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PRESENTATION

Operator

Good afternoon and welcome to Adesto Technologies' First Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, May 7, 2019. I will now turn the conference over to Joel Achramowicz of Shelton Group Investor Relation. Joel, please go ahead.

Joel Achramowicz

Thank you, operator. Good afternoon and welcome to Adesto Technologies' First Quarter 2019 Earnings Conference Call. I'm Joel Achramowicz, Managing Director of Shelton Group, Adesto's Investor Relations firm. Joining me today on the call are Narbeh Derhacobian, Adesto's President and CEO; and Ron Shelton, CFO.

Before I turn the call over to Narbeh, I'd like to remind our listeners that during the course of this conference call, the company will provide financial guidance, projections, comments and other forward-looking statements regarding future market developments, the future financial performance of the company, new products or other matters. These statements are subject to the risks and uncertainties that we discuss in detail in our documents filed with the SEC, specifically the final prospectus related to our initial public offering, our 10-K and our most recent 10-Q, which identify important risk factors that could cause actual results to differ materially from those contained in the forward-looking statements.

Also, the company's press release and management statements during this conference call will include discussions of certain non-GAAP financial measures. These financial measures and related GAAP to non-GAAP reconciliations are provided in the company's press release and related current report on Form 8-K, which can be found in the Investor Relations section of Adesto's website at www.adestotech.com. For those of you unable to listen to the entire call at this time, a recording will be available via webcast on the company's website.

And now it's my pleasure to turn the call over to Adesto's President and CEO, Narbeh Derhacobian. Narbeh?

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

Thank you, Joel, and welcome to everyone joining us today.

First quarter revenue of $28.1 million exceeded the high end of our guidance and increased 84% over the prior-year period reflecting continued strong organic growth combined with revenue contribution from our 2 acquisitions last year. Non-GAAP gross margin was up 230 basis points year-over-year and 80 basis points sequentially to 49.4% as an improved mix of higher-margin products continues to drive gross margin towards our target model of 50% to 55%. With our acquisitions integrated, we've now largely achieved the targeted $6 million to $8 million of annual cost synergies ahead of plan. We are also beginning to realize increased opportunities from cross-selling to customers as a fully integrated semiconductor systems and software company targeting IoT.

Looking at our first quarter revenue in more detail, our top 20 customers represented 51% of total revenue while the remaining 49% was distributed across approximately 5,000 end customers. In terms of end markets, industrial represented approximately 47% of total revenue while consumer and computing represented 41%.

Our mix of consumer segment revenue increased in Q1 sequentially for 2 primary reasons: First, this reflects the ongoing success of our strategy to expand content at Tier 1 consumer customers within our Memory division. Second, a few of our current ASIC projects are in the consumer IoT space and they contributed to the overall segment contribution. One important point to highlight is that even though we had relatively higher revenue content in the consumer segment in Q1 as compared to our historical trend, our gross margins expanded sequentially underscoring the high-value nature of our solutions in both industrial and consumer markets. The remaining 12% of revenue was spread across communications, medical and other end markets.

As many of you know, we held our first analyst day in New York in March. I'd like to thank all the participants, some of whom may be on this call. At the event, we had the opportunity to introduce the new Adesto and highlight our transformation over the past year. We are now well positioned as a global provider of application-specific semiconductors and embedded systems for the IoT from the edge to gateways up to the cloud including software tool sets that our customers use as building blocks to transform their businesses.

We also outlined our product road map with a focus on the segment opportunities we're targeting in each of our 3 businesses. More importantly, we also highlighted how different tiers of the technologies we have assembled in Adesto can converge to address major challenges that our customers are facing in adopting IoT particularly in the industrial segment. This unique value proposition of full-stack technology solutions targeting industrial IoT will result in continued high-margin revenue growth for Adesto in the years ahead.

Now I'll review the recent developments across the 3 solutions groups beginning with the Memory solutions. In a quarter where both of our top competitors had double-digit year-over-year and sequential declines in their memory businesses, our Memory group performed extremely well growing double digits year-over-year and sequentially as well. Furthermore, we continued our momentum by securing new design wins across our product families. Notable this quarter included the design wins in our stronghold metering market as well as industrial instrumentation and vehicle tracking and telematics.

Our Q1 consumer customer is also ramping as expected with our standard flash product. We are expanding our engagement with this customer and also recently secured a design win for our DataFlash product family. We also announced that OPKIX, a maker of compact wearable smart cameras as well as companion studio editing and sharing applications is using Adesto's non-volatile memory in its tiny, powerful, wearable video camera, OPTIXONE.

Last quarter, I highlighted our first 32 meg EcoXip design win with a leading fitness tracker customer, which is expected to enter volume production late this year and ramping to 2020. The annual unit volumes for this opportunity are expected to be in mid-7 digits. This opportunity is on track as our customer is progressing well through its qualification.

I also announced during the last call the introduction of 2 new EcoXiP products, the 128 megabit and the 64 megabit versions, scheduled for release the first half of this year. Last quarter, we released the 128megabit EcoXip for customer sampling and expect to release the 64 meg version this quarter. These 2 new products will expand our opportunities for the EcoXiP family on the heels of the momentum we are now seeing with the 32 megabit version.

In general, new opportunities for EcoXiP continue to grow as indicated by sampling activity across diverse applications including industrial control, e-bike, home automation and card readers among others. We have sampled over 30 opportunities with EcoXiP in the last 6 months reflecting a more than 3x increase over the same period last year.

In late February, we formally introduced our new FusionHD family that builds upon our successful Fusion family, which was first introduced in 2015. FusionHD is manufactured on a 65 nanometer process and addresses higher densities, 32 megabit to 8 megabit, as compared to the previous Fusion devices.

FusionHD also includes new features to enhance system performance and reduce cost. For example, FusionHD includes a new suite of intelligent supervisory functions including an integrated battery health monitor and a system reset generator, which reduces the systems bill-of-materials, overall system costs and physical footprint. And of course, FusionHD builds on the low-power architecture the original Fusion family was known for and can deliver up to 70% lower power consumption than competitive parts. The 32 megabit FusionHD samples are available now and are sampling with customers in industrial sensor, wearable and home security applications. We expect a broad rollout of the family in the second half of 2019.

I also highlighted our MavriqCM design win last quarter, which is another 7-digit unit opportunity annually. Production orders for this opportunity commenced in the quarter and are expected to continue throughout the year. We continue to work actively with many other accounts in the camera module space as we build on this initial win.

Channel partners are an important part of our go-to-market strategy. Our partnership with NXP started with EcoXiP and it has now expanded to other application-specific memory product families we have. During the quarter, we announced that NXP's evaluation kit for its RT1015 crossover processor has Adesto's memory onboard. Now customers on NXP platform can choose from a variety of cost, performance and power options to build their systems using our memories for consumer electronics, home and building automation and industrial IoT products.

Now let me give you an update on our ASIC solutions. As indicated previously, our ASIC group specializes in system-on-chips that include a heavy dose of mixed-signal, RF and analog blocks. In particular, our solutions are used in satellite communication markets including asset and cargo tracking, industrial control and, more recently, in consumer markets.

The revenue for this group consists of 3 buckets. First there's NRE revenue we receive for designing the chip for the customer. Once the ASIC chips are designed and delivered to the customer and the customer transitions to production, then as part of the agreement we supply actual ASICs for the life of that product. Finally, the third revenue vector for us is licensing of intellectual property. As a result of our ASIC projects, we often develop analog and mixed-signal IP cores that we then license to third parties.

Last quarter, we indicated that 2 ASIC projects were completed and delivered to our customers. One of these was in the satellite communication market while the other was in the cellular communication broadband-to-home applications. The former completed qualification and the latter is expected to complete qualification this quarter. We reiterate our expectation that both of these should start early production ramp in Q4 of this year and accelerate in 2020 and beyond.

Two other active ASIC design projects moved forward in the first quarter. Both of these projects are in the consumer space. One of these projects is a touch controller and the other is in the AR/VR space. Our team delivered design milestones and these 2 projects are tracking on schedule. The expectation is for these 2 designs to be in production in 2020.

During the quarter we also made progress with several new opportunities including one in the agriculture IoT space, which we discussed last time, a new opportunity in the satellite communication space with a new customer and one for a wireline communication ASIC for a connected car, and finally a high-volume smart-lock ASIC design with a market leader in that space. Incidentally, this last opportunity is another example of pipeline expansion as a result of cross-selling activity within our channel that has materialized following our acquisition. These highlighted projects are early in the opportunity pipeline and we expect to close on a few of them in the coming months. Overall, opportunities for the ASIC and IP group has more than doubled year-over-year since Adesto acquired the business last year about this time.

Turning now to our Embedded System solutions. Since Echelon acquisition closed late last year, we have started to reengage with many of our top customers. We informed them of our renewed focus in the Embedded business and also aligned objectives and goals for next-generation edge devices and edge servers in industrial IoT applications.

In the first quarter of this year, we started to realize the benefit of this renewed focus. We saw strong orders across the top 10 customers for existing products as well as beta version of our newly introduced SmartServer IoT edge server. These included customers in the smart building segment, energy management as well as connected commercial and industrial safety systems.

Recently, we were pleased to formally release the SmartServer IoT into production. This product is the industry's first truly open edge server for building automation and industrial IoT focused on the critical crossroads where operational technologies, what we call OT in the industrial world, need to bridge into the new IoT world. SmartServer IoT supports multiple protocols and applications enabling the convergence of diverse systems into a single edge networking and compute platform. It features built-in support for popular industrial protocols and services, open northbound interfaces to any remote client, workstation or web application and open southbound interfaces, and a data abstraction layer for connecting with emerging IoT protocols on devices.

In short, this product significantly simplifies the task of integration of IoT deployments embracing and extending existing legacy platforms. We intend to work closely with our extensive installed base of customers representing over 150 million connected devices including tens of thousands of legacy Echelon controllers. Each of these legacy controllers represents a potential upgrade sales opportunity as our customers seek the benefit, power and functionality afforded by the SmartServer IoT. As I indicated, we've already taken orders from a number of early customers and expect activity to accelerate in the back half of this year and into 2020.

During our analyst day presentation, we discussed the barrier that exists for adoption of IoT in the industrial segment, which is tied to the requirement for backward compatibility of the massive number of installed legacy systems. SmartServer IoT is the one product that's intended to break this barrier and bridge the OT to IT transformation.

Equally important, there are a number of partnerships that are required to address industrial customers' concerns for investment within IoT platforms. One partnership, our partnership with IBM and its Watson IoT platform, is rooted in our go-to-market strategy for SmartServer IoT. As part of working with IBM, we have now become a formal IBM business partner and together we expect to advance deployment of predictive analytics in buildings and industrial applications by promoting a combination of our SmartServer IoT and IBM's Watson IoT platform. IBM's global scale can provide a broad range of potential customers for us.

Recently, at IBM's IoT Exchange show in Orlando, we announced yet another partnership, this time with IBM and NXP, to demonstrate a powerful new level of security for smart building and industrial IoT deployments. Our SmartServer IoT lets customers unlock their industrial data so that they can benefit from the capabilities of the IBM Watson platform such as predictive analytics. On top of that, NXP's security solution offers customers additional comfort and confidence as they connect their systems to the public clouds.

In summary, Q1 was a great quarter of execution by the company. The message we are reinforcing with our customers is that with our broad portfolio of products and deep set of design competencies from chips to systems to software expanding from the edge to the gateways, Adesto now has the essential building blocks customers need to develop connected IoT applications and systems. We are very pleased with our strong start to the new year with increasing growth momentum across our businesses. We have made a great deal of progress over the past year and have consistently executed at or above our targeted plan. Having fully integrated our acquisitions and with our teams actively working together, we expect 2019 to be a breakout year for Adesto.

With that, I will now turn the call over to Ron to review the first quarter financial results and second quarter guidance before opening the call for your questions. Ron?

Ronald K. Shelton - *Adesto Technologies Corporation - CFO*

Thanks, Narbeh, and thanks, everyone, for joining today. As part of my financial review, I'll primarily discuss non-GAAP financial results. I'll ask that you refer to today's press release for a detailed description of our GAAP results as well as a reconciliation of GAAP to non-GAAP financial results. The non-GAAP adjustments relate to stock-based comp, purchase accounting adjustments, earn-out adjustments, debt amortization and impairments and other charges.

In a quarter that is typically down sequentially and one in which various competitors exhibited weakness both in their results and outlook, we continued to execute across all areas of the business. Our revenues were up on a sequential and year-over-year basis and, as Narbeh mentioned, our outlook for the rest of the year and the first quarter as the initial indicator is very strong.

Let me now turn to the results. Revenue for the first quarter was $28.1 million, an increase of 83.7% over the $15.3 million in the first quarter of 2018, due to strong organic growth and contributions from the acquisitions we undertook last year. Revenue was also higher sequentially and exceeded the high end of the range of guidance we gave in our last earnings call.

Non-GAAP gross margin in the first quarter was 49.4%. This represents a 230 basis point improvement over non-GAAP gross margin of 47.1% in the first quarter of 2018 and an 80 basis point increase from the 48.6% in the previous quarter. The margin expansion was due to improved mix from our broader line of high-value products as we make meaningful progress toward our goal of 50% to 55%.

Non-GAAP operating expenses in the first quarter of 2019 were $14.4 million. That's compared to $7.4 million during the first quarter of 2018 and $13.9 million in the prior quarter. We've achieved most of the $6 million to $8 million in expected annual cost synergies from our recent acquisitions including the wind-down of our lighting business, which was non-strategic to our long-term focus. As I stated last quarter, we will be making other investments going forward in areas that will drive future growth and enhance shareholder value and these will offset somewhat these cost synergies. Total other income in the first quarter was a negative $1.2 million reflecting $1.4 million of interest expense and $220,000 of other income.

On a non-GAAP basis, net loss was $1.6 million of $0.05 per share as compared to a net loss of $0.3 million or $0.02 per share in the first quarter of 2018 and a net loss of $1.2 million or $0.04 per share in the prior quarter. Non-GAAP adjustments to net income in the first quarter included a $1.6 million charge related to the wind-down of lighting-related activities, and that's part of the $1.7 million of impairment and other charges; a $0.6 million inventory step-up related to acquisition accounting; $1.8 million of amortization of intangible assets; $1.1 million of stock-based compensation; $0.4 million of debt amortization costs; $0.2 million of acquisition-related expenses; as well as $0.3 million credit related to a revaluation of our earn-out liability. For the first quarter 2019, our diluted share count was 29.6 million shares.

Turning to the balance sheet, we ended the quarter with cash, cash equivalents, short-term investments and restricted cash of $8.1 million. As you know, when we acquired S3 Semiconductors 1 year ago, part of the purchase price was in the form of an earn-out. We currently carry on our balance sheet what we believe to be the maximum amount potentially payable against the earn-out of $10.1 million with the possibility it could be less than that amount.

The question has been raised to management, and rightly so, as to whether the company will need to do an equity raise to fund the earn-out. I can tell you today that's not our plan. Instead, our plans regarding any short-term working capital requirements going forward are simple and straightforward. First, we're currently in the process of negotiating a working capital line of credit. The amount in discussion today is $10 million and our objective is to close and have it available for use in the current quarter. And secondly, as we have indicated, we have a very positive outlook on the business for the balance of the year and expect to reach EBITDA margins of 10% and positive free cash flow. The net effect of the foregoing is that we strongly believe our existing cash position supplemented by this new line of credit and an outlook of strong EBITDA margins and positive free cash flow is sufficient to meet our current needs. Lastly, I want to emphasize once again that we are a business with a growth outlook much higher than the industry and with a clear path to profitability giving us confidence that the steps we're taking today are sufficient to continue to fund the growth we see in our business.

Turning to the rest of the balance sheet, net accounts receivable is flat at $23.2 million and DSOs were 59 days, which I expect it to decline going forward. Net inventory declined by $2 million or 10.7% to $16.6 million due primarily to lower levels of memory inventory as certain customers began volume production. Our targeted inventory turns are a minimum of 4x and we expect to reach those levels again in the current year.

Adjusted EBITDA for the first quarter of 2019 was a positive $12,000 compared to a positive $0.3 million during the first quarter of 2018 and a positive $0.5 million in the prior quarter. Capital expenditures were $0.6 million for the quarter and depreciation and amortization was $0.6 million.

Now let me turn to our guidance for the second quarter of 2019. We expect revenue to increase to a range of $29 million to $31 million. That represents a sequential increase of nearly 7% and approximately 65% increase year-over-year at the midpoint. As Narbeh mentioned in his comments, we continue to see positive product and customer momentum in all areas of the business. Non-GAAP gross margin for the second quarter is expected to range between 48% and 50% as we continue to be on track to achieving sustainable gross margins above 50%.

Non-GAAP operating expenses are expected to range between $14.5 million and $15.5 million and we currently expect it will remain relatively flat at those levels through the end of the year. Stock-based comp for the second quarter will be approximately $1.3 million. Amortization of intangible assets will be approximately $1.8 million. And depreciation and amortization will be approximately $0.8 million. Interest expense is expected to be approximately $1.4 million. And weighted average shares outstanding are anticipated to be approximately 29.8 million shares.

Lastly, I want to reiterate our expectation that our second half revenues will be at least 30% above the prior year's second half thus driving adjusted EBITDA margins in excess of 10% and generating positive free cash flow. With that, we'll open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Mike Walkley from Canaccord Genuity.

Thomas Michael Walkley - *Canaccord Genuity Limited, Research Division - MD & Senior Equity Analyst*

Congrats on the strong quarter. Narbeh, I just wanted to ask about the new SmartServer IoT gateway. How is the initial client feedback for those testing it? And with the installed base, how do we -- how should we think about the opportunity for that product as it ramps into 2020 and beyond?

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

Yes. So actually, we started to sample some selected customers even in Q4, but the product wasn't released at the time. Initial feedback was obviously very positive because we've taken a lot of input from the customers prior to the designing of the SmartServer IoT. And we rolled out a more broad rollout of the product in Q1.

So far, feedback has been positive. We've included -- we've rolled this out also in a diverse set of applications from smart city as well as transportation. So basically we've gone into -- some are new customers and some are mostly have been existing customers, who have used our controllers in the past before.

In terms of the opportunity size, so if you look at the actual value of the SmartServer, the ASP of the SmartServer IoT is in the mid-3-digit range. Of course, it's got -- there is different feature sets that define the pricing, the price book for the product itself. Our intention is also that, and we have discussed this in the past during the analyst day, that we're in discussions with our existing customers to better understand their needs in terms of software and also APIs that we may be able to attach with every SmartServer sale to the customer as an option for them to acquire. And that hasn't worked out yet, but what that means is that the average ASP for a SmartServer solution in sales could actually go well beyond $1,000.

In terms of the size opportunity, I guess the way we are looking at it today as a more tangible one is our existing customer base, who've been using the old controllers. As these customers are rolling out new platforms or upgrading, they are our first target customers. And as I indicated, there are thousands of these products out there within the installed customer base.

Thomas Michael Walkley - *Canaccord Genuity Limited, Research Division - MD & Senior Equity Analyst*

Great, that's helpful. And just on EcoXiP, also just can you update us there just with the new densities, kind of the interest from clients, the overall pipeline there? And what kind of run rate could this business hit maybe in a calendar 2020 and beyond?

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

Well there are 2 sets of markets that we are targeting for EcoXiP. One is the fitness tracker like markets, which I indicated we -- on the 32 meg and we have other wearable and those obvious sort of applications in the consumer side. And those are in 7 digits, just like you can imagine consumer level volumes.

On the other hand, we are also beginning to see interest from our industrial customers. These are in home automation, industrial control. What we're seeing is very interesting there, is that when we first had our first 32 meg EcoXiP devices and we touted it's the performance advantages that the customer gets at system level especially if you're trying to do computing at the edge, people were interested and they were intrigued about the performance improvement, but somehow they compared the pricing as compared to a standard commodity serial flash and they walked away. What we've seen, at least now, is that a handful of those customers, the older customers that we sampled the 32 meg about 1.5 years ago have actually come back and are actually asking now for the EcoXiP because they're not able to get at the system level performance they were expecting from standard flash products as it works with the microcontroller.

So I think that revelation is actually going to expand out as edge computing becomes more pervasive in IoT. So applications, I indicated, it's, on the consumer side, it's wearables, audio voice-activated devices and in some residential home automation, but also we see it in the industrial market for industrial control, card readers and so forth.

Thomas Michael Walkley - *Canaccord Genuity Limited, Research Division - MD & Senior Equity Analyst*

Great, thanks. Last question for me and I'll jump back in the queue. Just on the model with the higher mix of some consumer projects in the near term, Ron, how should we think about maybe gross margin trending into the back half of the year as you hit your higher margin targets on the EBITDA side?

Ronald K. Shelton - *Adesto Technologies Corporation - CFO*

Yes, sure. So the guide right now is 48% to 50%. I think as you go through the second half, you'll see it trend up as we go through it because we do expect some of the higher-margin products to start to kick in, in the second half. So again, the objective over time is to be sustainable and be in the 50% to 55% range, but our expectation is it will tick up in the second half.

Operator

And our next question comes from Karl Ackerman from Cowen.

Unidentified Analyst - *Cowen*

This is Sam on for Karl. A quick question about inventory and then I have a follow-up. So it looks like inventory days were flat quarter-over-quarter, as they have been the last couple of quarters. Could you maybe walk us through how you see that trending to the balance of the year, Ron? I think you had mentioned that you're looking for inventory turns to raise up to 4x so I'm assuming that means days are going to come down. So if you could maybe give some color on that, that would be helpful.

Ronald K. Shelton - *Adesto Technologies Corporation - CFO*

Yes, sure. So yes, days will come down. So as we go through the year, you know there were, again, I think there is some activity right now getting ahead of some customer ramps even though it did come down a little bit in Q1. But my expectation as you get in the second half of the year, Q3, Q4, you'll see turns, which aren't even at 3 right now, could go over 4. Right? So you'll see days of inventory coming down.

Unidentified Analyst - *Cowen*

Okay, great. And then the second one was a little bit more thematic on memory. In the last couple months, maybe couple quarters, some Asian NOR manufacturers have made some comments about focusing on higher-density products to serve markets with more longevity and more stable pricing such as automotive. Could either of you maybe discuss some of your thoughts surrounding their wherewithal to move into these different products, higher-density offerings? And then potentially even whether or not they could create more value-add solutions such as your own DataFlash or Fusion lines that differentiate your portfolio today?

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

Yes. So NOR flash is pretty interesting because you have this -- you indicated the higher densities especially also segment-oriented such as industrial and automotive, which are less -- they experience less price erosion year-over-year. And then the other extreme is also the same. If you know since 2015 we've been mentioning that at the low density also you don't see price erosion as much because also there is no new supply that really comes online to change the balance of supply and demand. So organically, Adesto has not experienced price erosion that's typical in the memory business because we don't compete in that commodity-like space.

We take -- if you look at our memory products today, the concept of being application-specific basically garners 2 things. One is solutions are more sticky with the customers because customers have typically designed their system to take benefit of some of the advantages we get. And we also offer customers value in terms of -- I mean just look at the FusionHD example today where we've incorporated some content that typically would be on a bill-of-material with a commodity memory. We've managed to architect the chip in a way that we can take in some of that content in our chip, offer a slight price premium, but overall the customer actually wins from a cost of bill-of-material perspective. And we've been very good at that over the last several years with any of our memory products. So we don't expect, again, to be sensitive to overall fluctuations that's typical for commodity memory.

But in terms of moving into the automotive market and so forth, right now we are not -- we play in the automotive market by supplying to companies who then supply to the automotive end market, but we as a company are not -- we do not have automotive-grade products yet. And we don't have it in the plan.

Unidentified Analyst - *Cowen*

That makes sense. And the last one if I may. I think previously, you have disclosed that Embedded Systems is comprised of about 60% edge devices by revenue, 30% from modules and gateways with the remainder coming from SDKs and management tools. With the recent deployment of your new SmartServer product line, do you see this changing or being more or less stable going forward? And how might this impact margins if there is any change?

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

Yes. Expectation is that -- so first of all, that division in terms of margins is north of, as a blended margin it's north of our long-term targeted model as a whole. But as we move forward, especially in the next year or so, expectation is that you will see, first two things, the Embedded System division grow in terms of the revenue as we indicated, but also the share of the revenue coming from the edge servers and also software solutions that are attached to the edge servers to grow. So most likely, the edge, percentage of the edge revenue contribution will come down. And the entire margin, obviously, if I look at the margin profile, the more you move up that value chain it's higher gross margin.

Operator

And our next question comes from Ari Shusterman from Needham.

Ari Shusterman - *Needham & Company, LLC, Research Division - Analyst*

I am asking for Raji Gill. So can you maybe talk about your M&A outlook? Are you considering potentially acquiring some more company to the ones that you acquired last year? Any color on that would be helpful.

Ronald K. Shelton - *Adesto Technologies Corporation - CFO*

It's Ron. No, look, I think, as we've discussed in the past, going back to 2017, I think it's been a program internally in terms of corporate development where we -- I think we're always evaluating different opportunities. But there is nothing today on the table that would suggest anything in the near term.

Ari Shusterman - *Needham & Company, LLC, Research Division - Analyst*

And can you talk about your exposure to China especially given in light of recent events?

Ronald K. Shelton - *Adesto Technologies Corporation - CFO*

Yes, sure. And when the tariff issue first came up, we talked about it. We have very, very little exposure. We do get some embedded product out of China that could be exposed to tariffs, but it's a de minimis amount.

Operator

And our next question comes from Sujeeva Desilva from Roth Capital.

Sujeeva Desilva - *Roth Capital Partners, LLC, Research Division - Senior Research Analyst*

Congratulations on the progress here. So in the Memory segment, I just want to understand the gross margin impact there of doing well at your Tier 1 customer. I remember several quarters ago that was a headwind. Of course, now you're more diversified with acquisitions and perhaps you have a richer mix with that customer and maybe more diversification away from that customer. So if you could kind of paint a picture of where your margin would be impacted if you do well at this customer versus the past time around it will be helpful.

Ronald K. Shelton - *Adesto Technologies Corporation - CFO*

It's Ron. I'll take that. I think the way to think about our margin profile in the business is, again, since we've been public we've always talked about Memory margins being -- the target always being kind of mid- to high 40s and that continues to remain the target. I think when you look at the business today, it's about a 60-40 split Memory and the other businesses and the Memory business is in the 40s and the other businesses are in the 55%-60% range for margins. And if you think about the guide going forward through the end of the year, that would contemplate how we see the business unfolding through the year. So, we're not seeing a degradation or a big degradation of margins going forward.

Sujeeva Desilva - *Roth Capital Partners, LLC, Research Division - Senior Research Analyst*

Okay, Ron, that's helpful color. And then on the ASIC pipeline, it sounds like you're having success in multiple end markets. I'm curious on the consumer side whether those are established companies or whether those are startup companies. And whether -- I think this was asked before -- but the consumer mix would potentially kind of dominate your end market ASIC sales or whether the other non-consumer products will also have robust unit sales helping that mix.

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

Yes. So on the consumer side, obviously those are higher-volume opportunities, much faster time to revenue. On the other markets outside that satellite communication, which has been our strong suit in terms of designing value-added ASICs for that market, it's lower-volume, but -- and much more having longer longevity from that perspective.

In terms of the customer base, it varies. Again, it's -- as you know, ASICs are a rather sensitive topic because the product itself is outsourced to other companies so we don't necessarily -- are free to talk with respect to the end customers. But if you think about large Tier 1 companies, they typically have their own teams, right? You can think about companies in the Valley; they have their own teams of designers. So those are not necessarily our target customers.

Typically, our target customers are ones that are making, like ODMs, that are actually making the product using off-the-shelf components and they're going into -- the volume there justifies them to go into an ASIC. And then from that perspective, the customers vary across the board in terms of size and shape.

Operator

(Operator Instructions) And our next question comes from Josh Nichols from B. Riley FBR.

Josh Nichols

Good to see the company off to a strong start despite what normally is a typically seasonally slower first quarter. I wanted to ask, could you talk a little bit -- you were talking about Memory margins before -- about what the margin profile is of FusionHD relative to some of the other memory offerings? And also, any info you could provide at a high level as far as what you're seeing for pricing and inventory levels for the standard serial flash at this point?

Ronald K. Shelton - *Adesto Technologies Corporation - CFO*

This is Ron. So a couple things. I think with respect to margins, instead of talking about FusionHD specifically, I think the way to think about the business and what we've talked about is margins are kind of segmented by end market and by type of product. So generally, standard products are lower than the proprietary products. So again, for the Memory business in general, you want it in kind of the mid-40s range in terms of gross margins. And that's what we target, right? That's how we want to run the business. And so that takes into account kind of everything that you're looking at.

Your second question was around pricing and inventory levels?

Josh Nichols

Pricing and inventory, yes.

Ronald K. Shelton - *Adesto Technologies Corporation - CFO*

Yes, yes, yes. So I think for us, I mean there is nothing unusual in the pricing environment that you would expect to have seen historically. So we're not seeing that. We're seeing inventory levels in the channels coming down a little bit. But again, I think relative to our business specifically, I think when we look out and look at certain competitors, I mean it's performing much, much, much better than others in the same space, NOR flash.

Josh Nichols

And then I did want to ask; of the 3 different business lines, where do you see some of the most opportunity with the upcoming 5G rollout? And when do you expect that to start becoming a more significant contributor to the company's revenue growth?

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

I think the 5G rollout is definitely a game-changer because now you really are connecting things directly. And we see for sure the one area that we know we're engaged in is with respect to our ASIC group because, again, that's an area that even today one of our active ASICs projects, not necessarily in the 5G, but it's really related to cellular communication broadband-to-home area. So that definitely we have the expertise and are working on that project.

I think in terms of the connectivity to the -- from an industrial perspective, I believe this is creating a very good opportunity especially for our SmartServer IoT because the way SmartServer IoT is designed is very modular. It's actually we should be able to -- the platform is expandable to connect to any northbound sort of communication. And if you think about a deployment where you are aggregating data from a bunch of low-cost end nodes that would still be running on some sort of a local network, could be wired or wireless, that aggregation happens at the SmartServer IoT level and the communication up happens at whatever that fits that particular cost and bandwidth model. So I think that creates an interesting opportunity for us. And fortunately, the way the SmartServer IoT is designed it's really agnostic to the communication platform being used.

Josh Nichols

And then a last question from me. So a lot of growth vectors, as you mentioned, kind of coming into play into the second half. And I did want to ask regarding the MavriqCM design win with the camera module maker. If you had to handicap, what do you think the company's odds are of securing another camera module design win this year?

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

Well I don't handicap, but all I know is that we have a pipeline of customers we are engaged with. And again, those markets are, as I indicated in the past, they are extremely fast ramping and they move very fast. So we have quite a several that we're discussing.

But again, I want to put things in perspective from that line. The average ASP of the MavriqCM is low. Even though the gross margin is decent, the average ASPs are low. So being from making the needle move as a company our size today, the MavriqCM does offer a good opportunity to get into the camera market. It adds to that, but by itself is not the one that we're relying for the second half growth. I can tell you that.

Operator

And there are no further questions at this time. I will now turn the call back to Narbeh Derhacobian, President and CEO, for any further remarks.

Narbeh Derhacobian - *Adesto Technologies Corporation - Co-Founder, President, CEO & Director*

Before closing the call, I'd like to let you know that we will be attending the B. Riley conference in Beverly Hills on May 23rd, the Cowen conference in New York on May 29th. We'll also be in London attending the Roth conference on the 18th and 19th of June. Please contact ir@adestotech.com or the Shelton Group if you would like to arrange a meeting with us. Thanks again for joining us today. We look forward to discussing our continued progress on our next earnings call. Operator, you may now disconnect.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.