

Impinj First Quarter 2017 Earnings Conference Call

Thursday, May 04, 2017

5:00 p.m. ET / 2:00 p.m. PT

## **MARIA RILEY, INVESTOR RELATIONS FOR IMPINJ**

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Thank you, Operator. Thank you all for joining us to discuss Impinj's first quarter 2017 results. On today's call, Chris Diorio, Impinj's Co-Founder and Chief Executive Officer, will provide a brief overview of our performance and market. Evan Fein, Impinj's Chief Financial Officer, will follow with a detailed review of our first quarter 2017 financial results and second quarter 2017 outlook. We will then open the call for questions. Impinj's President and COO, Eric Brodersen, is also on the call and will join Chris and Evan in the Q&A session. Please note that management's prepared remarks, along with quarterly financial data for the last eight quarters, are available on the company's website. Also, we will consider questions received via email prior to the call and will address some of these questions in the Q&A session on this call.

Before we start, note that we will make certain statements during this call that are not historical facts, including those regarding our plans, objectives and expected performance. To the extent we make such statements, they are forward-looking within the meaning of the Private Securities Litigation Reform Act from 1995. Any such forward-looking statements represent our outlook only as of the date of this conference call.

While we believe any forward-looking statements we make are reasonable, our actual results could differ materially because any statements based on current expectations are subject to risks and uncertainties. Please see the risk-factors sections in the annual and quarterly reports we file with the SEC for additional information about these risks. We do not undertake, and expressly disclaim, any obligation to update or alter our forward-looking statements, whether as a result of new information, future events, or otherwise except as required by applicable law.

Also, during today's call, all statement of operations results, with the exception of revenue, or where we explicitly state otherwise, are non-GAAP financial measures. Balance sheet metrics and cash flow metrics are on a GAAP basis.

I will now turn the call to Chris Diorio, Impinj Co-Founder and Chief Executive Officer. Chris.

## Chris Diorio, Impinj Co-Founder and Chief Executive Officer

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Thank you, Maria. Thank you all for joining the call. I'm delighted to be here with you today.

We delivered a strong first-quarter, with revenue growing 47% year-over-year to \$31.7 million dollars, just above the top end of our guidance. All layers of our platform delivered solid results. Importantly, the momentum we see in our business today is strong.

I will begin this call by briefly reviewing Impinj's vision and mission. I will then discuss that strong momentum, starting with the themes that provide context for it. I will close by reviewing Impinj's platform strategy, which I firmly believe positions us to win this enormous market opportunity.

Impinj's vision is digital life for everyday items. Our mission is to wirelessly connect those items to applications. We are literally extending the reach of the Internet by a factor of 100 to everyday items and delivering, to the digital world, each item's unique identity, location and authenticity, which we call item intelligence. Our platform enables that connectivity and delivers that item intelligence to a broad and diverse range of business and consumer applications.

My view of the RAIN market today is "strong growth with enormous potential". Starting with that strong growth, recall on our last earnings call we guided our 2017 endpoint IC volumes to be between 7.8 and 8.0 billion units, 32% growth over 2016 at the midpoint. Roughly equivalent to one IC for every person on the planet. That prior guidance, which represents growth of nearly 2 billion units over 2016, remains unchanged. I will touch on the drivers of that growth next. Then I will turn to that enormous potential, which to me paints a picture of a very bright future.

Starting with today's strong growth, retail apparel has been an important driver, both for us and for the entire RAIN industry. As examples, Decathlon, which hosted the recent RAIN meeting in France, said they want to drive tagging to 100% and extract more value from those tagged items by expanding their reading infrastructure. Macy's announced its plans to have 100% of its merchandise connected by the end of 2017. At the RAIN meeting in Japan last year I visited Uniqlo and GU stores, both Fast Retailing brands, and saw large numbers of connected apparel items. These growth points, which we see at other retailers as well, deliver today's IC revenue. They also engender fixed-reading opportunities for us, which we believe will be one driver of that enormous potential I mentioned previously and will turn to now.

When a retailer reaches 100% item connectivity they typically begin complementing handheld readers with fixed reading to enable additional use cases. For example, Decathlon's flagship store, which we toured at the RAIN event, has RAIN-enabled point-of-sale and theft-detection readers. I bought an item at that store to experience these use cases in action. I also tried the RAIN-enabled self-checkout terminals in a GU store in Japan. And I'm excited about a joint solution that Impinj and our partner Retail Reload deployed at Etam, a French retailer, which gives shoppers an in-store experience that is online-like, but delivers the item in-store within seconds or delivers it to your home within two hours. The result: a 9.8% uplift in same-store sales and a 40% improvement in checkout productivity. These retail examples mark a trend towards supplementing manual handheld reading with fixed reading, which doesn't have labor costs and delivers RAIN data in real-time. In logistics and healthcare, which have a compelling need for item visibility, fixed reading is really the only option. We envisioned and helped enable this shift from manual to fixed reading via the connectivity and software layers of our platform, and we are well-positioned to benefit from it.

Consider logistics. Any company that transports items needs real-time visibility into those items' location and movement. Impinj's platform delivers that visibility. In the first quarter, we enabled a deployment, at scale, with UBI solutions at Via Post, the e-commerce fulfillment and logistics arm of the French postal company, La Poste. Their need: In under two hours, receive billions of magazines or newspapers from publishing houses and ship them to end customers across France. The solution: Our xSpan gateways and ItemSense operating-system software monitor inbound and outbound shipments through dock doors. We introduced a similar joint solution with Smart Label Solutions in the United States to monitor inbound and outbound shipments through dock doors. Other examples abound – for example, at LogiMAT, the big logistics show in Stuttgart in March, Impinj's partners Sick, Kathrein and Vilant showed RAIN-enabled dock-door and logistics applications.

Turning now to healthcare, at the HIMSS conference in February I introduced a discussion among panelists from the Memorial Sloan Kettering Cancer Center, the Medical University of South Carolina, Inova Fairfax Hospital and the Veteran's Administration. The panelists shared their experiences and avid enthusiasm for how RAIN and the Impinj platform had improved their hospital operations. For example, Will Hammond, Supply Chain Director at Memorial Sloan Kettering Cancer Center, said MSKCC, with 50 operating rooms, spends \$30 million a year on perioperative supplies. Prior to the RAIN deployment, hospital staff performed replenishment cycle counts every week, and still, usage data didn't match purchasing. Our partner ARC

Healthcare closed that gap, allowing MSKCC to right-size inventory, improve charge capture, find inventory, and in Will's words, the "amount of time and headaches it saves is absolutely incredible". Another example: Arpit Mehta, the Pharmacy Operations Manager at Inova Fairfax, discussed the benefits of the Impinj platform in stocking crash carts, which contain medicine trays and supplies. Impinj and our partner MEPS cut 5 minutes of pharmacist time restocking each tray to 90 seconds, for 300 trays per month, with improved accuracy and better patient care. And, in Arpit's words, "if a medication is recalled, which does happen quite a bit, now we know exactly where the medication is, who received it, which tray it was in, and we can track it back to our patients".

Healthcare is one of our "enormous opportunities", as I'll illustrate with three closing examples. In Denmark, the New University "super hospital" is deploying Impinj readers to locate beds, wheelchairs and surgical tools. Our win, built on our platform's enterprise-class reliability and performance, is a competitive takeout for Impinj. As a second example, with our partner Teletracking we introduced a hospital patient-flow solution, built on the Impinj platform, that alerts hospital staff to patient discharges in real-time, accelerating hospital-bed turnover to reduce lost bed time and increase revenue. Both of these healthcare deployments use fixed reading in the healthcare facility. As a final example, in February we announced a partnership with Stanley Healthcare, a leading provider of visibility solutions and analytics for the healthcare industry. Stanley Healthcare will integrate Impinj's platform with its MobileView® Real-Time Location System (RTLS) software platform and offer the Impinj-Stanley solution as part of its extensive portfolio, enabling Stanley Healthcare to offer Impinj-based solutions for real-time asset tracking and patient workflow management.

I will close my discussion of the enormous market potential and bright future with a few final points. Kaiser Permanente just joined the RAIN Alliance. In Japan, Seven-Eleven and four other convenience stores, which together sell 100 billion items a year, plan to introduce self-checkout registers to read RAIN-tagged items in a basket, with Lawson already piloting the registers in Osaka. H&M, in their full-year report, said they intend to invest in technology "such as RFID and automated warehouses". And Amazon just took a seat on the RAIN Alliance board-of-directors.

On our last earnings call I said that, going forward, we anticipate the portion of our revenue attributable to connectivity and software to increase. The examples I just cited highlight that trend, which we saw in the first quarter and expect to continue over time. Our platform strategy

is aligned with that momentum towards fixed reading, and we stand to benefit significantly from it. Further, we are and will continue competing aggressively to drive every layer of our platform into the market, relentlessly competing to win share at every opportunity. Today, I remain ever-more confident in our plan to invest-in, lead and win this enormous market opportunity that spans retail, logistics, healthcare, and so many other verticals.

In summary, I am proud of the Impinj team's execution this quarter and our continued progress toward our vision of digital life for everyday items. We delivered a strong Q1 and I believe our results are a testament to our continued leadership in the market. We grew to 261 employees and continue investing in our technology, products, platform and team. We exited the quarter with 210 issued and allowed patents, an increase of six since January 1. We added three joint solutions to our portfolio. We received the Frost & Sullivan award for Customer Value in Leadership for RFID Solutions in Healthcare. And I'm thrilled to welcome two new members to our executive team – Jenny Armstrong-Owen as our Vice President of People, Environment and Culture and Jeff Dossett as our Senior Vice President of Marketing and Business Development. Jenny and Jeff are both seasoned leaders and I couldn't be more excited about the talent they bring to our team. As I noted in my opening comments, the momentum we feel today is strong. In closing, I will again note that Impinj and Amazon are cohosting the RAIN Alliance meeting July 18 – 20 in Seattle, with July 20 an open day when nonmembers are welcome to attend.

I will now turn the call over to Evan to give you a detailed look at our first quarter financial results and our outlook for our second quarter. Evan.

**Evan Fein, Impinj Chief Financial Officer**

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Thanks, Chris. Before I review our first quarter 2017 financial results I want to remind you that with the exception of revenue, or unless explicitly stated otherwise, today's statement of operations is on a non-GAAP basis. All balance-sheet and cash-flow metrics are on a GAAP basis. A reconciliation between our non-GAAP and GAAP measures, as well as how we define our non-GAAP measures, is included in our earnings release available on our website.

As Chris mentioned, we delivered a strong first quarter, with revenue of \$31.7 million dollars, representing 47% growth over first quarter 2016. That growth was driven primarily by the team's strong execution and the market's continued adoption of our platform.

Our gross margin for the first quarter was 54.2%, compared with 52.6% in the first quarter of

2016. This 160 basis-point year-over-year improvement reflects continued adoption of our newest Monza R6 endpoint IC family.

Total operating expense in the quarter was \$17.0 million, or 53.4% of revenue, compared with \$16.3 million, or 48.5% of revenue in the prior quarter. R&D expense was \$6.6 million, or 20.7% of revenue. Sales and marketing expense was \$6.6 million, or 20.8% of revenue. G&A expense was \$3.8 million, or 11.9% of revenue. We ended the quarter with 261 employees and 42 open positions, compared with 245 employees at the end of last quarter.

We delivered \$246 thousand in adjusted EBITDA in the quarter, or 0.8% of revenue. As a reminder, in 2017 we plan to maintain our EBITDA margin in low, single-digit percentages as we increase our investments to enhance our leadership position and capitalize on the enormous and diverse market opportunity Chris just talked about.

GAAP net loss for the quarter was \$2.2 million. On a non-GAAP basis, we achieved first quarter net income of \$129 thousand, or earnings of 1¢ per share, using a weighted-average diluted share count of 21.7 million shares.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents and short-term investments of \$83.5 million. Accounts receivable balance was \$21.1 million, up \$3.6 million from last quarter.

Consistent with our plan, we continued increasing inventory levels to meet market demands, reduce lead times and support our growth. We increased inventory by \$11.5 million over the prior quarter, bringing the balance to \$39.2 million. We plan to continue investing in our inventory balance in Q2, expanding our finished goods buffer to be responsive to market opportunities, and then we will moderate the expansion on a dollar basis for the remainder of the year.

Turning now to our outlook, we expect second quarter 2017 revenue to be in the range of \$32.4 to \$33.9 million, reflecting 28% year-over-year growth at the midpoint. We expect adjusted EBITDA to be in the range of a loss of \$0.6 million to income of \$0.9 million. On the bottom-line, we expect non-GAAP earnings to be in the range of a loss of \$0.5 million to income of \$1.0 million, and non-GAAP EPS to be between a loss of 2 cents and income of 5 cents per share, based on a weighted-average diluted share count in the range of 21 million to 22 million shares.

As Chris already noted, we are maintaining our 2017 endpoint IC volume estimate of between

7.8 and 8.0 billion units, representing 32% growth over 2016 at the midpoint and a 2010 to 2017 volume CAGR of 36%.

With that, I will turn the call over to the operator to open the question-and-answer session.