customers can try out our products easily and prove out their designs so we feel that that's important for our sales so we have staff working on that and staff working on vetting and modeling for our customers designs supporting our distributors and getting out and talking to our customers It looks like there are no other questions in the queue. Again, we were pleased to report strong earnings despite challenging conditions. We appreciate your attention and look forward to speaking with you again on our fiscal year-end earnings call in early May. A replay of this call will be available on the investor events page of our website, nve.com, and our YouTube channel. That's [youtube.com slash nvecorporation](http://youtube.com/nvecorporation). You may now disconnect. Thank you.