



Q4 FY20 Earnings Conference Call Prepared Remarks

Operator

Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic Corporation's Fourth Quarter and Fiscal Year 2020 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through February 24, 2021. 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, Cheri 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. Following current 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.



Q4 FY20 Earnings Conference Call Prepared Remarks

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 their 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.



Q4 FY20 Earnings Conference Call Prepared Remarks

Brian Faith – Chief Executive Officer

Thank you, Jim. Good afternoon, everyone, and thank you all for joining our fourth quarter and fiscal 2020 financial results conference call.

Before I discuss our quarterly results and review the status of our strategic initiatives, I'd like to take a moment to reflect on the past year. 2020 was full of challenges for all of us, both personally and professionally. I want to personally thank the QuickLogic team for their tireless efforts as we work through the COVID-19 challenges. With the recent introduction of multiple COVID-19 vaccines, and improvements in COVID-19 related treatments, there is finally a clearer path to getting past the pandemic.

2020 was a transformational year for QuickLogic, as we accelerated our move from being primarily a product company to a platform company leveraging Artificial Intelligence and open source software, especially for our programmable logic technology and the multitude of devices that include it. This move will significantly broaden our addressable markets and is expected to deliver improved financial results in fiscal 2021 and beyond.

I am often asked to share more perspective on the evolution of our strategy. One way I describe the transformation is that we are pivoting away from high risk/high reward opportunities in the high-volume consumer market and instead focusing on delivering a more scalable platform that is tailored for the masses.

Implementing this change took an incredible shift in mindset here at QuickLogic and I am proud of our team for being open-minded, resilient and committed during this process. We



Q4 FY20 Earnings Conference Call Prepared Remarks

persevered through the difficulties that came with 2020 and I believe we are now about to enter a period of sustained growth for the company.

With that as a backdrop I want to spend some time discussing the pillars of our expected financial improvement in fiscal 2021.

There are three key areas that will drive our growth. The first, and overarching one is Artificial Intelligence and Machine Learning, or AI/ML for short. Second is our previously announced open source programmable logic collaboration – with Google and Antmicro initially, and now expanding rapidly to include several additional partners. And third are the initiatives behind our growing SaaS and IP Licensing model.

Let me start with an overview of our AI/ML initiative. To understand the size of this market I would like to note that, based on research by an international consulting firm, edge AI alone will enable tens to hundreds of billions of units in the coming years, and potentially drive a semiconductor TAM north of \$4 Billion by 2025 — just for edge inferencing.

This opportunity is easy to see. For example, think of the devices inside a home. There are likely dozens of sensors already in place in devices such as internet-connected speakers, doorbells, cameras, thermostats, TVs, streaming media devices, numerous tablets, and appliances to name just a few. The patented technology and deep domain expertise that QuickLogic and SensiML possess, including FPGA technology, AI software, and low power MCUs, all fit within this market.

We are addressing these opportunities using our end-to-end hardware and software solutions. Quite literally, we are structuring our product development in all of these



Q4 FY20 Earnings Conference Call Prepared Remarks

initiatives to make the products more accessible for large, high growth markets such as wearables, hearables, smartphones, consumer electronics, industrial, military, and IoT.

Second is our programmable logic collaboration with Google and Antmicro called the QuickLogic Open Source Reconfigurable Computing, or QORC, initiative. We began work on this program in 2019 and publicly announced it in 2020. What we are doing with our QORC initiative is groundbreaking. This open source tool chain, which sits on top of our hardware, makes the technology more accessible to the masses and easier to use for software engineers.

We are also providing support for our EOS S3 MCU and future support for new SoCs, FPGAs, and eFPGA IP, which will be an important part of our revenue story starting in late 2021 or early 2022.

The third pillar is around our SensiML SaaS and eFPGA IP Business. The SensiML model is subscription-based while the customer is using the tool during development, with per unit royalties upon production shipment. Our eFPGA IP business model has an upfront license and back-end royalties on units shipped.

What that means is we have stickier revenue as customers start subscribing or using the IP, and then as they ship in volume we get the benefit of having the royalty coming in from the units shipped on those different products. This also has a positive impact on gross margins.



Q4 FY20 Earnings Conference Call Prepared Remarks

We expect the SaaS part of our business will show significant growth in 2021. We continue to ramp our ecosystem partners, which includes ST Microelectronics, NXP, Nordic Semiconductor, Arm® and our Authorized Design Partner Optimus Logic. Moreover, we have had deep engineering and business engagements with two additional, large semiconductor companies in the recent two quarters, both of which we expect to announce as ecosystem partnerships with SensiML in the coming months.

In December, we launched the SensiML Community Edition expressly for the needs of experimenters, innovators, and product R&D teams. The Community Edition provides the means to build fully functional edge IoT inference models using one's own existing labeled or unlabeled datasets, newly captured sensor datasets using SensiML Data Capture Lab, or models built leveraging SensiML's growing Data Depot library of example and community datasets.

Since the start of the year, we have added more than 100 Community Edition Users and expect the number to increase throughout the year. In addition, we are seeing a surge in new large enterprise pipeline activity. While the cycle to turn these enterprise opportunities can take several months, the size of these potential deals means even a few wins can contribute meaningful revenue.

With that overview I wanted to shift to a discussion of some key events in Q4 and the beginning of this year.



Q4 FY20 Earnings Conference Call Prepared Remarks

Within our voice-activated products program, we finally completed certification testing of our voice-activated Hearable Reference Design with Amazon's AVS team. This has been a long and difficult process, taking much longer than we ever thought. The delay was brought on by challenges working with a communication chip that was not ours. We also had to overcome COVID-19 related work restrictions that prevented our engineering team from working onsite to solve the issues. In spite of these challenges, we persevered.

In addition, another voice-related project was completed towards the end of Q4. When combined, we are now confident that these voice-enabled solutions, which are scheduled to come to market later this year, will materialize into revenue for us in the second half of fiscal 2021.

During the quarter we shipped a few hundred more QuickFeather development kits, leading to approximately 700 by the end of the year. The pace accelerated with the Hackster.io Climate Change Challenge and has steadily continued during the first quarter. Our goal for 2021 is to ship more than two thousand dev kits, continuing the proliferation of our devices and software into the masses.

Toward that dev kit goal, we are in the process of launching three new dev kits. The first is launching this week in conjunction with our Amazon AVS certification called the QuickFeather AVS Reference Design, which can be ordered from the QuickLogic website.

Shortly, we will be launching the next generation of QuickFeather called "SparkFun Thing Plus – QuickLogic EOS S3." As the name would indicate, this dev kit is being manufactured and sold by SparkFun, a very popular online retailer of electronic dev kits and components.



Q4 FY20 Earnings Conference Call Prepared Remarks

This new dev kit will launch exclusively on Crowd Supply, after which QuickLogic as well as SparkFun will also distribute it through our collective worldwide distribution channels. SparkFun has a diverse set of sensor boards that can connect seamlessly with the Thing Plus dev kit, making it easier for our customers to build proofs of concept for AI/ML enabled systems using EOS S3 and SensiML.

And last, but certainly not least, we announced our smallest dev kit ever last week, called Qomu.

Qomu is a tiny form factor dev kit that brings the power and capability of our EOS S3 SoC into a USB Type A port. It launched exclusively on Crowd Supply and will become available on QuickLogic's website after the Crowd Supply campaign ends in about a month.

All of these dev kits are enabled by, and optimized for, our QORC initiative. The kits are supported by a wide variety of vendor-supported open source development tools, including Zephyr, FreeRTOS, SymbiFlow and Renode, which broadens access and enables designers to develop applications virtually anywhere.

In addition, these development kits should drive EOS S3 SoC and SensiML revenue in 2021 as customers engage and turn them into actual products with real volume behind them.

The momentum in our smartphone business continues with the addition of another two 5G enabled smartphones. 2020 was a very good year for our smartphone business as we exited 2020 with a total of 10, up from 3 at the start of the year. These new phone launches should lead to much stronger smartphone revenue in 2021 and beyond.



Q4 FY20 Earnings Conference Call Prepared Remarks

In our eFPGA IP business, one of our early engagements has recently taped-out their test chip. Barring any geopolitical-related risks, we could see a full eFPGA IP license in the first half of this year from this customer. Test chips are back now, and the customer's testing is progressing.

During the past few conference calls, we have not gone into detail on our IP strategy, and I'll share a little more today.

QuickLogic and The University of Utah, or UofU, initiated discussions approximately 18 months ago to research how we could integrate advanced semiconductor layout automation techniques into QuickLogic's FPGA IP Compiler tool, called Borealis. This endeavor sought to leverage UofU's research in open source automation techniques - which is DARPA-funded research as part of the Electronics Resurgence Initiative - and QuickLogic's deep domain expertise in commercializing FPGA technology across numerous foundries and process nodes with high reliability, quality and manufacturing in volume.

The results are game changing. What previously took nearly 18 months and millions of dollars now has been reduced to approximately 3 months and a fraction of the cost. With this significant overhaul to Borealis complete, QuickLogic was able to go from customer engagement to new IP delivery in record time and close a new production IP license in this quarter. There will be more we can share on this in the future.

Lastly, in our mature segment, the COVID-19 related issues remain a challenge, primarily for the civilian aerospace sector. While we did see a seasonal uptick in Q4 revenue, there has



Q4 FY20 Earnings Conference Call Prepared Remarks

been no change to our outlook for mature product revenue and continue to expect it will be flattish with 2020.

I know I have covered several items, but the intent is to offer context around the many pieces of QuickLogic that I believe will lead to better financial performance starting this year. As I have said before, if you believe that AI and Machine Learning is here to stay, if you agree with the research that programmable logic brings value in these use cases where algorithms are evolving faster than ASIC technology can keep pace, then I think you will believe that QuickLogic has a very strong opportunity to take advantage of this evolving market.

I believe the wind is at our back and I'm personally very excited about where we are and what 2021 is going to bring on all these different fronts.

Before we review the financial results, as many of you know, today is Sue's last day with the company. I want to thank Sue for her important contributions since joining the company in 2007, and for her guidance as our Chief Financial Officer since 2016. She was a partner to me as we started the transition of our business and was an asset to the company during the challenges COVID-19 brought. Sue leaves us in a sound financial position. All of us at the company thank Sue for her leadership, partnership, and friendship and wish her the best going forward.

Starting tomorrow, Anthony Contos assumes the position of Chief Accounting Officer. Over the span of his 30-year career Anthony has held many senior level accounting and finance related positions. I have been impressed with his efforts to date and I am confident he will build on the foundation Sue has created.



Q4 FY20 Earnings Conference Call Prepared Remarks

With that I will turn the call over to Sue.

Dr. Sue Cheung– Chief Financial Officer

Thank you, Brian. Being that this is my last earnings call with the company, and after almost 14 years with QuickLogic, I am glad to have this opportunity to let everyone know how proud I am of what we have achieved, especially during our transition to a more software, open source, and IP focused company and managing the business through the challenges brought on by the COVID pandemic. QuickLogic is well positioned to improve in 2021 and I am confident their best days are yet to come. Anthony and I have been working together since his arrival last month. I am confident he will be a great resource for the company as he assumes the leadership of QuickLogic's finance team.

Now moving on to the fourth quarter results.

For the fourth quarter of fiscal 2020, revenue was \$2.5 million. This compares with revenue of \$1.8 million in Q3 of 2020 and \$2.9 million in the fourth quarter of 2019.

Within our Q4 revenue, sales of new products were \$837,000. This compares with \$639,000 in Q3 and \$710,000 in the fourth quarter of 2019. Our mature product revenue was \$1.7 million, compared with \$1.1 million last quarter and \$2.2 million in Q4 last year.

In the fourth quarter, we had 2 customers who each accounted for 10% or greater of our sales.



Q4 FY20 Earnings Conference Call Prepared Remarks

Non-GAAP gross margin in Q4 was 51.5%, compared with 53.9% in the prior quarter and 65.6% in the same quarter of 2019. Our Q4 gross margin was below our guidance range due to an additional E&O inventory reserve for our legacy Display Bridge product. This impacted gross margin by about 6 percentage points. Also, in Q4 last year, the unusually strong gross margin was mostly due to the higher mix of mature product revenue and additional IP license revenue.

Non-GAAP operating expenses for Q4 were approximately \$2.9 million. This compares with \$2.6 million in Q3 and \$4.2 million in the fourth quarter of last year. As I have noted in recent calls, we believe operating expenses will remain in the low \$3 million range for the foreseeable future.

Within our Q4 operating expenses, R&D was \$1.6 million and SG&A was \$1.3 million. This compares with R&D and SG&A both at \$1.3 million in Q3, and \$2.2 million and \$1.9 million, respectively, in Q4 last year.

The net total for other income, expenses, and taxes in Q4 was a charge of \$76,000, compared with a charge of \$19,000 in Q3 and a charge of \$135,000 in the fourth quarter last year.

Non-GAAP net loss was \$1.7 million, or a loss of \$0.15 per share. These were the same amounts in Q3, and compare with a net loss of \$2.4 million, or \$0.29 per share in the fourth quarter of last year. The per share calculation for both periods reflects the reverse stock split that was effective December 2019.



Q4 FY20 Earnings Conference Call Prepared Remarks

The total cash at the end of Q4 was \$22.7 million, compared with \$24.7 million at the end of last quarter. The cash balances also include the \$15 million draw from the revolving line of credit. One other update related to our cash - you will remember that in Q2 2020 we received a \$1.2 million PPP loan. Just recently, we were notified by the bank that our PPP loan forgiveness application has been approved by the SBA. We will reclass the \$1.2 million loan balance from a liability on the balance sheet to other gains on the P&L in the first quarter of 2021.

Now turning to the full-year fiscal 2020 results. Total revenue was \$8.6 million, compared with \$10.3 million in fiscal 2019. New product revenue was \$2.8 million, compared with \$3.1 million in the prior year. Mature product revenue was \$5.9 million, compared with \$7.2 million in fiscal 2019.

For 2020, we had 3 customers that each accounted for greater than 10% of our total revenue.

Gross margin for 2020 was 51.1%, compared with 58.0% in 2019. Lower total revenue and changing product mix were the main reasons for the decline in gross margin.

Due to the cost reduction measures we took prior to the COVID-19 pandemic, our operating expenses for the year were \$12.8 million, down significantly from \$18.2 million in 2019. The lower operating expenses helped our net loss for 2020 decline to \$8.7 million, or \$0.88 per share, compared with \$12.3 million or \$1.60 per share for 2019. The weighted average share count used to calculate EPS was 9.8 million for 2020 and 7.7 million for 2019.



Q4 FY20 Earnings Conference Call Prepared Remarks

Now moving to our forecast for the first quarter of fiscal 2021, which will end on March 28, 2021.

The revenue guidance for Q1 is \$2.5 million, plus or minus 15%. We believe total revenue will be comprised of \$1.2 million and \$1.3 million for new product and mature product revenue, respectively. Brian will have some additional comments on potential upside to our guidance and outlook in a few moments.

Based on the expected revenue mix, non-GAAP gross margin in the quarter will be approximately 56%, plus or minus 5%.

Our non-GAAP operating expenses will be approximately \$3.3 million, plus or minus \$300 thousand. The higher OpEx number takes into account the normal payroll tax reset at the beginning of each year. At the midpoint of the Q1 range, R&D should be \$1.8 million and SG&A \$1.5 million.

After interest expense, other income and taxes, and with the one-time reclassification of the \$1.2 million gain from the PPP loan forgiveness, at the midpoint, we currently forecast our non-GAAP net loss will improve to approximately \$800,000, or a net loss of \$0.07 per share based on roughly 11.5 million shares outstanding.

Most of the difference between our GAAP and non-GAAP results is our stock-based compensation expense. We expect stock-based comp to be in the range of \$800,000 for the next few quarters.



Q4 FY20 Earnings Conference Call Prepared Remarks

For the balance sheet, in Q1 we expect cash usage to decline from Q4 and be in the range of \$1 million and \$1.5 million. Cash usage should decline further over the course of 2021 due to expected improvements to both revenue and gross margin.

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

Brian Faith – Chief Executive Officer

Thank you, Sue.

Related to the guidance and outlook Sue provided, we are currently in the process of formalizing a strategic initiative with multiple partners. Depending on our final determination of how this is treated, there could be an upside to the first quarter revenue by up to 25% above the midpoint of the guidance range.

Alternatively, we could recognize the initiative as an offset to R&D. If this is the determination, we would instead see savings come in the operating expense line of up to 20% from the \$3.3 million midpoint.

This initiative would also decrease cash usage by the entire amount.

We chose not to make any assumptions in the Q1 guidance and instead took a conservative approach.

As of today, we currently expect the determination no later than when we report our first quarter results in early May and will update investors as soon as the determination is final.



Q4 FY20 Earnings Conference Call Prepared Remarks

Furthermore, we believe there will be additional opportunities around this strategic initiative throughout 2021 and will provide updates once future events are finalized.

In summary, as we look back on what we have accomplished to transition QuickLogic, particularly in the context of the COVID-19 pandemic, I could not be prouder of what our team has achieved. We have re-aligned the company, not just in terms of having the right resources to execute on the open source initiative, but also significantly reducing our cost structure, making profitability before the end of 2021 much more attainable. With what we have in place, and the opportunities that are opening up for new business, it is clear we have made tremendous progress on the continued evolution of QuickLogic. I fully expect that the efforts we put in during 2020 will deliver the financial goals I have outlined and should put us on a path to sustained profitability starting at the end of this year.

I would again like to thank our many stakeholders, including our customers, partners and QuickLogic team members, for their continued support during these extraordinary and challenging times.

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



Q4 FY20 Earnings Conference Call Prepared Remarks

Closing Comment

Brian Faith – Chief Executive Officer

Thank you for participating in today's call and continued support. We look forward to speaking with you again when we report our first quarter results in May. Have a good day!