



## Q1 FY20 Earnings Conference Call Prepared Remarks

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### Operator

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Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic® Corporation's First Quarter Fiscal Year 2020 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through May 18, 2020. I would now like to turn the conference over to Mr. Jim Fanucchi of Darrow Associates. Mr. Fanucchi, please go ahead.

### Jim Fanucchi

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Thank you, operator and thanks to all of you for joining us. Our speakers today are Brian Faith, President and Chief Executive Officer, and Dr. Sue Cheung, Chief Financial Officer. In line with social distancing practices, management is doing this call from different locations today.

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 projected 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.



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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 most recent annual report on Form 10-K, the most recent quarterly report on Form 10-Q, recent Forms 8-K and other documents we periodically file with the SEC. These forward-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.

In today's call we will be reporting non-GAAP financial measures. These non-GAAP measures should not be considered as a substitute for or superior to financials prepared in accordance with GAAP. 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 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.



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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 first quarter fiscal 2020 financial results conference call.

These are extraordinary times for all of us. There is no question that COVID-19 has brought about a significantly more challenging business environment as well as increased uncertainty. Our thoughts are with those directly affected by the pandemic and the many people fighting it on the front lines.

Our company has been facing this human health crisis head-on since day one. Based in Silicon Valley, we were one of the initial areas that went under shelter-in-place orders. Since we do serve the US Military market, our designation as an essential business has allowed us to continue limited operations during the crisis. The remainder, and vast majority, of the QuickLogic team have been working remotely going on 9 weeks now, and we will continue to do so until we are cleared to return to the office by the various government agencies.

While we continue to push ahead with the initiatives I discussed in our last call, we are seeing some COVID-19 related impacts to our customers' product introductions, as many of them are also working under the more restrictive shelter-in-place orders. Without the ability to work onsite, many of our customers' engineering developments that typically need to take



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place in a lab with their own hardware has been delayed. This has resulted in the push-out of some projects ranging from a few weeks to months.

With these COVID-19 related changes, we currently believe fiscal 2020 revenue will be impacted by approximately 20% from what our expectations were when we talked in February. While there is still a great deal of uncertainty in the global economy, we are doing everything we can to maintain a path to profitability as soon as possible. And despite this revenue impact, we are still forecasting not only a sequential revenue increase for Q2, 2020, but also stair-step increases through the remainder of the year.

Another important point I want to stress is that our revenue mix for this year has also changed from the scenario we discussed during our February call. While we do see the challenges I just discussed, we have also seen new engagements brought on by the pandemic - some of which may result in revenue this year that were not part of our previous forecast.

With that COVID-related backdrop I want to turn to an update on the foundations I discussed in our last call that are serving as the pillars for future growth, share why I remain confident in our business potential, and why I believe we will emerge from the current storm a much stronger company than we were exiting 2019.

We continue to see three specific areas that will drive our annual revenue growth this year. These include continued strength in our mature product segment; expansion of our SoC products with several multinational OEMs; and continued growth in our SensiML™ AI SaaS platform user base and eFPGA IP initiative.



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Within our mature segment, we have built a healthy and stable military business. The pushouts we saw at the end of fiscal 2019 have largely been resolved and sales are mostly back on track. This certainty in order flow, which is generally not subject to monthly or quarterly movement, is one of the reasons we continue to feel confident in achieving our profitability objective. We currently believe mature product sales will now account for about half of our total revenue this year.

For our new product segment, which includes primarily our EOS™ S3 SoC products, SensiML AI SaaS revenue, and eFPGA IP licensing, we have been impacted by the COVID outbreak. The challenges brought on by the work from home guidelines, both locally and in our customer's home regions abroad, will dampen our growth outlook from our expectations just a couple of months ago.

One of the biggest bottlenecks has been around the global supply chain, which as you know is geographically diverse. The pandemic has had a varying impact depending on location. While we are able to satisfy demand for certain mature products using our finished goods inventory in our own facility, limitations with assembly capacity have made it difficult to keep up with certain customer orders in the June quarter. The good news is that our supply chain partners have done an amazing job to get back on track. Logistics challenges from reduced capacity at printed circuit board companies, and delays in shipping these to different R&D facilities around the world have also introduced their own delays, and in some cases have pushed back customer launches that include our product to later in the year.

These effects directly impacted the program we have with a well-known and fast-growing streaming and smart TV provider. When we talked in February, and as recently as two weeks



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ago, we were receiving weekly build forecasts for an always-on voice-enabled remote control that would be bundled with their streaming player to be launched later this year. Due to COVID-related issues that impacted their own engineering ability to meet product milestones, the remote control will now be shipping without any always-on voice recognition technology, and therefore will not include our device. This change is the primary reason for the reduction in our annual revenue outlook.

Despite this change, the trend for greater adoption of wireless and hands-free remote controls is accelerating, opening the door for more opportunities to generate revenue in this developing market. We already have additional remote-control engagements moving forward with customers building prototype devices now with EOS S3, leveraging the same solution we developed initially for the streaming content provider.

We are also engaging with several OEMs and ODMs to deploy the next generation of wireless earbuds. While the largest player continues to dominate the market, Amazon recently entered with their own customized solution. Microsoft also recently announced that they will release their delayed Surface Earbuds as part of their refreshed Surface product. These alternatives, along with several others, are driving additional demand for earbud-type devices. We are gaining acceptance with several white box ODMs for wireless earbuds and expect this market to contribute meaningful revenue later in 2020 after we achieve formal Amazon AVS certification, and publication on their AVS dev kit webpage.

Let's now move to the smartphone market. Our business with Kyocera is as strong as ever. We are working closely on several new designs and have not yet seen any COVID-19 related impact. A fourth phone was launched in Q1, bringing the total number using QuickLogic's



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EOS S3 platform to four, including one feature phone. Later in 2020 I still believe we could see as many as six phones using our technology, up from three at the beginning of the year.

In the Consumer and Industrial IoT market, our collaboration with both Flextronics and Infineon is deepening and remains an important foundation for us to build on with these multi-national companies. I previously mentioned that we are in the FLEXino Sensor Fusion Development Kit from Flextronics, which includes a sensor fusion board, featuring our EOS S3 SoC as the host processor, along with Infineon sensors. While the pandemic has delayed some of the marketing activities, our collective efforts with both Flextronics and Infineon will resume once everyone returns to a more typical working situation.

Moving to our strategic initiative with the mega-cap platform company – in March we announced the first deliverable from this initiative with a new open source hardware IoT development kit called QuickFeather. Developed in conjunction with Antmicro, a European technology company, QuickFeather includes an EOS S3, and is designed to enable the next generation of low-power machine learning capable IoT devices. It supports the 100% open source Zephyr RTOS, and the SymbiFlow open source FPGA development tool. Machine learning applications are being deployed at an amazing rate and we believe the new QuickFeather board will further accelerate that trend.

Based on the initial interest from our March press release, we expect to ship hundreds of QuickFeather development systems during Q2.



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And while QuickFeather is game-changing for QuickLogic in terms of the sheer number of engineers we will engage and the total available market for our solutions, it is just the tip of the iceberg with respect to this initiative with the mega-cap company.

We are very excited to share that the full scope of the joint development with this mega-cap company and Antmicro is nearly ready to go live. We believe the massive reach of this mega-cap company will open up a user base 100 times larger than our current channel could on its own. As such, this initiative could drive a correspondingly higher revenue opportunity for the EOS S3 and SensiML AI software. We plan to formally announce this effort and provide more detail via a press release and blog posts in the coming weeks.

Moving to our eFPGA IP licensing business. During Q2, we are happy to announce we signed a license agreement for our eFPGA technology for use in a low volume, radiation hardened application. Due to non-disclosure agreements, I can't elaborate on any detail beyond that. However, I can say that we expect to generate a modest amount of revenue in the current quarter from that license agreement, with royalties coming in future quarters. Moreover, I believe this license, as well as our soon-to-be-announced initiative with the mega-cap company, are helping lay the groundwork for stronger growth in our eFPGA IP licensing strategy moving forward.

Let's now discuss our SensiML AI SaaS business initiative. SensiML closed Q4 with dozens of customers, up from just three going back to Q1 of last year. As I pointed out in our last call, most of these customers are using the evaluation version of the product. AI software is a new tool for the market in general, and we are finding that during this ramp-up period, with many of our customers working from home, they have limited access to their own hardware





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and tools necessary to perform a full evaluation. This is lengthening the time to convert customers to the full-service platform. While we work to convert more of our direct customer engagements, we are also continuing to add several customers in the evaluation phase from our 3rd party MCU partners, expanding our reach and further building our pipeline.

In February, we announced support for NXP Semiconductor's i.MX RT portfolio of crossover microcontrollers using the SensiML Analytics Toolkit. For SensiML, NXP's i.MX RT line fills an important segment between existing application processors and the ultra-low power platforms already supported.

NXP customers can leverage the SensiML platform to rapidly and easily build complex multi-sensor recognition algorithms for advanced applications such as predictive maintenance, process control and structural health monitoring.

From a broader perspective, the SensiML relationship with NXP, and partnership with ST Micro, now means we are working with two of the top microcontroller firms. This is in addition to relationships we have already announced with firms such as Nordic Semiconductor.

We are also proud to share that SensiML has been invited to become part of a small consortium of companies whose goal is to tackle the COVID-19 pandemic head-on through the use of AI technology. There is a substantial amount of research taking place now to better predict if someone is symptomatic of COVID-19 through the application of low power sensors and AI software. We are actively exploring how SensiML's AutoML technology can



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be applied in this area. To assist in this effort, we will be publishing a website to crowdsource data sets that can be used to build AI models – initially targeting cough analysis. Please see the social media channels for both QuickLogic and SensiML if you are interested in participating in the crowdsourcing of data.

In times of global crisis, it is important that we do our part by enabling easy access to our technology so that it can be used to contribute to a solution. As such, we will be launching a special \$99 trial version of our toolkit to make the power of the SensiML AI platform available for those impacted during this pandemic, including the academic and research community.

Before turning the call over to Sue, I want to reiterate that in spite of this period where it seems circumstances evolve day by day, I am confident we have the foundation in place to drive the company forward to profitability. While our current revenue outlook for 2020 is being impacted by COVID, the aggressive, proactive actions we took to reduce costs before the pandemic, and the anticipation that gross margins will improve through the year, puts us in a position where revenue of around \$6 million should get us to non-GAAP profitability.

I would now like to turn the call over to Sue for a discussion of our recent financial performance and full Q2 outlook. Sue?

**Dr. Sue Cheung**– Chief Financial Officer

Thank you, Brian. Good afternoon and thanks to everyone for joining us.



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For the first quarter of fiscal 2020, revenue was \$2.2 million, which was within the guidance range we provided. This compares with revenue of \$3.2 million in the first quarter of 2019.

Within our Q1'20 revenue, sales of new products were \$540,000. This compares with \$690,000 in the first quarter of 2019. The lower new product revenue from the prior year was primarily due to the continued decline in display bridge sales.

Our mature product revenue was \$1.7 million, compared with \$2.5 million in Q1 of last year. The decline from last year was due primarily to changes in demand from selected aerospace and avionics customers.

In the first quarter of 2020, we had five customers who each accounted for 10% or greater of our sales.

Non-GAAP gross margin in Q1 was 52.2%, compared with 62.8% in the same quarter last year. The lower gross margin in Q1 was primarily due to product mix and some higher margin mature product revenue moving into Q2. We expect our gross margin to rebound to the low 60% range in the second quarter.

Non-GAAP operating expenses for Q1 were approximately \$4.1 million, down from \$4.8 million in the first quarter of last year. The changes are the result of several cost containment measures enacted over the last year. As I mentioned in our last call, we expect to see operating expense to decline to approximately \$3.5 million starting in the second quarter of 2020, resulting from the restructuring effort announced in January.



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Within our Q1 Operating Expenses, R&D was \$2.3 million and SG&A was \$1.8 million. This compares with R&D and SG&A of \$2.6 million and \$2.2 million, respectively, in Q1 last year.

The net total for other income, expenses, and taxes in Q1 was a charge of \$103,000, compared with a \$233,000 credit in the first quarter last year. As a reminder, in Q1 last year, we recorded a one-time tax benefit of \$282,000 related to the intangibles from the acquisition of SensiML.

Non-GAAP net loss in Q1 was \$3.1 million, or \$0.37 per share. This compares with a net loss of \$2.5 million, or \$0.37 per share in the first quarter of last year. The per share calculation for both periods reflects the one-for-fourteen reverse stock split that was effective last December.

Finally, the total cash at the end of Q1 was \$19.0 million, compared with \$21.6 million at the end of last quarter. Included in the Q1 cash usage was approximately \$270,000 in cash-based restructuring charges. Our cash balance also includes the \$15 million draw from the revolving line of credit.

Now moving to our forecast for the second quarter of fiscal 2020, which will end on June 29th:

Our revenue guidance for the second quarter is \$2.5 million, plus or minus 10 percent. We believe total revenue will be comprised of approximately \$1.1 million of new product revenue and \$1.4 million of mature product revenue.



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Due to a more favorable product mix, including the radiation hardened eFPGA IP license, we should see non-GAAP gross margin to improve to approximately 61 percent, plus or minus 3 percent.

We are forecasting that total non-GAAP operating expenses will decline to approximately \$3.5 million, plus or minus \$300 thousand. At the midpoint of the range, we expect our R&D to be approximately \$1.9 million and SG&A to be approximately \$1.6 million.

After interest expense, other income and taxes, at the midpoint of these ranges, we currently forecast our non-GAAP net loss will improve to approximately \$2.0 million, or a net loss of \$0.23 per share based on approximately 8.6 million shares outstanding.

Most of the difference between our GAAP and non-GAAP results is our stock-based compensation expense. In the first quarter, we had approximately \$1.0 million of performance based RSUs that were cancelled, which resulted in a \$398,000 credit for total stock-based compensation. We expect stock-based compensation to return to the \$800 thousand range for the foreseeable future.

Finally, in Q2, we expect cash usage to be in the range of \$1.7 to \$2.2 million. The cash usage includes approximately \$150,000 for a restructuring-related payment and roughly \$500,000 for an EOS S3-related inventory purchase. Starting this quarter, we are increasing our wafer and assembly starts for EOS S3 to ensure we have the inventory to meet forecasted demand from our customers.

Also related to our cash position, last week we successfully secured a Paycheck Protection Program, or so-called PPP loan, from the SBA. The loan amount is approximately \$1.2 million,



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received on May 8th, and has favorable terms. The first payment of this loan is deferred for 6 months. We will use the funds primarily for employee payroll and benefits. The full details of this loan are included in the 8-K we filed with the SEC prior to the start of this call.

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

### **Brian Faith – Chief Executive Officer**

Thank you, Sue. While we work through the challenges the COVID-19 pandemic has created, we are executing on all of our product advancements and extending our customer reach and market opportunities. We have created a nimble and lean organization focused on ensuring QuickLogic moves to a path to sustainable profitability.

In closing, I would like to thank all of our stakeholders, including customers, suppliers, and shareholders for their support and partnership. After protecting our employees and their families, my highest priority is ensuring we do everything we can to help our customers, both in supply of products today, and continuing to execute on new product programs to ensure both of our success in the future.

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

### **Brian Faith – Chief Executive Officer**

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#### **Post Q&A**

Thank you for your participation in today's call and continued support. We look forward to speaking with you again when we report our fiscal second quarter results in August.