

NVE investors gamble on new tech

The Eden Prairie firm's stock has shown strong growth, but will its advanced technology pay off?

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September 12, 2009 - 10:33 PM

NVE Corp. of Eden Prairie is a success story that may require investors to make a leap of faith.

Based on strong financial results during the recession, the microelectronics firm has watched its stock go from a low of \$16.56 a share in November to a close of \$61.04 a share last week.

But some analysts believe the stock trades as much on future potential growth as current results, and there's disagreement about the company's potential.

So far, results have been encouraging. Earnings doubled over the past two years to \$9.8 million; revenue grew 42 percent to \$23.4 million. NVE's first-quarter profit was \$2.9 million on revenue of \$6.8 million.

But NVE's main technology -- a patented but unproven memory chip technology called MRAM -- hasn't taken off yet. Instead, NVE got about 20 percent of its first-quarter revenue from contract research and development work, and 80 percent from sales of electronic sensors, couplers and other tiny electrical devices based on a nonproprietary technology that forms part of the foundation for MRAM.

MRAM is the company's future hope. Today, data is stored as groups of electrons in materials such as silicon. MRAM would treat electrons like spinning billiard balls whose type of spin would represent stored data.

Beyond today's high profits, the company's growth strategy is less certain. When will NVE develop promised revolutionary biological and navigational computer chips, and can it someday collect MRAM patent royalties?

The revolutionary products, described by CEO Dan Baker on the first-quarter conference call, include tiny biosensors that would "eventually enable laboratories on chips," compass sensors for cell phones that could "enable smaller, more precise or more power-efficient navigation modules" and tamper-proof memory chips for defense and aerospace applications.

But when Baker was asked when they might be introduced, he called them "longer-term development projects."

NVE touts its MRAM patents as potentially industry-changing. Because it retains its data when computer power is off, MRAM is considered a candidate to eventually replace the flash memory used in ultralight laptops, key-chain-sized memory units and digital camera memory cards.

But MRAM hasn't been commercialized yet, and Baker said the patents haven't generated royalty revenue for several years.

Manuel Asensio, a managing member of Mill Rock Investment Advisors in New York City, says he doesn't believe NVE is the growth company it claims to be. NVE's current sensors and couplers offer no advantages over competing devices, and its MRAM patents don't appear to be valuable or enforceable, he said in an interview. Mill Rock is shorting NVE stock.

As a result, Asensio says NVE should be regarded as a contract R&D company, which typically would command a lower stock price than NVE now has.

"There is no basis to believe that these products are going to have the sustainability or growth to justify the current market price of the stock," Asensio said.

Baker disagreed. NVE isn't primarily a contract R&D firm, he said, although in the first quarter that element was the fastest-growing part of its business, up 311 percent.

Steven Crowley, an analyst at Craig-Hallum Capital Group in Minneapolis, believes in NVE's growth potential based on the firm's recent financial history. He said NVE has thousands of customers for its current sensor and coupler products, although the firm has disclosed only a few, including hearing aid firm Starkey Laboratories of Eden Prairie and medical products firm St. Jude Medical of St. Paul.

While Crowley concedes the introduction date for the revolutionary new products remains vague, he says it must be soon or the company wouldn't talk about them.

Crowley agrees that it's hard to know whether the company's MRAM patents will one day produce big revenue, but he said their potential value helps make NVE stock attractive.

NVE says it's a company in transition from contract R&D and product revenue to revenue from product sales and MRAM patent licensing.

"But we're cautious about giving time frames," Baker said. "It's difficult to predict the future."

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