



Q1-2017 Earnings Conference Call Script

Operator:

Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic Corporation's First Quarter 2017 Earnings Results conference call. During the presentation, all participants will be in a listen-only mode. A question-and-answer session will follow the company's formal remarks. To ask a question, press the star key followed by the digit one on your touch-tone phone. I will repeat these instructions after management completes their prepared remarks. Today's conference call is being recorded.

At this time, for opening remarks and introductions, I would like to turn the call over to the company's Investor Relations representative, Ms. Cathy Mattison of LHA. Ms. Mattison, please go ahead.

Cathy Mattison, LHA, Safe Harbor:

Thank you operator, and thank you all for joining the QuickLogic Corporation's First Quarter 2017 Earnings Results quarterly conference call. With us today, from the company are Brian Faith, President and Chief Executive Officer and Sue Cheung, Chief Financial Officer.

Before we begin our call with QuickLogic's executives, 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, our future evaluation systems, broadening our ecosystem partners, expected results, and financial expectations for revenue, gross margin, operating expenses, profitability and cash.

I'd like to remind you that these statements must be considered in conjunction with the cautionary warnings that appear in QuickLogic's SEC filings. Investors are cautioned that all forward-looking statements in this call involve risks and uncertainty, and that future events may differ materially from the statements made. For additional information, please refer to the company's Securities and Exchange Commission filings, which are posted on its website or available from the company without charge.

We will start today's call with the company's strategic update from QuickLogic's CEO, Brian Faith, then Sue Cheung, its CFO, will review first quarter 2017 financial results and provide financial guidance for the second quarter before Brian's closing remarks.

At this time, I would like to turn the call over to Brian Faith, President and CEO. Please go ahead sir.



Q1-2017 Earnings Conference Call Script

Brian Faith, CEO:

Thank you, Cathy, and thank you all for joining our quarterly conference call.

We have made significant progress since our last conference call in strengthening our balance sheet to support our strategic growth initiatives in sensor processing solutions and eFPGA intellectual property licensing. With this progress, I remain optimistic that we will realize our goal to grow revenue by at least 50% in 2017. I am also optimistic that we will be in a position next quarter to provide more color regarding design wins that we believe will drive the second half revenue growth necessary to realize these goals.

Let's start with the balance sheet. On March 28th, we completed an equity offering raising \$17 million of gross proceeds, and closed the quarter with a cash balance of \$26.7 million. We evaluated several alternatives, including non-dilutive options, and chose the fastest and lowest risk option.

Due to the fact our EOS S3 Sensor Processing Solution is a proprietary platform, large OEMs will evaluate our ability to support their anticipated production ramps with much higher scrutiny than they have when designing in our multi-sourced solutions like display bridges. By increasing our cash now, we have mitigated the risk of our balance sheet becoming an issue as our engagements with top-tier OEMs move forward.

In addition to this, several potential ArcticPro embedded FPGA IP customers have asked us to accelerate certain roadmap items that will better position us to support their needs and broaden our engagements with semiconductor companies and OEMs.

Let's move to our eFPGA IP licensing initiative. Last quarter, we signed an IP license agreement for our ArcticPro embedded FPGA technology with a second top-tier foundry. We have since completed the tape-out of our test chip with this foundry and have initiated engagements with potential customers.

We also released our Aurora eFPGA software tools, which complements our previously released Borealis software tools. Aurora supports eFPGA design implementation from RTL through place and route. This provides SoC and ASIC developers the ability to easily determine the amount of eFPGA resources needed to support a given design and calculate the estimated die area associated with those resources.

Aurora supports industry standards including Mentor Graphics Precision Synthesis, and standard EDA simulation tools such as NC-Sim, VCS, Questa and ModelSim.

During the past month, we were invited to, and participated in the 2017 SMIC Advanced Technology Workshops in Shanghai, Santa Clara and Hsinchu Taiwan where our ArcticPro eFPGA IP solutions were very well received by potential customers.



Q1-2017 Earnings Conference Call Script

Most importantly, we have increased the number of significant ArcticPro eFPGA engagements since our last conference call and believe we will win additional IP license agreements this year.

Now, let's move to sensor processing. Last quarter, I mentioned our wearable design win with a tier one smartphone OEM moved forward to user testing. The customer is pleased with the performance of our EOS S3 Sensor Processing Platform, but has decided to upgrade one of the sensors to further optimize battery life. This change does NOT impact the continued use of EOS S3 in the design. While the delay in the production release is frustrating, we remain optimistic about the volume potential, and we are very happy to be included in a design that we believe will receive extensive media coverage. Since we do not have a formal release date from the customer yet, we have not included revenue for this design win in our guidance. However, we believe the launch could be with short notice.

In addition, we continue to make solid progress with other top-tier smartphone, wearable and IoT OEMs. During this quarter, we expect multiple smartphone OEMs will move to the printed circuit board or PCB stage of the engagement process. In this phase, OEMs use internally developed PCBs to evaluate the performance of our EOS S3 Sensor Processing Platform while running the software and use cases they have slated for their targeted smartphone designs.

Our hardware integrated Sensory TrulyHandsfree technology enables us to offer best in class low power consumption and continues to be one of the primary drivers in recent engagements with large smartphone, wearable, and consumer IoT OEMs.

During Q2, we will enhance the voice trigger and voice recognition capabilities of our EOS S3 Sensor Processing Platform with the integration of Acoustic Echo Cancellation technology, which is commonly known as AEC.

AEC significantly improves the ability of a smartphone, wearable or IoT device to recognize a voice trigger and the ensuing user commands in noisy environments. This is an enabling technology for always on voice in a number of common use cases.

An example of this would be enabling a smartphone, wearable or an IoT device to recognize a voice trigger at the same time it is being used to play music. With AEC you could be streaming Pandora from your smartphone and still use your voice to trigger your smartphone to bring up navigation without muting the song or looking away from the road.



Q1-2017 Earnings Conference Call Script

Let's focus for a minute on the additional markets where we are gaining traction – these include voice-enabled IoT products, new wearable devices being developed by app companies, and the emerging market for smart hearable devices.

At the Consumer Electronics Show in January, we introduced a voice-enabled IoT demo that attracted the attention of several potential customers. We have since leveraged it to initiate a new engagement with a top-tier IoT supplier. While I cannot share further details at this time, I am optimistic about the prospects of this engagement.

Last quarter, I mentioned several major app companies are in the process of expanding their business models through the development of new hardware products that are designed to leverage their already widely deployed software applications. This trend has enabled us to leverage the relationships we have built with app companies prior to their move into hardware design, and as a result, win new designs on a relatively fast track.

During the last conference call, I announced a wearable design win with one of these large app companies. This app company has since selected an ODM for production. We are working closely with all of the parties involved to support the targeted production ramp in late 2017.

During the last few months, we expanded what started as a technical evaluation with a second large app company to a design engagement for a new smart hearable device that requires always-on voice recognition and ultra-low power consumption. We believe our EOS S3 Sensor Processing Platform is uniquely positioned to win this design. The hearable device category has received quite a bit of attention during the last year. Some analysts predict the market for hearable devices will grow to approximately \$17 billion by 2020 and represent over 50% of the entire wearable market.

One of the primary drivers for this anticipated growth is expected to be a new generation of smart hearable devices that will begin hitting the market late in 2017. Smart hearable devices will include various combinations of always-on voice recognition, biometric sensors and motion sensors.

The inherently small size of hearable devices increases the importance of selecting semiconductor solutions that optimize PCB space and lowest possible power consumption. We believe we are very well positioned to address this emerging market.

With that, I'll turn the call over to Sue who will cover our financial results for Q1 and provide our guidance for Q2. Following that I'll return for my closing comments and we will open the call for your questions.

Sue Cheung, CFO:

Thank you, Brian. Good Afternoon and thanks to everyone for joining us today. Please note that we are reporting our non-GAAP results here. 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 first quarter of 2017, total revenue was \$3.2 million, reflecting the benefit of a customer's pull in which was recognized earlier than expected. Our new product revenue was approximately \$1.9 million, and mature product revenue was approximately \$1.3 million. New product revenue contribution increased to 60% of the total revenue, compared to 54% in Q4 and 51% in Q1 2016.

Samsung accounted for 22% of total revenue during the first quarter, compared to 29% during the previous quarter, reflecting the seasonality of the consumer tablet market and the expanding customer base for our display bridge solutions.

Our Q1 gross margin was 44%, compared to 33% in Q4. The increase is primarily due to the portion of eFPGA IP license revenue recognized in Q1, and the favorable mix of customers and products shipped during the quarter. As we continue to broaden our customer base and grow new product revenue, we expect margins to trend higher.

Operating expenses for Q1 totaled \$4.6 million, which was flat sequentially and 18% lower year-over-year, reflecting the cost reductions associated with the strategic realignment that we implemented in the 2nd half of 2016.

The total for other income, expense and taxes was a charge of \$61 thousand. This resulted in a net loss of approximately \$3.2 million, or \$0.05 per share.

The net cash usage during the first quarter was \$3.9 million, as we increased inventory and other working capital needs in anticipation of new product launches in the second half of 2017.

As mentioned by Brian earlier, we completed an equity offering on March 28th, raised \$17M of gross proceeds, and closed the quarter with a cash balance of \$26.7 million.

The pricing of the shares issued in the offering was roughly a 12% discount to the trailing 60-day Volume Weighted Average Price at the close. Over 30 institutional investors participated in the offering, several of whom acquired 10% or more of the offering shares.



Q1-2017 Earnings Conference Call Script

With our strengthened balance sheet, we are in a good position to support our anticipated growth and meet the demands of our potential customers.

For the second quarter of 2017, we expect revenue to be approximately \$3.2 million, plus or minus 10%. The \$3.2 million in total revenue is expected to be comprised of approximately \$1.8 million of new product revenue and \$1.4 million of mature product revenue.

On a non-GAAP basis, we expect gross margin to be approximately 44% plus or minus 3 percent. As was the case in Q1, we expect our gross margin to benefit from IP license revenue recognition, and a favorable mix of customers and products, offset by unfavorable absorption of manufacturing overhead.

We are currently forecasting non-GAAP operating expenses at approximately \$4.6 million, plus or minus \$300 thousand. We expect our non-GAAP R&D expenses to be approximately \$2.3 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 up to \$60 thousand.

At the midpoint of our guidance, our non-GAAP loss is expected to be approximately \$3.3 million or \$0.04 per share.

As was the case in prior quarters, the primary difference between our GAAP to non-GAAP results is our stock-based compensation expense, which we expect to be approximately \$400 thousand for the 2nd quarter.

In Q2, we expect to use between \$3.8 million and \$4.2 million in cash which is net of one-time financing fees related to the March equity offering. The forecasted cash usage will be primarily driven by working capital needs including inventory buildup for future sales.

As in prior quarters, our actual results may vary significantly due to things that are beyond our control, such as schedule variations from our customers. Schedule changes, and projected production start dates, could push or pull shipments between Q2 and Q3 2017 and impact our actual results significantly.

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

Brian Faith, CEO:

Thank you, Sue.

We expect 2017 to be a pivotal year for QuickLogic. We are already establishing ourselves as a technology leader in ultra-low-power sensor processing and as one of the most credible sources for licensing embedded



Q1-2017 Earnings Conference Call Script

FPGA technology. With our strengthened balance sheet, we are well positioned to accelerate our technology roadmap and fund the working capital necessary to support our anticipated growth. I have been with QuickLogic for over twenty years, and I can say without hesitation that I have never been more optimistic in the future prospects for the company.

Thank you again for joining our conference call; Operator, we can now open the call for questions.

Operator and Q&A:

Brian Faith, CEO:

Please note we will be participating in the following events:

First, Sue and I will be at the Craig-Hallum Institutional Investor Conference on May 31st. Please contact LHA if you would like to meet.

Second, our CTO and SVP of Engineering Dr. Tim Saxe will be participating in a panel discussion at the Design Automation Conference in Austin June 18th through the 22nd. We will also have a booth at the conference.

Third, Sue and I will be presenting at the Reach China Investment Conference in Beijing on June 27th.

And lastly, we will have a booth at the Sensors Expo and Conference in San Jose from June 27th to June 29th. Thank you for your continued support and have a great day.