NASDAQ:NVEC Q1 2026 Earnings Call Transcript

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Dan Baker | President and CEO:

Good afternoon and welcome to the NVE Corporation conference call for the quarter ended June 30th, 2025. I'm Dan Baker, NVE's President and CEO. I'm joined as usual by Controller and Principal Financial Officer Daniel Nelson. This call is being webcast live via YouTube and Amazon Chime and being recorded. A replay will be available through our website NVE.com and our YouTube channel YouTube.com slash NVE Corporation. 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 the business, and then 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 the 10Q are available through our website, the SEC's website, and 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, risks and uncertainties related to future sales and revenue, and risks and uncertainties related to tariffs, customs, duties, and other trade barriers. 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, 2025. 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 revenue and earnings for the quarter driven by an increase in distributor and non-defense sales, despite a decrease in defense sales. Daniel Nelson will cover details of the financials. Daniel?

Daniel Nelson | Controller and Principal Financial Officer:

Thanks Dan. The 10% year-over-year revenue decrease for the first quarter was due to an 11% decrease in product sales, partially offset by a 17% increase in contract R&D revenue. The decrease in product sales was due to a decrease in defense industry sales, which can be highly variable because of procurement cycles. We were pleased to see non-defense sales stabilize with improving industry conditions in the quarter. We saw an increase in distributor sales, which were hit particularly hard by the recent industry downturn. Gross margin decreased to 81% from 86% due to a less profitable product mix and strengthening distributor sales, which tend to have lower margins than direct sales. Total expenses decreased 20% for the first quarter of fiscal 2026 compared to the first quarter of fiscal 2025 due to an 18% decrease in R&D expense and a 23% decrease in SG&A. The decrease in R&D was due to completion of some of our wafer-level chip skill packaging activities and reallocation of some R&D resources to manufacturing. The decrease in SG&A was primarily due to the timing of sales and marketing activities and reallocation of some general and administrative resources to manufacturing. Net income for the first quarter of fiscal 2026 decreased 13% to $3.58 million, or $0.74 per diluted share, compared to $4.1 million, or $0.85 per share, for the prior year quarter. The decrease in net income for the first quarter of fiscal 2026 compared to the prior year was primarily due to decreased revenue and lower margins, partially offset by decreased expenses. Adding in approximately $75,000 in unrealized gains on our marketable securities, comprehensive income was $3.65 million. Our profitability metrics remain strong. Operating margin was 62%, pre-tax margin was 70%, and net margin was 59%. Fixed asset purchases were $1.06 million last quarter. Most of that was for a cluster of wafer fabrication equipment, which recently arrived. We were able to expedite the delivery to get the equipment before the U.S. reciprocal tariff pause was scheduled to expire July 9. We have a milestone payment of approximately $1 million due this quarter, which will substantially complete our two-year multi-million dollar expansion. Dan Baker will provide more color on capital investments in a few minutes. The

25% advanced manufacturing investment tax credit was extended in a recent tax bill. Therefore, we currently expect to realize advanced manufacturing investment tax credits of between $700,000 and $800,000 if we deploy equipment as planned in fiscal 2026. Although it would not significantly affect our earnings, we will also realize significant cash flow savings this fiscal year due to changes in Section 179 of the Internal Revenue Code. The recent legislation allows us to deduct on our tax returns previously unamortized R&D expenses rather than amortize them over five years. Turning to cash flow items, we paid our $1 per share quarterly dividend the past quarter and declared another dividend to be paid at the end of August. Operating cash flow was $5.19 million in the quarter, which more than cover our $4.84 million dividend. Accounts receivable decreased $1.34 million due to decreased revenue and the timing of customer payments. Accrued payroll and other liabilities increased $523,000, primarily due to the timing of estimated tax payments. Now I'll turn the call back over to Dan Baker to cover the business and preview our annual shareholders meeting. Back to you, Dan.

Dan Baker | President and CEO:

Thanks, Daniel. I'll cover CapEx, marketing, and our upcoming annual meeting. Starting with CapEx, we deployed one new machine in the past quarter. As Daniel Nelson mentioned, we also took possession of a several million dollar equipment cluster in the past quarter. It's being installed in an expanded production area on the east end of our building, and we hope to deploy it later this fiscal year. Turning to product development, in the past quarter we launched more wafer level chip scale sensors which are less than a thousandth of a square inch. There are demonstrations of new products on our website and our YouTube channel. We promoted new products including wafer level chip scale sensors and advanced magnetic switch sensors launched earlier in the year at two major trade shows the past quarter. The SensorPlus Test show was in Nuremberg, Germany, and the Sensors Converge show was in Silicon Valley. SensorPlus Test is billed as the leading international trade fair for sensor, measuring, and testing technology. And Sensors Converge is North America's largest electronics event. We've been following up on some good leads from the shows, and we believe the investments in these shows will pay off in future sales. We also promoted rare earth-free ferrite magnets and sensors to detect them. Most rare earth magnets and the materials to make them come from China, which has put the supplies at high risk. The primary ingredients of ferrite magnets, however, are iron and oxygen, the two most abundant elements in the earth's crust. Our unique high sensitivity magnetic switch sensors and angle sensors are ideal for use with readily available ferrite magnets. Videos of some of our recent demos are on our website and YouTube channel. Our annual shareholders meeting will be August 7th here at NVE. Our proxy statement for the meeting is available via our website or the SEC's website. Our meetings have been in person except during the pandemic, so shareholders can meet our managers and directors and see hands-on product demonstrations. If you can't make it in person, we plan to have a replay available. There are three agenda items for the annual meeting. The first agenda item is the election of directors. We're fortunate to have a strong independent board of directors, all of whom have extensive experience as directors or executives of public companies. The second agenda item is approval of our officer compensation. Our compensation principles as detailed in our proxy include we don't overpay our officers, our officers have the same fringe benefits as all employees, And there are no executive perks or golden parachutes. The third agenda item is the ratification of our auditors for this fiscal year, the year ending March 31, 2026. Boulay has been our auditor since 2019, and we recommend their approval for our next audit. We expect representatives from Boulay to attend the annual meeting. The proxy report's total shareholder return for the past three fiscal years was 39%, exceeding broad market returns. Our returns consisted of 17% stock appreciation and 22% from dividends. Now we'd like to open the call for questions. To ask a question from a phone, press star 7 to unmute, or from a browser or the 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. And to prevent background noise, please mute your line after asking your question.

Jeff Bernstein | Analyst, Silverberg Bernstein Capital:

Hi, Dan. It's Jeff Bernstein from Silverberg Bernstein Capital. Hi, Jeff. Hey, how are you? So, yeah, a couple of questions. You touched on the weakness in the puff business in the quarter, and it sounds like the distribution channel business is recovering. Can you give a little bit more color there? What do you think happens with the puff business in the next couple of quarters? Is there any kind of seasonality to that?

Dan Baker | President and CEO:

There's not really seasonality to the Puff business, but there is a certain amount of lumpiness to that business because it's driven by procurement contracts for defense systems. So those can be those can be they're typically large contracts, but they we don't know the exact timing. I should say for background, PUFs are physical unclonable functions, which is a function that's embodied in a physical structure that's easy to evaluate but hard to predict. So they're an important component of spintronic anti-tamper systems. And those systems are designed to protect sensitive data or electronics. So we sell those for military systems. They're often deployed in systems that are sold locally. to foreign militaries. And so there are some commitments that the DOD has for those types of systems. It helps us in the long run, but in the short run, it can be unpredictable.

Jeff Bernstein | Analyst, Silverberg Bernstein Capital:

So Dan, it sounds like we should expect some growth with all the growth in in the DOD budget and defense budgets around the world that on a multi-quarter kind of basis, we ought to continue to look at this as a growth business.

Dan Baker | President and CEO:

Indeed. We currently expect that that business will grow quarter over quarter sequentially in the coming quarters, next quarter and the following quarters. And we expect to return to more historical levels in uh the next fiscal year um to the second part of your question though on distributor sales that's very encouraging because that's related to the strength of the industry as a whole and we're seeing the industry recover so to see those systems those sales increase i think bodes very well for the future okay and then you mentioned the this um

Jeff Bernstein | Analyst, Silverberg Bernstein Capital:

opportunity in replacing rare earth metals with ferrite magnets and your highly sensitive magnetic sensors. And I assume that is 100% for positioning kinds of measurements. The rare earth magnet business is a huge, huge business. The positioning part of that I think is a smaller but still a very large business nonetheless. I think a lot of automotive, but some other things as well. Can you just talk to us a little bit more about what you know and understand about that opportunity and how quickly you think design wins can convert to business, any kind of stumbling blocks there like availability of ferrite magnets, etc.? ?

Dan Baker | President and CEO:

Yeah, that's a good question, Jeff. And as you know, virtually all rare earth magnets and materials such as neodymium and disposium come from China. So that puts the supply chains at some risk. As far as the availability, as I mentioned in the prepared remarks, ferrite magnets are made from iron oxide, which is chemically similar to rust, and iron and oxygen are the two most abundant elements in the Earth's crust. So

it's materials that are widely available. So we're continuously working with customers to help them design in magnetic systems. As you pointed out, often the magnetic system is a magnet in combination with a sensor. So you're detecting proximity such as whether a door is closed, a seat belt is latched, or something like that, or whether a robot has reached its desired position, a robot end effector or actuator. And we provide models for the entire system for our customers. So we're working with customers continuously, and our goal is to have near-term design wins. We also have engineering models on our So customers can go there and model a ferrite magnet and one of our sensors and move the magnet around to simulate the position of the magnet and the sensor and try different sensors and different magnets. So we're working to get design wins in the near term. And we do have design wins that have been customers who come to us and said they need this magnet combination often. a ferrite magnet, and we can provide them a solution. In some cases, we'll actually sell the magnet. We don't make a lot of revenue on magnets, but we sell them as a courtesy to our customers, or they can buy the magnet elsewhere. And particularly if it's a ferrite magnet, they're widely available.

Jeff Bernstein | Analyst, Silverberg Bernstein Capital:

Gotcha. So it sounds like this is somewhat interesting. normal kind of design cycle in terms of there would need to be a board spin to do this, but nothing more complicated than that.

Dan Baker | President and CEO:

Right. And in some cases, our customers have constraints, so they just need a magnet that drops in. So maybe they need a slightly bigger magnet if it's a ferrite magnet compared to a neodymium magnet, for example. But we can provide them solutions like that. that allow a minimum of redesign. And we're getting more inquiries, as you might expect, about ferrite magnets and more sensitive sensors than we were before when engineers might specify in a rare earth magnet. And now they're starting to think about the supply chain risk of those magnets and And we offer sensors that can detect the lower fields that one gets from a ferrite magnet.

Jeff Bernstein | Analyst, Silverberg Bernstein Capital:

Gotcha. And then I wanted to ask about the investment in the wafer scale packaging and trying to just understand how incremental revenue will correlate to that investment. Is this essentially giving you the opportunity to create much smaller parts because of the packaging and people get the sort of double whammy of knowing that the entire supply chain is now U.S. domestic or is it really the U.S. domestic supply chain that is the catalyst here? Just walk us through that and also, you know, do you have to have all the machines in place and up and running to take advantage of this, or are there some increments, and just how does that work?

Dan Baker | President and CEO:

Good questions. The short answer is it's both to make parts that are smaller. As I mentioned in the prepared remarks, some of these sensors are less than a thousandth of a square inch, so that means that they fit in tight spaces, and it also means that they have more spatial specificity, meaning that you can detect a magnetic field more precisely, as you can imagine, because the sensing area is smaller. The two main advantages, and we have much of the key equipment already deployed for wafer-level chip scale parts. We've been rolling out a variety of different types of parts. We promoted them at the two recent trade shows that I mentioned, SensorPlus Test in Germany and and sensors converge in Silicon Valley. And we're already providing samples and evaluation boards. We are working on developing high-volume production systems, and we'll be working on that in the next couple of quarters through this fiscal year to make sure that we have

the capacity as our customers design in these parts. But right now, we can provide samples and pre-production quantities now, and we're doing that. Gotcha, understand.

Jeff Bernstein | Analyst, Silverberg Bernstein Capital:

And then last question, you know, we talked a little bit during the quarter about, you know, discussion that normal SRAM is going to run out of gas at, I guess, below two nanometer kind of line width. And people are talking about the potential for spin orbit, torque RAM, SOT RAM is what they're calling it. You guys have some patents. I think it's called in your patent Vortex Spin Momentum Transfer Magneto Resistive Devices. And that's a patent issued back in 2011. But is that right? You know, at what point do you think this becomes something where there might be some relevant IP that you guys have? And how do you guys think about trying to capitalize on that?

Dan Baker | President and CEO:

Our company was founded and our original name was Non-Volatile Electronics, which refers to spintronic memory. And so it's important technology to us. We continue to develop the technology and we make and sell magnetic MRAM, spintronic magnetic MRAM or MRAM parts, mostly in anti-tamper applications to make crypto keys and and similar security applications where the density is relatively low, or the bit count. We don't plan to scale up for large-scale memory. It costs billions of dollars to make memory fab, so that's not part of our business plan, but we continue to develop our intellectual property. As you mentioned, we have intellectual property and patents on MRAM in general, as well as spin torque MRAM, as you alluded to, or spin momentum MRAM, as it's sometimes called. And our business model would be to partner with large scale manufacturers where appropriate to monetize our intellectual property and to help advance the technology. As you mentioned, SRAM and other types of memory run into scaling limitations that MRAM doesn't have. So we do see long-term opportunities there. The other advantage of spintronic memory or MRAM is that it has a combination of speed, non-volatility, and density that combines the best attributes of SRAM, DRAM, and FLASH or other non-volatile memories. So it's sometimes been called the universal memory. And when the density approaches that of conventional memories, it'll open up some excellent opportunities. And we're hoping to be able to provide intellectual property to help advance the technology.

Jeff Bernstein | Analyst, Silverberg Bernstein Capital:

Great. Thanks for the help today, Dan.

Operator | Conference Call Moderator:

Thanks, Jeff.

Dan Baker | President and CEO:

If there are other questions, star seven on a phone to unmute or raise my hand on a computer.

Christopher Trotsky | Private Investor:

Hello, this is Christopher Trotsky, private investor. Can you hear me?

Dan Baker | President and CEO:

Yes.

Christopher Trotsky | Private Investor:

Oh wow, that's a surprise. Okay, so about the chip level packaging, can you talk a little bit about what end markets that's going into and whether it's getting traction in that already?

Dan Baker | President and CEO:

For wafer-level chip scale parts, the end markets is what you're asking about, and we've identified two end markets. One is medical devices, where the miniaturization is important. Smaller medical devices, particularly implantable medical devices, result in smaller devices, less obtrusive, smaller incisions, and all of those benefits. The other market is industrial controls and robotics to allow more precise measurements Position sensing, as I mentioned in answer to a previous question, the parts are not only smaller, but they have more spatial specificity for more precision. So those are the two markets that we've identified, and we've sampled parts to customers in both markets. We don't have volume production yet. We have customers actively evaluating the parts, and so far the feedback has been quite positive. We're very optimistic about the prospects for these parts.

Christopher Trotsky | Private Investor:

But you're already selling devices into the implantable medical market. Would that be for next generation, or are you going into expanding into new implantable devices?

Dan Baker | President and CEO:

We are looking at new implantable devices. So, for example, navigation devices. So what that means in a medical sense is knowing the position of a small device such as a catheter that would be snaked into the body, and it's important to know the exact position. So these are very small catheters. They need a very small sensor that can detect a precise external magnetic field, The magnetic field helps navigate the catheter much as a magnetic compass helps us navigate on the earth. That's one example of a potential market where our devices currently, as small as they are, are not small enough for that market. And wafer-level chip-scale parts will be, we believe.

Christopher Trotsky | Private Investor:

Okay, that's good to hear. When you get those machines working, Will you consider production machines or NRE machines? My question really is if you do not get enough sales in those packages, is there a danger of looking at underutilization charges?

Dan Baker | President and CEO:

We plan to use the new machinery for both R&D and production. And we, despite the large investment compared to other semiconductor companies, we are relatively, we have a relatively low fixed costs and a relatively low amount of equipment for the revenue that we generate. So we, again, justified the equipment based on assumptions that we believe we can meet for increased and incremental sales, but also it's not the type of leverage that one might see in a commodity semiconductor market where if they don't keep the

equipment busy, the fixed costs will damage their financials in many cases. we have less risk than that because of the relative low amount of fixed assets that we have for the revenue that we generate. And that's a tribute to the efficiency of our employees and the value of our technology.

Christopher Trotsky | Private Investor:

That is correct. We have much lower fixed assets than any other semiconductor company I've researched. And I guess another question I had is that lately, just looking at your YouTube channel, you're showing a lot of sensors for devices that use cylinders with like liquid force devices. I'm sorry, the word escaped me.

Dan Baker | President and CEO:

I think you're referring to cylinders, pneumatic cylinders. Yes. Yeah, you described it very well. Right. So they're using a fluid to push a piston to move something. And that's what a lot of our customers do. So that's what we show on We do have a lot of those on YouTube.

Christopher Trotsky | Private Investor:

Is that a new market? Because lately I've just been seeing those.

Dan Baker | President and CEO:

It's a legacy market for us, and we've had customers who make pneumatic cylinder positions or sensors for many years. but we're always finding new and creative uses for those, and our customers are as well. So the general category is linear actuators, and we are finding customers that want, I think some of the newer videos relate to more precise control that we can do with our newer types of sensors. So we have a new YouTube video, for example, that highlights one of our advanced magnetic switches that I mentioned in the prepared remarks that we introduced at the recent trade shows. And so that allows us to have more precise control of a pneumatic cylinder where we can slow it down at one threshold and then stop it at another. So just like, you know, just like if you're slowing down and stopping a car, you can stop it more precisely like that. And so that's an example of the type of demonstration that we have. We've had customers who've been using pneumatic cylinders for many years, but this opens up a new way of controlling them more precisely. We also have done some recent videos and demonstrations where some of our folks are very creative in coming up with ways of controlling linear position and familiar devices. We had a device that's playing a piano, moving an actuator around to a precise position and and then hitting the key. So there are some of those that we demonstrate as well to demonstrate the precision of our sensors, and in that case, the combination of the precision and the speed.

Christopher Trotsky | Private Investor:

Okay, that's good to hear that this market is expanding. And finally, I wanted to ask you, you know, for several quarters, we've seen that effect of military orders being very volatile today. Have you considered reporting revenue ex-military orders? For example, for this quarter, it would be very useful to tell that you have that ex-military orders, your revenue actually grew, which I think it did.

Dan Baker | President and CEO:

That's true. It did. And we will look at we look at that kind of continuously. Do we want to report a segment? The challenge with that is that to report it consistently, we need to have it audited and we need to break out not just the revenue, but the components of or the expenses and costs related to the revenue. So there's a fair amount of infrastructure that we need to do that. But we will look at that and we look at whether we should report certain segments. continuously. We're always looking at that. So we'll be looking also at defense spending. In the meantime, what we try to do is provide information to our investors, as we did on this call, to help understand what is behind our top and bottom line.

Christopher Trotsky | Private Investor:

Okay. That's good to hear. And the information you're providing is that military orders will actually sequentially increase this quarter and the next.

Dan Baker | President and CEO:

Is that correct? That's what we're expecting now. That's our current expectation, yes. Okay, this is it for me. Good luck. Thank you. Are there any other questions?

Operator | Conference Call Moderator:

Star 7 to unmute. Raise your hand on a computer. If there are no other questions, we were pleased to report strong revenue and earnings.

Dan Baker | President and CEO:

We continue to deploy new equipment and received a new equipment cluster. We look forward to speaking with you in October for our next quarterly call, and we look forward to seeing some of you August 7th at our annual meeting. A replay of this call will be available on the Investor Events page of our website, that's nve.com, and our YouTube channel, that's youtube.com slash nvecorporation.