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Changes	Previous	Current
Rating:	-	Hold
Fundamental Trend:	-	Mixed
Price Target:	-	$2.00
FY20A Rev M	-	$47.2
FY21E Rev M	$47.8	$88.4
FY22E Rev M	-	$61.5
FY20A EPS	-	($0.04)
FY21E EPS	($0.04)	$0.16
FY22E EPS	-	($0.05)

Profile		
Price		$2.55
52 Week Range	$0.10 -	$3.05
Avg Daily Volume		11.4
Shares Out M:		196.0
Market Cap ($M)		499.7
Insiders Own		4%
Short Interest (M)		0.7
BV/sh		($0.01)
Est LT EPS Growth		15%
Net Cash/sh		($0.02)
Debt ($M)		$21
Year Ends		Dec

Rev (M)	2020A	2021E	2022E
Mar	$14.6	$11.4	$13.3
Jun	10.9	52.0	14.9
Sep	10.2	12.2	16.0
Dec	11.5	12.8	17.3
FY	**$47.2**	**$88.4**	**$61.5**

EPS	2020A	2021E	2022E
Mar	($0.01)	($0.02)	($0.02)
Jun	(0.01)	0.20	(0.01)
Sep	(0.01)	(0.01)	(0.01)
Dec	(0.01)	(0.01)	(0.01)
FY	**($0.04)**	**$0.16**	**($0.05)**
FY EV/EPS	NA	NA	NA
FY EV/S	10.7x	5.7x	8.2x

Management	
CEO	Chuck Hong
CFO	Gail Sasaki

ALPHA SELECT LIST

Netlist, Inc. — HOLD

(NLST - $2.55) — Price Target: $2.00

Better Late Than Never: Hynix Settlement Smaller Than Hoped For, But See Some Long-Term Benefits Through Supply Agreement And CXL Collaboration. Reiterate HOLD Rating, $2.00 Price Target.

Netlist is a DRAM/flash memory module maker for the enterprise data center market.

OUR CALL

NLST's 8K from Tuesday and hosted conference call on Wednesday provided additional details on NLST's agreement with Hynix. While the $40M license fee from Hynix was initially disappointing to us, there is considerable value to the supply agreement in a capacity-constrained environment, and it helps support NLST's product efforts for 5 years.

We believe the conclusion to this case was based a good deal on the venue, the Western District of TX, and the fact that INTC lost a judgment there for $2.1B in early March likely had an effect on Hynix's negotiating stance. While the GOOG case is not in that venue, other cases (we suspect NLST has MU in its sights, as the #3 memory maker in the world) will likely be directed toward this venue.

In terms of what to do with the stock, the addition of $300M of market cap in the last year may well discount the entire value of the Hynix and GOOG cases. Without further clarity on GOOG's infringement, and an extended timeframe for success in other ways, we have a hard time seeing a favorable risk/reward. NLST remains an event-driven story, and we will eagerly await new legal events as they unfold. Until then, we look for more clarity and/or a better entry point into this stock. We rate NLST as a Hold.

INVESTMENT HIGHLIGHTS

- **SK Hynix settlement details:** NLST stated in an 8K filing earlier this week that its settlement with SK Hynix consisted of a 1) License agreement, in which all litigation ceases, they cooperate on future products, (HybriDIMM CXL) and NLST receives a $40M fee for a fully paid up license over 5 years, and 2) Supply Agreement, in which NLST has the right to source up to $600M of Hynix memory/storage products. We had thought that this case had the potential for $100M+ value to NLST, and the $40M fee is well below that. But we see considerable value to the supply agreement to NLST, both supporting its current/future products for years, but also to be able to resell products with some gross profit (as it does with Samsung). We could potentially see value from the product cooperation and resale of Hynix products, but it's difficult to place an exact value on it at this time.
- **Updating estimates:** We're introducing FY2 estimates, at which point we think NLST should start to see some top-line benefit from its supply agreement with Hynix starting next year (we model a few million/Q until we get further guidance from NLST). We're also updating F21 estimates to incorporate the $40M license payment that NLST expects in 2Q21.

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- **HybriDIMM CXL collaboration:** Having Hynix's collaboration on NLST's CXL HybriDIMM product could be a strong value contributor over time, as NLST's IP (that now both Samsung and Hynix have licensed) is the basis for this product, and should soon be a JEDEC standard. NLST expects to sample the product later this year, and hopes to intersect with INTC's Cascade Lake Xeon server CPU ramp later next year.

ESTIMATE CHANGES

	Mar-21			Jun-21			2021			2022		
(Pro forma)	CH Old	CH New	Cons Est.	CH Old	CH New	Cons Est.	CH Old	CH New	Cons Est.	CH Old	CH New	Cons Est.
Revenues	10.2	11.4	*9.2*	10.3	52.0	*10.5*	47.8	88.4	*45.1*		61.5	*56.5*
Gross margins	*12.5%*	*12.5%*		*13.0%*	*80.0%*		*14.1%*	*53.0%*			*14.2%*	
Opex	*3.3*	*3.3*		*3.1*	*3.2*		*13.4*	*14.2*			*17.0*	
Operating margin	*-19.3%*	*-26.1%*		*-26.8%*	*73.9%*		*-16.1%*	*35.6%*			*-15.7%*	
Pro forma EPS	(0.01)	(0.02)	*(0.01)*	(0.01)	0.20	*(0.01)*	(0.04)	0.16	*(0.04)*		(0.05)	*(0.02)*
Revenue Segments												
Product revenues	10.2	11.4		10.3	52.0		47.8	88.4			61.5	
Licensing	0.0	0.0		0.0	0.0		0.0	0.0			0.0	
Revenue Growth	**Q/Q**	**Q/Q**		**Q/Q**	**Q/Q**		**Y/Y**	**Y/Y**		**Y/Y**	**Y/Y**	
Product revenues	10%	23%		1%	355%		1%	96%			-30%	
Licensing	0%	0%		0%	0%		0%	0%			0%	

STOCK OPPORTUNITY

We are still baking in some enthusiasm for a settlement related to the GOOG case into our price target approach at this time, and maintain our $2.00 target as we think the current market cap (~$500M) likely more than values the benefits from the Hynix settlement and the potential for a GOOG settlement. Our price target of $2.00 is based on ~6-7x EV/S multiple applied to our 2022 sales estimate of $61.5M less $0.02/share in net debt.

RISKS

We believe an investment in Netlist involves the following risks:

- **Supplier concentration:** Samsung supplies a large majority of products for current revenues and is largely contingent on its relationship related to licensing and product development. If that relationship changes, NLST will have to replace that revenue stream with internally developed products and risk worsening losses.
- **Balance sheet:** NLST is burning cash and has a limited cash balance, and likely will need to raise capital in the near future. If NLST isn't able to secure new financing, or if it does so on onerous terms, shareholders may suffer.
- **DRAM and NAND pricing variability and limited supply sources:** Netlist's business is subject to the volatility of DRAM and NAND pricing as well as the reliability of its limited number of suppliers.

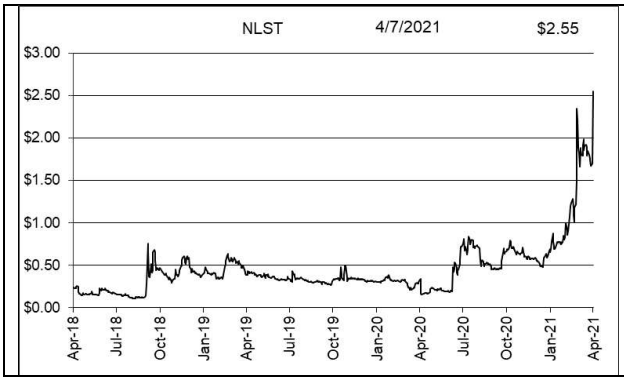
- **Patent position unsettled:** Netlist has outstanding litigations against Google and Inphi who have allegedly infringed on its patents. Reexaminations could result in Netlist losing its technology position, enabling competitors to offer similar products, and could drive increased legal expenses.
- **Large competitors:** Netlist operates in highly competitive markets where the company faces competition from larger suppliers with greater financial resources. As such, Netlist could experience share losses as competitors introduce competing products or reduce pricing.
- **Stock trades on OCTBX:** NLST's stock trades on the OTCQX, where "blue sky" laws may impose restrictions on ability to raise capital for internal or stock compensation purposes.

Netlist, Inc.			FY2020					FY2021					FY2022				
Income Statement (Pro Forma)	2018	2019	Mar-20	Jun-20	Sep-20	Dec-20	2020	Mar-21	Jun-21	Sep-21	Dec-21	2021	Mar-22	Jun-22	Sep-22	Dec-22	2022
FY ends 12/31			1QA	2QA	3QA	4QA		1QE	2QE	3QE	4QE		1QE	2QE	3QE	4QE	
($ in millions, except per share data)																	
Revenue	**33.5**	**26.1**	**14.6**	**10.9**	**10.2**	**11.5**	**47.2**	**11.4**	**52.0**	**12.2**	**12.8**	**88.4**	**13.3**	**14.9**	**16.0**	**17.3**	**61.5**
Cost of Revenue	**31.2**	**23.5**	12.5	9.1	8.9	10.0	**40.5**	10.0	10.4	10.4	10.7	**41.6**	11.6	13.0	13.7	14.5	**52.8**
Gross Profit	**2.3**	**2.6**	**2.1**	**1.8**	**1.3**	**1.5**	**6.7**	**1.4**	**41.6**	**1.8**	**2.0**	**46.9**	**1.7**	**2.0**	**2.3**	**2.8**	**8.7**
R&D	**2.7**	**2.2**	0.6	0.7	0.7	0.8	**2.8**	0.7	0.7	0.8	0.9	**3.1**	0.9	1.0	1.1	1.2	**4.3**
SG&A	**6.4**	**6.8**	2.1	1.8	1.7	2.1	**7.7**	1.8	1.8	1.8	1.9	**7.3**	2.0	2.2	2.3	2.4	**8.9**
Other Opex	**8.9**	**4.1**	0.6	0.8	0.8	0.1	**2.4**	0.7	0.7	1.2	1.2	**3.8**	0.7	0.7	1.2	1.2	**3.8**
Total Opex	**18.0**	**13.1**	3.3	3.3	3.1	3.1	**12.8**	3.3	3.2	3.8	4.0	**14.2**	3.6	3.9	4.6	4.8	**17.0**
Operating Income	**-15.6**	**-10.5**	**-1.2**	**-1.5**	**-1.8**	**-1.6**	**-6.1**	**-3.0**	**38.4**	**-2.1**	**-1.9**	**31.5**	**-3.3**	**-1.9**	**-2.3**	**-2.1**	**-9.7**
Interest income/(expense)	**-0.7**	**-0.9**	-0.1	-0.2	-0.1	-0.1	**-0.5**	-0.2	-0.2	-0.2	-0.2	**-0.6**	-0.2	-0.2	-0.2	-0.2	**-0.6**
Other income/(loss)	**0.0**	**0.0**	0.0	0.0	0.0	0.1	**0.1**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Income Before Taxes	**-16.6**	**-11.5**	-1.3	-1.7	-1.9	-1.6	**-6.5**	-3.1	38.3	-2.2	-2.1	**30.9**	-3.5	-2.1	-2.5	-2.2	**-10.3**
Taxes (Benefit)	**0.0**	**0.0**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Net Income	**-16.4**	**-11.5**	**-1.3**	**-1.7**	**-1.9**	**-1.6**	**-6.5**	**-3.1**	**38.3**	**-2.2**	**-2.1**	**30.9**	**-3.5**	**-2.1**	**-2.5**	**-2.2**	**-10.3**
EPS Diluted	**-0.16**	**-0.08**	**-0.01**	**-0.01**	**-0.01**	**-0.01**	**-0.04**	**-0.02**	**0.20**	**-0.01**	**-0.01**	**0.16**	**-0.02**	**-0.01**	**-0.01**	**-0.01**	**-0.05**
Operating EPS	**-0.15**	**-0.07**	-0.01	-0.01	-0.01	-0.01	**-0.03**	-0.02	0.20	-0.01	-0.01	**0.16**	-0.02	-0.01	-0.01	-0.01	**-0.05**
Diluted Shares	**138.7**	**164.7**	169.7	175.5	192.3	196.0	**183.4**	196.0	196.0	196.0	199.0	**196.7**	199.0	199.0	199.0	202.0	**199.7**
Margin Analysis (Pro Forma)																	
Gross margins	**6.9%**	**9.9%**	14.4%	16.8%	13.1%	12.7%	**14.3%**	12.5%	80.0%	14.5%	16.0%	**53.0%**	12.5%	13.2%	14.5%	16.0%	**14.2%**
R&D	**8.0%**	**8.3%**	4.1%	6.0%	6.5%	7.2%	**5.8%**	6.5%	1.3%	6.5%	7.0%	**3.5%**	7.0%	7.0%	7.0%	7.0%	**7.0%**
SG&A	**19.0%**	**26.0%**	14.1%	16.9%	16.3%	18.4%	**16.3%**	16.0%	3.5%	15.0%	14.5%	**8.3%**	15.0%	14.5%	14.5%	14.0%	**14.5%**
Opex ratio	**53.6%**	**50.2%**	22.5%	30.7%	30.6%	26.6%	**27.1%**	28.6%	6.1%	31.4%	30.9%	**16.1%**	27.3%	26.2%	29.0%	27.9%	**27.6%**
Operating margin	**-46.6%**	**-40.2%**	-8.1%	-13.9%	-17.5%	-13.9%	**-12.9%**	-26.1%	73.9%	-16.9%	-14.9%	**35.6%**	-25.1%	-13.0%	-14.5%	-11.9%	**-15.7%**
Pretax margin	**-49.4%**	**-43.9%**	-9.1%	-15.3%	-18.8%	-13.8%	**-13.8%**	-27.4%	73.6%	-18.1%	-16.1%	**34.9%**	-26.3%	-14.0%	-15.4%	-12.8%	**-16.7%**
Net margin	**-48.9%**	**-43.9%**	-9.1%	-15.3%	-18.8%	-13.8%	**-13.8%**	-27.4%	73.6%	-18.1%	-16.1%	**34.9%**	-26.3%	-14.0%	-15.4%	-12.8%	**-16.7%**
Growth, Q/Q																	
Revenue			56.1%	-25.5%	-6.4%	12.5%		-0.4%	354.5%	-76.6%	5.0%		3.8%	12.4%	7.3%	7.9%	
EPS			-17.3%	20.6%	5.1%	-18.9%		98.2%	N/A	-105.8%	-8.2%		69.8%	-40.1%	18.3%	-11.7%	
Growth, Y/Y																	
Revenue	**-12.5%**	**-22.1%**	186.6%	97.9%	67.0%	22.6%	**81.0%**	-21.8%	376.9%	19.3%	11.4%	**87.2%**	16.0%	-71.3%	31.4%	35.1%	**-30.5%**
EPS	**NA**	**NA**	-70.5%	-59.8%	-48.4%	-15.1%	**-55.2%**	103.6%	N/A	12.7%	27.6%	**-545.0%**	9.3%	-105.4%	10.5%	6.2%	**-132.6%**

Netlist, Inc.

Balance Sheet	2018	2019	FY2020 Mar-20 1QA	Jun-20 2QA	Sep-20 3QA	Dec-20 4QA	2020	FY2021 Mar-21 1QE	Jun-21 2QE	Sep-21 3QE	Dec-21 4QE	2021	FY2022 Mar-22 1QE	Jun-22 2QE	Sep-22 3QE	Dec-22 4QE	2022
FY ends 12/31																	
($ in millions, except per share data)																	
ASSETS																	
Cash and short-term investments	**14.8**	**9.0**	5.7	7.2	14.3	13.3	**13.3**	14.3	36.7	50.1	51.6	**51.6**	49.1	46.7	44.3	45.6	**45.6**
Restricted cash	**1.9**	**2.8**	2.9	3.2	3.2	3.2	**3.2**	3.2	3.2	3.2	3.2	**3.2**	3.2	3.2	3.2	3.2	**3.2**
Account receivables, net	**2.9**	**3.7**	5.1	1.9	4.2	4.7	**4.7**	4.5	20.2	4.7	5.0	**5.0**	5.2	5.8	6.2	6.7	**6.7**
Inventories	**2.9**	**3.5**	6.0	6.1	4.5	3.2	**3.2**	5.3	4.9	4.9	5.1	**5.1**	6.1	6.1	6.4	6.8	**6.8**
Notes receivable	**0.0**	**0.0**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Other current assets	**0.7**	**0.6**	0.7	0.4	0.3	0.5	**0.5**	0.6	0.5	0.7	0.4	**0.4**	0.6	0.5	0.7	0.4	**0.4**
Total current assets	**23.2**	**19.5**	**20.4**	**18.7**	**26.5**	**24.9**	**24.9**	**27.8**	**65.6**	**63.7**	**65.2**	**65.2**	**64.2**	**62.3**	**60.9**	**62.7**	**62.7**
Net PPE	**0.3**	**0.3**	0.3	0.2	0.2	0.2	**0.2**	0.1	0.0	0.0	-0.1	**-0.1**	-0.2	-0.3	-0.3	-0.4	**-0.4**
Other assets, net	**1.4**	**1.4**	1.4	1.4	1.4	0.1	**0.1**	0.1	0.1	0.1	0.1	**0.1**	0.1	0.1	0.1	0.1	**0.1**
Total assets	**24.9**	**22.1**	**22.8**	**20.6**	**28.3**	**25.3**	**25.3**	**28.1**	**65.8**	**63.8**	**65.2**	**65.2**	**64.2**	**62.3**	**60.7**	**62.5**	**62.5**
LIABILITIES																	
Account payable	**9.5**	**9.1**	9.8	9.1	8.1	5.3	**5.3**	11.2	10.4	10.4	10.8	**10.8**	13.0	13.0	13.7	14.5	**14.5**
Accrued liabilities	**0.9**	**1.5**	1.6	1.9	1.1	1.6	**1.6**	1.6	1.6	1.6	1.6	**1.6**	1.6	1.6	1.6	1.6	**1.6**
Short-term debt	**2.7**	**3.4**	4.4	1.3	3.8	20.7	**20.7**	3.8	3.8	3.8	3.8	**3.8**	3.8	3.8	3.8	3.8	**3.8**
Other	**0.0**	**0.0**	0.3	0.4	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Total current liabilities	**13.1**	**14.1**	**16.1**	**12.8**	**12.9**	**27.6**	**27.6**	**16.5**	**15.8**	**15.8**	**16.1**	**16.1**	**18.4**	**18.3**	**19.1**	**19.9**	**19.9**
Other Liabilities	**0.1**	**0.1**	0.5	0.1	0.1	0.1	**0.1**	0.1	0.1	0.1	0.1	**0.1**	0.1	0.1	0.1	0.1	**0.1**
Long-term debt	**17.3**	**16.3**	15.9	16.4	16.4	0.1	**0.1**	16.3	16.3	16.3	16.3	**16.3**	16.3	16.3	16.3	16.3	**16.3**
Total liabilities	**30.5**	**30.5**	**32.6**	**29.3**	**29.5**	**27.9**	**27.9**	**32.9**	**32.2**	**32.2**	**32.5**	**32.5**	**34.8**	**34.7**	**35.4**	**36.3**	**36.3**
Total shareholders' equity	**-5.7**	**-8.4**	-9.7	-8.6	-1.2	-2.6	**-2.6**	-4.8	33.6	31.6	32.7	**32.7**	29.4	27.5	25.3	26.2	**26.2**
Total liabilities & shareholders' equity	**24.9**	**22.1**	**22.8**	**20.6**	**28.3**	**25.3**	**25.3**	**28.1**	**65.8**	**63.8**	**65.2**	**65.2**	**64.2**	**62.3**	**60.7**	**62.5**	**62.5**
Operating Activity																	
Day sales outstanding	**32**	**38**	31	16	37	37	**30**	35	35	35	35	**35**	35	35	35	35	**35**
Inventory turns	**9.3**	**8.8**	8.4	6.0	7.9	12.5	**8.7**	8.5	8.5	8.5	8.5	**8.5**	8.5	8.5	8.5	8.5	**8.5**
Inventory days	**39**	**41**	44	61	46	29	**42**	43	43	43	43	**43**	43	43	43	43	**43**
Payable period	**96**	**131**	70	90	82	48	**72**	90	90	90	90	**90**	90	90	90	90	**90**
Cash conversion cycle	**-25**	**-51**	5	-13	2	18	**0**	-12	-12	-12	-12	**-12**	-12	-12	-12	-12	**-12**
Book value per share	**(0.04)**	**(0.05)**	(0.06)	(0.05)	(0.01)	(0.01)	**(0.01)**	(0.02)	0.17	0.16	0.16	**0.17**	0.15	0.14	0.13	0.13	**0.13**
Cash value per share	**(0.04)**	**(0.05)**	(0.07)	(0.04)	(0.01)	(0.02)	**(0.02)**	(0.01)	0.10	0.17	0.17	**0.18**	0.16	0.15	0.14	0.14	**0.14**

REQUIRED DISCLOSURES



Initiate: December 02, 2013 – Rating: Buy – Price Target: $2.25
Update: February 21, 2014 – Rating: Buy – Price Target: $3.00
Update: November 12, 2014 – Rating: Buy – Price Target: $2.00
Update: August 12, 2015 – Rating: Buy – Price Target: $1.75
Update: November 11, 2015 – Rating: Buy – Price Target: $1.50
Update: November 20, 2015 – Rating: Buy – Price Target: $3.00
Update: August 21, 2017 – Rating: Buy – Price Target: $2.50
Update: November 20, 2017 – Rating: Buy – Price Target: $1.00
Update: April 17, 2018 – Rating: Buy – Price Target: $0.50
Update: June 1, 2018 – Rating: Buy – Price Target: $1.00
Update: April 8, 2020 – Rating: Hold – Price Target: $0.30
Update: August 12, 2020 – Rating: Hold – Price Target: $0.50
Update: March 2, 2021 – Rating: Hold – Price Target: $1.00
Update: April 6, 2021 – Rating: Hold – Price Target: $2.00

Source: FactSet

Ratings definitions:

Buy rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

Fundamental trend definitions:

Improving means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

Ratings Distribution (3/31/2021)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	81%	31%
Hold	18%	12%
Sell	1%	0%
Total	100%	28%

Information about valuation methods and risks can be found in the "STOCK OPPORTUNITY" and "RISKS" sections, respectively, of this report.

CHLM makes a market in this security.

CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm's business, including investment banking.

OTHER DISCLOSURES

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REGULATION AC CERTIFICATION

I, Richard Shannon, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. No part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views contained herein.

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