



**Akoustis Technologies, Inc.**

**Investor Conference Call**

**January 4, 2023**

## CORPORATE PARTICIPANTS

**Tom Sepenzis**, *Vice President, Corporate Development and Investor Relations*

**Jeff Shealy**, *Founder and Chief Executive Officer*

**David Aichele**, *Executive Vice President of Business Development*

## CONFERENCE CALL PARTICIPANTS

**Suji Desilva**, *ROTH Capital*

**Anthony Stoss**, *Craig-Hallum Capital Group*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to this Akoustis Technologies Conference Call.

As a reminder, this conference call is being recorded. A replay of the call will be available on the Investor Relations section of the Akoustis website.

### Tom Sepenzis

Thank you, Operator, and good morning to everyone on the call.

We are joined today by our Founder and CEO, Jeff Shealy; CFO, Ken Boller; and EVP of Business Development, Dave Aichele.

Before we begin, please note that today's presentation includes forward-looking statements about our business outlook. All statements, other than statements of historical facts, included in this conference call such as expectations regarding our strategies, operations, costs, plans, and objectives, including the timing and prospects of product development and customer orders, our expectations regarding achieving design wins from current and future customers, the possibility of entering into collaboratives or partnering relationships, potential impacts of the COVID-19 pandemic, litigation matters, guidance regarding expected revenue, product orders and milestones for the current and future fiscal quarters, and expectations regarding the integration of acquired business operations are forward-looking statements.

Such forward-looking statements are predictions based on the Company's expectations as of today and are subject to numerous risks and uncertainties. The Company and our Management team assume no obligation to update any forward-looking statements made on today's call. Our SEC filings mention

important factors that could cause actual results to differ materially. Please refer to our latest Form 10-K and Form 10-Q filed with the SEC to get a better understanding of those risks and uncertainties.

I would now like to turn the call over to Jeff Shealy, Founder and CEO of Akoustis.

### **Jeff Shealy**

Thank you, Tom, and welcome, everyone.

The purpose of today's call is twofold; first, to discuss our acquisition of GDSI, which closed on January 1, 2023; and second, to provide investors an update on our December quarter.

Beginning with our recent public release, I am thrilled to announce the acquisition of Grinding and Dicing Services, Inc., or GDSI. The company is engaged in premium wafer services necessary for packaging a broad range of semiconductor chips. Their services include wafer grinding and polishing, automated inspection, dicing, pick and place, general back-end silicon wafer processing and packaging, and quality inspection. The GDSI acquisition brings a new, high-margin services business that is immediately accretive to Akoustis, while supporting over 250 customers annually.

From a strategic standpoint, GDSI is a key part of our supply chain as we increase the usage of chip scale packaging, or CSP, and wafer-level packaging, or WLP, in our XBAW RF Filter product portfolio. Further, GDSI is a critical piece of our strategy in 2023 to pursue CHIPS Act funding to create jobs, reshore our packaging supply chain on our campus in upstate New York, and create an end-to-end semiconductor supply chain supporting national security.

Finally, to our current customers, the acquisition of GDSI will enable Akoustis to shorten the time to market for our leading XBAW filters to take on the rapidly expanding demand for our BAW filters that operate at frequencies above three gigahertz in the 5G mobile, Wi-Fi, network infrastructure, defense, timing control, and other markets.

GDSI is a private company headquartered in San Jose, California, and provided services to over 250 customers in 2022. The acquisition, as mentioned, is expected to be immediately accretive, with additional synergies expected over the next 12 months and beyond as we integrate the two companies and leverage Akoustis' existing core competencies. GDSI was the first U.S.-based company to offer non-captive stealth dicing process capability, a key component in our decision to use GDSI services and now bring the capability in-house through this acquisition. GDSI is ISO-9001 and ITAR registered and carries a Trusted Supplier accreditation with the United States Department of Defense, which aligns with our growing defense business and our continuing success with the Defense Advanced Research Projects Agency, or DARPA.

The rationale for this acquisition includes:

The addition of a diverse, high-margin premium services business that is immediately accretive to our operating model.

The gross margins of this new business unit are projected to be approximately 60%.

Achievement of \$1 million in cost savings and cost avoidance related to RF filter prototype activity within the next 18 months.

Strategic alignment with Akoustis' strategy to leverage the U.S. CHIPS Act of 2022 to create new jobs as we reshore core packaging capabilities from Asia to a new advanced packaging center located on our

Canandaigua campus in upstate New York. Specifically, this acquisition allows the opportunity to scale up our back-end core competencies, including wafer grinding and stealth dicing process capabilities supporting our CSP and WLP onshore package manufacturing.

Additionally, it will drive improved rapid prototype and development cycle time for Akoustis' XBAW filters through back-end process integration and supply chain efficiencies.

Integration of onshore front-end and back-end supply chains support national security.

New synergistic sales channels in the defense market, including an active Trusted Supplier accreditation with the Department of Defense.

Further, the addition of the GDSI management team, along with significant technical talent in wafer grinding and dicing to complement Akoustis' front-end XBAW technology.

Finally, the expansion of XBAW RF filter margins through the internalization of the grinding and dicing process supply chains.

Akoustis is paying \$14 million in cash and \$2 million in stock for GDSI, with an additional \$4 million in the form of a secured promissory note payable over three years based upon key employee retention and agreed-upon performance, for a total of \$20 million.

Moving on to an update of our guidance for the December quarter. During our last quarterly call with investors, Management communicated that Akoustis expects to continue revenue growth in the December 2022 quarter with 5% to 10% sequential growth. After recently completing our December quarter, we are pleased to reiterate this previous guidance despite the ongoing broader environmental challenges in the semiconductor industry that we discussed on our last conference call. Given the acquisition of GDSI did not occur until January 1, 2023, our December revenue guidance update does not contain any revenue related to our acquisition of GDSI.

Looking ahead, we expect our new GDSI business unit to add approximately \$1 million to \$1.5 million in revenue per quarter beginning in March, and we plan to grow the business in calendar 2023 and beyond, both organically and through potential contributions from the U.S. CHIPS and Science Act of 2022.

In conclusion, on behalf of Akoustis Management and Board, I would like to welcome Joe Collins, President of GDSI, and the entire GDSI team. We look forward to expanding our internal supply chain capabilities and supporting the growth of GDSI's business with external customers. The acquisition of GDSI will enable Akoustis to speed the development of our leading XBAW filters to take on rapidly-expanding demand for our XBAW filters from mobile, Wi-Fi, infrastructure, timing, defense, and other markets. As always, I would like to thank all of you who have joined the call today and our shareholders who continue to support our Company.

Management is currently planning to hold customer meetings at the 2023 CES Trade Show this week, and would welcome the opportunity to meet in person with investors. Please reach out to Investor Relations to schedule such meetings with Management.

I would now like to open the call to questions from the Investment community.

Operator, please go ahead with the first question.

**Operator**

Thank you.

Our first question comes from the line of Suji Desilva with ROTH Capital. Please proceed with your question.

**Suji Desilva**

Good morning, Jeff. Good morning, team. Congratulations on the acquisition this morning.

Can you talk about, Jeff, about the timing of the close? I think you might have hinted at it on the call. I just wanted to be clear on that.

**Jeff Shealy**

Hey, good morning, Suji. Yes, Jeff here, and appreciate your comments.

Yes, in terms of the timing, the timing occurred on—the closing of this acquisition occurred on January 1<sup>st</sup>. Yes, so as we said in our comment—in terms of our update on the revenue guidance, there is no impact on and no contribution—when we reiterate guidance, there's no contribution related to this acquisition for the December quarter.

**Suji Desilva**

Okay, Jeff. Thanks for clarifying that. Can you just talk about what you were seeing with the Asian suppliers, either macro or lead times, that perhaps precipitated a move like this?

**Jeff Shealy**

Yes, we've been talking—I'll talk a little bit—Dave's been looking at that in terms of impact on customers, but let me at least first start by saying we've been pretty vocal with investors about some of the challenges overseas. We've seen flare-ups of COVID that continue to see shutdowns due to COVID virus spread in the Asia supply chain. On top of that, energy—as we kind of move through the summer months, we're seeing some energy challenges in terms of those supply chains actually being able to run. I think that was primarily due to a water shortage. The other aspect of this is, that's key, is lead time. We compete and need prototypes to move very, very quickly, and having those go overseas and back, we were putting a lot of airline miles on our chips getting them to customers. What that ultimately led us to was begin looking at an onshore solution, and we began partnering with GDSI approximately a year ago, and that activity has ramped up nicely.

Dave, anything you want to add to that?

**David Aichele**

Yes, I'll make a couple of comments, Suji.

**Suji Desilva**

Hey, Dave.

**David Aichele**

The improvement that we're going to see, at least on the MPI side, is around three times improvement in cycle time for the MPI, which, to Jeff's point, for some of the customers, the cycle time on Wi-Fi AP for carrier retail, and even the enterprise, they're doing their spins fairly rapidly. We want to make sure that we're getting the initial prototypes out to them and any iterative design prototypes in a manner that meets their demand.

Additionally, GDSI adds a lot of talents and leadership in the dicing and grinding and making dial-in processes, and we can work with them to transfer that more effectively than work remote with our (inaudible) overseas. That's two benefits from an MPI standpoint.

**Suji Desilva**

Great. Helpful color.

Third question, I don't know GDSI's manufacturing footprint, will there be a technology transfer and/or Capex add at upstate New York to have lines there as well, or how will that be combined?

**Jeff Shealy**

Yes, let me comment on that.

As we said in the announcement, what we acquired here was a premium services business. Dave touched on the expertise that we're getting in the back-end. As investors know, Akoustis has built a front-end expertise in chips in the upstate New York campus. What we are complementing that with here is the back-end, which is the processes that go into the packaging of those chips. From a tech transfer, we've got a profitable standalone entity on the West Coast.

We would look to expand this brand into our upstate New York campus. I think that creates jobs. It addresses some critical requirements that we need for our upcoming CHIPS Act application with Department of Commerce that we plan on pursuing. We really have the opportunity of having some of those services and scale-up of those services in our Finger Lakes campus there in Canandaigua, New York. I think that touched on your question there, Suji.

**Suji Desilva**

It did, Jeff. Yes, it did.

Last quick question and then I'll jump back in the queue. Is this acquisition one of maybe several you may need to shore up your supply chain, or do you feel like this is what you need? Just understanding growth map potential to get to where you want to from a footprint capability perspective?

**Jeff Shealy**

Yes, as we've been vocal with, we've been moving to not only chip-scale packaging, but wafer-level packaging. This highly complements the wafer-level package technology that we have already in upstate New York. What we needed was—some of the core competencies around these back-end technologies. The quality that we found with GDSI is excellent. The processes, the customer focus is excellent. Attention to detail has been quite good, as well as the cultural match, but we think this acquisition is—in terms of our supply chain, is what we need to complement what we're already doing in WLP on the New York campus. I don't see from a—we'll always look opportunistically, but in terms of what do we need to kind of put the pieces together to scale up and reshore some of our packaging, particularly to address

some of the CHIPS Act requirements, we think this acquisition does that nicely and complements what we already have in-house.

**Suji Desilva**

Great. That's the color I needed. Thanks again. Congrats, team.

**Jeff Shealy**

Thank you, Suji.

**David Aichele**

Thanks, Suji.

**Operator**

Thank you.

Our next question comes from the line of Anthony Stoss with Craig-Hallum. Please proceed with your question.

**Anthony Stoss**

Good morning, guys. My congrats as well.

Couple of maybe technical questions related to GDSI. What percent of revenues is their largest customer? How many 10% customers do they have, and maybe if you know the revenue growth rate over the last couple of years would be helpful?

**Jeff Shealy**

Morning, Tony.

Let me touch base with—let's have Dave jump in, and as well as Ken, and I'll certainly follow up on their comments.

**David Aichele**

Morning, Tony.

From a customer base, they've got a very diverse customer base. I think we mentioned over 250 customers. We had the opportunity to talk with several of them, and the resounding message that we received is that the customers we did talk to, they've been doing business with GDSI for over 10 years, and they consider them to be a sole-source supplier in certain services that they provide from dicing, grinding, polishing, etc. It's a very strong customer base, and it depends on if they're doing MPW, multi-product wafers, or if they're doing production with them.

Probably the top 10 customers is a good portion of the revenue, and it goes back and forth quarter-over-quarter just based on level of activity that those customers have, and these are Tier 1 customers in the semiconductor side that supports a lot of the activity. Also, they do business with some optics companies as well. This is one that we can—we'll work with them from Akoustis side, that we can offer some

advantages on our sales channels over in Europe and also in Israel, and also, our relationships with the Defense and DARPA that we can expand on that, and include this also in our foundry model that we're rolling out this year. As Jeff highlighted, there's a lot of synergy between the two companies and we think we can expand on that revenue base as well.

**Anthony Stoss**

Dave, is there any industries that they're stronger in or that represent the bulk of the revenues?

**David Aichele**

Most of it is in the semiconductor side. If you look at it with the customer base, Tier 1 semiconductor, and it varies from silicon to gas wafers supporting various different processes. As I mentioned, they are involved in the optics industry as well because of their precision capabilities, and also in being able to, with those kinds of applications, minimize debris and other things that are critical. Again, these industries can demand a higher premium based on what services they offer, and that's where you see that nice accretive gross margin.

**Anthony Stoss**

I guess just moving back (multiple speakers) question, revenue growth rate has been slow-growing, fast-growing, largely stagnant? How would you kind of classify this?

**Jeff Shealy**

Yes, I want to emphasize, Tony, number one, this was—there are certainly some strategic points which we included here from motivating us on the acquisition, but on the order of right at double-digits in terms of how they've been growing. I would also add, Dave touched on the compound semiconductor, not only silicon to gallium arsenide, they've got business in silicon carbide, and in terms of wafer sizes that they're able to do, 2-inch to 12-inch silicon. Two-inch compound semiconductor materials, 12-inch silicon. They have coring services. It's a very wide range of process services that they can touch on, but I would model it at roughly 10%.

I also would add that what we're doing in some of the CSP, or the chip-scale packaging, we do plan on adding to their capabilities some of the processes that we already have, which they can then, in turn, offer as services. That's going to add to their capabilities going forward, we hope to accelerate their growth on a go-forward basis.

**Anthony Stoss**

Great detail, Jeff. Thank you.

**Jeff Shealy**

Thank you, Tony. Happy New Year.

**Operator**

Thank you.

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Shealy for any final comments.

**Jeff Shealy**

I'd like to thank everyone today for your time. We look forward to speaking with you during our next scheduled conference call for our Q2 Fiscal Year 2023 update where we're going to plan to discuss our current quarter execution, particularly the December quarter execution, as well as the milestones and future expectations for the Company. I'd like to thank everybody and wish everybody a Happy New Year.

Thank you.

**Operator**

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you, for your participation.