Q3 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 Third Quarter Fiscal Year 2022 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through November 22, 2022. I would now like to turn the conference over to Ms. Alison Ziegler, investor relations. Ms. Ziegler, please go ahead.

Alison Ziegler

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 on 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, Alison. Good afternoon, everyone, and thank you all for joining our third quarter fiscal 2022 financial results conference call.

Our third quarter revenue of $3.5 million was right in line with the midpoint of the expectations provided on our second quarter call. Included in this revenue is the first month associated with our new $6.9 million US Government contract for the development of a new Strategic Radiation Hardened FPGA Technology that we referenced on last quarter's conference call, and officially announced on September 8th. The program is expected to be a significant contributor to this quarter's revenue.

Given that this contract is by far our largest to date, let me spend a little time reviewing what it means for QuickLogic. First, as you saw in the announcement, the base contract is worth $6.9 million with deliverables due over the course of 12 months. QuickLogic will act as the prime contractor – a first for us – and we will collaborate with a team composed primarily of SkyWater Technologies, Everspin Technologies, and Trusted Semiconductor Solutions. Upon successful performance of the Base Contract, and at the discretion of the US Government, the Contract allows for Options totaling approximately $72 million which would be realized over the span of four years. And while today the contract only contemplates the development of the chip, the desire and intention of QuickLogic is to become the storefront, selling the device once it has been completed. We believe the market size for radiation-hardened programmable logic is several hundred million dollars annually, so becoming the storefront for such a device would substantially increase our served available market in the coming years.

In previous calls, I have shared that one of our strengths is that we can offer our customers more than just eFPGA IP; we have the capability to offer a full spectrum of solutions – from eFPGA IP all the way to full chip designs that incorporate that IP.

I am very pleased to share for the first time that we have taped out a new device that incorporates our eFPGA IP for a customer. Due to confidentiality requirements, I am not allowed to share any further details on this specific design win other than I believe it represents tens of millions of dollars in potential device revenue starting in a couple of years.

What I want to emphasize is that these two wins demonstrate how eFPGA-related opportunities can and are turning into multi-year, substantially higher revenue design wins. And we have several additional opportunities in our sales funnel that could follow a similar path – namely, starting as an eFPGA IP engagement, and expanding to full FPGA-based device and/or chiplet developments.

These recent design wins and the increase in our sales funnel by another $10 million this quarter to a total of $110 million are proof that our strategy to develop eFPGA IP and related products, is transforming QuickLogic into a sustainably growing and soon-to-be profitable business.

As the first programmable logic company to market with a robust and comprehensive platform that blends open-source technology with decades of product shipments and engineering know-how in the FPGA market, QuickLogic has established first mover advantage in this quickly evolving market.

The main enabler of this pipeline of new opportunities is our Australis eFPGA IP Generator, which can define and deliver customized eFPGA IP and/or devices in a highly automated way, in a matter of months, while 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 continues to have its best year ever, delivering its largest revenue quarter yet in Q3. SensiML's ecosystem continues to gain momentum with growing new customer and partner interest. A top-tier semiconductor company is also integrating a SensiML-powered solution to address its own customers' demand for AI at the IoT edge across its broad microcontroller line of products. This month SensiML was also recognized by a leading electronics industry portal in China with over one million registered members who voted SensiML's solution with onsemi as "Most Innovative Value Product Award." The award recognizes industry-leading products with innovative value and far-reaching influence in the AI market.

Moving to chiplets. As discussed last time, chiplets have been steadily taking market share from more traditional monolithic semiconductor devices and have been a center of discussion at several industry events in the past quarter. 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%. In the past quarter, we advanced discussions with partners and potential lead customers to define an FPGA chiplet template.

Now I will quickly touch on some other areas of our business: Display Bridge product sales and design-ins continued this past quarter as we benefit from the continued global supply chain issues. We expect demand to continue into 2023 and have inventory to meet customer needs.

In our mobile phone business, we continue to believe we are being designed into new models of phones that will ship well into 2024. With the very muted consumer spending in recent months, we believe our fourth quarter sales to our smartphone customer will continue to be weak with Q4 now being the low point in demand.

Finally, in our mature product segment, we are forecasting a sequential decline, as we see macro-economic factors impacting current quarter demand by as much as four hundred thousand dollars from the prior quarter, which would result in fiscal 2022 mature revenue being down by around $1 million from fiscal 2021. Fortunately, we are starting to see some stabilization in mature product bookings for the balance of this year. Mature products will continue to be an integral part of our revenue profile, even though our growth will primarily come from eFPGA IP-related design wins.

Before turning the call to Elias, I want to provide our revenue outlook for Q4 and offer a peek into 2023. Over the last two years, we have made significant progress in building our software and IP-related business. While we saw some lumpiness in our revenue recognition in Q3 due to a slightly later start date of our $6.9 million agreement, we did see initial revenue in September and a significant contribution is expected to be realized in Q4 and into the first half of 2023.

With this pause in our growth trajectory behind us, our current expectation is for revenue in Q4 to be approximately $4.3 million, plus or minus 10%. This incorporates our forecast for an aggregate sequential decline in our smartphone business and mature product segment of around $600 thousand.

This puts us on pace to increase fiscal 2022 revenue approximately 30% over fiscal 2021 and we continue to believe we will get close to reporting breakeven or profitability on a non-GAAP basis again this quarter.

And looking at our sales funnel, the early outlook for 2023 is shaping up nicely. With our newly executed contracts, we are projecting revenue growth of approximately 40% next year. And assuming current gross margin and operating expense levels, I believe we have a good chance of seeing non-GAAP profitability in every quarter of 2023.

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 Q3 was in line with our expectations with revenue of $3.5 million, reflecting the later than expected start date of our large new $6.9 million contract for Strategic Radiation Hardened FPGA Technology. We reported a non-GAAP net loss of $0.9 million. With a full quarter of contribution from this contract, plus growth in other areas, we continue to believe we will get close to reporting breakeven or profitability on a non-GAAP basis again in Q4 2022.

Let me now turn to the review of the results for the third quarter. Revenue in Q3 was $3.5 million. This compares with $4.5 million last quarter, and $3.9 million in the third quarter of 2021. In addition to the delayed contract start-up, we also saw softening in smartphone sales, as anticipated.

Within our Q3 revenue, sales of new products were approximately $2.3 million. This compares with $3.1 million last quarter and $2.8 million in the third quarter a year ago. Mature product revenue was approximately $1.2 million, compared with $1.4 million last quarter and $1.1 million in Q3 last year.

In Q3, we had five customers that each accounted for 10% or more of our revenue, similar to the prior quarter.

Non-GAAP gross margin in Q3 was 49.8%, compared with 58.6% in the prior quarter and 72.8% in the same quarter of 2021. The pressure on gross margins in the quarter was due to the lower revenue as well as increased expenses in eFPGA IP professional services inclusive of nonrecurring costs of specialized tooling associated with the customer tape-out that Brian referred to in his prepared remarks. Now that our Engineering team has completed that tape out, we anticipate returning to more normalized margins in Q4.

Non-GAAP operating expenses in Q3 were approximately $2.5 million. The OpEx for Q3 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. This compares to operating expenses of $2.8 million last quarter and $3.2 million in the third quarter a year ago.

Non-GAAP net loss was $0.9 million, or a loss of seven cents per share, based on 12.6 million shares. This compares with a net loss of $47 thousand or zero cents per share, last quarter, and a net loss of $0.4 million, or $0.03 per share, in the third quarter of fiscal 2021.

Total cash at the end of Q3 was $20.0 million, compared with $18.5 million in the prior quarter. The continued investment to support the new design wins we have discussed was offset by the approximately $3.2 million raised in September at near-market rates from existing investors. Additionally, timing issues related to cash receipts from customers contributed to a net higher utilization of cash from operations.

Now moving to our guidance for the fourth quarter of fiscal 2022, which will end on January 1, 2023:

As Brian discussed, revenue guidance for Q4 is approximately $4.3 million, plus or minus 10%, due to the reasons he outlined. Revenue is expected to be mainly comprised of approximately $3.7 million of new products and $0.8 million of mature products.

Based on this revenue mix, the non-GAAP gross margin for the quarter will be approximately 52%, plus or minus 5 percentage points.

Our non-GAAP operating expenses will be approximately $2.8 million, plus or minus 10%. Longer term, we believe OpEx will remain in the below $3 million range with occasional increases to support new programs.

After interest expense, other income, and taxes, we currently forecast that our non-GAAP net loss will be approximately $0.5 million to $1.2 million, or a net loss of $0.04 to $0.11 per share, based on roughly $12.9 million shares outstanding.

The difference between our GAAP and non-GAAP results is related to non-cash, stock-based compensation expenses. In Q4, we expect this compensation will be approximately $463,000. 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 approximately $1 million.

As we stated earlier, with the new, large design wins and overall momentum in our business, and a lean operating structure, we are driving the company to profitability.

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

Brian Faith – Chief Executive Officer

Thank you, Elias.

As our revenue growth resumes in Q4 of the current fiscal year and into 2023 on the strength of our US Government Strategic Radiation Hardened FPGA Technology contract and the newly taped out customer design, as well as a sales funnel exceeding $110 million, I am even more confident QuickLogic is on the cusp of sustainable profitability.

I would like to again thank all 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 everyone 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 in November and December, and when we report our fourth quarter and fiscal year 2022 results in February. Have a good day!