



Q2, 2018 Earnings Conference Call Prepared Remarks

Moriah Shilton - LHA

Thank you. Welcome everyone, and thank you for joining us today for QuickLogic's Second Quarter Fiscal 2018 Results Conference Call. With us today are Brian Faith, President and Chief Executive Officer, and Dr. Sue Cheung, Chief Financial Officer.

Before we begin, I will read a short safe harbor statement. 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 projected production start dates that could impact the timing of shipments; the company's future evaluation systems; broadening the company's ecosystem partners, expected results and financial expectations for revenue, gross margin, operating expenses, profitability and cash. These statements should be considered in conjunction with the cautionary warnings that appear in QuickLogic's SEC filings. For additional information, please refer to the company's SEC filings posted on its website and the SEC's website.

Investors are cautioned that all forward-looking statements in this call involve risks and uncertainties and that future events may differ materially from the statements made. For more details of the risks, uncertainties and assumptions, please refer to those discussed under the heading "Risk Factors" in the annual report on Form 10-K for the fiscal year ended December 31, 2017, the company filed with the SEC on March 9, 2018. These forward-



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looking statements are made as of today, the day of the conference call, and management undertakes no obligation to revise or publicly release any revisions of the forward-looking statements in light of any new information or future events.

Please note, QuickLogic uses its website, the company blog QuickLogic HotSpot, its corporate Twitter account, Facebook page, and LinkedIn page as channels of distribution of information about its products, its planned financial and other announcements, its attendance at upcoming investor and industry conferences, and other matters. Such information may be deemed material information, and QuickLogic may use these channels to comply with its disclosure obligations under Regulation FD.

The conference call is open to all and is being webcast live.

We will start today's call with the company's strategic update from QuickLogic's CEO Brian Faith. Then CFO Sue Cheung will provide financial results and guidance. Brian will deliver closing remarks and open the call to questions.

At this time, it is my pleasure to turn the call over to Brian Faith, President and CEO. Please go ahead, Brian.



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Brian Faith – President and CEO

Thank you, Moriah. And thank you all for joining our Q2 2018 conference call.

We have made tremendous progress since our last conference call. Most notably, we won two significant EOS™ S3 designs with large OEMs that forecast 2019 production in low to mid-seven figures and executed our first embedded FPGA Master Technology Licensing agreement with a semiconductor company.

We believe these, and other high-profile designs will enable us to grow 2019 total revenue significantly more than our 50% goal and deliver a breakeven quarter by the end of next year.

While production commitments from major OEMs give us confidence that we are developing the momentum and critical mass to deliver our long-term growth and profitability objectives, there are four factors limiting our growth in 2018.

- The delay of the Amazon Alexa Voice Services or AVS specification for hearable, wearable and other battery powered devices.
- Delays in finalizing embedded FPGA IP license agreements.
- The push of our first smartphone design win from a fall 2018 release to a spring 2019 release.



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- And, the continued delay in the release of the wearable design win we have with a tier one smartphone company.

The good news is that all of these factors are rapidly moving in the right direction and with this we are gaining visibility into production schedules that we anticipate ramping during the coming quarters. While we are forecasting our growth will start in Q3 and continue for many quarters going forward, second half 2018 revenue will not be significant enough to deliver the 50% growth we have been modeling for this year.

Based on reports from customers, we expect a total of eight to ten AVS compliant products using our EOS S3 SoC will move into production during the coming months with the first scheduled for late Q3. However, we don't have enough information from the other customers yet to forecast the total impact of their designs on second half 2018 revenue.

While a number of potential IP customers have shown serious interest in our ArcticPro™ embedded FPGA, our engagements were stalled in a Catch-22. To address this, we modified our go to market strategy last quarter, and we are already seeing positive results.

The short story is semiconductor companies wanted to run test chip experiments with our embedded FPGA technology before committing a significant amount of money to acquire an IP license for a new SoC design. To accommodate this and move the engagements forward, we created a Master Technology License Agreement or MTLA that carries only a modest support and maintenance charge. This solved two problems.



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- First, it enables semiconductor companies and OEMs to build test chips using our embedded FPGA IP for only a modest cash investment. This provides them an opportunity to evaluate and quantify the benefits of eFPGA ahead of making a commitment to a new SoC design. This also provides us with exposure to other SoC design groups within the company, which expands our opportunities for new engagements.
- Second, the MTLA defines the terms and conditions of follow-on IP licenses. This means the vast majority of the negotiations and legal work is accomplished within the MTLA and the follow-on license agreements for targeted SoCs amount to only a couple pages. This is critical in some cases since an SoC design group that wants to use eFPGA may otherwise decide it does not have the time to go through tedious corporate level approvals and license negotiations.

In short, with a test chip in place, design groups can define the ROI and move quickly without disrupting the design flow for a given SoC.

In June we announced the signing of our first MTLA with C-SKY Microsystems. C-SKY, which is in the process of being acquired by Alibaba, is the only high volume embedded CPU provider in China with its own ISA and reports over 700 million embedded CPUs shipped.

The company's ultra-low-cost CK800 series of embedded CPUs addresses a wide range of cost-sensitive applications where discrete FPGA's have historic use cases, such as AI, IoT,



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digital audio/video, networking and wireless communications, security, industrial control and automotive. C-SKY plans to incorporate our ArcticPro embedded FPGA in a new highly flexible, ultra-low power common CPU platform that will be fabricated using the SMIC 40nm LL process. The platform is expected to be available in mid-2019.

This morning we announced that ETH Zurich has selected our ArcticPro embedded FPGA for use in its Parallel Ultra Low Power PULP platform that targets GLOBALFOUNDRIES' 22FDX fabrication process. ETH is a renowned technical university located in Zurich, Switzerland and a founding member of the RISC-V foundation. ETH chose QuickLogic's technology for its ultra-low power operation and its ability to create new options for extremely power efficient hardware/software implementations.

We are collaborating with ETH to integrate our embedded FPGA in its PULP RISC-V SoC that will enable users to offload certain functions from the processors to the eFPGA fabric. This will give OEMs the capability to evaluate the power savings and performance improvements that embedded FPGA hardware solutions deliver relative to software solutions running on processors. This is critical for many use cases where designs must maintain the flexibility needed to adapt to new algorithms yet still be optimized for performance and ultra-low power consumption.

We already have revenue generating IP license opportunities tied to the PULP 22FDX[®] test chip.



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We received the 22FDX[®] test devices from GLOBALFOUNDRIES last quarter and continue to expect the qualification process will be completed by the end of this summer.

We have ongoing 22FDX engagements that are moving forward ahead of this qualification that are independent of the opportunities tied to the ETH PULP program.

Our initiative to port to a more advanced process node at TSMC is moving forward and is driven in part by a specific customer engagement targeting this process.

At the bottom line, we have made distinct progress in our embedded FPGA IP initiative since our May conference call. Our new go to market strategy has already resulted in a MTLA agreement with C-SKY and is being evaluated by other potential customers that we feel are very good prospects for IP license agreements in 2019.

We believe C-SKY, the engagements associated with our ETH initiative and other ongoing engagements will lead to multiple IP license agreements. However, since the timing of finalizing these anticipated agreements is unclear, and in some cases, may involve the interim step of an MTLA, we are not currently forecasting material IP license revenue for second half 2018.

Last quarter I mentioned that we were in the final stages of negotiating an MOU with a significant Japanese smartphone OEM. The MOU is now signed and covers multiple smartphone models extending to 2020. We were originally forecasting the first smartphone



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would be released this year. However, the customer's lead carrier has asked them to hold always on / always listening voice capability for the model it targets for release spring 2019. We are hopeful this release schedule will result in a prominent display at Mobile World Congress 2019.

As I outlined in our last conference call, we have three active opportunities with a tier one smartphone OEM.

The hardware and firmware designs for the first wearable product were locked in Q2 and list our EOS S3 as the device of record. The audit of our package and test subcontractor is ongoing as are software regression testing and quality and reliability testing. The customer's efforts with third party companies that are developing apps will likely continue even after the product is released for production.

While we do not have a production schedule for this design win yet, we are currently anticipating it will start during the first half of 2019. We believe this design has low seven figure potential in 2019.

While the design cycle for this first product has been unusually long, the customer's understanding of the industry leading power consumption delivered by our EOS S3 SoC led to the second engagement for a high-volume consumer wearable.



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We expected to know by now if the customer selected EOS S3 for this second wearable design, but that decision is still pending. Beyond that, all I can share is we are working closely with the customer's design team and that the EOS S3 design approach consumes less power than the alternative design approach.

We believe the customer will make a final decision on this design before the end of this quarter. The customer is targeting the new wearable to be production-ready by end of 2018, and that volume will ramp beginning in Q1 2019. If we are successful in winning this design, I believe this it has low to mid-seven figure value in 2019.

The third opportunity with this customer for a hearable design remains an evaluation as the customer has prioritized other programs and has not completed testing the new beam forming and advanced noise reduction technology available with our EOS S3 SoC.

Naver Labs released its first consumer product, the AKI smartwatch, last May. AKI is a highly sophisticated smartwatch that leverages our EOS S3 to optimize low power consumption while enabling always-on / always listening voice capabilities. AKI is being primarily marketed and sold through Korea Telecom or KT, which is South Korea's largest wireless telecom company. We expect AKI will contribute to our second half growth, and a new hearable engagement with Naver Labs has the potential to build on this success in 2019.

In past calls I've discussed a wearable design win with a European health company targeting the B2B market. Since our last call, the founder and CEO of the company was replaced. The



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new CEO has reset the company's near-term priorities and with that, placed the B2B wearable on hold. As a result, we no longer anticipate the wearable going into production this year and with our limited visibility, we are not currently forecasting revenue in our 2019 model.

Last quarter I mentioned that we added a second engagement with the European fitness company that we have discussed on previous calls. The good news is the new design fully leverages the resources of our EOS S3 SoC including its embedded FPGA. However, with this design in development, the customer decided to drop its original design that used minimal EOS S3 resources. As a result, we no longer anticipate production revenue from this customer in 2018. Given the traditional upgrade schedules this customer follows, we expect the new product using our EOS S3 to be released in early 2020.

Our success in markets beyond smartphones, wearable and hearable devices continues to build and will be a primary driver for second half growth.

Since our last conference call, BBK Educational Electronics has introduced two new tablets that use our EOS S3 SoC to enable always-on / always listening and trigger word recognition.

With 40,000 terminal sales outlets in 600 Chinese cities and 50 flagship stores, EEBBK is a very well recognized brand and a leading supplier of interactive educational products in China. Its new S3 Pro flagship and H20 entry level tablets uses our EOS S3 to deliver the



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benefits of always-on / always listening and enable children in China to begin learning as soon as they can talk.

We are engaged with EEBBK on a new potentially high-volume design that is scheduled for release in 2019.

We have recently won a very significant design with a major consumer electronics company that is scheduled to move into initial production in very early in 2019. The first of up to ten products using our EOS S3 SoC is scheduled for what I anticipate will be a high-profile launch at CES in January 2019.

Due to our NDA with the company, I can only share a few bullets:

- The design uses our always-on / always listening voice technology and our embedded FPGA.
- The OEM has high brand-name recognition.
- The end product is a new high-volume consumer category for QuickLogic.
- And, we anticipate 2019 revenue in the low to mid-seven figure range.

In addition to the momentum we have established with major OEM customers that are scheduled to ramp new EOS S3 designs in the coming quarters, we continue to benefit from working closely with our strategic ecosystem partners.



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Last quarter we announced that Murata selected our EOS S3 for its new voice enabled Wi-Fi solution that it introduced at the IoT / M2M show in Japan last May. Given the fact Murata is the worldwide leader in the Wi-Fi module market; this was a nice win for QuickLogic. Murata has since stated that OEMs in Japan have shown interest and that it is expanding its marketing efforts for the new module outside Japan. While I believe this effort will lead to OEM design wins, it is too early to make any revenue projections.

Qualcomm® has officially included our EOS S3 in its eXtension Program. The eXtension Program provides support for designers wanting to extend the capabilities of Qualcomm's CSR8670 and CSR8675 Bluetooth audio solutions. Our inclusion in the eXtension program makes it easy and cost-efficient for designers to use EOS S3 to add ultra-low power always-on / always listening and voice recognition features.

Before I turn the call over to Sue for her financial presentation, let's take a moment for a brief update on QuickAI™. If you are new to QuickLogic, I encourage you to review our May 9th conference call webcast and the special [webcast presentation](#) for QuickAI that we provided in conjunction with our partners a week earlier. These webcasts can be found under the Events tab on our Investor Relations webpage.

Our QuickAI initiative is moving forward in line with our expectations. We demonstrated some early proof of concepts with our partner, SensiML at the Design Automation Conference and Sensors Expo in June. We have also initiated a very intriguing customer engagement where QuickAI has the potential to significantly improve ROI by lowering



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operating costs and increasing yield. We continue to target our first production revenue for QuickAI during the second half of 2019.

I would now like to turn the call over to Sue for a discussion of the financials. Sue.

Dr. Sue Cheung – Chief Financial Officer

Thank you, Brian. Good Afternoon and thanks to everyone for joining us today. Please note we are reporting our non-GAAP results. You may refer to the press 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.

For the second quarter of 2018, total revenue was \$3.1 million and within our guidance range. Our new product revenue was \$1.6 million, and mature product revenue was \$1.5 million.

Due to our continued success in diversifying our customer base, we had four customers with greater than 10% of total revenue in the second quarter, while Samsung represented less than 10% in the quarter.

Our Q2 2018 gross margin was 50.1% and within our forecasted range.



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Operating expenses for Q2 were \$4.5 million and were within our forecasted range. R&D expenses were \$2.2 million and SG&A expenses were \$2.3 million. R&D expenses were lower than anticipated due to the timing of certain expenses associated with porting our embedded FPGA IP to a more advanced node at TSMC.

The net total for other income, expense and taxes in Q2 2018 was a \$38 thousand charge, which was below our forecasted due to foreign currency exchange fluctuations. This resulted in a net loss of \$3.0 million, or \$0.04 per share, which was within our forecasted range.

In May we raised net proceeds of \$13.9 million from our public offering, which enabled us to end the quarter with \$22.8 million in cash.

Net cash usage during the second quarter was \$3.9 million. This was above the forecasted range due to a significant increase in working capital and non-recurring costs associated with the launch of QuickAI and other long-term strategic initiatives.

Our revenue guidance for Q3 is approximately \$3.5 million, plus or minus 10%. Total revenue is expected to be comprised of approximately \$1.8 million of new product revenue and \$1.7 million of mature product revenue. The increase in new product revenue is expected to be driven mostly by the growth in sensor processing.

On a non-GAAP basis, we expect our gross margin to be approximately 50% plus or minus 3 percent.



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We are currently forecasting non-GAAP operating expenses at approximately \$4.7 million, plus or minus \$300 thousand. We expect our non-GAAP R&D expenses to be approximately \$2.4 million and non-GAAP SG&A expenses to be approximately \$2.3 million.

We expect our other income, expense and taxes will be a charge of approximately \$60 thousand.

At the midpoint of our forecast, our non-GAAP loss is expected to be approximately \$3.0 million, or \$0.03 per share.

As was the case in prior quarters, the main difference between our GAAP to non-GAAP results is our stock-based compensation expense, which we expect to be approximately \$500 thousand for the third quarter.

In Q3, we expect to use between \$2.5 and \$3.0 million in cash. The anticipated sequential decrease in cash usage is mostly attributable to a large decrease in accounts receivable that will be partly offset by an increase in inventory.

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



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Brian Faith – President and CEO

Thank you, Sue. Before opening the call for Q&A, I want to take a moment to highlight what I think are some important points for our investors to take away from this conference call.

First, let me start by saying I appreciate your patience. It's been a longer road than I envisioned, but I believe we are VERY close to a positive tipping point. While the growth we are forecasting for Q3 is modest, it breaks a pattern of essentially flat revenue for the ten preceding quarters and is being driven by the ramp of our first significant OEM designs for EOS S3.

In looking beyond Q3, I believe the major OEM designs we have already won will drive meaningful sequential growth for many quarters to come and that engagements with other large OEMs and embedded FPGA license revenue will layer on top that.

In eFPGA, we adapted our go to market model to break out of an endless loop that was stalling our many engagements. We believe our MTLA strategy, which has already resulted in an agreement with what will be Alibaba's first venture into the semiconductor market, will lead us to land multiple IP license agreements in 2019.

With our EOS S3 SoC we have successfully transitioned from winning designs with small companies and ODMs to winning designs with major OEMs that have brand name recognition, the scope to use our solutions in multiple designs and the scale to drive volume.



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Last quarter we announced OEM product launches with Naver Labs and EEBBK. While these are not well-recognized names in the U.S., they are significant OEMs in their home countries. We expect these designs will contribute to our revenue growth in the second half of 2018 and beyond.

During the last quarter, we signed an MOU with a major Japanese smartphone company for multiple models extending to 2020. We also won a very significant design that leverages our core eFPGA differentiation with a new OEM that I think will be one of the prominent products displayed at the upcoming CES in January 2019.

We are also getting more clarity from the Tier One smartphone company about the release of its new wearable design and we are hopeful we will win a second design with the OEM this quarter.

At the bottom line, large OEMs are scheduled to move new products using our EOS S3 into production starting in early 2019. These designs have low to mid-seven figure potential with defined production schedules and mark just a few of the high-volume designs that I believe will enable us to grow 2019 total revenue significantly more than our 50% goal.

Operator, I would now like to turn the call over for questions.



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Brian Faith – Chief Executive Officer

Thank you, Operator.

We will be participating at the following investor and industry events:

- Jefferies' Annual Semiconductor/Hardware Summit in Chicago on August 28th.
- ROTH's Internet of Things Corporate Access Day in San Francisco on September 5th.
- The SMIC Technology Symposium in Shanghai on September 12th.
- I will be presenting a keynote at Silicon Summit East in Saratoga Springs, NY on October 9th.
- ARM TechCon in Santa Clara on October 16th through 18th.
- And multiple GLOBALFOUNDRIES Technology Conferences in multiple locations worldwide in the third quarter.

Our next conference call is scheduled for Wednesday, November 7th at 2:30 PM Pacific Time.

Thank you for your continued support, and good bye!