

Impinj Second-Quarter 2024 Earnings Conference Call
Wednesday, July 24, 2024
5:00 p.m. ET / 2:00 p.m. PT

Andy Cobb, Impinj VP Strategic Finance

Thank you, Rocco.

Good afternoon and thank you all for joining us to discuss Impinj's second-quarter 2024 results. On today's call, Chris Diorio, Impinj's co-founder and CEO, will provide a brief overview of our market opportunity and performance. Cary Baker, Impinj's CFO, will follow with a detailed review of our second-quarter financial results and third-quarter outlook. We will then open the call for questions. Jeff Dossett, Impinj's CRO, will join us for the Q&A. You can find management's prepared remarks, plus trended financial data, on the company's investor-relations website.

We will make statements in this call about financial performance and future expectations that are based on our outlook as of today. Any such statements are forward-looking under the Private Securities Litigation Reform Act of 1995. Whereas we believe we have a reasonable basis for making these forward-looking statements, our actual results could differ materially because any such statements are subject to risks and uncertainties. We describe these risks and uncertainties in the annual and quarterly reports we file with the SEC. We do not undertake, and expressly disclaim, any obligation to update or alter our forward-looking statements except as required by law.

On today's call, all financial metrics except for revenue, or where we explicitly state otherwise, are non-GAAP. All balance-sheet and cash-flow metrics except for free cash flow, are GAAP. Please refer to our earnings release for a reconciliation of non-GAAP financial metrics to the most comparable GAAP metrics.

Before turning to our results and outlook, note that we will participate in the Canaccord Genuity 44th Annual Growth Conference on August 13th in Boston; the 13th Annual Needham Virtual Industrial Tech, Robotics and Clean Tech 1x1 Conference on August 19th; the Jefferies Semiconductor, IT Hardware and Communications Technology Summit on August 27th in Chicago; the 2024 Evercore ISI Semiconductor, IT Hardware and Networking Conference on August 28th in Chicago; the Piper Sandler Growth Frontiers Conference on September 10th in Nashville; and the Goldman Sachs Communacopia and Technology Conference on September 11th in San Francisco. We look forward to connecting with many of you there.

I will now turn the call over to Chris.

Chris Diorio, Impinj Co-Founder and Chief Executive Officer

Thank you, Andy. And thank you all for joining the call.

Our second-quarter results were strong, setting several new records. Revenue topped \$100 million and adjusted EBITDA topped \$25 million, both well above our guidance. Free cash flow topped \$40 million. Multiple trends drove that outperformance including apparel and footwear strength, early signs of retail rebuying, steady growth in general merchandise, continued secular growth including a long tail of specialty applications and strong demand for our products and platform. We expect these same trends to drive solid third-quarter product-revenue growth.

Starting with silicon, second-quarter endpoint IC product revenue exceeded our expectations as unit volumes set a new quarterly record, including M800 shipments more than doubling. The \$15 million 2024 licensing payment added to the revenue strength. Looking to third quarter, we expect to again deliver sequential endpoint IC product revenue growth. We also expect M800 to continue ramping, albeit from a modest base but growing sharply as M800 inlays pass market qualification. Finally, our investments in post-processing capacity during the covid downturn are paying dividends today, with our operations team well positioned to meet the rising demand.

Turning to reader ICs, second-quarter E-family volumes exceeded our expectations, driven by broad market demand for handhelds, printers and fixed readers. Looking to third quarter, we see continued strong E-family shipment volumes, albeit masked by modestly lower overall reader IC revenue as we wind down our prior-generation Indy ICs.

Turning to solutions, we expect the visionary European retailer's ongoing rollout of our self-checkout and loss prevention solution to continue driving growing demand for our protected-mode-enabled endpoint ICs as well as delivering modest gateway revenue. We expect IC volumes at the large North American retailer to continue growing, driven by general merchandise tagging and product rebuys. And we expect the second large North American supply chain and logistics end user to increase their label consumption and fixed-reader footprint, driving demand for both our endpoint ICs and E-family reader ICs. Taken together, our enterprise-solutions efforts continue paying dividends in silicon volumes.

Touching now on growth opportunities, we see food tagging expanding, including in-store item-level pilots where the volumes are really large. In apparel, we see increasing supply-chain usage driving demanding readability expectations, benefiting our higher-performing M800. In general merchandise, we see market expansion as retailers piggyback on the pioneering work of the large North American retailer. And we see growth in specialty applications, for example one I had the opportunity to see in-depth during a recent trip to Japan, in which a consortium of four Japanese publishers are tagging books, magazines and comic books to better match store inventory to consumer demand.

On the organizational front, we promoted Gahan Richardson to Executive Vice President for our products and platform. We added Alberto Pesavento, a 23-year Impinj veteran and CTO, to our executive team. And we promoted Christina Balam to Senior Vice President of HR. Heartfelt congratulations and thank you Gahan, Alberto and Christina!

In closing, we delivered a very strong second quarter and see steady product-revenue growth looking into the third. On the solutions front, we believe our efforts are and will continue driving endpoint IC volumes and share gains. Further out, we see continued secular growth opportunities in retail, supply chain and logistics and specialty applications, with food layering on top. As we continue driving our bold vision to connect every item in our everyday world, I remain confident in our market position and energized by the opportunities ahead.

Before I turn the call over to Cary for our financial review and third-quarter outlook, I'd like to again thank every member of the Impinj team for your constant effort driving our bold vision. As always, I feel honored by my incredible good fortune to work with you. Cary.

Cary Baker, Impinj Chief Financial Officer

Thank you Chris, and good afternoon everyone.

Second-quarter revenue was \$102.5 million, up 33% sequentially from \$76.8 million in first-quarter 2024 and up 19% year-over-year from \$86.0 million in second-quarter 2023.

Second-quarter endpoint IC revenue was \$89.4 million, up 45% sequentially from \$61.5 million in first-quarter 2024 and up 38% year-over-year from \$64.9 million in second-quarter 2023. Excluding the \$15 million licensing revenue, second-quarter product revenue grew 21% sequentially and 15% year-over-year. Product revenue exceeded our expectations, for the reasons Chris already cited. Looking forward, we expect third-quarter endpoint IC product revenue to increase sequentially.

Second-quarter systems revenue was \$13.1 million, down 14% sequentially from \$15.3 million in first-quarter 2024 and down 38% year-over-year from \$21.1 million in second-quarter 2023. Systems revenue was below our expectations, due primarily to lower channel reader sales. Looking forward, we expect third-quarter systems revenue to increase sequentially.

Second-quarter gross margin was 58.2%, compared with 51.5% in first-quarter 2024 and 53.3% in second-quarter 2023. The sequential increase was driven primarily by licensing revenue. The year-over-year increase was also driven primarily by licensing revenue, partially offset by a higher mix of endpoint IC revenue. Excluding the licensing revenue, second-quarter product gross margin was 51.0%. Looking forward, we expect third-quarter product gross margin to increase sequentially.

Total second-quarter operating expense was \$32.8 million, compared with \$32.9 million in first-quarter 2024 and \$35.9 million in second-quarter 2023. Operating expense was consistent with our expectations even with the revenue outperformance. Research and development expense was \$17.6 million. Sales and marketing expense was \$7.0 million. General and administrative expense was \$8.2 million. Looking forward, we expect third-quarter operating expense to increase sequentially.

Second-quarter adjusted EBITDA was \$26.8 million, compared with \$6.7 million in first-quarter 2024 and \$10.0 million in second-quarter 2023. Second-quarter adjusted EBITDA margin was 26.2%. Excluding the licensing revenue, adjusted EBITDA margin was 13.5%.

Second-quarter GAAP net income was \$10.0 million. Second-quarter non-GAAP net income was \$25.3 million, or 83¢ per share on a fully diluted basis.

Turning to the balance sheet, we ended the second quarter with cash, cash equivalents and investments of \$220.2 million, compared with \$174.1 million in first-quarter 2024 and \$114.9 million in second-quarter 2023. Inventory totaled \$80.8 million, down \$7.0 million from the prior quarter.

Second-quarter capital expenditures totaled \$1.4 million. Free cash flow was \$44.1 million.

Before turning to our guidance, I want to highlight two items specific to our results and outlook.

First, favorable working-capital trends boosted second-quarter free cash flow. We expect those favorable accounts receivable and inventory trends to normalize in the second half. We recently increased our wafer purchases to ensure we can meet demand, so also expect second-half inventory to increase from second-quarter levels.

Finally, our second-quarter adjusted EBITDA outperformance previewed the operating leverage in our business model as revenue scales. That leverage will again be on display in third quarter as product revenue scales once again. And with most of the M800 ramp yet to come, we expect additional leverage in the future.

Turning to our outlook, we expect third-quarter revenue between \$91.0 and \$94.0 million, compared with \$65.0 million in third-quarter 2023, a 42% increase at the midpoint. We expect adjusted EBITDA between \$13.8 and \$15.3 million. On the bottom line, we expect non-GAAP net income between \$13.5 and \$15.0 million, reflecting non-GAAP fully diluted earnings-per-share between 46¢ and 50¢.

In closing, I want to thank the Impinj team, our customers, our suppliers and you, our investors, for your ongoing support. I will now turn the call to the operator to open the question-and-answer session. Rocco.