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ATOM.OQ - Q3 2020 Atomera Inc Earnings Call

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PRESENTATION

Operator

Good afternoon and welcome to the Atomera Third Quarter 2020 earnings call. (Operator Instructions) This event is being recorded and will be available for replay for approximately one week. I would now like to turn the conference over to Mike Bishop. Please go ahead.

Mike Bishop

Thank you and good afternoon. I am Mike Bishop with the company's Investor Relations. Joining me on today's call is Scott Bibaud Atomera's President and CEO and Frank Laurencio, Atomera's CFO. If you are joining by telephone, please go to the Events and Presentation section of our Investor Relations page. On our website to follow a slide presentation that accompanies our remarks. The presentation will remain available on our website after the call. After prepared comments by Scott and Frank, we will open up the call 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 Factors section of our filings with the Securities and Exchange Commission, specifically in the company's prospective supplement filed with the SEC on September 2, 2020.

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 in expectations. With regards to those events, conditions and circumstances also, please note that during this call we will be discussing non-GAAP financial measures as defined by SEC Regulation G reconciliations of these non-GAAP financial measures 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. Go ahead, Scott.

Scott A. Bibaud - Atomera Incorporated - President, CEO & Director

Thanks, Mike. Welcome to our Q3 Update Call. Atomera continues to make excellent progress on customer and R&D developments despite the continued drag from Corona virus restrictions. Today, 7 months after the pandemic shutdown began our work with customers continues with wafer runs test results reviews and detailed technical meetings. Still, this is the customer facilities have not restarted for the most part, this is not heard our relationship since our team primarily does engineering design simulation and analysis that can be shared with customers remotely. We still have access to specialized tools and facilities as needed under socially distance conditions.

All of our customer fabs are still in full operation our programs, which were launched before the Corona virus shutdown have not been affected and we are successfully starting new runs during the shutdown. The semiconductor industry, if anything has accelerated over the last few months, making our prospective customers financially capable of even more expensive R&D work the pipeline chart shown here is intended to give investors an idea of our progress with customers. This quarter our chart does show a downward tick but it should not be construed as bad news. In Q1 of this year, one of our customers who had 2 projects underway decided to branch one project into to becoming the first customer to have 3 engagements active with Atomera.

Recently they decided to consolidate back those 2 programs into a single one to focus efforts on getting to market more quickly. From our side, we view this as a positive development, since the basis of the decision was to get to production sooner, a stance we are 100% aligned with. The remainder of our customers also continue to move forward. Indeed, since several of our existing customers have multiple engagements underway we now have 25 engagements with the same number of customers as last quarter '19.

We have several other new prospects not currently in our pipeline who are also interested in working with our technology. As mentioned last quarter, the corona virus shutdown is somewhat affecting new customer acquisition because it's not easy to visit most customers face to face. We have not been able to hold our typical multi-hour in person technology review sessions with potential customers. In the past, we found these meetings are the most effective means for adding customers to our pipeline. For a variety of reasons, it is just more difficult to convince a potential customer to sign up for a multi-hour Zoom call and it is harder for our sales team to gauge reactions to follow up.

We are anxious to start traveling for in-person meetings again but because our team has been so busy in the last few months, we have dialed back on efforts to aggressively seek new customers. Naturally, given the choice of where to expand our limited engineering resources we have been prioritizing engagements which have a better chance to advance into Phase four over adding new customers into Phase one. Atomera remains committed to working with customers through joint development agreements. We are advancing our efforts on this new format with several large companies, those with multiple production nodes and multiple technology and product divisions. An approach that integrates development, licensing components and manufacturing requirements, but we continue to be slowed down by the uncertainty and logistical constraints put in place by the corona virus.

During the last 3 months, we have been in negotiations with the first of our customers with whom we hope to institute a JDA. Drafts have gone back and forth multiple times and we believe we are getting very close to conclusion. Technical discussions both on our MST film and the details of equipment--equipment installations have been active. Unfortunately, as of this earnings call, the formal contract to officially start the program has not been finalized. My checks with other industry players who have negotiated with this entity indicate that although this company executes quickly in technology, our extended legal negotiation experience is not unusual. Work continues with each of our three existing license partners, results from our TCAD simulations and wafer runs show gains moving us closer towards the result that will ultimately take us into production. All three are still excited about the competitive advantage Atomera's MST can bring to them. Recently, we learned that our partners ACAM had a fire in one of their semiconductor fabs, which may affect the completion schedule for our latest integration wafer run, but we are still uncertain of the impact. Other than this, all of our licensees continue to progress forward in partnership with Atomera.

I want to take a few minutes to talk about one of the major technological and market achievements we had in this last quarter, which is the recent release 2 beta customers of our MST CAD version 1.0. TCAD is a very complex software tool used by all leading semiconductor manufacturers to sort out the deep electrical and material physics of semiconductors. Synopsys develop this modeling platform to stimulate semiconductor processing device operation and interconnect characterization for technology development, and manufacturing. Atomera develops our own TCAD modules working closely with Synopsys, which show how MST can be integrated into a customer's design and helps predict improved electrical results.

The TCAD development process is complex and involves mathematical modeling of the physics, followed by calibration with actual silicon results. Then the models are optimized to the results and further calibration is executed until the model consistently predicts the performance of MST integration in real silicon. The charts on this page show how well our TCAD simulation are matching our measured results with this level of precision Atomera and our customers can reliably predict electrical performance allowing them to conduct what if analysis much more quickly than running silicon.

We've been using TCAD for internal R&D and for bespoke customer projects for some time now. But this quarter we have gotten to the point where we have made a version 1.0 release to our first beta customers for their own use reflecting our confidence in the results customers should expect. Feedback thus far has been excellent. TCAD is important because our customers use it to optimize process modules and integration by fully exploring the process parameters, which can reduce the number of experimental wafers and development cycles. We believe this will help to speed our time to successful results of customers once the customer has a process designed ready for production, they can again use TCAD to capture and analyze the impact of process variation on device performance to increase robustness and thus improve yield.

After incorporating feedback from our early market beta release, we plan to make MST CAD available to a much wider audience. So customers can experiment with MST on processes we haven't targeted up to now. We believe this should have the effect of increasing our market reach during the last quarter, we received some very compelling results with one of our important customers which validate some of the early projections we are making on the benefits of MSTSP. Data from that run indicate industry leading performance across several parameters during a silicon run we conducted earlier this year. Feedback from the customer has been very helpful and they've now directed us to focus our efforts on reliability improvements that will be necessary to take this technology out of the lab and into production. If successful, we would have a full package of production-ready design improvements, which could bring entirely new levels of performance to the large and growing 5-volt semiconductor segment. These benefits would allow for example, a more compact low cost and efficient power management IC for use in the next generation of 5G cellular phones or other battery operated products. Of course, the work we are doing is broadly applicable to the large number of manufacturers across the industry developing products in the fiber market.

Today we are either working with or in discussions with the vast majority of those customers about benefits they could enjoy by using MSTSP. R&D and client work on FS &I and several other promising technical areas likewise is maintaining its momentum. With the announcement of Apple's new iPhones, the 5G rollout focus is even more clear. As new phones and IoT devices are added to the 5G market we believe MST will provide a timely solution to the design challenges for the critical RF front end components connecting 5G products to the new network's rolling out across the world. This is the type of market transition, which allows new technologies like ours to get a foothold and start expanding. We are pleased to report that last week, our engineers started the first work of depositing MST on 300 millimeter wafers using the state of the art EPI deposition tool in our new facility. We had originally expected the vendor installation to be completed in the tool turned over to us in August, but an issue arose with the exhaust conditioning, an abatement process which required changes to both the equipment and the facility.

Lead time on the specialty venting equipment cause the installation time to be delayed. A formal approval procedure where both the facility and equipment must go through an extensive safety and compliance to specification test must be signed off prior to acceptance by Atomera. Only at that point where we take full possession of the tool and start paying on the lease. Although our engineers have now been trained on the equipment and starting some initial experimentation, full acceptance has not been achieved. We do expect it to happen soon. Regardless of the installation delay, we continue to be excited about the opportunities the 300 millimeter tool open to Atomera. Today greater than 65% of the revenue in the semiconductor industry is driven by 300 millimeter wafers. When this new tool is online, we will have the ability to work with our customers on more frequent wafer size accurate integration runs. We will be able to accommodate more customers running more experiments and will be able to take the time to conduct physical calibration so fewer runs will be necessary before customers can get to the results they targeting.

We will finally have the ability to seize the market with MST blanket wafers enabling easier experimentation by a wider set of potential customers and we will even have the ability to help customers who need a transitional wafer supply as they move from development with MST to pilot runs to early production. Because this will be a state-of-the-art Epi tool, it will also allow us to make process improvements that can directly transition to our customers' production facilities when complete. Since the more advanced nodes used 300 millimeter, this tool will also help us to more directly address the higher royalty segment of the market. So we have many reasons to believe that this new tool will help to accelerate Atomera's time to revenue. Finally, I'm pleased to refer you to Atomera's new website which came online earlier today. We believe it does a much better job of giving investors and potential customers information on Atomera's technology and how it can be applied as a toolbox to solve many of the most common problems in the semiconductor industry today.

Reflecting the complex quantum engineered technology we offer to the market, the Web site does que to the technical. So if it seems particularly dense in any one area, feedback would be appreciated. And we will work to continuously update and improve the content. During this past quarter Atomera has continued to make strong progress across many different areas of our business. The morale of our team is high and our newest engineers are starting to make significant contributions to achieve our goals.

During the quarter, we took the opportunity to strengthen the balance sheet with a minimally dilutive, low cost offering that well positions and well capitalizes the company for our next phase of growth. As always, we are carefully conserving our cash while aggressively pursuing areas of greatest strategic importance. Although the pandemic has caused some disruptions with our new tool and customer negotiations, very few of our activities have slowed. Customer results are improving and we are now better positioned as a company to make the transition to production than ever before. Now I will turn the call over to Frank, to review our financials.

Francis Laurencio - Atomera Incorporated - Chief Financial & Accounting Officer and Corporate Secretary

Thank you, Scott. At the close of the market today, we issued a press release announcing our third quarter 2020 results. This slide shows our summary financial results and I will now review them in more detail. Our GAAP net loss for the 3 months ended September 30, 2020 was \$3.6 million or \$0.19 per share compared to a loss of \$3.1 million also \$0.19 per share in the third quarter of 2019.

The larger net loss in Q3 2020 was due to an increase in GAAP operating expenses of \$354,000 from \$3.2 million in Q3 2019 to 3.6 million last quarter combined with \$50,000 less of gross margin. We did not recognize any revenue in Q3 2020 while in Q3 2019. We had \$254,000 of revenue. Net loss per share was unchanged due to an increase in weighted average shares outstanding from \$16.6 million in Q3 2019 to \$19.3 million in Q3 2020 which offset our higher net loss. Our press release and this slide contain a reconciliation between our GAAP and non-GAAP results as has generally been the case for Atomera the biggest difference between our GAAP and non-GAAP expenses is stock compensation, which is a non cash item and was \$829,000 in Q2 2020 compared to \$798,000 in Q2 2019.

Since stock compensation expense did not change significantly between the periods, the factors affecting GAAP and non-GAAP expenses are basically the same non-GAAP adjusted EBITDA in the third quarter was a loss of \$2.7 million compared to a loss of \$2.4 million in Q3 2019 reflecting the same factors I discussed about our GAAP results. Non-GAAP research and development expense was \$1.7 million in Q3 2020 compared to \$1.5 million in Q3 2019, reflecting an increase in engineering headcount and higher outsourced fabrication and test spending non-GAAP G&A expense was \$841,000 in Q3 2020 as compared to \$686,000 in Q3 2019, primarily due to higher legal expenses for filing and maintaining patents lastly, non-GAAP sales and marketing expenses were unchanged. On a sequential basis, our GAAP net loss in the third quarter of 2020 was \$3.6 million compared to a \$3.8 million net loss in Q2 of 2020 as a result of lower operating expenses. GAAP net loss per share was \$0.19 in Q3 compared to \$0.21 per share in Q2 reflecting both a smaller loss and a higher share count. Non-GAAP adjusted EBITDA of \$2.7 million in Q3 2020 compares to \$3.0 million in Q2, reflecting lower operating expense. Cash balance at September 30, 2020 was \$25.3 million compared to \$18 million on June 30. On September 2, we entered into an At-The-Market or ATM equity program. During Q3 we received net proceeds of \$8.5 million from the ATM program and to date we have received total net proceeds of \$13.5 million and gross sales of \$14 million. This is based on total sales to date of \$1.33 million shares at an average price of \$10.53 per share.

Excluding the ATM, operating cash use was \$2.5 million in Q3 down from \$2.9 million in Q2. As of September 30, 2020, we had \$21 million shares outstanding. As Scott mentioned in his remarks, we are still in negotiations with our most advanced JDA candidate. This JDA will include payment for the licenses granted to our customer. The timing and amount of revenue recognition from that contract will depend on the final terms which may include milestone based payments. Because of these uncertainties, our guidance is that we do not expect to recognize any revenue in Q4 and consistent with our past practice, we only provide revenue guidance for the current quarter.

Due to the delay and acceptance of the new 300 millimeter EPI deposition tool, we are lowering our full-year 2020 guidance for non-GAAP operating expenses to a range of \$12 to \$12.25 million. With that I will turn the call back over to Scott for a few summary remarks before we open the call up to questions. Scott.

Scott A. Bibaud - Atomera Incorporated - President, CEO & Director

Thanks, Frank. As you've heard in this call while the Corona viruses cause some minor delays our business has continued to advance in our efforts that customers are being rewarded. Our hard work in MST SP, RSSOI, JDA show excellent promise for early breakthrough and our new MST CAD and 300 millimeter tool capability gives us the ability to get customers through the integration process and to market more quickly than ever before.

The technical breakthroughs enabled by our Quantum engineering achievements continue to gain notoriety in the industry and we are building on their success inside Atomera both our management and engineering teams are optimistic, count on us to continue building on the results achieved up to today and I look forward to sharing the results of those efforts with you in the future.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Cody Acree with Loop Capital, your line is open.

Cody Grant Acree - *Drexel Hamilton, LLC, Research Division - Former Director of Research*

Thank you very much for taking my questions guys. I guess just one point of clarification side, you said are Frank, I'm sorry, excuse me, your cash generation from the ATM thus far was what was the number?

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

It was \$8.5 million in Q3 and \$13.5 million total through today.

Cody Grant Acree - *Drexel Hamilton, LLC, Research Division - Former Director of Research*

All right, thank you very much. And I guess Scott, just as you but you look at it at your various customers. I know that you're guiding to zero revenue this quarter because of that single customer in that single program that that you don't have a lot of visibility to closure too, but could you just talk about your visibility with your remaining engagement base, how are those progressing what has, what is stalled because of COVID and I guess, just any remaining physical will be helpful.

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yeah we continue to have the customers in the pipeline and we continue to move forward with them. I think that I disclosed, pretty much all of the, the slowdown that we see that can be attributed to COVID any other delays really are just kind of the normal operating business of running wafer runs that take a long time getting results, analyzing those results and turning them around. And so we continue to be optimistic about a few of our customers that we think we'll get into license opportunities with, hopefully in the near term but we don't have much more visibility we can provide on that right now.

Cody Grant Acree - *Drexel Hamilton, LLC, Research Division - Former Director of Research*

Great, thank you. And lastly the-- the 8-K and fire, you said you can know what that was--What impact that may or may not have. Was that fire in the fab--Did that you doing work in.

Scott A. Bibaud - *Atomera Incorporated - President, CEO & Director*

Yeah, so the fire was in a facility that has multiple fabs in which we were involved. So, the fire happened late last week, we have not gotten official word from ACAM on the impact to us or when they're going to be. So, I think they would have probably closed on all of their fabs and then we aren't sure when they're going to start up. The fact that were affected and what the impact will be to our set of wafers that were scheduled to come out sometime next year--in the first half of next year based on that but hopefully we'll be learning about that in the next week or so.

Cody Grant Acree - Drexel Hamilton, LLC, Research Division - Former Director of Research

All right, great, thanks guys.

Operator

Thank you. (Operator Instructions) and I show no further questions. I will now turn the call over to Mr Bibaud for closing comments.

Scott A. Bibaud - Atomera Incorporated - President, CEO & Director

Thank you all for attending today's presentation. We're very pleased to be able to share with you some of the excitement that we are feeling inside Atomera. Don't forget to check out our new website www.atomera.com, where you can look for news, articles and blog posts to keep you up to date on our progress and you can just check out the great new explanations of all of our technology that we've been able to put in there. Should you have additional questions, please call Mike Bishop, and we'll be happy to follow up. We look forward to seeing some of you during our scheduled marketing activities such as the Craig Hallum, Alpha Select Conference on November 17 and we thank you again for your support and look forward to our next update call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone have a great day.

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