Q1 FY22 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 2022 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through May 24, 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 first quarter fiscal 2022 financial results conference call.

We are off to a great start this year. As you can see from the press release issued after market close today, our Q1 revenue was slightly above the midpoint of the guidance we gave in February. Our revenue mix continues to trend toward higher growth segments, and we are seeing an even higher number of IP and open-source related opportunities. All of these items helped produce a significant improvement over the results we reported in the first quarter a year ago.

As the first programmable logic company to actively contribute to a fully open-source suite of development tools, we are gaining more traction in this market as potential customers are looking for differentiated and open-source software solutions for their hardware.

I remain confident our growth trajectory will continue. Based on our current outlook, which we will provide later, we believe we will reach our profitability objective in the middle of this fiscal year.

Leading our revenue efforts will be Owen Bateman, our newly appointed Vice President of Sales. Owen has been on the QuickLogic team for many years, running our US and European sales. In fact, much of our recent new product revenue is the result of Owen's sales leadership. Owen's breadth of experience spans more than 30 years across many semiconductor sales positions including strategic accounts, direct sales, international and channel sales. He also has deep experience in the programmable logic industry. I am pleased he accepted this critical role, and we plan to work collaboratively to ensure the company's growth continues.

Now turning to the business review.

We have been very active since our last earnings call with several important events that are important to our growth. Leading off:

We announced two separate eFPGA contracts worth approximately $2.5 million. These contracts build on top of the contracts worth about $3 million that we announced in our last call. In addition, recently, one of our existing eFPGA contracts has been increased in value by at least 50%, which we expect to start recognizing in Q3.

Our Australis™ tool that was introduced last year enabled the upsizing of this particular eFPGA contract through its inherent flexibility and automation. Current and potential customers are recognizing that Australis allows us to compress the amount of time it takes us to go from early engagement with the customer to IP delivery and then revenue. Moreover, Australis allows us to be foundry and process node agnostic, expanding our served available market significantly.

We have several bids in process, most of which are seven digits in magnitude. I can say that more often than not we get into the final rounds and our odds of winning continue to improve.

As I noted in prior calls and investor events, these wins bring the added bonus of no annual risk of losing the design to a competitor, no inventory investment or risk and, of course, no COGS on royalties. For most wins, we generally start receiving an annuity royalty stream after 12-15 months. This means for the wins in 2021 we should start to receive royalty revenue early next year.

During the quarter we announced new eFPGA IP support for two of the world's leading semiconductor foundries, TSMC and GlobalFoundries. With TSMC, we made available the first customer-defined eFPGA block targeting TSMC's 22nm process node. The IP was developed using the Australis IP Generator tool, enabling rapid eFPGA IP generation while shrinking the time to development for nearly any foundry and process node combination from a few months to a few weeks.

As of now, we have active customer engagements for our eFPGA in four of the world's top five semiconductor foundries – TSMC, GlobalFoundries, Samsung, and UMC. Additionally, with our recent announcement with SkyWater Technologies, we also now have our eFPGA IP available in an onshore foundry focused on the radiation hardened aerospace and defense markets.

Just to expand for a moment on our relationship with Skywater, in March we announced QuickLogic is collaborating with Skywater for rad-hard eFPGAs, further expanding their design ecosystem for advanced extreme environment solutions. Products are expected to come to market in the early 2024 timeframes.

This technology can be embedded as an IP core in ASIC and SoC devices or implemented as a custom stand-alone rad-hard FPGA for mission critical and/or ruggedized applications. These are used by space agencies, private spaceflight companies, the defense community, and research scientists to ensure consistently reliable performance and longer service life. Once you are designed into an application with one of the large companies that serve these markets, the tail will last for several years, if not decades.

Based on recent commentary, additional open source-enabled designs will be important in the evolution and implementation of rad-hard solutions. For example, high-end applications in commercial markets are developing, specifically those requiring radiation-tolerant capabilities. While the technology specifications may not be as stringent as government-sponsored programs, the technology itself will be vitally important across a growing number of industries.

Currently, our IP is available on certain nodes in these foundries. However, since we are now in the door, we have a better opportunity to more easily expand our offerings. Also, the fact we have IP relationships established with four of the top five semiconductor foundries in the world is a testament to the value of our technology offering. Just establishing the business and legal relationships with these foundries took a significant amount of time and resources, all driven from customer demand.

You will hear me continue to say this - Australis is quickly changing the game in terms of generating and delivering eFPGA IP for the foundry and process combination our customers need. These partnerships with the major semiconductor foundries are just the beginning.

Our SensiML business had its best quarter of business development since our acquisition in 2019. In April, we announced SensiML is partnering with Silicon Labs, one of the leaders in the fast-growing IoT connected world. SensiML is using the machine learning accelerator built into the latest Silicon Labs wireless SOCs to enable new edge AI/ML applications for their customers. Together, SensiML and Silicon Labs are developing a proof-of-concept demonstration showing door locks which use machine learning with audio sensors to detect and distinguish relatively subtle acoustic events to strengthen home security. This is a significant win for us and represents an expansion of SensiML's partnership with Silicon Labs.

Beyond this announcement with Silicon Labs, SensiML recently won its largest contract to date worth six digits with a large customer in the IoT space. We believe this agreement will lead to additional SaaS revenue and royalties early next year.

We also announced SensiML now supports AI/ML development for boards that feature Bosch Sensortec sensors. This integration allows developers to use the SensiML Analytics Toolkit to add local intelligence quickly and easily to IoT endpoint applications using any number of Bosch sensors for a variety of applications including smart home and building, consumer and athletic wearables, and industrial automation.

In our February call I mentioned a new collaboration with eTopus Technology. The target of the collaboration is an eFPGA-based chiplet that combines the best of both worlds with a variety of standard I/Os and the flexibility of FPGA programmability. Semiconductor design is getting more expensive, with some costs getting into the tens of millions of dollars for a chip design. Chiplets allow integration of existing devices at a significantly reduced cost. The demand is high, especially in the data center, high-speed computing and military markets. Some industry research firms have forecasted that the chiplet market could be in the tens of billions of dollars in the next several years.

Our starting point has been the GlobalFoundries 22FDX™ process, which is a node we have supported for some time now. We are under evaluation with lead customers to see how we might architect a chiplet that can be re-used across multiple customers. This would spread out customer funded NRE across multiple implementations.

Shifting now to some of the other components of our business: sales of our Display Bridge product remained strong as global supply chains remain challenged. These supply issues, while a negative for the industry, have been a positive for us, as the constraints have created a worldwide shortage of certain display bridge semiconductor solutions. We have won multiple large designs for these products in the past quarter that we believe will contribute meaningful revenue later this year. Ahead of this demand, we have proactively implemented enhancements in our supply chain that will result in gross margin improvements for our Display Bridge products moving forward.

One area where supply chain issues are slowing development and production is with our primary mobile phone customer. While we continue to have new designs ready for market, the supply disruptions are making it more difficult for our customer to build their product. This was reflected by lower shipments in the first quarter that we believe will persist in the second quarter. At this time, we see no change in the outlook for the 2nd half of the year for this customer.

And on the same topic of the global supply chain, I want to reiterate that we don't experience the same level of constraints that are impacting the broader IC-related industry. Our sticking point is in the assembly and test part of the supply chain. Capacity is staying tight, and in order to get the access required we continue to increase our committed inventory for finished goods to help ease supply concerns.

Finally, in our mature product segment, we are starting to see some stabilization in bookings for this quarter and the balance of this year. Without good clarity on the macro economy, we currently believe mature revenue will be slightly down from 2021.

It has been a productive period for QuickLogic, and I am as confident as ever that our positive trajectory is sustainable.

Let me know turn the call over to Elias for a review of the financial results. Elias, please go ahead.

Elias– Chief Financial Officer

Thank you, Brian and good afternoon, everyone. We delivered another quarter of financial improvement driven by the strong performance of our new products and further control of our operating expenses. I also want to echo Brian's earlier comments that we remain on track to achieve profitability in the middle of this year.

Let me now turn to the review of the results for the first quarter of fiscal 2022.

Revenue in Q1 was $4.1 million. This compares with $3.7 million last quarter, and $2.2 million in the first quarter of 2021. On a percentage basis, our Q1 revenue represented an increase of 11% compared with last quarter, and up 83% when compared with the first quarter of 2021.

Within our Q1 revenue, sales of new products increased to approximately $3.5 million, the highest since the third quarter of 2015. This compares with $2.7 million last quarter and $1.1 million in the first quarter a year ago. Mature product revenue was approximately $0.7 million, compared with $1.0 million last quarter and $1.2 million in Q1 last year. Mature product sales continue to be limited by the lingering COVID-related issues faced in these served markets.

In Q1, we had three customers that each accounted for 10% or more of our revenue. This compares with four in the prior quarter.

Non-GAAP gross margin in Q1 was 61.5%, up from 60.1% in the prior quarter and 52.7% in the same quarter of 2021. The continued increase in new product revenue, primarily IP-related sales, and slightly lower mature revenue, which carries a higher gross margin, influenced gross margin for the quarter.

Non-GAAP operating expenses in Q1 were approximately $3.1 million. The OpEx for Q1 was lower than our forecast due to the allocation of certain R&D expenses into cost of goods sold. Q1 OpEx compares with operating expenses of $2.7 million last quarter and $3.5 million in the first quarter a year ago.

Non-GAAP net loss was $0.8 million, or a loss of $0.06 per share, based on 12.1 million shares. This compares with a net loss of $0.5 million, or $0.04 per share last quarter, and a net loss of $1.3 million, or $0.12 per share in the first quarter of fiscal 2021.

Total cash at the end of Q1 was $20.1 million, up from $19.6 million in the prior quarter. The cash position includes gross proceeds of approximately $1.5 million from investors that we announced in February, which was partially offset by cash outflows related to normal expenditures during the first quarter.

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

The revenue guidance for Q2 is $4.5 million, plus or minus 10%. This would represent another quarter of strong growth. Revenue is expected to be primarily comprised of approximately $3.6 million of new products and $0.9 million of mature products.

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

Our non-GAAP operating expenses will be approximately $3.2 million to $3.5 million. Longer term, we believe OpEx will remain in the low $3 million range with occasional increases to support new programs.

After interest expense, other income and taxes, we currently forecast our non-GAAP net loss will be approximately $0.3 million to $0.5 million, or a net loss of $0.02 to $0.04 per share, based on roughly 12.3 million shares outstanding.

Most of the difference between our GAAP and non-GAAP results is our stock-based compensation expense. In Q2, we expect this compensation will be approximately $0.5 million. As a reminder, there will be movement in our stock-based compensation over the course of the year and it may vary each quarter based on the timing of grants and estimates related to performance related awards.

For the balance sheet, with continued investment to support the new design wins we have discussed, in Q2 we expect total cash balances to decrease between $1.2 and $1.6 million.

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

Brian Faith – Chief Executive Officer

Thank you, Elias.

QuickLogic is powering through the current macroeconomic headwinds. We are expanding our footprint with leading semiconductor manufacturers, building a growing pipeline of IP and software sales that will deliver both immediate and long-term revenue, while at the same time building a broader distribution ecosystem that gets our solutions in front of an ever-expanding set of potential customers.

With the continued issues like the sudden COVID shutdowns in China and the war in Ukraine, it is difficult to offer certainty during these uncertain times. However, based on the items I discussed, and our outlook for the next quarter and beyond, I feel we are at the trajectory point in our business where we will deliver sustained revenue growth.

As I mentioned in our last call, we tend to only guide one quarter at a time. Last quarter, I offered some additional thoughts on the year ahead and now I feel it is important to offer a broader outlook in this call.

Based on the many items I covered today, I am more confident in our ability to get to our revenue goal of $20 million. The revenue cadence will still be weighted more to the second half of 2022. At this time, I believe that the pathway for profitability this year is clear, barring any severe changes in the macroeconomic or geopolitical environment.

As good as the improvement has been over the last year, I believe the next 12 months will be even better.

I would like to again 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 when we report our second quarter fiscal year 2022 results in August. Have a good day and thank you!