

Final Transcript

Intermolecular Inc - IMI - Earning Conference Call/Presentation- 11/02/17 05:00 PM

Corporate Participants

- Bill Roeschlein - Intermolecular, Inc. - CFO & Principal Accounting Officer
- Christian F. Kramer - Intermolecular, Inc. - CEO, President & Director

Conference Call Participants

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Presentation

- Operator - -

Good day, ladies and gentlemen, and welcome to the Intermolecular, Inc.'s Third Quarter 2017 Earnings Conference call. All participants will be in a listen-only mode. Please note, this call is being recorded.

My name is Katherine, and I'll be your operator for today. I would now like to turn the conference over to your host for today, Mr. Bill Roeschlein, Chief Financial Officer. Please proceed, sir.

- Bill Roeschlein - Intermolecular, Inc. - CFO & Principal Accounting Officer

Thank you, Katherine. Good afternoon, and welcome to Intermolecular's Third Quarter 2017 Earnings Conference Call. We announced our results after the market closed today, and you'll find a copy of the press release on our website at www.intermolecular.com. On the call with me today is Chris Kramer, President and Chief Executive Officer.

Today's conference call contains forward-looking statements. Any statement that refers to expectations, projections or other characterizations of future events, including financial projections and future market conditions, is a forward-looking statement. Actual results may differ materially than those expressed in these forward-looking statements. Intermolecular assumes no obligation to update these forward-looking statements, which speak only as of today.

For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today as well as the risks described in our Form 10-K for fiscal year 2016 as filed with the SEC, particularly in the sections titled Risk Factors.

Before we begin, please note that during this call we will discuss non-GAAP financial measures as defined by the SEC and Regulation G. We believe non-GAAP financial measures provide useful supplemental information to both management and investors, but note that these measurements are not a substitute for GAAP and should only be used to evaluate the company's results of operations in conjunction with corresponding GAAP measures. All non-GAAP measures are reconciled to the

most directly comparable GAAP financial measures in our press release issued today.

Now I would like to turn the call over to Chris. Chris?

- Christian F. Kramer - Intermolecular, Inc. - CEO, President & Director

Thank you, Bill. Good afternoon, everyone, and thank you for joining us on today's call. My comments today will address our third quarter results and the latest progress, as we continue to improve the business and focus on new opportunities in the semiconductor market.

I am pleased with our progress this quarter. We achieved revenue growth of 7% sequentially and positive adjusted EBITDA ahead of schedule. These are both important milestones as a result of us managing the business for growth and profitability.

Our customer momentum remains strong, as we execute our strategy of expanding our leadership in emerging memories and throughout the semi-ecosystem. We secured 5 new deals this quarter, exceeding our quarterly goals of 2 to 3 per quarter. While historically our deals have focused on DRAM and non-volatile memory, we saw expanded growth this quarter in emerging memories, with existing customers and ecosystem deals in adjacent applications that are providing new diverse opportunities.

This strong pipeline of growing segments within the semiconductor market will be the foundation of our positive outlook going into 2018, and will offset the loss of royalties from Micron/Elpida, which, as you know, will end after next quarter.

Our program execution is strong and on track to meet customer requirements. Our mission for building a broader and higher-velocity pipeline is working, as evidenced by 3 milestones: one, returning customers are coming back; two, existing customers are extending their programs; and three, we are adding new customers.

In the category of adding new customers, we are making progress in our expansion into the China market. As China reduces its reliance on semiconductor imports and moves towards more home-grown inventions, technology companies in China will intensify their R&D initiatives and rely on companies such as Intermolecular to help with their material selection, testing and evaluation.

We added a sales leader in China last year, and are seeing strong demand. We look forward to sharing more on our progress in China we've partnered soon.

Managing our costs remains a priority. Our reorganization earlier this year simplified our operating structure, prioritized high growth areas and decreased our costs. We continue to benefit from our more cost-effective, efficient and customer-centric organization.

In the area of R&D, we remain committed to advancing our material's innovation capabilities, leveraging our expertise in chalcogenides for traditional emerging memories.

Last week's inclusion in IMEC's Partner Technology Week bolsters my confidence that demand for Intermolecular's services will continue to rise. Our in-house discoveries are an engine for growth, fueling future revenue for services. We've seen high interest from memory leaders, validating our model, where today's R&D investments will result in new customer programs and revenue in the future.

In summary, we had solid progress this quarter with positive adjusted EBITDA on 7% sequential revenue growth, new bookings, and we executed well against our previously announced plan, which

was: sign 2 to 3 new deals per quarter to drive revenue growth; establish a cost-effective, efficient and customer-centric organization; build a broader and higher-velocity pipeline; and keep our costs under control, while managing our growth.

I am externally confident about our future and our leadership in advanced materials innovation and expansion within the semiconductor markets. As we look to 2018, we expect a robust pipeline, with revenue in the \$40 million range and positive adjusted EBITDA.

I will now turn the call over to Bill to discuss more specifics on the financials. Bill?

- Bill Roeschlein - Intermolecular, Inc. - CFO & Principal Accounting Officer

Thank you, Chris. Let me review some selected financials for the third quarter of 2017. IMI revenue for the third quarter was \$8.6 million, up 7% sequentially compared with the previous quarter and down 18% from Q3 of the prior year. Program revenue of \$6.9 million represented approximately 80% of total revenue in the quarter, with licensing and royalty revenue of \$1.7 million, representing approximately 20% for the quarter.

In the third quarter, we had 3 customers which were each greater than 10% of total revenue. These 3 customers represented approximately 81% of total revenue in the third quarter of 2017.

For the fourth quarter of 2017, we expect revenues in the range of \$9.4 million to \$9.9 million. I'd like to remind you to please review today's earnings press release for both GAAP and non-GAAP measures and the reconciliation between those results. The key difference from GAAP to non-GAAP measures is the exclusion of stock-based compensation expense. On this basis, GAAP and non-GAAP gross margins in the third quarter were 66.7% and 67.1%, respectively, compared with 68.5% and 69% in the previous quarter, respectively, and 67.3% and 68.3% in the third quarter of 2016, respectively.

For the fourth quarter of 2017, we expect non-GAAP gross margins to be between 67% and 68%. GAAP and non-GAAP operating expenses for the quarter were \$7.7 million and \$7.5 million, respectively, compared with \$8.5 million and \$8.3 million, respectively, in the prior quarter, and \$14 million and \$13.1 million in the same period a year ago.

Operating expenses declined by \$0.8 million quarter-over-quarter on a non-GAAP basis as a result of the continued success in containing costs, as Chris mentioned.

For the fourth quarter of 2017, we expect non-GAAP operating expenses to be between \$7.5 million and \$8 million. GAAP net loss in the quarter was \$1.8 million or a loss of \$0.04 per basic share, and non-GAAP net loss was \$1.6 million or a loss of \$0.03 per basic share. This compares to GAAP net loss of \$2.9 million or a loss of \$0.06 per basic share, and non-GAAP net loss of \$2.5 million or a loss of \$0.05 in the previous quarter and a GAAP net loss of \$6.8 million or a loss of \$0.14 per basic share, and a non-GAAP net loss of \$5.9 million or a loss of \$0.12 per basic share in the same period a year ago.

For the third quarter of 2017, our adjusted EBITDA improved to \$0.1 million compared with an EBITDA -- adjusted EBITDA loss of \$1 million in the previous quarter and an adjusted EBITDA loss of \$0.9 million in Q3 of 2016.

For the third quarter, we had \$1.8 million of depreciation, amortization and accretion and \$0.2 million of stock-based compensation that were the noncash charges we netted against our GAAP net loss.

At the end of Q3 '17, our balance sheet including cash and investments of \$27.1 million compared

with \$27 million in the previous quarter.

As Chris mentioned in his prepared remarks, we're confident that our return to revenue growth and positive adjusted EBITDA will carry over into 2018, and are providing guidance in the \$40 million revenue range. Our 2018 guidance includes a \$5 million decline in royalty revenues which will more than be offset by growth in our program services business and will mark a nearly complete transition in our revenue business model. As a result, 2018 gross margins are expected to be in the 65% range compared to current levels.

Now I would like to return this call to the operator for any questions.

Question And Answers

- Operator - -

A. (Operator Instructions) And I'm showing no questions in the queue. I'd like to turn the call back to management for any closing remarks.

- Christian F. Kramer - Intermolecular, Inc. - CEO, President & Director

A. Thank you, and I look forward to updating you on our Q4 progress at our next earnings call. Take care.

- Operator - -

A. Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.

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