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IMI - Q1 2017 Intermolecular Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Bill Roeschlein** *Intermolecular, Inc. - CFO*

**Chris Kramer** *Intermolecular, Inc. - President & CEO*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Intermolecular, Inc., first-quarter 2017 earnings conference call. All participants will be in listen-only mode. Please note this call is being recorded. My name is Charlotte and I will 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.

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### Bill Roeschlein - Intermolecular, Inc. - CFO

Thank you, Charlotte. Good afternoon and welcome to Intermolecular's first-quarter 2017 earnings conference call. We announced our results after the market closed today and you will find a copy of the press release on our website at [www.intermolecular.com](http://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 from 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.

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### Chris Kramer - Intermolecular, Inc. - President & CEO

Thank you, Bill. Good afternoon, everyone, and thank you for joining us on today's call. Although we are starting 2017 on a slow revenue pace, our focus on creating a broader pipeline is paying off. In the first four months of 2017, we signed three materials innovation services contracts with new customers. Two of them are players in the semiconductor ecosystem, an area we started developing in the second half of last year.

I am confident that with a nimble organization, better equipped to succeed in winning new business and executing seamlessly, IMI is set for growth and profitability. Our objectives remain unchanged: build a scalable and profitable business for advanced materials innovations and services.

The semiconductor and microelectronics industries consistently refer to the growing need for new materials to achieve greater performance and efficiency. Finding and developing these new materials is extremely challenging and time-consuming. Customers value working with IMI to design and run complex experiments in our fab to more quickly gain a better understanding of potential solutions. Our unique materials innovation capabilities and skills are important for the development of our customers' future products.



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The semiconductor sector remains our mainstay. Materials innovation for high-performance memories is especially critical. Our customers need innovative solutions to meet the stringent specifications for their new devices. With our 10-year expertise in memory materials innovation and our high-throughput technology platform, we are uniquely positioned to provide the materials innovation services needed to advance the industry roadmap.

We have expanded our business development activities to the larger semiconductor ecosystem. We believe that our highly-experienced materials innovation team can benefit materials and chemical suppliers, toolmakers, and microelectronics consortia. We are developing some exciting opportunities in the process of establishing new and valuable partnerships this year.

Diversification beyond semiconductor remains an element of our strategy, but we are now taking a more focused approach, thoroughly reviewing efforts and investments in programs outside of semi. We stand committed to develop licensed products and we are investing carefully in R&D development. We made the decision to concentrate our internal R&D resources on a select number of projects to increase our chance of success and manage our costs closely.

As I have consistently stated since joining IMI back in August, building a broader and higher velocity pipeline and improving our operational efficiency remain top priorities. Before Bill goes over some selected financials, I want to emphasize a few key points.

Number one, our goal is to sign two to three new deals of various sizes per quarter to drive revenue growth going forward. Our commercial team is now in full gear and I am encouraged by our initial progress. While revenue declined over the past few quarters with the expiration of some programs, the new deals that we have recently signed, together with the strength of our new pipeline, bolsters our confidence in achieving our goal of profitable revenue growth.

Number two, in March we implemented structural changes to create a more unified team. The organization is now more cost-effective and more customer-centric. We have the flexibility to handle a larger and diverse portfolio of customers and programs. The team can respond faster and more efficiently to customers' demands. We are now in a better position to execute more effectively, manage our programs more efficiently, and deliver high value for our customers.

Number three, building a broader and higher velocity pipeline remains our highest priority and we are well on our way to achieving that goal. This is not only the key to driving our future revenue growth, but will help to moderate the revenue choppiness we have discussed in the past.

Number four, our costs are under control. As a result of our March restructuring, we expect to save \$1.8 million per quarter beginning in the second quarter of 2017 so that we will be profitable at revenue of \$10 million or greater, consequently turning IMI into a growing and profitable business is within our reach. Number five, our cash position is solid. We remain debt-free with \$28 million in cash.

In summary, building a broader pipeline is progressing well and we are closing deals with new customers. We are uniquely positioned to provide materials innovation services for the development of groundbreaking advanced semiconductor memory products and expanding our services to the larger semiconductor ecosystem. We have a strong focus on new opportunities that will quickly benefit our growth and financial objectives.

We are taking the right measures to efficiently and effectively execute our strategy. The IMI team is now better aligned with customers' needs as we operate a leaner and more nimble organization to improve our growth and profitability.

Now I would like to return the call to Bill to go over our financials.

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**Bill Roeschlein - Intermolecular, Inc. - CFO**

Thank you, Chris. Let me review some selected financials for the first quarter of 2017. IMI revenue for the first quarter was \$9.9 million, down 6% sequentially from the previous quarter and down 32% from Q1 of the prior year. Program revenues of \$6.8 million represented approximately 68% of total revenue in the quarter, with licensing and royalty revenue of \$3.1 million representing approximately 32% for the quarter.



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Included in our quarterly results is a \$1.5 million IP sale in connection with the completion of our CDP program with Guardian Industries that we discussed in the previous earnings call. In the first quarter we had three customers which were each greater than 10% of total revenue. These three customers represented approximately 82% of total revenue in the first quarter of 2017.

I would like to remind you to please review today's earnings press release for both GAAP and non-GAAP measures and the reconciliation between these 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 first quarter were 70.6% and 70%, respectively, compared with 68.1% and 67.1% in the previous quarter, respectively, and 68.4% and 67% in Q1 of 2016, respectively.

As a result of our restructuring efforts, we believe we can maintain a gross margin in the high 60% for the remainder of the fiscal year.

GAAP net loss in the quarter was \$5.8 million, or a loss of \$0.12 per basic share, and non-GAAP net loss was \$5.2 million, or a loss of \$0.10 per basic share. This compares to a GAAP net loss of \$3 million, or a loss of \$0.06 per basic share, and a non-GAAP net loss of \$2.3 million, or a loss of \$0.05 in the previous quarter. Please note our current quarter results include a restructuring charge of \$1.3 million as previously announced on March 29.

As a result of these restructuring efforts, we have lowered our adjusted EBITDA breakeven revenue point to approximately \$10 million per quarter. In addition, we are continuing to look at various ways to reduce overhead expenses and run the business as cost-effectively and efficiently as possible while preserving our ability to continue selected core research projects and improve our services.

For the first quarter of 2017 our adjusted EBITDA loss was \$1.9 million compared with an EBITDA loss of \$527,000 in the previous quarter and positive adjusted EBITDA of \$1.4 million in Q1 of 2016. For the first quarter we had \$2 million of depreciation, amortization, and accretion, and \$0.7 million of stock-based compensation that were the non-cash charges we netted against our GAAP net loss. At the end of Q1 of 2017 our balance sheet included cash and investments of \$28 million compared with \$27.8 million in the previous quarter. The growth in cash was primarily due to the timing of AR collections in the current quarter.

In summary, we believe our restructuring efforts will improve our operational efficiency and we have in place a cost-effective and flexible organization to achieve profitability and growth.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) At this time I'm not showing any further questions and would like to turn the call back over to Chris Kramer.

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### Chris Kramer - Intermolecular, Inc. - President & CEO

Thank you for joining us on today's call. Bill and I look forward to speaking with you again in August. Thank you.

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### Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a good day.



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