



Q2 FY22 Earnings Conference Call Prepared Remarks

Operator

Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic Corporation's Second Quarter Fiscal Year 2022 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through August 23, 2022. I would now like to turn the conference over to Mr. Jim Fanucchi of Darrow Associates. Mr. Fanucchi, please go ahead.

Jim Fanucchi

Thank you, operator and thanks to all of you for joining us. Our speakers today are Brian Faith, President and Chief Executive Officer, and Elias Nader, Senior Vice President and Chief Financial Officer.

As a reminder, some of the comments QuickLogic makes today are forward-looking statements that involve risks and uncertainties, including but not limited to stated expectations relating to revenue from new and mature products; statements pertaining to QuickLogic's future stock performance, design activity and its ability to convert new design opportunities into production shipments; timing and market acceptance of its customers' products; schedule changes and production start dates that could impact the timing of shipments; the company's future evaluation systems; broadening the number of our ecosystem partners; and expected results and financial expectations for revenue, gross margin, operating expenses, profitability and cash.



Actual results or trends may differ materially from those discussed today. For more detailed discussions of the risks, uncertainties and assumptions that could result in those differences, please refer to the risk factors discussed in QuickLogic's most recently filed periodic reports with the SEC. QuickLogic assumes no obligation to update any forward-looking statements or information, which speak as of the respective dates of any new information or future events.

In today's call we will be reporting non-GAAP financial measures. You may refer to the earnings release we issued today for a detailed reconciliation of our GAAP to non-GAAP results and other financial statements. We have also posted an updated financial table on our IR web page that provides current and historical non-GAAP data.

Please note, QuickLogic uses its website, the company blog, corporate Twitter account, Facebook page, and LinkedIn page as channels of distribution of information about its business. Such information may be deemed material information, and QuickLogic may use these channels to comply with its disclosure obligations under Regulation FD.

A copy of the prepared remarks made on today's call will be posted at QuickLogic's IR web page shortly after the conclusion of today's earnings call.

I would now like to turn the call over to Brian.

Brian Faith – Chief Executive Officer

Thank you, Jim. Good afternoon, everyone, and thank you all for joining our second quarter fiscal 2022 financial results conference call.



Our business momentum continued in Q2 as we achieved our best bottom-line performance since 2010. Moreover, we have seen an increase in our sales funnel and large design wins – currently approaching \$100 million. We expect the pace to accelerate in the coming quarters and years, further boosting both our near-term and long-term growth trajectory as we drive the company to profitability.

This has all been enabled by being the first commercial entity to market with a robust and comprehensive platform that blends open-source technology with our decades of product shipments and engineering know-how in the FPGA market.

I believe a recent event marks a watershed moment for QuickLogic.

As noted in the earnings release today, I am both honored and pleased to share that we have won by far our largest eFPGA-related contract to date, one that will start at approximately \$7 million. The Company's deliverables will be due over the course of twelve months. In addition, subject to completion of such deliverables and at the option of the customer, the total contract value could increase to tens of millions of dollars.

While we are contractually prohibited from sharing customer names or end market details on this most recent win, this development demonstrates how eFPGA-related opportunities are turning into multi-year, substantially higher revenue design wins. We believe this is further proof that our strategy to develop eFPGA IP and related products will transform QuickLogic into a sustainably growing and profitable business for many years to come.

Since July of last year, we have now closed firm eFPGA-related contracts approaching \$16 million, with the aggregate potential approaching \$100 million over time.



There are several additional opportunities in our sales funnel that are expected to follow a similar path – starting as an eFPGA IP engagement and expanding to full FPGA-based device and/or chiplet developments with the intention of QuickLogic being the storefront for the device once it is completed.

Our Australis eFPGA IP Generator has been a substantial contributor to this pipeline of new opportunities. Companies of all sizes, including some very large and recognizable names, are coming to QuickLogic because we can define and deliver customized eFPGA IP and/or devices in a highly automated way. Our standard cell design approach allows QuickLogic engineers to generate custom eFPGA IP in a matter of months, giving our customers a fast time-to-IP delivery and providing QuickLogic tremendous operating leverage from our R&D resources.

The breadth of our active eFPGA customer engagements spans the world's largest semiconductor foundries, including TSMC, GlobalFoundries, Samsung, UMC, and SkyWater Technologies.

Now moving to our SensiML business. SensiML is having its best year ever. In our May earnings call, we shared that SensiML signed their first 6-digit win, and the pipeline of opportunities is growing. In the June quarter, we saw a doubling of 6-digit opportunities, including a growing number of Fortune 500 companies. Our current expectation is we will close at least one of these deals by the next earnings call in November.

Driving the SensiML engine is an expanding ecosystem of integrators. SensiML recently closed three new system integrators in Asia to add to the already publicly announced



deal with Direct Insight. We are looking for these new additions to drive more 6-digit revenue deals in the first year of representing the SensiML products.

Since the start of the year, we have been asked to offer additional commentary on the emerging chiplets markets and specifically our chiplets program.

Chiplets have been steadily taking market share from more traditional monolithic semiconductor devices. For manufacturers, using a chiplet-based approach not only creates flexibility, but helps enhance yields and reduce costs as each chiplet component has a smaller die size, and hence higher yield, than would a larger monolithic device encompassing all of the same combined functionality.

That is why our June announcement with eTopus is so significant. We provide the eFPGA technology and they provide the special high performance/low power interconnect that's critical for many of the applications our customers have in mind. Our current plan is to start with eFPGA-based chiplet templates and then move forward with a Known Good Die approach commensurate with customer-demand.

The chiplet market is expected to grow significantly over the next decade. Industry research firm Transparency Market Research recently noted that the chiplet market is expected to exceed \$47 billion by 2031, representing a CAGR exceeding 40%.

We are under evaluation with lead customers to see how we might architect a chiplet that can be reused across multiple customers.

I want to quickly touch on some other areas of our business: Display Bridge product sales and design-ins remained strong as we benefit from the continued global supply chain



issues. We expect demand to remain strong into 2023 and have inventory to meet customer needs.

In our mobile phone business, we believe we are being designed into several new models of phones that will ship well into 2024, giving us a good long-term visibility.

In the near-term, though, very muted consumer spending in recent months is negatively impacting our primary customer. Given the macro factors, including ongoing supply chain issues, we believe the second half will remain weak for our mobile phone business, with Q3 being the low point in demand.

Finally, in our mature product segment, we are starting to see some stabilization in bookings for this quarter and the balance of this year. However, without good clarity on the macro economy, we currently believe mature revenue will be slightly down from 2021.

Before turning the call to Elias, I want to provide our revenue outlook for Q3 and offer a look into Q4. Over the last two years we have made significant progress building our software and IP-related business. During this transitional period to a more software and IP-centric company, I have noted that from time to time there could be some lumpiness in our revenue recognition due to the timing of milestones in these agreements or delays in start dates.

For Q3 in particular, we had originally expected the \$7 million agreement I previously mentioned to start earlier in the third quarter. However, we were recently informed the project start date has been pushed to later this quarter. This push out in revenue, coupled with the softening smartphone sales environment, has caused us to reduce expectations



for Q3 revenue by approximately \$1.8 million. We expect a portion of this revenue to be realized in Q4 and into the first half of 2023.

As a result, our current expectation is for revenue in Q3 to be approximately \$3.4 million, plus or minus 10%, which on a rolling twelve-month basis, still puts us in line with our targets since it reflects the impact of timing in terms of signing new opportunities.

I want to be very clear: in winning the large contract I mentioned earlier, I am convinced the third quarter revenue decrease is a mere blip in our growth trajectory, related to the start date of this new, large contract, and is not indicative of any barriers to continued growth and profitability.

Even with the shift in the start date of this large contract, and the smartphone weakness, we are on pace to increase fiscal 2022 revenue approximately 35% over fiscal 2021.

To further support our confidence in the business, the early outlook for Q4 is shaping up nicely. With this fiscal year revenue outlook, and with current gross margin and operating expense levels, I believe we have a very good chance of reporting profitability in Q4.

Let me now turn the call over to Elias for a review of the financial results. Elias, please go ahead.

Elias– Chief Financial Officer

Thank you, Brian and good afternoon, everyone. Our performance in Q2 was very strong. Revenue of \$4.5 million was the highest since the second quarter of 2015, further demonstrating the strength of our software and IP-focused revenue model. The growing top line, combined with a favorable gross margin and continued expense controls



translated into a minimal non-GAAP net loss of just \$47,000, which is close to our goal of breakeven.

Let me now turn to the review of the results for the second quarter.

GAAP Revenue in Q2 was \$4.5 million. This compares with \$4.1 million last quarter, and \$2.9 million in the second quarter of 2021. On a percentage basis, our Q2 revenue represented an increase of 11% compared with last quarter and was up 58% when compared with the second quarter of 2021. This improvement comes despite the pandemic, supply chain shortages in the industry, and volatile economic headwinds.

Within our Q2 revenue, sales of new products were approximately \$3.1 million. This compares with \$3.5 million last quarter and \$1.3 million in the second quarter a year ago. Mature product revenue was approximately \$1.4 million, compared with \$0.7 million last quarter and \$1.6 million in Q2 last year.

In Q2, we had three customers that each accounted for 10% or more of our revenue, which is consistent with the prior quarter.

Non-GAAP gross margin in Q2 was 58.6%, compared with 61.5% in the prior quarter and up from 51.5% in the same quarter of 2021. The decrease in gross margin quarter over quarter was due to increased expenses in eFPGA IP professional services inclusive of nonrecurring costs of specialized tooling. Improvement from the same quarter last year resulted from a product mix shift to more eFPGA IP professional services.

Non-GAAP operating expenses in Q2 were approximately \$2.8 million. The OpEx for Q2 was lower than our forecast mainly due to reclassifications related to certain R&D expenses to eFPGA IP, in support of eFPGA IP professional services. Q2 OpEx compares



with operating expenses of \$3.1 million last quarter and \$3.3 million in the second quarter a year ago.

Non-GAAP net loss was \$47,000, or a loss of zero cents per share, based on 12.4 million shares. This compares with a net loss of \$0.8 million, or \$0.06 per share last quarter, and a net loss of \$1.9 million, or \$0.16 per share in the second quarter of fiscal 2021.

Total cash at the end of Q2 was \$18.5 million, compared with \$20.1 million in the prior quarter. The continued investment to support the new design wins we have discussed accounted for a portion of the sequential decline. Additionally, timing issues related to cash receipts from customers also contributed to the lower cash position.

Now moving to our guidance for this quarter of fiscal 2022, which will end on October 2, 2022:

As Brian discussed, revenue guidance for Q3 is approximately \$3.4 million, plus or minus 10%, due to the reasons he outlined. Revenue is expected to be mainly comprised of approximately \$2.4 million of new products and \$1.0 million of mature products.

Based on this revenue mix, non-GAAP gross margin for the quarter will be approximately 64%, plus or minus 5 percentage points.

Our non-GAAP operating expenses will be approximately \$3.5 million, plus or minus 10%, because longer term, we believe OpEx will remain in the low \$3 million range with occasional increases to support new programs.



After interest expense, other income and taxes, we currently forecast our non-GAAP net loss will be approximately \$1.3 million to \$1.7 million, or a net loss of \$0.11 to \$0.14 per share, based on roughly 12.4 million shares outstanding.

The difference between our GAAP and non-GAAP results is related to non-cash, stock-based compensation expenses. In Q3, we expect this compensation will be approximately \$425,000. As a reminder, there will be movement in our stock-based compensation during the year and it may vary each quarter based on the timing of the grants.

Moving to the balance sheet. Even with continued investment to support the new design wins that we have discussed, at the midpoint, we expect cash usage to be in the low to mid \$1 million range.

Finally, as part of good corporate housekeeping, this week, we will be filing a universal shelf registration statement on Form S-3 for up to \$125 million. This provides us, the company, the option to quickly respond to opportunities similar to the strategic investments we have done in the past year.

As Brian stated above, with the new, large design wins and overall momentum in our business, and a lean operating structure, we are driving the company to profitability, possibly as soon as Q4.

Thank you. With that, let me now turn the call back over to Brian for his closing remarks.

Brian Faith – Chief Executive Officer

Thank you, Elias.



QuickLogic is now in the third year of its transformation and the business is stronger than ever. We have a fast-growing pipeline of larger eFPGA IP and software sales, an expanded distribution ecosystem to drive our products out to a significantly higher number of potential customers, and a lean operating model that generates higher returns as revenue increases.

During the past year, we have successfully closed multiple million-dollar wins, the most recent of which being approximately \$7 million. As our revenue growth resumes in Q4 and into 2023 on the strength of our largest eFPGA contract to date, I am even more confident we are on the cusp of sustainable profitability.

I would like to again thank our key stakeholders, including investors, customers, suppliers and most of all the QuickLogic and SensiML teams for their continued support.

That completes our prepared remarks. Operator, I would now like to open the call for questions.

Brian Faith – Chief Executive Officer

Thank you for participating in today's call and for your continued support. We look forward to speaking with many of you again when we participate in upcoming investor events, and when we report our third quarter fiscal year 2022 results in November. Have a great day!