



## Second Quarter 2021 Earnings Conference Call Prepared Remarks

### Operator

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

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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 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.



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.



**Brian Faith** – Chief Executive Officer

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

I am pleased with the progress we continue to make on the transformation of our business. In the second quarter, our revenue grew to \$2.9 million, up approximately 30% sequentially and reaching the highest level since the first quarter of fiscal 2019.

During the quarter we delivered an eFPGA IP core to our first full license customer using our soon-to-be-announced automated IP generator flow that integrates open source software with our three decades of experience delivering programmable logic. In addition, we significantly grew both FPGA and eFPGA opportunities, which bodes well for our future revenue performance. We are now at the tipping point for scaling this new FPGA and eFPGA approach much more broadly and the timing is coinciding with generally increasing market demand.

Our pipeline of new business remains strong, with the vast majority of large opportunities continuing to advance. We also saw acceleration in the number of RFPs and RFQs I discussed previously. Some of the more exciting opportunities include several in the IoT, Military, Aerospace and Defense markets. We should see the number of wins continue to improve through the remainder of the year, leading to a substantial increase in annual revenue, better bottom-line performance, and significantly lower cash usage.

With each passing quarter it is becoming crystal clear that our move to leverage and build upon the open-source tool model continues to be the right move for QuickLogic.



Artificial intelligence and machine learning technologies now power a rapidly expanding range of products and applications. The advantages of open-source tools, including decentralization, cost efficiency, transparency, and customization are things we recognized early on and have been actively advocating. We remain confident we are on the right path and that our results over the next few quarters will show continued progress.

Recently, several of the largest semiconductor and related companies have discussed issues around their supply chains and corresponding impact on revenue. While we have not seen these same conditions affecting our business to the degree others have discussed, we are seeing increased lead times for certain packages. We are reacting to this in several ways, including carrying additional inventory to provide some buffer, as well as communicating longer lead times to our customers and distribution partners. We continue to monitor and will adjust our business based on these evolving conditions.

Before I get into my more detailed overview of our quarterly progress, I want to provide an update on the status of formalizing a strategic initiative with a consortium of partners. You may remember that at the time of our February call all signs pointed to one such initiative being funded by the end of February. Although we have a signed memorandum of understanding and our discussions continue to move forward, the funding of that initiative has not yet closed. We will provide further updates when there is meaningful progress.

Now I will move the discussion to some of the recent events that reinforce the themes we have discussed recently.



Our SensiML subsidiary had some important news during the quarter. First, SensiML announced that it has partnered with global semiconductor company Microchip Technology to simplify the development of Artificial Intelligence (AI) code for smart industrial, consumer, and commercial edge IoT applications. Microchip is using SensiML to create an automated design flow. These tools can easily tap into sensor data from the MPLAB X IDE and generate machine learning models that transform physical sensor endpoints into application-specific intelligent sensors. The agreement is a further testament to the robust SensiML Analytics Toolkit and its capabilities as more top tier semiconductor companies and OEMs look to add machine learning to their existing designs.

In May, we announced the joint development of an AI-enabled Industrial IoT solution for predictive maintenance applications with our customer aiSensing. The solution is based on our QuickAI platform, which includes the ultra-low power EOS™ S3 multi-core sensor processing SoC, QuickFeather development kit, and SensiML Analytics Toolkit for endpoint AI applications.

Through this powerful set of technologies, aiSensing has developed a vibration sensor that employs Artificial Intelligence/Machine Learning (AI/ML) techniques to intelligently monitor equipment status and identify and signal when different fault modes occur – often called Predictive Maintenance.

I wanted to highlight this specific example to further demonstrate how this combination can be used by companies to develop a near infinite set of AI and ML applications.



One other note on QuickFeather. Our order demand remains strong as we have been averaging over 2 dev kits sold per day so far this year. By the end of Q2 we had sold well over 1,000 boards.

As an update to our SparkFun initiative they have created a version of QuickFeather called Thing Plus – EOS S3, that was launched on Crowd Supply. Users can implement some interesting applications with QuickLogic, SensiML and Google’s TensorFlow Lite AI Software using this dev kit. This is a perfect example of convergence of multiple platforms into one product that we can sell to a broad set of customers. Boards started shipping in Q2 and we ended the quarter shipping more than 100 kits and are seeing no letup in demand.

Our distribution channels expanded in the June quarter as we announced new partnerships agreements for both QuickLogic and SensiML. SensiML signed a worldwide distribution agreement with Digi-Key Electronics. Through the agreement, Digi-Key now offers the Basic Edition of SensiML's Analytics Toolkit globally for customers who need a complete development workflow for data collection, labeling, model generation, and test/validation of embedded AI. Moreover, we are in the process of adding QuickLogic devices and dev kits to Digi-Key shortly. In doing so, our products will be available via two of the most popular worldwide electronics distributors, Digi-Key and Mouser.

Those are some of the recent highlights I wanted to address. Now, I want to briefly touch on a few areas we have discussed in recent calls.

Our QuickLogic Open Reconfigurable Computing, or QORC, Initiative that was launched last year continues to gain traction. As a reminder, we are taking some of our proprietary technology and combining that with the open-source tools that are being



developed specifically for FPGA technology. We currently have some initial support on a couple of different devices and IPs that we control, and I expect it will only grow from here.

In addition, we continue to see growth in the SaaS, Software, and IP licensing side of our business, including our embedded FPGA programmable technology and our SensiML AI software platform. Our primary focus for SensiML has been building out the platform with different partner companies, some of which include multinational microcontroller companies like STMicroelectronics and NXP and, more recently, Silicon Labs and Microchip. Lastly, SensiML's integration with Google's TensorFlow Lite AI software framework has been going according to plan.

A lot of good things are happening as we build out our ecosystem and I am confident these efforts are going to lead to customers signing up for full SaaS or taking full licenses of our technology in the coming quarters.

Work on our embedded FPGA initiative has accelerated after we joined the DARPA Toolbox earlier this year. We were invited to join this specifically because of our work in the open-source FPGA area. A question I often get asked is why would DARPA care about FPGA technology? You must remember the US government and defense contractors, and companies that create those types of products, are buying hundreds of millions of dollars a year in FPGA technology to be used across various applications. They include items such as flight control systems, communications processors and more.

It is true that many of these companies tend to also design their own custom ASICs. But what we are seeing is the beginning of the evolution, that over time, we believe, will be the blending of ASIC and FPGA into the same chip. This can't be done unless the FPGA



that was a discrete chip is now an IP to be integrated into an ASIC. This embedded FPGA IP technology is one of our core competencies where we have a distinct advantage, one which we are building on for the future.

Progress with Amazon continues with our design work for the Alexa Voice Services. The customized design kits were fully certified earlier this year. Designers can prototype a proof-of-concept using the Alexa wake word kit, and at the heart of the board is our low power technology. They're all very reasonably priced, easy to use, and they're all based on our open-source QORC software tools. The proliferation of these kits is about getting the technology out to the masses.

The open source tools platform has many advantages including decentralization, cost efficiency, and customization – things that we recognized early on and have been actively advocating. In fact, our own QORC initiative has leveraged a complete suite of open-source tools and platforms. That effort has dramatically broadened our potential user base and increased design activity for our devices. We are pleased to see others recognizing the benefits of this approach, which should broaden the available market over several years.

Our smartphone business has been one of the strengths of fiscal 2021, with our technology now embedded in 10 handsets, including several 5G related phones. We expect one or two additional models to come out before the end of the year, further solidifying our growth in the smartphone area.

Regarding our mature product segment, we saw a healthy jump in revenue from the prior quarter. This was due primarily to strength in our Military and Defense customer base, coupled with the fact that we have been proactively maintaining an inventory





from which we can quickly service customer demand. There is no question our mature product business has been significantly impacted by the COVID-related disruptions, especially around the civilian aerospace market, where one of our largest customers, Honeywell is a large player. While global air travel is beginning to pick up, with the recent upswing in COVID cases across many parts of the world we must remain cautious in our outlook for our mature business. As such, we maintain that our mature product revenue will be roughly flat with 2020.

The last 18 months have been an extraordinary time for all of us. The headwinds for QuickLogic and our industry have been challenging. However, we are starting to see green shoots across multiple parts of our business. While it is still too early to claim victory, our Q2 revenue growth, and expected significant sequential improvement in Q3, are a testament that the reinvention of QuickLogic is translating into significantly better financial results.

Finally, we have all seen the recent rise in COVID cases due to the proliferation of the Delta variant. Safety of our team and customers continues to be the most important priority for me, and at this time I would again like to thank the QuickLogic team members for their continued dedication and resiliency during these unprecedented times. With that I will turn the call over to Anthony.

**Anthony Contos** – Interim Chief Accounting Officer

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Thank you, Brian and good afternoon to everyone joining us.

As Brian mentioned, our revenue results were within the expectation we provided in our previous call. For the second quarter of fiscal 2021, revenue was \$2.9 million. This



compares with revenue of approximately \$2.2 million in both the first quarter of 2021 and second quarter of 2020.

Within our Q2 revenue, sales of new products were approximately \$1.3 million. This compares with about \$1.1 million last quarter and \$820,000 in the second quarter of 2020. Our mature product revenue was approximately \$1.6 million, compared with \$1.2 million last quarter and \$1.4 million in the second quarter of last year.

In the second quarter, we had 2 customers who each accounted for 10% or more of our revenue.

Non-GAAP gross margin in Q2 was 51.5%, compared with 52.7% in the prior quarter and 47.1% in the same quarter of 2020. The decrease in margin was due primarily to a write-down of Raw Materials of \$156,000, which impacted gross margin by approximately 5%. Without this write-down, our Q2 gross margin would have been approximately 56%, at the midpoint of our guidance. We continue to believe gross margin will get into the mid 60% range by the end of the year. I will discuss our gross margin outlook in a few minutes.

Non-GAAP operating expenses for Q2 were approximately \$3.3 million. This compares with \$3.5 million in Q1 and \$3.2 million in the second quarter of last year.

Within our Q2 operating expenses, R&D was \$1.6 million and SG&A was \$1.7 million. This compares with R&D and SG&A of \$1.7 million and \$1.8 million respectively last quarter, and \$1.7 million and \$1.4 million, respectively, in the second quarter of last year.



The net total for other income, expenses, and taxes in Q2 was a charge of \$50,000, compared with a credit of \$1.0 million in Q1 and a credit of \$99,000 in the second quarter of last year. As a reminder, the credit in Q1 was related to the forgiveness of the PPP loan.

Non-GAAP net loss was \$1.9 million, or a loss of \$0.16 per share, based on 11.5 million shares. This compares with a net loss of \$1.3 million, or \$0.12 per share last quarter, and a net loss of \$2.2 million, or \$0.26 per share in the second quarter of last year.

The total cash at the end of Q2 was \$19.0 million, compared with \$20.9 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 guidance for the third quarter of fiscal 2021, which will end on October 3, 2021:

The revenue guidance for Q3 is \$3.8 million, plus or minus 15%. This midpoint would represent a sequential increase of approximately 30%. We believe total revenue in Q3 will be comprised of approximately \$2.8 million for new products and \$1.0 million of mature product revenue. Of note, this new product revenue guidance would represent the highest quarterly revenue since Q3 of 2015.

In addition, when combining the midpoint of this range with the results from our first two quarters, we remain on track to increase fiscal 2021 revenue by around 50% over the prior fiscal year.



Based on the expected revenue mix, non-GAAP gross margin for the quarter will be approximately 66%, plus or minus 5%. The increase over the prior quarter is attributable to increases in IP-related revenue as well as product mix.

Our non-GAAP operating expenses will remain approximately \$3.3 million, plus or minus \$300 thousand. At the midpoint of the Q3 range, we expect R&D expenses to be approximately \$1.7 million, and SG&A expenses to be 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 \$730,000, or a net loss of \$0.06 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 Q3 we expect cash usage to significantly improve, and be in the range of \$500,000 and \$700,000.

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

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**Brian Faith – Chief Executive Officer**

Thank you, Anthony.



Before we move on to the Q&A I want to reiterate that I am very excited about where we are as a company. We have the right suite of products and capabilities that are being used by a broad range of current and new customers. We've made a lot of strides in enabling the broader ecosystem with well-known firms such as Silicon Labs, Microchip, ST Micro and NXP. We continue to advance several multi-million-dollar opportunities forward, many more than we did even a year ago.

The trends are in our favor as the proliferation of machine learning and AI is driving the transformation of edge computing. QuickLogic has a strong product portfolio to address this transformation from our eFPGA IP licensing, from our device business, or from the SensiML AI software platform that sits on top and runs on anybody's processor.

Most importantly, our financial performance is improving. As Anthony discussed in the revenue guidance for Q3, the midpoint of \$3.8 million would be the highest revenue quarter since Q3 of 2015, with corresponding improvement to the bottom line.

The transformation of QuickLogic continues and we believe the best is yet to come in the very near future.

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

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## **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 third quarter results in November. Have a good day!