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ATOM - Q2 2017 Atomera Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Frank Laurencio** *Atomera Inc. - CFO*

**Scott Bibaud** *Atomera Inc. - President and CEO*

## CONFERENCE CALL PARTICIPANTS

**Larry Cook** *Special Situations Funds - Analyst*

## PRESENTATION

### Operator

Welcome to the Atomera Second Quarter Update Conference Call.

(Operator Instructions)

As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Frank Laurencio.

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### Frank Laurencio - Atomera Inc. - CFO

Good afternoon. I'm Frank Laurencio, Atomera's CFO. Joining me on today's call is Scott Bibaud, President and CEO.

In addition to today's prepared comments, we have posted a slide deck to accompany our remarks on the Investor Relations portion of our website at atomera.com. After prepared comments by Scott and myself, we will open the call up for your questions.

Before we begin, I would like to remind everyone that during today's call, we will make forward-looking statements. These forward-looking statements whether in prepared remarks or during the Q&A session are subject to inherent risks and uncertainties.

These risks and uncertainties are detailed in the risk factor section of our filings with the Securities and Exchange Commission, specifically in our annual report on Form 10-K for the year ended December 31, 2016 and filed with the SEC on March 31, 2017.

Except as otherwise required by Federal Securities Laws, Atomera disclaims any obligation to update or make revisions to such forward-looking statements contained herein or elsewhere to reflect changes and expectations with regard to those events, conditions and circumstances.

Also, please note that during this call, we will be discussing non-GAAP financial measures as defined by the SEC Regulation G. Reconciliations to these non-GAAP financial measures and to the most directly comparable GAAP measures are included in today's press release, which is posted on our website.

Now, I would like to turn the call over to our President and CEO, Scott Bibaud. Please turn to slide three. Go ahead Scott.

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### Scott Bibaud - Atomera Inc. - President and CEO

Thank you Frank. Welcome to Atomera's Second Quarter 2017 Business Update Call. I will begin with the progress report highlighting major accomplishments, since our last update on May 2nd. And then turn it over to Frank, to review our Q2 financial results. We will then end the call with questions.



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Atomera is a pre-revenue, materials and intellectual property licensing company with a proprietary transistor enhancement film called Mears Silicon Technology or MST. We are focused on solving one of the biggest problems facing the \$350 billion semiconductor industry, the slowdown in Moore's Law.

Using Atomera's technology, a manufacturer can make power, performance and cost improvements to their chips without requiring the capital investments necessary to support a multibillion dollar move to a next-generation fab. In many cases, customers who exhausted all other opportunities for significant product enhancement look to MST as the only cost effective solution for getting to the next level.

If a customer elects to work with Atomera, we will execute a license agreement, which grants them the right to manufacture using our technology in exchange for an upfront license fee and royalty payments on the shipments to their product. On August 5th just a few days ago Atomera reached the first anniversary of our company going public on the NASDAQ exchange.

Looking back over the last 12 months, we've made enormous progress in building our potential customer base and advancing our technology. Today, we have significantly more ammunition to demonstrate how our technology can be used to make our customers' businesses more successful and it is becoming very well-recognized in the industry.

At the time of our IPO one year ago, we are working with only three companies. Today, we're engaged with 11 semiconductor companies including 40% of the world's top semiconductor makers. Our internal development machine is running at an entirely different pace than in the past and our technology position continues to only get stronger.

There's no doubt that Atomera holds much more potential today than we did one year ago. There's an increasing buzz in the industry about Atomera's technology which has led to this increased customer interest and top articles like the one about us published in the May "EEJournal" called "Silicon Jersey Barriers".

To assist in understanding our customer engagement cycle, Atomera has defined six stages from Phase 1 planning to Phase 6 production as shown on slide four. Phase 3 is the most pivotal as the customer runs a series of evaluation lots to their factory. We've work together with them to integrate our advanced material into their highly tuned manufacturing flow and evaluate the impact of MST on their product performance.

When a customer is convinced that our technology can be successfully integrated into their process flow and it has sufficient economic benefit, they will license it from us. This evaluation and integration process is both lengthy and unpredictable. Clearly, the more customers we have in evaluation and the faster we can work through integration with the customer, the earlier we will get to revenue. This is our management team's primary focus.

Once again, this past quarter showed a strong uptick in interest by customers as shown on slide five. We exited Q1 with five customers in the planning phase and four in the evaluation phase. Recently, one of our customers progressed from planning into the setup phase or Phase 2. In addition, the number of new potential customers we have on the planning phase has increased giving Atomera a total of 11 customers with whom we are conducting or actively planning an evaluation cycle.

Four customers continue to perform evaluations in Phase 3. During the last few months, two of the four has started a new wafer runs which we believe will move them closer to a license decision. We have been reviewing test results to the remaining two evaluation customers and will be finalizing plans for further evaluation runs with them later this month.

Note that every time these customers start another wafer run, they're making a significant investment in taking our technology to market, so that we -- so we view this as a very positive signal. Our relationship with these customers remains strong and collaborative as we work together to give them competitive advantage in their respective markets.

In June, we provided details in our investor presentation showing that one significant customer fab adopting our technology could make us a profitable company. Although our evaluation cycle can be long and unpredictable, a single license decision should be very rewarding to investors. Any increase in customer engagements and proof to probability that we'll execute a license with at least one of the candidates.



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So, it's gratifying to have progressed from only three customers one year ago to 11 today. As I mentioned earlier, these are large potential opportunities. Eight of these customers are among the top 20 largest semiconductor manufacturers in the world as measured by revenue.

We have now reached a level of interest in our technology where we can be selective about new customer engagements. Our decision criteria will include revenue potential, market segment of interest, customer funding of the evaluation effort and the suitability of our process to their needs.

Moving to slide six. Progress in R&D has also accelerated. We continue to leverage our fast track R&D process including our collaboration with Synopsys, our work with TSI Semiconductor as a development fab, our internally developed specialized test structures and the secured EPI reactor facility to improve our IP and identify ways to shorten the integration process for our customers.

During the past three months, we successfully planned, processed and tested nine different wafer lots to make a total of 17 we have processed so far this year. Remember that prior to this new R&D infrastructure, we were getting less than one learning cycle per quarter. Completing 17 learning cycles in the last six months is a dramatic improvement that will undoubtedly help cut the evaluation and integration time needed by a customer before we start to receive license revenue.

Moving to the next slide. Recently, the US Patent and Trade Office granted Atomera three new patents, giving us a total of four grants for the year. As a licensing business, our intellectual property is our stock and trade. It is our intention to keep expanding our patent portfolio both domestically and overseas.

Today, Atomera has 60 patents in the US and over 110 worldwide. It is a fact of life for IT companies that they will ultimately have to defend their patents. One advantage of our technology is that it can be easily identified in products, making our patent portfolio extensive, comprehensive and defensible. These latest patents strengthen our portfolio even further.

As we reach our first anniversary as a public company, we became eligible to put in place a Universal Shelf Registration which we filed today with the SEC. This tool is used by virtually all public companies to efficiently position themselves for potential future fundraising. As you can see from our financials, we are very well-positioned with over two years of cash in the bank and therefore have no near term plans to raise capital.

To summarize, we've had another strong quarter of execution within the company. Our progress during the last year has been substantial and we are a far better positioned company than we were at our IPO. We have more customers and more market segments and significantly more mature technology. Over the next few months, we look forward to keeping you inform about how Atomera is continuing to become an important and successful semiconductor IT licensing enterprise.

I will now turn the call over to Frank for comments on the company's financial results. Frank?

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### **Frank Laurencio** - Atomera Inc. - CFO

Thank you Scott. As you saw at the close of the market today, we issued a press release announcing our operating and financial results for the second quarter of 2017. Earlier today we also filed our quarterly report on Form 10-Q and the Shelf Registration Statement on Form S-3 with the SEC.

Please turn now to slide eight. Our GAAP net loss for the second quarter was \$3.6 million, or \$0.30 per share compared to a net loss of \$3.5 million or \$0.29 per share in the first quarter and a net loss of \$2.6 million or \$1.61 per share in the second quarter of 2016.

Looking at the results in Q2 compared to Q1, operating expenses increased by \$97,000 primarily due to an increase in stock compensation expense that resulted from annual grants made late in Q1 and early in Q2, offset partly by lower payroll expense because of accruals that were concentrated in Q1.

As usual, we have included in our press release a year-over-year comparison to our financial results from the prior year quarter for Q2 of 2016, as well as the comparison of our first half results -- with the first half results from 2016. However, as I mentioned in our last quarterly call, we feel those

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year-over-year comparisons are not a useful indicator of our current progress as a funded public company. So right now, we focus more on our sequential quarterly performance.

Our IPO closed in August of 2016 in the middle of the third quarter. At that time, all outstanding debt converted to equity and we issued restrictive stock and option awards that had been tied to the completion of our IPO. Starting in the fourth quarter of 2017, our year-over-year quarterly comparisons will no longer be affected by interest expense and comparisons of stock-based compensation charges will be more meaningful.

Comparing our second quarter to the second quarter of 2016, net loss increased by \$1 million. This increase was primarily due to a \$1.3 million increase in stock-based compensation, increased payroll expense because of added headcount in R&D and sales and marketing, along with increased testing cost to support customer engagements.

Those increases were offset partly by a decrease of \$748,000 in interest expense and lower G&A payroll expense. Both the stock-based compensation and interest expense were non-cash items. As I mentioned earlier, upon the closing of our IPO a year ago, all our debt including accrued interest converted to equity. Atomera today has no debt and we have approximately 12.2 million shares outstanding.

Slide eight includes a summary of our financial results for the first two quarters of 2017. This slide also contains a reconciliation between our GAAP and non-GAAP results. As you can see, the main differences between our GAAP and non-GAAP results consist of stock-based compensation and interest expense both of which are non-cash items.

We believe that non-GAAP adjusted EBITDA, especially when used in connection with GAAP information, provides a better view for investors. It is also what we use for our internal planning purposes.

Turning to the balance sheet, our cash and cash equivalents at June 30 were \$21.7 million, a decrease of \$2.1 million from the \$23.8 million we had at March 31, 2017. Our Q2 cash burn was substantially lower than the first quarter which included a large number of annual payments made in the first quarter.

As Scott mentioned, today we put in place a Universal Shelf Registration Statement which we filed with the SEC. Given our cash balance of over \$20 million and an annual burn rate of approximately \$9 million, we have no need or intention of raising capital in the near term. Our Q2 cash consumption and outlook for the rest of 2017 is consistent with our previous guidance on cash use. We had no change in our headcount during the second quarter.

Operator, we will now take questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Larry Cook with Special Situations Funds.

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### Larry Cook - *Special Situations Funds - Analyst*

I'm just wondering if you guys can elaborate a bit on your pipeline, specifically the length of time customers are landing in one of the buckets that you've outlined if that's longer or shorter than it has been and what changes you've seen? Thanks.

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**Scott Bibaud** - Atomera Inc. - President and CEO

Yes, thank you. There's no doubt that our pipeline is accelerating, you know, we haven't had anyone exit the Phase 3 evaluation phase from our pipeline yet. So, I can't really comment too much on that one.

But because our reputation in the industry has started to really improve, because we're working with so many companies and there's kind of knowledge about that growing out in the industry when people engage with us at the beginning, we have less of an effort of trying to convince them to do an evaluation run with us and therefore people are moving faster from evaluating -- I mean from looking at our technologies to starting to do one.

This quarter we had one customer moved into Phase 2, the setup phase, and I will anticipate that they will move through that pretty quickly, probably within a quarter and I'm hopeful that we'll have some other people moving out of the Phase 1 and into the second phase as well more quickly than in the past.

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**Operator**

(Operator Instructions)

And I'm showing no further phone questions at this time. I would like to hand the call back over to management.

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**Scott Bibaud** - Atomera Inc. - President and CEO

This is Scott Bibaud. I want to just thank you all for attending today's presentation. We are very pleased with our customer and development progress this quarter. We continue to be focused on achieving first commercialization with the customer and look forward to keeping you apprised of our progress.

Should you have additional questions, please call Frank or myself and we'll be happy to follow up. We have initiated a new blog on our website which will also be a useful communication tool to better understand our business. You can sign up for alerts to new blog posts in the same way as investor alerts.

We look forward to seeing some of you during our scheduled marketing activities, the next of is the Drexel Telecom, Media & Teleconference -- Technology Conference in New York City on September 6th. We thank you for your support and look forward to our Q3 Earnings Call in early November. Thank you.

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**Operator**

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

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