



Q3 Fiscal 2023 Earnings Conference Call Prepared Remarks

Operator

Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic Corporation's Third Quarter Fiscal 2023 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through November 21, 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 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 third quarter fiscal 2023 financial results conference call.

Q3 revenue of \$6.7 million exceeded the midpoint of our guidance, nearly doubling year-over-year, and increasing 128% sequentially. This growth was driven by new product sales, which increased by over 170% both sequentially and year-over-year.

QuickLogic set a record for Non-GAAP gross profit margin, achieving 78%, which exceeded the midpoint of the outlook we shared last quarter. Driven by strong gross profit and the inherent scalability of our business model, Non-GAAP net income of \$1.8 million was an all-time record for QuickLogic. Elias will share our outlook in a few minutes that projects we'll set another non-GAAP net profit record in Q4 which will drive positive full year earnings for fiscal 2023.

The strategic transformation we initiated in 2020 has enabled us to fully leverage the proprietary IP assets that we have developed over the last 30 years and execute a highly scalable and profitable business model. When compared to 2020, we expect to grow full-year 2023 revenue by over 144%, Non-GAAP gross profit dollars by over 235%, and with a 2% reduction in Non-GAAP Op-Ex, improve our operating leverage by nearly 244%. The bottom line here is our strategic transformation is delivering strong results, and I believe the best is yet to come.



Now, I'll take a few minutes to highlight the initiatives and contracts that are driving our growth and success.

First, we have continued to grow our sales funnel to a record \$162 million. Included in this number are deals for both eFPGA IP as well as customer-specific device development that incorporates our eFPGA IP. These deals span numerous foundries, process technologies, and end markets.

In August we were awarded the \$15 million second phase of the strategic rad-hard FPGA contract that was initiated in 2022 bringing the total awarded so far to \$22 million. The contract has the potential to extend through 2026 with a total potential value of \$72 million. This second phase provided a significant contribution to our rebound in Q3 and expanded the scope of the contract to include a second foundry in addition to continuing our development efforts with our current foundry partner.

In November 2022, I shared that we had taped out a new device for a customer that incorporates our eFPGA IP. Due to strict confidentiality requirements, I can't share more details on the specific design win. We are continuing to do development work with this customer, and we are generating revenue from this design each quarter. We believe this customer could represent tens of millions of dollars in potential device revenue starting in a couple of years.

As mentioned on our previous call, contributing to our sales funnel growth includes new government-focused eFPGA IP-based opportunities targeting a 12-nanometer process node. Initial revenue from one contract began in Q1. Furthermore, we announced the availability of our eFPGA IP on the GlobalFoundries 12LP process technology, and we



now have multiple new opportunities for this IP, totaling several million dollars. The new 12nm eFPGA solution is ideal for a wide range of applications, including 5G infrastructure, automotive electronics, aerospace and defense, AI/ML acceleration and IoT devices.

In late September, we announced that a leading technology company chose our eFPGA IP for GlobalFoundries™ 22FDX platform. We expect to deliver on this initial program this year.

In total, during this quarter, we expect to be in development with five different process technologies spanning four different foundries. This is only possible through the proprietary automation of the Australis IP Generator, which lets us create customized versions of our IP within one quarter from contract signing. Customers are increasingly seeing QuickLogic as the lowest risk path to a solution that meets their technical requirements, development schedule and cost targets. The not-so-subtle point here is by lowering risk and shortening time-to-market, we save our customers money and that provides us with a meaningful competitive advantage.

We announced a partnership with Xiphera, a provider of hardware-based cryptographic security solutions, to provide architects with a path towards securing their assets against the quantum threat, enabling them to stay one step ahead in the evolving landscape of cyber threats. With Xiphera's standards-based PQC IP combined with the design flexibility of QuickLogic's eFPGA platform, solution designers can cost-effectively meet the rapidly evolving market demands for quantum-resilience.



Moving to chiplets, we recently announced a partnership with YorChip to develop low-power, low-cost UCle FPGA Chiplets optimized for edge IoT and AI/ML applications. This opens new possibilities for a wide range of applications. The first chiplets could be available in early 2025.

Concerning our mobile phone business, our lead customer has digested most of their EOS S3 inventory, and we expect a slight rebound starting this quarter. Furthermore, we have been informed that our EOS S3 will be used in new smartphone models that will ship into 2025. Finally, we are forecasting slight improvements in our display bridge and mature product segments for Q4, and for fiscal 2024.

Moving to SensiML, the top-tier semiconductor company that has integrated a private label version of a SensiML-powered solution to address its customers' demand across its broad line of microcontrollers has officially launched. This private labeling of the SensiML toolkit provides significant revenue potential because of the company's large installed customer base and sales force. As I have noted in the past, this is not an exclusive relationship, and we will continue to engage with other microcontroller companies.

Before turning the call over to Elias, I'd like to share my perspective on the key differentiators that are driving our wins, growth and our profitability. QuickLogic has been developing proprietary FPGA IP and delivering high volume commercial FPGA based devices for 30 years.



With this and our Australis IP generator that allows us to quickly target our customer's chosen foundry and fabrication node, we can lower customer risk and shorten time-to-market in addition to providing unique and proprietary IP. We can also engage with customers at any level from providing a simple IP license to supporting development efforts and even to fully managing everything from fabrication to finished goods through our StoreFront program. Together, these benefits set us apart from the competition and have enabled both our rapid growth and now, profitability.

With that, let me now turn the call over to Elias for a review of the financial results, and I will rejoin for our closing remarks. Elias, please go ahead.

Elias– Chief Financial Officer

Thank you, Brian and good afternoon, everyone.

Our performance in Q3 was exceptional, with revenue more than doubling from last quarter, driving the business solidly into the black. As expected, our results benefited from higher eFPGA IP license and professional services revenue as the next phase of the large eFPGA contract started up in the current quarter.

Specifically, revenue in Q3 was \$6.7 million, up 128% from the second quarter and up nearly 93% from the third quarter of 2022.



Within our Q3 revenue, sales of new products were approximately \$6.1 million. This compares to \$2.2 million last quarter (up 173%) and \$2.3 million in the third quarter of 2022 (up 171%). Mature product revenue was approximately \$0.6 million compared to \$0.7 million last quarter and \$1.2 million in Q3 last year.

Non-GAAP gross margin in Q3 was 78.0% compared with 44.2% in the second quarter of 2023 and 49.8% in the third quarter of 2022. The increase in gross margins from the second quarter resulted from the higher revenue level and a change in the mix of deliverables within eFPGA-related revenue to a higher percentage of professional services as well as continued cost controls.

Non-GAAP operating expenses in Q3'23 were approximately \$3.3 million. The OpEx for Q3 was slightly above our forecast due to somewhat higher R&D activity given the timing of executing on the large revenue contracts later in the period. This compares with non-GAAP operating expenses of \$2.9 million last quarter and \$2.5 million in the third quarter a year ago.

Non-GAAP net income was \$1.8 million, or \$0.13 cents per share, a record. This compares to a non-GAAP net loss of \$1.7 million, or \$0.12 cents per share, last quarter, and a non-GAAP net loss of \$0.9 million, or \$0.07 cents per share, in the third quarter of fiscal 2022.

Total cash at the end of Q3 was \$18.6 million, compared with \$19.2 million at year end.

In Q3 2023, we had one customer that accounted for 10% or more of our revenue.



Now moving to our guidance for the fourth quarter and fiscal 2023, which will end on December 31, 2023:

Revenue guidance for Q4 is approximately \$7.4 million, plus or minus 10%. This will lead to revenue growth of approximately 30% for the full year of 2023. Fourth quarter revenue is expected to be comprised of approximately \$6.6 million of new products and \$0.8 million of mature products. Based on this revenue mix, non-GAAP gross margin for the quarter is expected to 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 \$3.5 million, plus or minus 10.0%. We believe OpEx will remain in the \$3.5 million range with occasional increases to support new programs. Please keep in mind that given our industry, we may be required to reclassify certain expenses to COGS or capitalize certain costs at times. The reclassifications are primarily related to labor and tooling for our revenue contracts with customers. Capitalization may reduce OPEX and also change the timing for recognizing the corresponding expenses in COGS. This may cause variability in our gross margins and operating results. After interest expense, other income and taxes, we currently forecast that our non-GAAP net income will be approximately \$1.4 million to \$2.0 million, or \$0.10 to \$0.14 per share, based on roughly 14.1 million shares. This will allow us to report profitability for the full year with non-GAAP net income of approximately \$1.0 million to \$1.6 million, or \$0.08 to \$0.12 per share, based on 13.7 million shares.



The difference between our GAAP and non-GAAP results is related to non-cash, stock-based compensation expenses. In Q4, 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 our continued investment to support the new design wins that we have discussed, including hiring critical Engineering and Sales roles, at the midpoint, we expect cash usage to be below \$1.0 million in Q4. These investments are in anticipation of strong growth in 2024 and timed with the signing of new contracts for design wins. We are also on track to be cash flow positive for the full year of 2024.

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.

With record Non-GAAP net profit, Q3 was clearly a historic quarter for QuickLogic, and the stage is set for yet another new record this quarter.



Since transitioning to a core IP business model only three years ago in 2020, we expect to grow total revenue by over 144%, Gross Profit dollars by over 235% and with a 2% reduction in Non-GAAP Op/Ex, grow our operating leverage by over 244% in 2023.

While I am very proud of what we've accomplished so far, what excites me is what lies ahead.

The primary drivers for our growth over the last three years have been development contracts. Looking forward, we believe these will lead to production devices and new opportunities, even beyond our sales funnel of \$162 million. We believe these opportunities and others in our sights will fuel our continued growth in 2024 and beyond.

While we will provide our full-year outlook for 2024 during our year-end conference call, I believe we are well positioned to grow total revenue by over 30% and report very solid Non-GAAP earnings per share with each quarter contributing to the profitability in 2024. Following the investments we are making during the second half of 2023 to support anticipated growth in 2024, we expect to generate positive cash flow for the full year 2024.

With that, I want to extend my appreciation to the shareholders that have supported our vision and to the team that has enabled these accomplishments. It's a thrill to work with you all!

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 fourth quarter fiscal year 2023 results in late February or at some of the conferences we are attending over the next few months including in-person at the Craig-Hallum Alpha Select conference which is being held on November 15 and 16, 2023. On December 11, 2023, we will be virtual at the Oppenheimer 5G Conference and the Needham conference in early January 2024.

Thanks again and have a great day. Thank you!