



## Q4 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 Fourth Quarter Fiscal Year 2021 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through February 23, 2022. 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 Elias Nader, Senior Vice President and 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; schedule changes and 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 the 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

---

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



Q4 marked the culmination of a very strong year. Revenue of approximately \$3.7 million was within our initial guidance range, and we generated cash from operations for the first time in many years.

On an annual basis, we delivered significant, across the board financial improvement. Revenue of \$12.7 million was approximately 47% higher than fiscal 2020. In addition, we saw substantial growth in our gross margin and enhanced bottom line performance versus a year ago.

Our financial results in 2021 represent the progress we are making across all aspects of the business for a successful transformation to a platform company focused on enabling more artificial intelligence through our innovative, open-source approach to programmable logic and AI software. I would like to thank the QuickLogic and SensiML teams for their continued dedication and hard work.

Our momentum heading into fiscal 2022 is strong, with demand for our products and technologies increasing. I expect we will deliver better results for our company and shareholders this year.

Now turning to the business review.

We had many key accomplishments in 2021 that will support our long-term upward trajectory. These include:

Signed new eFPGA contracts totaling millions of dollars;



Introduced the Australis eFPGA IP generator, ushering in a new era of mass customization of FPGAs and embedded FPGA IP by improving the time-to-IP-delivery from years or months down to weeks or days;

Broadened the reach of our SensiML Analytics Toolkit through the leverage of new microcontroller partners Infineon, onsemi, Silicon Labs and Microchip, adding them to the list of existing partners Nordic Semi, NXP and STMicro;

Significantly expanded our global distribution partnerships for both QuickLogic and SensiML, adding Mouser and Digi-Key Electronics as new partners;

And created a pipeline of new opportunities in the tens of millions of dollars entering 2022.

The process to reach this point has not been easy, but the momentum is in our favor. I am as confident as ever that the foundation established in 2021 is sustainable.

Now I want to move into some of the items that drove our fourth quarter results and review elements that I expect to propel our fiscal 2022 growth.

First, last week we announced several long-time institutional investors again contacted me about making a strategic investment in the Company. They were joined by a few new investors who have been following QuickLogic for some time and had previously expressed their desire to support the company. The interest we received was more than we could have hoped for.

This private placement raised gross proceeds of \$1.48 million and was done with no market discount to the share price on the day of the agreement. The funding comes on



top of the approximately \$1.1 million raised last fall and provides us with additional capital to further drive our Open-Source, growth, and profitability objectives. I want to personally thank this group of investors for their dedication and support over many years.

Now turning to some key elements since our last call.

Our Australis™ eFPGA IP Generator is turning out to be the game changer we thought it could be when introduced last year.

As I mentioned previously, Australis automates and accelerates the porting and development of IP cores, reducing a design time of a year and a half to a couple of months or even weeks. Through Australis, we can customize eFPGA IP for any foundry or process technology within days if it is already supported, or within three months if new process technologies are used. Compare this to the years it took using traditional engineering design methods. Our approach is unique, and companies are taking notice.

Fueling this demand for Australis is the rapid shift for embedded FPGA IP cores and FPGA devices that are supported by open-source tools. During Q4, we completed a project on a new foundry / process node combination, with delivery of IP in just two months. This represents a record for us and is significantly faster than anything we have done before. As we improve on this process in the future, we believe that this timeline can improve even further.

Being nimble and helping customers get product to market faster and cheaper means we can operate at the pace of the customer and price it in a more cost-effective way, which opens up a much bigger served available market.



This new approach has already been validated with several contracts totaling millions of dollars. Some of these have been announced, including the \$2 million win last year. Others are smaller but equally significant in terms of building momentum in the business.

Regarding the customer behind the \$2 million agreement, we recently closed a second contract with them related to a new design and possibly a third in the coming months. I am offering this additional context as further validation that we are involved in many new opportunities where both current and potential customers are wanting eFPGA technology to embed into a chip that they're planning to bring to market.

Furthermore, earlier this month, eTopus Technology announced a partnership with QuickLogic and OpenFive, to develop a platform of base IP that can be easily integrated into chiplets with minimal risk and reduced development costs. The chiplet ecosystem is developing now, with major semiconductor companies and system OEMs participating. According to one market research report, the worldwide chiplet market is forecasted to be approximately \$1.5 billion in 2021, growing to nearly \$50 billion by 2031. This represents a compound annual growth rate of more than 40% over the next ten years.

The backbone of this partnership is the eFPGA IP created by our Australis tool, which is a primary enabler for resulting chiplets being brought to market with lower risk and cost with silicon-proven IP. The eTopus relationship is just one example of what we believe will be many more working relationships this year.

Another piece of our foundation that is often overlooked is our participation in the DARPA Toolbox. DARPA funds a lot of different semiconductor or system research with many defense industry prime contractors, or what are known as DoD Primes, in the U.S.



The near 7-digit eFPGA-related contract that we won in fiscal Q4 2021 is related to the defense market. We are targeting to expand that first contract to what could be in the millions of dollars over a multi-year period.

I should point out for those who are newer to QuickLogic that we have a long history serving the defense industry. In fact, we currently sell into all of the top five, and eight of the top 10, DoD prime contractors. We have been serving the defense space for a long time, and I think this really speaks to the quality, reliability, and trust that the defense industry has in us.

From a revenue standpoint, it is important to remember that when our eFPGA IP products go to a production system, we typically receive both a production IP license and royalty revenue. I like to use the analogy that IP revenue is like “money in the bank” that will start paying interest in 12 to 18 months after receipt. That interest is in the form of royalty revenue when customers start shipping ICs with QuickLogic eFPGA IP.

I wanted to share some of these details to give clarity to the comments I have made before and reinforce that we are seeing sharp increases in RFPs and RFQs for our eFPGA IP. And, unlike hardware design wins, there is no annual competition risk of losing the design or having to lower device price and gross margin. There is also no inventory risk and, of course, no COGS on royalty; just an annuity stream that should begin late 2022 to early 2023 and build from there.

Another reason we are confident in our growth outlook was the recent announcement of the large Display Bridge purchase order. Prior to the recent global supply chain problems, our Display Bridge revenue had been trending down as expected for the reasons discussed in prior calls. The supply issues have turned into an opportunity for us, and the



constraints have created a worldwide shortage of certain display bridge semiconductor solutions.

Since our announcement, demand for our ArcticLink® III BX display interface devices have picked up even further with several of the world's largest consumer product suppliers reaching out to us.

We have several months of inventory ready to ship. We will supply these requests and invest to build more devices based on customer demand. With the continued uncertainty across the broader supply chain making display bridge devices hard to obtain, I am confident our display bridge business will see healthy demand for a good portion of 2022.

We are also seeing continued momentum in other parts of our business.

New product development with our primary phone manufacturer remains strong. The customer is using our EOS S3 in its next generation 5G-enabled devices and we believe there will be up to two more phone wins in the first half of the year. This customer is also navigating through the supply chain challenges. This will likely limit our anticipated shipments this quarter, and the number of opportunities we could have if the supply environment were normalized.

Related to the supply chain commentary, we have not experienced the same level of constraints that are prevalent in the IC-related industry. Our pressure point is around the assembly and test part of the chain. Capacity for assembly and test is tight, and our primary vendor is raising prices, which is not unusual in this environment. To counter this situation, we increased our committed inventory for finished goods to help ease supply concerns.





Our SensiML business continues to expand, and we are pleased how the collaborations with many well-known semiconductor companies are progressing. Just last week, we announced that SensiML is teaming with Infineon Technologies to deliver a complete AI/Machine Learning solution for the Infineon PSoC™ 6 family of microcontrollers and the range of sensors they support. The Infineon partnership follows several other SensiML relationships with leading companies including onsemi, Microchip Technology and Silicon Labs who are leveraging the SensiML Analytics Toolkit to add local intelligence to their IoT designs for smart home, industrial, fitness, and other applications.

Finally, in our mature product segment, without good clarity on how some of our mature product customers are handling their own supply chain challenges, it is difficult for us to see how mature revenue will be much different in the first half of fiscal 2022 than it was in second half of fiscal 2021.

To summarize, 2021 was a significant inflection point in QuickLogic's history. Our software and IP related sales are accelerating, the number of new opportunities is expanding, and our balance sheet is strong to support our expected growth. I could not be happier with the position QuickLogic is in and believe our best days are yet to come.

And now it is my pleasure to introduce Elias Nader, who joined QuickLogic earlier this month as our Chief Financial Officer and Senior Vice President of finance. We are fortunate to have someone of Elias' caliber join the company. His financial discipline and wealth of experience in finance, investor relations and technology businesses, including semiconductors, IP, and SaaS, are a strong complement to the executive team. In his short time, Elias played a key role in the recent private placement and has proactively



worked with the team to identify areas where we may be able to reduce costs and increase supply.

In addition, Elias will have an active role in our investor relations efforts. His long-standing relationships with several of the financial analysts and investors following QuickLogic should be a plus. I look forward to partnering with Elias as we continue on our path to growth and long-term profitability.

I also want to thank Anthony Contos for his contributions leading our finance team for the last several months. We all wish him well in the future.

With that, I want to welcome Elias. Elias, please go ahead.

---

**Elias– Chief Financial Officer**

---

Thank you, Brian. Good afternoon, everyone. I could not be happier to be joining you and the QuickLogic team during this very exciting time for the business. I see a tremendous opportunity as our addressable markets expand and our software and SaaS offerings become a larger part of our revenue. This is also an opportunity to continue my working relationship with the investment community currently following QuickLogic that I have engaged with for several years.

The growth trajectory and opportunities to advance into new markets are clear and I look forward to meaningfully contribute to the next stage of QuickLogic’s evolution.

Let’s now turn to the recent financial results.



For the fourth quarter of fiscal 2021, revenue was \$3.7 million. This was slightly below the preliminary estimate we offered last month due to a determination that a small amount of revenue would be deferred into Q1. This compares with revenue of approximately \$3.9 million in the third quarter, and \$2.5 million in the fourth quarter of 2020, or up 52% from the same quarter last year.

Within our Q4 revenue, sales of new products were approximately \$2.7 million. This compares with about \$2.8 million last quarter and \$0.8 million in the fourth quarter of 2020. Our mature product revenue was approximately \$1.0 million, compared with \$1.1 million last quarter and \$1.7 million in the fourth quarter of last year.

In Q4, we had 4 customers who each accounted for 10% or more of our revenue.

Non-GAAP gross margin in Q4 was 60%, compared with 73% in the prior quarter and 52% in the same quarter of 2020. Just a reminder that last quarter our product mix included higher eFPGA and other services revenue, leading to the high gross margin.

Non-GAAP operating expenses for Q4 were approximately \$2.7 million. The lower quarterly operating expenses were mainly due to allocation of certain R&D expenses into cost of goods sold, which kept gross margin below our original expectations. The Q4 results compare with \$3.2 million in Q3 and \$2.9 million in the fourth quarter of fiscal 2020.

Non-GAAP net loss was \$0.5 million, or a loss of \$0.04 per share, based on 11.8 million shares. This compares with a net loss of \$0.4 million, or \$0.03 per share last quarter, and a net loss of \$1.7 million, or \$0.15 per share in the fourth quarter of fiscal 2020.



The total cash at the end of Q4 was \$19.6 million, flat with the prior quarter. The cash balance also includes the \$15 million draw from the revolving line of credit. While the quarter-to-quarter balances were essentially flat, when adjusting for rounding, our balances were up slightly by approximately \$25,000, a small but significant milestone in our continued financial improvement. I should also note that the cash position does not include the gross proceeds of \$1.48 million from the transaction, which will be reflected in our Q1 numbers.

Now turning to the full year fiscal 2021 results. Total revenue was \$12.7 million, up 47% when compared with \$8.6 million in fiscal 2020. New product revenue was \$7.8 million compared with \$2.8 million in the prior year. This reflects higher sensor processing and eFPGA IP product sales. Mature product revenue was \$4.9 million compared with \$5.9 million in fiscal 2019. For 2021, we had four customers that each accounted for greater than 10% of our total sales.

Gross margin for 2021 was 61%, up meaningfully from 51% in 2020. The continued increase in software and IP related revenue drove the annual improvement.

And while revenue was up 47% from the prior year, our continued focus on cost controls resulted in operating expenses decreasing slightly to \$12.7 million from \$12.8 million in 2020.

The combination of strong revenue growth, higher margins and slightly lower operating expenses translated into our net loss declining to \$4.0 million, or \$0.35 per share, a significant improvement from our net loss of \$8.7 million, or \$0.88 per share, in 2020.



Now moving to our guidance for the first quarter of fiscal 2022, which will end on April 3rd:

The revenue guidance for Q1 is \$4.0 million, plus or minus 15%. Revenue is expected to be comprised of approximately \$3.1 million for new products, which would be the highest since the third quarter of 2015. Mature product revenue is forecasted to be approximately \$0.9 million.

Based on the expected revenue mix, non-GAAP gross margin for the quarter will be approximately 67%, plus or minus 5%.

Our non-GAAP operating expenses will be approximately \$3.3 to \$3.7 million. The higher amount compared with the prior quarter is mainly due to the beginning of the year expenses we will incur.

For the remainder of the year, we anticipate quarterly operating expenses to be in the low \$3 million range.

After interest expense, other income and taxes, we currently forecast our non-GAAP net loss will be approximately \$0.8 to \$1.2 million, or a net loss of \$0.06 to \$0.09 per share, based on roughly 12 million shares outstanding.

Most of the difference between our GAAP and non-GAAP results is our stock-based compensation expense. In Q1, we expect this compensation will be approximately \$0.4 million. There will be movement in our stock-based compensation over the course of the year and it could vary each quarter based on the timing of grants and estimates related to performance related awards.



For the balance sheet, in Q1 we expect total cash balances to increase between \$0.2 million and \$0.6 million. The balances will include the recent direct investment and will be partially offset by the higher expenses we see at the beginning of the year.

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

---

**Brian Faith – Chief Executive Officer**

---

Thank you, Elias, and again, welcome to the team!

These are exciting times for QuickLogic. Through the collaborative efforts across the business, we are positioned to achieve sustained growth through a combination of new products serving larger addressable markets, IP and software sales delivering both immediate sales plus a stream of reliable and high margin revenue, and greater reach through our expanded distribution channels. These factors will be supported by the strongest balance sheet we have had in many years.

While we tend to guide one quarter at a time, I thought with this being our first call of the new year I would give some additional context into our annual outlook. Bolstered by the improved order flow for our display bridge products, increasing new business partnerships driven by Australis, and new defense programs, as of today I am more certain we will, at a minimum, achieve the same annual growth as we did in 2021. To take it one step further, I am now seeing opportunities that, if we are successful, could lead to revenue approaching \$20 million for the year, which would be the highest since fiscal 2015. The revenue cadence over the course of the year will likely be weighted more to the second half of 2022.



When combining gross margin that could remain into the mid to high 60s, and operating expenses climbing modestly to support the business opportunities, I am increasingly confident that we can reach profitability by the end of the first half of this year.

In closing, I want to thank our key stakeholders, including investors, customers, suppliers, and most of all the QuickLogic and SensiML teams for their continued support.

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

---

### **Closing Comment**

**Brian Faith – Chief Executive Officer**

---

Thank you for participating in today's call and continued support. We look forward to speaking with many of you again when we participate in upcoming investor events, and again when we report our first quarter fiscal year 2022 results in May. Have a good day, thank you!