**Q4 FY19 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 2019 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through February 19, 2020. 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 Dr. Sue Cheung, 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; risks associated with potential disruption caused by the Coronavirus; 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.

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, 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.

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 Fourth quarter and Fiscal 2019 financial results conference call.

Many positive developments have taken place since our last earnings call that set the stage for 2020 and will better define our long-term success. We announced design wins with large multi-national companies, added more open source software initiatives to increase our scale and reach, and expanded the ecosystem of partners for our SensiML™ AI software platform business. We expect all of these will contribute to larger revenue opportunities later this year and into the future.

In addition, we took significant steps to streamline our organizational footprint through a restructuring. And while we remain excited about our prospects in 2020, admittedly, looking back at 2019, we were disappointed with our revenue performance. Many of these challenges we talked about in prior earnings calls were due to factors beyond our control. While some issues will linger into the first quarter this year, I am as positive as ever about the fundamentals in our business and believe we will achieve profitability in 2020.

I want to first cover a few items that have happened in the last couple of months and then move into a more detailed discussion on the growth drivers for 2020 and beyond. Later, Sue will review our financial results and provide our near-term outlook.

In December, we announced the passing of Board Chairman Tom Hart. Tom had a long history with QuickLogic, serving as the Company's CEO for 15 years and a board member for 25 years. His insight into the company and semiconductor industry were valuable to me and his presence is missed by all of us at QuickLogic. Current Board member Dr. Michael Farese was subsequently named as the Chairman of the Board of Directors. Mike has been immensely helpful to me and the company as we refine our long-term strategy.

Next, two weeks ago we announced a significant restructuring of our business, which is scheduled to deliver about $4 million in annualized savings once fully implemented in the middle of our second quarter. There will also be a positive impact to our COGS, which will help the gross profit margin line.

The decision to make these changes came as a result of our year-end strategic planning efforts. During the process we reviewed our current product development plans and market position for the EOS™ S3 SoC and eFPGA technologies. Through the review it became clear that the vast majority of the software development to support our announced EOS SoC design wins and near term SoC growth strategy was completed. We believe the future expansion into new markets and applications for our SoC will be driven from engagements with our numerous voice software partners and recently announced relationship with Flextronics. In addition, our eFPGA products will leverage the open source software initiative being developed in conjunction with a mega-cap cloud service provider.

The headcount reductions were across all business functions. With the many partnerships we have put in place, we believe we now have a more scalable business. In fact, we will be announcing a new authorized design partner, OptimusLogic, for the development of customer embedded system hardware and software in the coming days. This led to the conclusion that we don't need to take on engineering for everybody and can operate more efficiently with fewer personnel. As we continue to bring large multi-national partners into our ecosystem, we are working with them on new product development and will use the platform that we have already developed to expand our reach.

One result of the restructuring and refined go-to-market strategy with partners, is that we were able to streamline and reset our sales organization including eliminating the role of vice president of sales. We felt the structure of the organization needed to reflect a deeper collaboration with ecosystem partners to drive our long-term growth.

The bottom line result of these actions is that our leaner organization puts us on a trajectory to achieve our profitability goals, which is by far our highest priority this year.

Sue will provide additional details on the restructuring later in the call.

With these items as a backdrop, I want to shift the discussion to review the growth drivers we see for 2020 to help everyone understand our plan for getting to profitability this year.

The key drivers that we expect to lead our revenue growth in 2020 include the following:

1. Continued strength in what we define as our mature product segment
2. Expansion of our SoC products with several multi-national OEMs

3. Expanded SensiML AI Software SaaS and eFPGA IP sales

Starting with our largest revenue area, mature products: Our military business remains strong. Pushouts that delayed spending in the second half of 2019 have been mostly resolved and we are starting to see purchases come back. We expect to see most of the delayed orders, which in aggregate amounted to approximately $1 million, come through in both Q2 and Q3. While the ramp is later than we originally expected, we have better visibility of a recovery, which gives us greater confidence in our revenue outlook for the year. We currently believe a little less than half of the 2020 total revenue will come from the mature product segment.

The other portion of revenue comes from what we define as new products. This includes primarily our EOS S3 SoC products, SensiML AI SaaS revenue, and eFPGA IP licensing.

After a challenging 2019 for our new product segment, we now have greater clarity on our outlook and expect sales in this category to grow significantly in 2020. The improvement will be led by a combination of items, including: some of the programs with large multi-national OEM customers we have discussed before, such as Kyocera and a well-known and fast growing streaming and SmartTV provider, joint programs with companies such as Flextronics and Infineon, and the opportunity with the mega-cap cloud service provider I mentioned last quarter.

On Kyocera: we recently announced a significant design win for QuickLogic's ultra-low power EOS S3 voice and sensor processing SoC platform. Kyocera has chosen our platform for its Torque G04 smartphone. We are now designed into three released phones, up from zero just two quarters ago. With our growing relationship we could see Kyocera double the number of phones using QuickLogic's platform in 2020.

Our collaboration with Flextronics and Infineon was also highlighted last month. This relationship is important on several levels. We announced our inclusion in the FLEXino Sensor Fusion Development Kit from Flextronics. This kit includes a sensor fusion daughter board, which features our EOS S3 SoC along with Infineon sensors.

Flextronics has developed a complementary tiny System-in-Package (SiP) version of the development board which can be integrated into existing IoT system architectures.

IoT developers will now have access to a world class prototyping-to-high volume manufacturing solution for a wide range of applications.

In 2020, we expect to have several more proactive joint sales and marketing campaigns with Flextronics and Infineon, which will broaden our exposure to a wider universe of opportunities. Since our product is embedded in the Flextronics SiP, their broad sales channel should offer a more scalable growth path.

In the consumer market, always-on voice will drive the next-generation of almost every consumer device we use today. We are now engaged in a new platform with a well-known and fast-growing streaming and smart TV provider and are on track to ship to them in Q2 this year. We expect the market for wireless and hands-free remote controls will accelerate, giving us more opportunities to generate revenue in this developing market, potentially generating at least several hundred thousand dollars per quarter.

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. This alternative is expected to spur 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. That being said, speaking to the quality and breadth of our sales funnel, even with the Coronavirus issues facing mainland China, we are confident in achieving our profitability goals without a material contribution from these Chinese ODMs.

Moving to our QuickAI and SensiML businesses: SensiML continues to gain momentum as more companies explore how AI can be integrated into their suite of products. The growth in auto code-generating AI tools such as those from SensiML is enabling a broader range of companies to get products to market more quickly and efficiently. Last month, Nordic Semiconductor recognized the value SensiML brings to develop AI-enabled products. We look forward to broadening this relationship with Nordic.

We also announced SensiML joined the STMicroelectronics Partner Program and is now an ST authorized partner. By joining this select program, SensiML can better reach developers using the STM32 MCU with its Analytics Toolkit. SensiML closed Q4 with a total of 44 customers, 4 of which are Global Fortune 500 companies. This total is up from 26 customers in Q3 and 3 going back to Q1. Currently, most are still using the evaluation version of the product, not yet the full SaaS product. Most of the 40+ customers are affiliated with the Industrial market segment. These types of customers tend to have much longer evaluation periods. While the ramp to conversion has been slower than we originally thought, the good news is that we continue to build momentum and are planning on this contributing to a significant percentage of our expected revenue growth in 2020.

Last quarter, I discussed the business potential with the 'mega-cap' company I mentioned earlier. This company has the ability to deliver up to 100 times more development kits than our current sales channels under our previous go-to-market strategy. As such, this could drive a correspondingly higher user base for the EOS S3 and SensiML AI software platform. We expect to launch the first of two IoT development systems being co-developed with this company in the quarter.

I have covered several areas that will serve as catalysts for revenue growth and I know the natural question is "what does this mean in terms of an outlook for 2020?" As I have mentioned before, given the variability in our customer base and timing of product launches it is our policy to not discuss a financial outlook beyond one quarter at a time, which Sue will provide in her comments. However, I will offer the following context regarding our current outlook for 2020.

First, related to the Coronavirus outbreak. We have a very limited presence in China, no direct manufacturing in the country, and have a small footprint from a China supply chain point of view. However, it is apparent with travel restrictions still in place in many areas, and the longer Lunar New Year holiday mandated by the government, the impact on the China economy could last longer than currently anticipated. This situation makes us believe that development schedules from our Chinese customers, as well as sales for Hearable and Consumer Electronics products into the China domestic market, will be slower than expected.

We are in constant contact with our suppliers and ODMs, and at this stage we are taking the approach that the shutdowns will have a lingering effect on at least our first quarter and possibly longer. Despite these challenges, we are confident in achieving our profitability milestone without a material contribution from these Chinese ODMs.

Given this fluid situation, we are taking a very conservative approach to our outlook for 2020.

When factoring the impact this could have, we believe revenue growth this year will be in stair-step increases starting in Q2 and through the rest of 2020. Based on current expectations, we believe revenue for fiscal 2020 could end in the mid-to-high teens. With an expected product mix containing more SaaS and IP sales, we could see gross profit margin for the year in the mid-60s. When combined with our restructuring actions, we should be close to non-GAAP operating income breaking even or becoming profitable towards the end of the year.

And one other key point I want to stress: through the combination of restructuring activities, expected higher revenue, and improved gross margin, we expect cash usage to decline significantly throughout the year. As such, I am very confident we will not need to raise capital to achieve profitability.

In summary, we have streamlined our operations, enhanced product development and refined our go-to-market strategy. When tying all of these items together, I am confident the foundation is in place to drive QuickLogic to profitability and improved overall financial performance in 2020.

I would now like to turn the call over to Sue for a discussion of our recent financial performance and full Q1 Outlook. Sue:

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

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

For the fourth quarter of 2019, revenue increased sequentially to $2.9 million, within the guidance range we provided. Our Q4 revenue compares with revenue of $3.2 million in the fourth quarter of 2018.

Within our Q4 revenue, sales of new products were $720 thousand. This compares with $1.3 million in the fourth quarter of 2018. The lower new product revenue from the prior year was mainly due to the ongoing decline in display bridge sales and approximately $500 thousand in revenue from a large, initial eFPGA license.

Our mature product revenue was $2.2 million, an increase compared with $1.9 million in Q4 last year.

In the fourth quarter of 2019, we had three customers who each accounted for 10% or greater of our sales.

Non-GAAP gross margin in Q4 was 65.6%, compared with 52.6% in the same quarter last year. The increase was mostly due to the higher mix of mature product revenue and additional SaaS business.

Non-GAAP operating expenses for Q4 were approximately $4.2 million, down slightly from $4.3 million in the fourth quarter of last year.

Within our Q4 Operating Expenses, R&D was $2.2 million, and SG&A was $1.9 million. This compares with R&D and SG&A of $2.3 million and $2.0 million, respectively, in Q4 last year.

The net total for other income, expense, and taxes in Q4 was a charge of $135 thousand, compared with a charge of $13 thousand in the fourth quarter last year. The increase was mainly due to interest expense and adjustments to tax attributes associated with SensiML at the end of 2019.

Non-GAAP net loss in Q4 was $2.4 million, or $0.29 per share. This compares with a net loss of $2.6 million, or $0.38 per share in the fourth quarter of last year. The per share calculation for both periods reflects the one-for-fourteen reverse split that went into effect December 24, 2019. Total share count used for calculation purposes in Q4 2019 was approximately 8.3 million, compared with 6.8 million in the same quarter a year ago. The stock offering we completed in June 2019 accounts for most of the difference.

Finally, the total cash at the end of Q4 was $21.5 million, compared with $24.8 million at the end of last quarter. Our cash balance also includes the full draw from our $15 million line of credit.

Before moving to our guidance, I would like to expand on the recently announced restructuring plan. We expect the approximately 30% headcount reduction, and the closing of some facilities, to generate about $4 million in annualized savings when compared with fiscal 2019. The restructuring should be completed in the May timeframe. Within this $4 million, approximately $3.75 million will be in the operating expense line with the remainder in cost of goods sold.

We expect to incur approximately $600 thousand of restructuring expenses, of which about $500 thousand will be cash expenditures with the majority coming in the first quarter of fiscal 2020.

When factoring in these changes, we believe non-GAAP operating expenses will be at a quarterly run rate of approximately $3.5 million starting in the second quarter of 2020.

Now turning to the full-year fiscal 2019 results. Total revenue was $10.3 million, down from $12.6 million in fiscal 2018. New product revenue was $3.1 million, compared with $5.7 million in the prior year. Lower display bridge revenue was the largest component of the decline.  Mature product revenue was $7.2 million, compared with $6.9 million in fiscal 2018.

For the year, we had two customers that each accounted for greater than 10% of our total revenue.

Gross margin for 2019 was 58.0%, up from 51.2% in 2018. The higher gross margin in 2019 was primarily driven by revenue generated from sensor processing, SensiML AI SaaS, eFPGA IP licenses and mature products.

Even with the acquisition of SensiML at the beginning of 2019, our operating expenses for the year were $18.2 million, which were flat with the prior year.  Our net loss for 2019 was $12.3 million, or $1.60 per share, compared with $11.9 million or $1.87 per share for 2018. The share count used to calculate EPS was 7.7 million for 2019 and 6.4 million for 2018.

Now moving to our forecast for the first quarter of 2020, which will end on March 29th:

Our revenue guidance for the first quarter is $2.3 million, plus or minus 10 percent. As Brian already discussed, we are taking a conservative outlook based on the potential impact from the Coronavirus. We believe total revenue will be comprised of approximately $600 thousand of new product revenue and $1.7 million of mature product revenue.

With a sales mix that includes increasing SaaS sales, and the cost savings from the restructuring, we expect our non-GAAP gross margin to be approximately 64 percent, plus or minus 3 percent.

We are forecasting that total non-GAAP operating expenses, excluding the one-time restructuring costs, will drop to approximately $3.9 million, plus or minus $300 thousand. Within operating expenses, we expect our R&D to be approximately $2.2 million and SG&A to be approximately $1.7 million. As a reminder, the full benefit of the savings from the restructuring will be realized in Q2, at which time R&D and SG&A will decline to $1.9 million and $1.6 million respectively.

After interest expense, other income and taxes, at the midpoint, we currently forecast our non-GAAP net loss will be approximately $2.4 million, or $0.29 per share based on approximately 8.5 million shares outstanding.

Most of the difference between our GAAP and non-GAAP results is our stock-based compensation expense, which we expect to be approximately $850 thousand. We expect this expense will remain in the mid $800 thousand range for the foreseeable future.

Finally, in Q1, we expect cash usage to decline, and be in the range of $2.3 to $2.7 million. This includes both the approximately $500 thousand restructuring costs, and cash used for operations.

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

**Brian Faith** – Chief Executive Officer

Thank you, Sue.

With 2019 behind us, our focus is squarely on the future. We know revenue growth will be the key to delivering on our profitability goals. 2019 was a year when we made great strides in building the foundation for improved financial performance. I am confident 2020 will be the year we begin to see the benefits from the heavy lifting we did last year as we execute on our plans for creating a sustainably profitable business.

Before opening the call for Q&A, I want to let everyone know we are scheduled to participate in the ROTH Conference in March in Newport Beach. We look forward to seeing some of you at that event.

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

**Brian Faith** – Chief Executive Officer

## 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 first quarter results in early May.