Impinj First Quarter 2018 Earnings Conference Call
Monday, May 7, 2018
5:00 p.m. ET / 2:00 p.m. PT

Chelsea Lish, INVESTOR RELATIONS FOR IMPINJ

Thank you, Operator. Thank you all for joining us to discuss Impinj's first quarter 2018 results. On today's call, Chris Diorio, Impinj's co-founder and CEO, will provide a brief overview of our strategy, market and performance. Eric Brodersen, Impinj's President, COO and Principal Financial Officer will follow with a detailed review of our first quarter 2018 financial results and second quarter 2018 outlook. We will then open the call for questions. Impinj's CFO Consultant, Linda Breard, is also on the call and will join Chris and Eric 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.

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, except for 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

Thank you, Chelsea. Thank you all for joining the call.

First-quarter revenue was $25.1 million, toward the high end of our guidance. Our endpoint IC sales exceeded expectations even as our inlay partners reduced their inventory levels by several hundred million units in the quarter. We continue to expect that our partners' endpoint IC inventory correction will resolve mostly in the first half of 2018. We also continue refining our views of channel inventory, taking steps to better map demand to end-customer projects. We believe this enhanced visibility will enable us to improve inventory management and materially reduce our inventory in the second half of 2018. Also, we successfully executed the product exchange I highlighted on our last call. Overall, I am pleased by how the Impinj team rallied during a difficult start to the year. Based on our booking trends, and normalizing for the product exchange, we expect the first quarter to mark the low point for our endpoint ICs sales volumes. We continue to anticipate 15% to 20% growth in 2018 end-user endpoint IC consumption with our first half unit-volume shipments lagging end-user consumption due to the inventory correction.

Our systems business faced a difficult comparison versus first quarter 2017. Deal timing, first-quarter seasonality, reader IC supply constraints and an APAC reorganization led to a 40% revenue decline on a sequential basis, 29% decline on a year-over-year basis and modest underperformance versus our expectations. As a reminder, many of our systems deals are project-based, meaning size, timing and mix are important factors in our quarterly results. Despite the declines, we remain confident and enthusiastic about the quality and size of our systems opportunities. Based on current projections, our reader IC supply will improve significantly in the second quarter and meet third-quarter demand.

I'd like to take a moment to expand on the systems business. Our EMEA team continues to execute both on traditional RAIN channel opportunities and on new, asset-tracking and shipment-verification solutions. A key goal of our first-quarter reorganization is to replicate those EMEA solutions-selling successes in the Americas and in Asia. We have the right teams to execute this strategy, and we expect those teams to ramp productivity and build pipeline throughout the remainder of 2018.

Turning to the market, our first-quarter tradeshow activities included National Retail Federation, HIMMS and the RAIN Connections Summit hosted by Google. We supported METI's announced extension of the Japanese Government Electronic Tag Initiative to include connecting items at 19,000 drug stores beyond the original 57,000 convenience stores. We introduced a new reader module, the RS1000, targeted at embedded applications. We implemented a new channel-partner program to help partners win business, deliver success and create value for their end users. We ended the quarter with 239 issued and allowed patents, which we view as a key asset and a core strength of our business. And we published several case studies including two platform deployments that incorporate ItemSense, xArrays and Monza-based tags. The first, with Parkland Memorial Hospital, tracks hospital assets. The second, with a university teaching clinic, improves visibility to procedure duration and patient flow. Finally, at the Connections Summit, our partner Aware Innovations highlighted a successful IT asset-tracking deployment at the US Patent and Trademark Office using our readers and gateways. Bart Ivy, Chief Solutions Officer for Aware Innovations, said

"We always test our equipment prior to installation in our customer's facility to ensure we get the best product to meet our customer needs. Through this testing we've learned that Impinj products are the most reliable, easiest to use and best value for our customers."

In summary, despite the first-quarter revenue decline we took positive steps on internal and partner inventory, sales execution, platform development and strategic realignment that we believe position us well for the long term. Based on positive bookings trends and a second-quarter starting backlog that is up sequentially, our second-quarter revenue outlook is between $25.0 and $27.0 million. We remain vigilant about our use of cash, and we believe we are on track to make the first half of 2018 the turning point for our business.

Our CFO search is ongoing, focused on finding the right candidate to scale our business. In closing, I would like to thank all the Impinj employees for their hard work and dedication this quarter and for their efforts towards our vision of digital life for everyday items.

I will now turn the call over to Eric for our detailed financial review and second-quarter outlook. Eric.

Eric Brodersen, Impinj President, Chief Operating Officer and Principal Financial Officer

Thanks, Chris. Before I review our first quarter 2018 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.

First-quarter 2018 revenue was $25.1 million, compared with $26.9 million in the prior quarter. We concluded the one-time product exchange we discussed on our prior earnings call and received payment in full. Our first-quarter revenue mix, including the product exchange, was 77% endpoint ICs and 23% systems. As a reminder, the latter includes readers ICs, readers, gateways and software. This mix compares with 65% and 35%, respectively, in the prior quarter. Excluding the one-time product exchange, endpoint IC revenue was down 22% and systems was down 40% compared with the prior quarter.

First-quarter gross margin was 49.2%, compared with 50.5% in the prior quarter. Revenue mix was the primary cause of the sequential decline.

Total first-quarter operating expense, excluding the impact of the restructuring, was $19.5 million compared with $19.3 million in the prior quarter. Research and development expense was $6.9 million, sales and marketing was $8.0 million and general and administrative expense was $4.6 million. We ended the quarter with 284 employees, consistent with our restructuring plan.

Our adjusted EBITDA was a loss of $7.1 million, compared with an adjusted EBITDA loss of $5.8 million in the prior quarter and in-line with our guidance.

GAAP net loss for the first quarter was $14.4 million. Non-GAAP net loss for the first quarter was $8.0 million, or 38¢ per share, using a weighted-average diluted share count of 21.1 million shares.

Turning to the balance sheet, we ended the first quarter with cash, cash equivalents and short-term investments of $57.9 million, compared to $58.1 million in the prior quarter. On a cash basis, our net loss was offset by an $11 million increase in long-term debt and a $5.2 million reduction in accounts receivable. In March 2018, we increased our term loan to $20.0 million, refinancing approximately $9 million in term and equipment loans and extending the maturity date to March 2022. We also amended our Senior Credit Facility to extend the maturity date of the $25.0 million revolving credit facility to March 2020. We have not drawn on the $25.0 million revolver. Our accounts receivable balance was $17.0 million, down from $22.2 million in the prior quarter. Our balance sheet remains strong and we have sufficient capital to execute our plans.

Inventory totaled $54.7 million, up $7.6 million from the prior quarter. As a reminder, on our fourth-quarter earnings call we forecasted total inventory growth at roughly $10 to $12 million in first-quarter 2018, declining sequentially through the remainder of 2018. We now expect inventory to increase approximately $2 million in the second quarter due to receipt of some systems inventory in the second quarter rather than the first; we continue to expect inventory to decline meaningfully through the second half of 2018. As we noted on last quarter's earning call, most of this quarter's inventory growth is in WIP rather than finished goods. We remain confident that our inventory does not have material obsolescence risk.

Turning now to our outlook, we expect second-quarter 2018 revenue in the range of $25.0 to $27.0 million. We expect adjusted EBITDA to be a net loss in the range of $7.75 to $6.25 million. On the bottom-line, we expect a non-GAAP loss of between $8.0 and $6.5 million, and a non-GAAP loss per share between 38¢ and 30¢ per share based on a weighted-average diluted share count of 21.3 to 21.6 million shares.

On last quarter's call, we announced a restructuring plan in light of our reduced revenue outlook. In first quarter 2018, we completed that plan by reducing our global work force, tightening our product-development focus, halting our Seattle office expansion, working to sublease a facility and closing several remote offices. As Chris noted, we remain vigilant about our uses of cash, with a leaner team intensely focused on executing our strategy.

I will now turn the call to the operator to open the question-and-answer session.