



## Q4 and Fiscal Year 2022 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 2022 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through March 6, 2023. I would now like to turn the conference over to Ms. Alison Ziegler of Darrow Associates. Ms. Ziegler, please go ahead.

### **Alison Ziegler**

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 on 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, Alison. Good afternoon, everyone, and thank you all for joining our fourth quarter and fiscal 2022 financial results conference call.

Q4 was the culmination of a pivotal year for QuickLogic. Revenue of \$4.1 million was in line with the expectations provided during our third quarter call. On an annual basis, we increased our total revenue by approximately 28%. More importantly, we grew our New Product Revenue by 50%, and we delivered our best non-GAAP operating performance in the last ten years. These results are primarily driven by new wins on our eFPGA IP-based products, continued shipments of smart connectivity and display products, and licensing of our SensiML AI Software Platform.

I would like to thank the QuickLogic and SensiML teams for their incredible drive and determination. Together, we had many significant accomplishments for the company in 2022.

Looking at some of the year's highlights, SensiML recently signed a significant deal with a top-tier semiconductor company to integrate a SensiML-powered solution to address its own customers' demand for AI at the IoT edge across its broad microcontroller line of products. This private labeling of the SensiML toolkit further validates our technology and provides significant revenue potential as a result of their large installed customer base and sales force. And since this win is not exclusive, there could be additional similar opportunities as well.



Also in 2022, we signed our largest eFPGA contract ever, and, for the first time, became a prime performer for the US Government to develop new Strategic Radiation Hardened FPGA Technology. The program is expected to continue to be the largest contributor to revenue in 2023 with the anticipated notification of our next milestone in the summer upon successful performance of the Base Contract and at the discretion of the US Government. As a reminder, the Contract allows for Options totaling approximately \$72 million over the span of four years.

On the strength of our numerous eFPGA IP-based opportunities, our sales funnel now is over \$118 million. Included in this number are deals for both eFPGA IP as well as bespoke, or semi-custom device development that incorporates our eFPGA IP. These deals span numerous foundries, process technologies, and end markets. While a funnel of \$118M is the largest in QuickLogic's history, I want to emphasize that this does not include the entirety of the Strategic Radiation Hardened FPGA Technology US Government program, nor does it include **any** of the possible device sales to the Defense Industrial Base customers. We believe this market to be several hundred million dollars in size and are intent on capturing our share of it in the coming years.

The increased diversity of our funnel and the magnitude of the deals makes us confident of exceeding our organic sales growth target of 30% in 2023.

One of our unique strengths that is starting to pay dividends is our ability to offer a full spectrum of solutions ranging from eFPGA IP all the way to full chip designs which incorporate that IP.



A question I'm often asked by investors is, "what is driving your sales funnel growth, especially during these uncertain economic times?" To answer that question, I'm going to share something a Fortune 500 CEO recently shared. They are investing in OpEx to save OpEx. Both our SensiML and eFPGA-based products enable this.

SensiML automates the process of developing AI for Edge IoT, saving companies from the high fixed cost of employing large teams of data scientists. Our eFPGA IP enables our customers to bypass the need for a very costly redesign of their SoC or ASIC to address new design requirements. Furthermore, because our new Australis IP Generator is highly automated, we can design and deliver eFPGA IP faster and more cost-effectively to our customers. Again, investing in OpEx to save OpEx.

I will also expand on the eFPGA IP-based business model a bit further, as recently outlined in our latest Investor Presentation. We have multiple revenue sources within this product category, the primary ones being Design Services, IP License, Royalty, and finally, Storefront for device sales. Design Services is how we monetize the R&D resources to develop our IP or bespoke devices for a customer, typically recognized as we do the engineering work. IP Licenses are typically one-time events, recognized with the delivery of our IP to a customer. Royalties are typically a small percentage of the final device ASP, recognized as our customers ship devices that include our IP. And finally, Storefront simply means that our customer is buying a finished device from us. This could be because they lack the expertise in developing eFPGA-enabled products, or it could be that they don't have the supply chain in place to produce and test the devices for volume production. We've had this supply chain and expertise in place for decades and can monetize this value with our customers. I am convinced this is one of



the many reasons why we are winning opportunities to be more than just an IP provider.

We began to see a confluence of events in 2022 – increased market appetite for programmable logic, our focus on non-consumer markets such as Aerospace, Defense, Industrial, and IoT, and the tremendous operating leverage we have from our investments in automation. The significant improvement in top-line and bottom-line results in 2022 are just the tip of the iceberg, and I believe we will continue to grow faster than the market, achieving positive quarterly non-GAAP operating income by mid-year, as well as annual profitability for fiscal 2023.

Now, let's review several specific initiatives we have discussed on prior calls.

In November, I shared that we had taped out a new device for a customer that incorporates our eFPGA IP. While we had initially planned to ship prototype units for this device at the end of Q4, the outsourced wafer fabrication cycle took much longer than planned, and we just recently took receipt of the packaged test chips. Our Engineering team is in the process of validating the devices now. Due to where we are in the quarter, we are assuming revenue from these test chips will move from Q1'23 to Q2'23. Due to confidentiality requirements, I am not allowed to share any further details on this specific design win other than I believe it represents tens of millions of dollars in potential device revenue starting in a couple of years.



One of a number of contributors to our pipeline growth is a new government-focused eFPGA IP-based contract targeting a 12nm process node. This is our first contract for the 12nm process node; we believe there will be several more during this fiscal year. We expect to recognize revenue from this contract across 2023, beginning this quarter. The use case for the eFPGA IP is very similar to the use cases we jointly developed and co-published with ETH Zurich, namely as a co-processor to a RISC-V core, code-named Arnold, using the GlobalFoundries 22nm FD-SOI (fully depleted silicon-on-insulator) process.

Earlier this month we released a new version of our Aurora™ eFPGA development tool suite with expanded language support. The Aurora 2.1 Development Tool Suite is based on our fully open-source implementation for scalability, longevity, and full code transparency. SoC developers can combine the advantages of open-source tools with the dramatic flexibility benefits of embedding FPGA technology into their devices to improve device lifecycles and enhance profitability.

To accelerate top-of-funnel growth, we are expanding our sales channel and announced eFPGA IP sales partnerships with Andes Technology Corporation and Yu-Hsin Layout Technology.

Moving to chiplets. There has been an increasing amount of attention in the market for chiplets, and we continue to engage with customers interested in this approach to counter the incredibly high cost of custom silicon development. There are chiplet opportunities in our sales funnel, and we do expect to generate some revenue this fiscal year from either design services and/or IP licensing that would fall into the chiplet



category.

While we have reduced our focus on the mobile phone business, we continue to believe we are being designed into new models of phones that will ship well into 2024. That being said, our primary smartphone customer is still digesting their inventory position as they see continued weakness in demand. We expect this inventory digestion to continue through at least Q2 of this year.

Finally, both our Display Bridge and Mature Product segments are being impacted by well-publicized macro-economic factors which we believe will reduce the current quarter demand by as much as five hundred thousand dollars from the prior quarter. Mature products will continue to be an integral part of our revenue profile and contribute to gross margin uplift, even though our path to profitability will primarily come from eFPGA IP-related design wins.

Before turning the call to Elias, I want to provide our revenue outlook for Q1 and offer a peek into the remainder of 2023. As discussed earlier in my prepared remarks, we have made significant progress in building our software and IP-related business over the past two years. This groundwork has led to a diverse and growing pipeline which supports our current expectation for revenue in Q1 to be approximately \$4.3 million, plus or minus 10%. This incorporates our forecast for an aggregate sequential decline in our smartphone business and mature product segment of around \$500 thousand.

Our current forecast has Q1 as the only quarter below \$5 million in revenue, putting us on pace to increase fiscal 2023 revenue by more than 30% over fiscal 2022. And





assuming current gross margin and operating expense levels, I believe we have a good chance of seeing positive non-GAAP operating income starting in Q2 of 2023, as well as on an annual basis.

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

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**Elias– Chief Financial Officer**

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Thank you, Brian, and good afternoon, everyone. Our performance in Q4 was in line with our expectations with revenues of \$4.1 million, reflecting a full quarter of our large \$6.9 million contract for Strategic Radiation Hardened FPGA Technology. We reported a non-GAAP net loss of \$0.5 million. With a full quarter of contribution from this contract and future additions to this contract, plus growth in other commercial areas, we continue to believe we will get to profitability on a non-GAAP basis in 2023.

Let me now turn to the review of the results for the fourth quarter. As I said, revenue in Q4 was \$4.1 million. This is an increase of 18% from \$3.5 million last quarter and a 10% increase from \$3.7 million in the fourth quarter of 2021. The increase is mainly due to increased eFPGA professional services revenue partially offset by a decrease in new hardware product revenue and SensiML AI Software Platform revenue.

Within our Q4 revenue, sales of new products were approximately \$2.8 million. This compares with \$2.3 million last quarter (up 26%) and \$2.7 million in the fourth quarter a year ago (up 7%). Mature product revenue was approximately \$1.2 million in Q4 and Q3



and \$1.0 million in Q4 last year.

Non-GAAP gross margin in Q4 was 53.2%, compared with 49.8% in the prior quarter and 60.1% in the same quarter of 2021. The improvement in gross margins from the third quarter benefitted from a change in the mix of deliverables within professional services and is also reflective of the completion of a tape out in Q3 '22, which led to higher expenses for eFPGA IP professional services last quarter compared to Q4 '22.

Non-GAAP operating expenses in Q4 '22 was approximately \$2.4 million. The OpEx for Q4 was lower than our forecast due to reclassifications related to certain R&D expenses to eFPGA IP in support of eFPGA IP professional services. This compares to operating expenses of \$2.5 million last quarter and \$2.7 million in the fourth quarter a year ago.

Non-GAAP net loss was \$0.5 million, or a loss of four cents per share, based on 13.2 million shares. This compares with a net loss of \$0.9 million or seven cents per share, last quarter, and a net loss of \$0.5 million, or four cents per share, in the fourth quarter of fiscal 2021.

Total cash at the end of Q4 was \$19.2 million, compared with \$20.0 million in the prior quarter. The continued investment to support the new design wins we have discussed was offset by the approximately \$3.2 million raised in September at near-market rates from existing shareholders. Additionally, timing considerations related to cash receipts from customers contributed to a net higher utilization of cash from operations.



Now turning to the full-year fiscal 2022 results. Total revenue was \$16.2 million, up 28% from \$12.7 million in fiscal 2021. New product revenue was \$11.7 million compared to \$7.8 million in the prior year. This reflects higher eFPGA IP professional services revenue, continued shipments of Smart Connectivity and Display products, and SensiML AI Software Platform revenue, partially offset by reductions in other connectivity product family revenue and sensor processing product revenue. These results are primarily driven by new wins on our eFPGA IP-based products, continued shipments of smart connectivity and display products, and SensiML AI Software Platform revenue.

Mature product revenue was \$4.5 million compared to \$4.9 million in fiscal 2021.

In 2022, we had three customers that each accounted for 10.0% or more of our revenue.

Non-GAAP Gross margin for 2022 was 56.1% compared to 60.7% in 2021. The year-over-year decline was partially due to increased expenses in eFPGA IP professional services inclusive of certain non-recurring costs of specialized tooling.

And while revenue was up 28% from the prior year, non-GAAP operating expenses declined to \$10.8 million from \$12.7 million in 2021 mainly due to R&D labor costs allocated to cost of revenue in support of eFPGA IP professional services revenue, and a continued focus on cost controls to reduce operating expenses.



The combination of strong revenue growth and non-GAAP lower operating expenses translated into our non-GAAP net loss declining to \$2.2 million, or \$0.17 per share, a significant improvement from our non-GAAP net loss of \$4.1 million, or \$0.35 per share, in 2021.

Now moving to our guidance for the first quarter of fiscal 2023, which will end on April 1, 2023.

As Brian discussed, revenue guidance for Q1 is approximately \$4.3 million, plus or minus 10%, due to the reasons he outlined. Revenue is expected to be comprised of approximately \$3.5 million of new products and \$0.8 million of mature products. Based on this revenue mix, non-GAAP gross margin for the quarter will be approximately 52.0%, plus, or minus 5 percentage points. We will continue to see margin variances each quarter due to product mix and volatility in Cost of Goods sold. Our non-GAAP operating expenses will be approximately \$2.8 million, plus or minus 10.0%. On a quarterly basis, during 2023, we believe OpEx will remain below the \$3.0 million range with occasional increases to support new programs.

After interest expense, other income, and taxes, we currently forecast that our non-GAAP net loss will be approximately \$0.5 million to \$0.8 million, or a net loss of \$0.04 to \$0.08 per share, based on roughly 13.2 million shares outstanding.

The difference between our GAAP and non-GAAP results is related to non-cash, stock-based compensation expenses. In Q1, we expect this compensation will be approximately \$0.7 million. As a reminder, there will be movement in our stock-based



compensation during the year and it may vary each quarter based on the timing of grants to employees.

Moving to the balance sheet. Even with continued investment to support the new design wins that we have discussed, at the midpoint, we expect cash usage to be slightly below \$1.0 million.

As we stated earlier, with the new, large design wins and overall momentum in our business, and a lean operating structure, we are driving the company to profitability.

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

**Brian Faith – Chief Executive Officer**

Thank you, Elias.

We are proud to be the industry leader in supporting open-source development and user tools for our FPGA products. This is making our silicon more accessible to a broader base of customers and enabling lower R&D costs as more entities share the development expenses of the open-source tooling. This strategy continues to gain traction as evidenced by our growing pipeline and revenue acceleration.

Entering 2023, our conviction in Open Source is stronger than ever as the tools continue to grow in capability and QuickLogic silicon is steadily extending its reach to new customers, markets, and applications placing us on the cusp of sustainable profitability.



I would like to again thank all 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.

**Brian Faith – Chief Executive Officer**

We will be participating at the Embedded World in Germany, tinyML Summit in Burlingame, CA and GOMAC 2023 in San Diego. Please stop by our booth if you are attending these events. Thank you for participating in today's call and for your continued support. We look forward to speaking when we report our first quarter fiscal year 2023 results in May. Have a great day!