



Q2 Fiscal 2023 Earnings Conference Call Prepared Remarks

Operator

Ladies and gentlemen, good afternoon.

At this time, I would like to welcome everyone to QuickLogic Corporation's Second Quarter Fiscal 2023 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through August 22, 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 second quarter fiscal 2023 financial results conference call.

As noted in the press release issued after market close, our second quarter 2023 results were negatively impacted by the timing of the award for the next phase of the large



eFPGA contract announced last year. The first phase of the contract, which was \$6.9 million, has been completed successfully. I am pleased to share that this next phase, with a total value of \$15 million, is now in place and will begin generating revenue this quarter with revenue extending into 2024. This second phase is the same total value, revenue recognition timing and duration we had been expecting to finalize during Q2.

With receipt of this new contract and new business in other end markets that we are rapidly converting from our sales funnel, we remain on track to grow total 2023 revenue by more than 30% over 2022. We also believe we will report non-GAAP profitability for Q3 and Q4 as well as non-GAAP earnings for the full year 2023.

With that opening, let's get into the details.

On the continued strength of our numerous eFPGA IP-based opportunities, including a portion of the Strategic Rad Hard FPGA program, our sales funnel grew to over \$140 million, the largest in QuickLogic's history. Included in this number are deals for both eFPGA IP as well as being a storefront for semi-custom FPGA development that incorporates our eFPGA IP.

These deals span numerous foundries, process technologies, and end markets. One of our unique strengths continues to be that we offer a full spectrum of solutions ranging from eFPGA IP all the way to full chip designs which incorporate that IP.

As a reminder, we have multiple revenue sources within this product category, the primary ones being Design Services, IP Licenses, Royalties, and finally, device sales via our Storefront. 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 percentage of the final device ASP and the value contributed by our IP that is 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 that is designed to their specifications. In doing so, we enhance and expand our customers' capabilities by providing additional expertise and depth, as well as access to the supply chain we have had in place for decades. More than ever before, the fact we have been a trusted and reliable supplier of FPGA devices is one of the many reasons why we are winning opportunities to be more than just an IP provider.

In November of 2022, I shared that we had taped out a new device for a customer that incorporates our eFPGA IP. Revenue from the shipment of these test chips to our end customer was recognized during Q2. Additional engineering work with this customer is ongoing, and we continue to recognize revenue each quarter associated with this design. Due to confidentiality requirements, I can't 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.

As mentioned on our previous call, one of the 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 recognized initial revenue from this contract in Q1 and expect to recognize additional revenue throughout 2023.

Furthermore, during the previous call, I mentioned that we believed this contract was our first of several during this fiscal year. In fact, we now have multiple new opportunities for our 12nm eFPGA IP, totaling several million dollars.



Moving to SensiML. As we mentioned last quarter, the top-tier semiconductor company that is integrating a private label version of a SensiML-powered solution to address its customers' demand across its broad line of microcontrollers, is nearing their product launch. This private labeling of the SensiML toolkit provides significant revenue potential as a result of the company's large installed customer base and sales force. While we remain conservative on what this could mean for QuickLogic, we believe it has the potential to move the needle. As I have noted in the past, this is not an exclusive relationship, which means our engagements with other microcontroller companies will continue.

Moving to chiplets. We continue to see customer interest in an eFPGA-enabled chiplet. We plan to issue a press release in the coming weeks related to a specific collaboration on an eFPGA-enabled chiplet with a partner company, targeting the edge IoT and AI markets. We expect to generate initial revenue this fiscal year from chiplet-related design services and/or IP licensing.

Concerning our mobile phone business, much like other semiconductor suppliers to the mobile market, we are still seeing softness in demand, likely through the end of this fiscal year. However, we anticipate a rebound once inventory is balanced, as we have been informed that our EOS S3 will be used in new smartphone models that will ship well into 2024.

Finally, we are forecasting flat revenue in our Display Bridge and Mature Product segments for Q3 with slight improvements forecasted for fiscal Q4.

Before turning the call to Elias, I want to reiterate our revenue outlook for Q3 and the remainder of fiscal 2023. Despite the push out of revenue from the second phase of the eFPGA IP Contract we mentioned earlier, we expect its revenue contribution and the



accelerated conversion of our diverse and growing pipeline to fully offset the shortfall in Q2 revenue.

This emboldens our confidence that we are still on track to report greater than 30% annual revenue growth that we discussed earlier in the year. We are also still on track to turn the corner to profitability starting in the third quarter of this year and based on our current forecast, we expect to report substantial full year earnings for fiscal 2023.

Let me now 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.

Our performance in Q2 was below our expectations with revenues of \$2.9 million and a non-GAAP net loss of \$1.7 million due to the timing in the execution of the contract Brian mentioned. With this contract in place and the accelerated conversions of opportunities in our sales funnel, we continue to believe we will grow our revenue by more than 30% in fiscal 2023 and report non-GAAP profitability for the last two quarters as well as full-year 2023.

Let me now review the results for the second quarter.

As I said, revenue in Q2 was \$2.9 million, a decrease of 29.3% compared with the first quarter of 2023, and a decrease of 35.7% compared with the second quarter of 2022.



Within our Q2 revenue, sales of new products were approximately \$2.2 million. This compares to 3.1 million last quarter (down 26.9%) and \$3.1 million in the second quarter of 2022 (down 28.7%). Mature product revenue was approximately \$0.7 million compared to \$1.1 million last quarter and \$1.4 million in Q2 last year.

Non-GAAP gross margin in Q2 was 44.2% compared with 59.7% in the first quarter of 2023 and 58.6% in the second quarter of 2022. The decline in gross margins from the first quarter resulted from the lower revenue base and a change in the mix of deliverables within eFPGA-related revenue to a higher percentage of professional services.

Non-GAAP operating expenses in Q2 '23 were approximately \$2.9 million. The OpEx for Q2 was in-line with our prior guidance due to continued discipline in expense controls. This is approximately flat with operating expenses of \$2.9 million last quarter and \$2.8 million in the second quarter a year ago.

Non-GAAP net loss was \$1.7 million, or a loss of \$0.12 cents per share, based on 13.7 million shares. This compares to a net loss of \$0.5 million or \$0.04 cents per share, last quarter, and a net loss of \$47 thousand, or essentially \$0.00 cents per share, in the second quarter of fiscal 2022.

Total cash at the end of Q2 was \$20.6 million, compared with \$19.2 million at year end. The continued investment to support the new design wins we have discussed was offset by the approximately \$2.3 million raised in March 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.



In Q2 2023, we had three customers that each accounted for 10% or more of our revenue.

Now moving to our guidance for the third quarter of fiscal 2023, which will end on October 1, 2023:

Revenue guidance for Q3 is approximately \$6.5 million, plus or minus 10%, due to the reasons Brian already outlined. Revenue is expected to be comprised of approximately \$6.0 million of new products and \$0.5 million of mature products. Based on this revenue mix, non-GAAP gross margin for the quarter will be approximately 75.0%, 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 \$3.0 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 income for Q3 will be approximately \$1.3 million to \$2.2 million, or a net income of \$0.09 to \$0.16 per share, based on roughly 13.9 million shares outstanding.

The difference between our GAAP and non-GAAP results is related to non-cash, stock-based compensation expenses. In Q3, we expect this compensation will be approximately \$0.8 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 and the timing of certain expenses and anticipated customer receipts, at the midpoint, we expect cash usage to be below \$1.4 million this quarter.

As we stated earlier, with the new, large design wins and overall momentum in our business, and a lean operating structure, we should see sequential improvement in revenue in the back half of the year leading to positive non-GAAP earnings.

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.

I am incredibly excited about our progress and the momentum that we are building. We believe this increasing momentum and growing pipeline will drive sustainable revenue growth, and our highly scalable operating model will ensure that revenue falls efficiently to our bottom line.

The \$15 million contract we recently finalized is the largest contract by far in the history of QuickLogic. However, that is just a part of the story for the second half of 2023. As important to our sustainable growth is the acceleration of conversions of our sales funnel opportunities into new contracts. This will further drive revenue growth and end-market diversification.



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

Thank you for participating in today's call and for your continued support. We look forward to speaking when we report our third quarter fiscal year 2023 results in November. We will be attending the following conferences over the next few months including presenting at the Trusted & Assured Microelectronics Awareness Day in McLean, Virginia later this week, Jefferies later this month, HC Wainwright on September 12, Craig Hallum on November 16th.

Have a great day!