



Q1 FY21 Earnings Conference Call Prepared Remarks

Operator

Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic Corporation's First Quarter Fiscal Year 2021 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through May 25, 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, operator and thanks to all of you for joining us. Our speakers today are Brian Faith, President and Chief Executive Officer, and Anthony Contos, Interim Chief Accounting Officer. The company continues to follow social distancing practices and management is again hosting 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.



Q1 FY21 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 page shortly after the conclusion of today's earnings call.

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



Q1 FY21 Earnings Conference Call Prepared Remarks

Brian Faith – Chief Executive Officer

Thank you, Jim. Good afternoon, everyone, and thank you all for joining our first quarter fiscal 2021 financial results conference call.

In the first quarter we made continued progress on our transformation to a platform company that leverages Artificial Intelligence and open source software and hardware. I continue to believe this move to open source is a once in a multi-decade opportunity to disrupt the maturing FPGA market, and I will be articulating during this call the various strategies we are executing to capture that opportunity.

In Q1, we introduced new products, added strategic partnerships, and were invited to become a founding member of a new industry organization that will shape and define the FPGA industry based on open source technologies for years to come.

The first quarter revenue, while within the guidance range we gave in February, was still held back due to ongoing COVID related issues with certain customers, and the broader capacity and supply chain issues in the semiconductor industry that have been echoed by many companies recently. Although we have seen lead times nearly triple, they are not to the extent as certain markets like automotive where the supply chain is most constricted with some lead times exceeding a year. There was also one six-figure IP licensing deal that we thought we would recognize in Q1. This revenue will be recognized in Q2.

Through a combination of aggressive marketing efforts, increasing open source penetration and differentiated products, we have seen an order of magnitude increase in our pipeline of new business opportunities, many of which would start contributing revenue in 2021. This



Q1 FY21 Earnings Conference Call Prepared Remarks

new activity reinforces my confidence that we will achieve our financial goals this year. Anthony will summarize our quarterly results in a few minutes.

Before I get into my overview of the quarter, I want to provide an update on where we are with formalizing a strategic initiative with multiple partners. At the time of our February call all signs pointed to one such initiative being funded by the end of February. With that funding in place, we would have been well on our way to an initial tape out later this quarter. Through a series of unforeseen changes, the funding of that initiative has not yet closed. So, while we have a signed memorandum of understanding, or MOU, we await the funding piece, which we currently believe could happen before the end of summer.

One of the positive outcomes of this initiative is that we have clearly established QuickLogic as the leader in open source FPGA technology. That recognition has resulted in multiple RFPs and RFQs totaling tens of millions of dollars in the last 6 weeks alone, many of which are with well-known entities. If we are successful with these opportunities, it could lead to accelerated financial performance in the second half of the year.

While we can't predict how many of these proposals will be accepted, I wanted to share the information as another proof point to our growing pipeline of business from our transformed business model.

Turning now to the first quarter, we made several announcements that I wanted to expand upon.



Q1 FY21 Earnings Conference Call Prepared Remarks

In February, we announced the availability of an Amazon-qualified reference design that empowers OEMs and ODMs to evaluate and develop their own smart hearable products quickly and easily. This kit integrates the Alexa voice-initiated Close-Talk experience, enabling a broad set of battery-powered applications to communicate directly with Alexa for a multitude of use cases.

For those who have followed QuickLogic for some time, you know this was a voice activated project we had been working on for over a year. The process took longer than we had initially expected, mainly due to COVID related issues which affected engineering integration schedule.

Related to our open source initiatives, in March we launched a new development kit manufactured and sold by SparkFun, a popular online retailer of electronic kits and components. The launch was done exclusively on Crowd Supply, a well-known online distribution platform, and we have seen orders for more than 100 kits which we expect to start shipping in early June.

Expanding our addressable markets and presence in the marketplace has been a primary focus of our team since the start of our transformation. As the first programmable logic company to actively contribute to a fully open source FPGA platform, we have undertaken multiple strategic initiatives to broaden the served available market for our technology in a vastly more scalable way.

In our February call, I mentioned how we were working with the University of Utah on ideas regarding how to integrate advanced semiconductor layout automation techniques into our



Q1 FY21 Earnings Conference Call Prepared Remarks

FPGA IP Generator tool, called Borealis. The initial results from this DARPA-funded research have exceeded our expectations. Not only has it led to a dramatic reduction in the time it takes us to target a new process node with our eFPGA technology, but it also brought us an invitation to join the DARPA Toolbox Initiative. This invitation represents a significant milestone as now our technology becomes broadly available to developers working on DARPA-related research projects – quite a large pool of potential customers as you might imagine.

We have significantly expanded our partner ecosystem since the beginning of the year. We now have working relationships with several leading companies and distributors in the AI and IoT space, including Silicon Labs and Google’s TensorFlow group, and have a handful of other unannounced partnership activities with several worldwide semiconductor leaders. In addition, we signed a global distribution agreement with Mouser Electronics. With their global footprint and large stock of parts, working with Mouser makes it easier for people to buy and use our products.

Due to confidentiality, I can’t say what we are doing with each partner. However, I can share that many are working with QuickLogic and SensiML on AI related activities, with the goal of bringing solutions to market this year. Partnering with these 3rd parties is about getting more SensiML seats into the market. And through the launch of our SensiML Community Edition, we are targeting to end Q2 with around 500 new users of the toolkit. These multiple partnerships are beginning to blossom and will be vital to our future growth.

While our history remains as a semiconductor company, as I have noted in recent calls, our open source initiatives, which will build our IP licensing revenue, will be the pathway to



Q1 FY21 Earnings Conference Call Prepared Remarks

faster and more profitable growth. The software subscription revenue with IP licensing is very high margin business with a long tail and while the revenue ramp is starting slowly, I expect it to pick up in the second half of our fiscal year.

The FPGA platform, combined with the open source initiative, is increasingly viewed as a critical technology given both the scarcity value of the technology and continued geopolitical uncertainty. When combined with the talk from Washington of the need to onshore more semiconductor development, we believe the future trends are all favorable for QuickLogic.

On the open source front, last week, we launched a new SensiML open source Initiative, which integrates with Google's TensorFlow Lite for Microcontrollers and expands the SensiML toolkit to the universe of AI developers through the TensorFlow Neural Networks. The growth of intelligent IoT endpoints is almost limitless. Edge AI alone will enable tens to hundreds of billions of units in the coming years. Implementation of edge inference applications in these resource constrained devices is commonly referred to as Tiny Machine Learning, or TinyML for short.

SensiML is uniquely positioned to support this TinyML approach. Through the SensiML open source Initiative we are addressing the key bottlenecks to AI deployment by streamlining the process of collecting sensor training data and making AI code understandable and supportable.

Our QuickFeather initiative is taking flight. Since the start of 2021 we have received orders for close to 800 QuickFeather development kits and have sold close to 1,100 boards in the last year, a factor of likely 10x over the previous ten years.



Q1 FY21 Earnings Conference Call Prepared Remarks

The great start we have for the first part of the year, and anticipation for an accelerated pace of dev kits sales over the remainder of the year, makes me confident we will achieve our goal for 2021 to ship more than two thousand dev kits, continuing the proliferation of our devices and software into the masses, leading to future device revenue.

Recently we announced QuickLogic was invited to become a founding member of the Open Source FPGA Foundation. This invitation is yet another endorsement of QuickLogic's leadership in being the first FPGA company to actively drive an open source initiative. The group includes semiconductor industry veterans, widely recognized academics in their field of study, as well as DARPA. This organization expands the market opportunities and is helping people making a buying decision quicker and easier. In fact, we are finding several new leads that are very well qualified.

In looking at the other parts of our business, our smartphone revenue remains strong. While we did not add any new phone wins in Q1, our smartphone customer has placed purchase orders through September giving us nice backlog visibility into Q3. We are working on a few new programs with this customer, and I am confident we will see anywhere from 2 to 4 more models with our technology come to market over the course of this year. This would be in addition to the 10 devices currently using our technology.

Lastly, in our mature segment, the COVID-19 related issues remain a challenge, especially for our largest mature product customer. Revenue from this segment was down sequentially as expected, and there is no change to our outlook for mature product revenue as we continue to expect it will be roughly flat with 2020.



Q1 FY21 Earnings Conference Call Prepared Remarks

As you can tell, we are very busy with activities around our transformation. While each quarter will have its challenges, there are many positives coming through that are not yet showing up in our financial performance. I am confident this will change beginning in the second quarter.

Before turning the call to Anthony, I want to personally thank the QuickLogic team for their tireless efforts as we work through the COVID-19 challenges. The conditions in our home county have changed dramatically for the better and I am finally sensing we may be getting closer to the time when our team can return to the office on a more regular basis.

With that I will turn the call over to Anthony.

Anthony Contos – Interim Chief Accounting Officer

Thank you, Brian. With this being my first earnings call, as a way of introduction, I joined the Company in early January, and was appointed as Interim Chief Accounting Officer on January 28 as part of the CFO transition announcement. Over the span of my 30-year career I have worked in many senior and executive level accounting and finance roles, mostly in the technology industry. In my time with QuickLogic, I have been pleased with the depth and knowledge of our finance team and have appreciated the support Brian and the executive team have provided during this transition period. The Company has a bright future and I look forward to being a part of this exciting opportunity.

With that I will now turn to our results.



Q1 FY21 Earnings Conference Call Prepared Remarks

For the first quarter of fiscal 2021, revenue was \$2.2 million. This compares with revenue of \$2.5 million in the fourth quarter of 2020 and approximately \$2.2 million in the first quarter of 2020.

Within our Q1 revenue, sales of new products were approximately \$1.1 million. This compares with \$837,000 in Q4 and \$486,000 in the first quarter of 2020. Our mature product revenue was approximately \$1.2 million, compared with \$1.7 million last quarter and \$1.7 million in Q1 last year.

In the first quarter, we had 3 customers who each accounted for 10% or more of our revenue.

Non-GAAP gross margin in Q1 increased to 52.7%, compared with 51.5% in the prior quarter and 52.2% in the same quarter of 2020. We continue to believe gross margin will get into the mid 60% range by the end of the year.

Non-GAAP operating expenses for Q1 were approximately \$3.5 million. This compares with \$2.9 million in Q4 of 2020 and \$4.1 million in the first quarter of last year. As mentioned in February earnings call, the higher OpEx number takes into account the normal payroll tax reset, and other customary beginning of the year items.

Within our Q1 operating expenses, R&D was \$1.7 million and SG&A was \$1.8 million. This compares with R&D and SG&A of \$1.6 million and \$1.3 million respectively last quarter, and \$2.3 million and \$1.8 million, respectively, in Q1 last year.



Q1 FY21 Earnings Conference Call Prepared Remarks

The net total for other income, expenses, and taxes in Q1 was a credit of \$1.0 million, compared with a charge of \$76,000 in Q4 and a charge of \$103,000 in the first quarter last year. You may remember in the last call we had just received approval from the Small Business Administration for our PPP loan forgiveness application. As a result, we reclassified the \$1.2 million loan balance from a liability on the balance sheet to other gains on the P&L in the first quarter.

Non-GAAP net loss was \$1.3 million, or a loss of \$0.12 per share, based on 11.3 million shares. This compares with a net loss of \$1.7 million and \$0.15 per share last quarter, and a net loss of \$3.1 million, or \$0.37 per share in the first quarter of last year.

The total cash at the end of Q1 was \$20.9 million, compared with \$22.7 million at the end of last quarter. The cash balances also include the \$15 million draw from the revolving line of credit.

Now moving to our forecast for the second quarter of fiscal 2021, which will end on June 27, 2021:

The revenue guidance for Q2 is \$2.8 million, plus or minus 15%. We believe total revenue will be comprised of approximately \$1.3 million for new product and \$1.5 million of mature product revenue.

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



Q1 FY21 Earnings Conference Call Prepared Remarks

Our non-GAAP operating expenses will be approximately \$3.3 million, plus or minus \$300 thousand. At the midpoint of the Q2 range, R&D expenses should be approximately \$1.7 million, and SG&A expenses of approximately \$1.6 million. We continue to believe operating expenses will remain in this range through the remainder of the year.

After interest expense, other income and taxes, we currently forecast our non-GAAP net loss will be approximately \$1.8 million, or a net loss of \$0.15 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.

For the balance sheet, in Q2 we expect cash usage to be in the range of \$1.8 million and \$2.2 million. After the second quarter, cash usage should decline 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, Anthony.



Q1 FY21 Earnings Conference Call Prepared Remarks

In February, Olof Kindgren, director of the Free and Open Source Silicon, or FOSSi, Foundation, and a well-known advocate of open source tool flows, published his 2020 Year In Review. In that piece, he highlighted our proactive open source efforts, noting that we are the FPGA company that will go down in the annals of history for being the first to do open source. This kind of recognition from an industry leader is helping expand QuickLogic's brand in the fast-growing open source ecosystem.

I could not be more excited about the prospects for QuickLogic. The number of opportunities in new and growing markets is better than we had anticipated.

We believe there is a clear path to achieve many of the business and financial objectives I have talked about and now feel stronger than ever that we control our own destiny. I would not have been able to say that a year ago.

After a slower than expected start in the first half of fiscal 2021, we believe the back half of the year will be strong and should lead us to meeting our financial objectives for the year.

In closing, I would again like to thank our many stakeholders, including our customers, partners and QuickLogic team members, for their continued support.

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



Q1 FY21 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 participate in upcoming investor events, and again when we report our second quarter results in August. Have a good day!