Q2 Fiscal 2024 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 2024 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through August 20, 2024. 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, including the expected timing of such revenue; statements regarding our future profitability and cash flows; statements regarding the

timing, milestones and payments related to QuickLogic's government contracts; 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 – Chief Executive Officer

Thank you, Alison. Good afternoon everyone and thank you all for joining our second quarter 2024 conference call.

We have made tremendous progress during the first seven months of 2024. Unfortunately, that progress is overshadowed by some scheduling push-outs that cause us to lower our full-year growth projection to 15%.

As Elias will cover in detail, we anticipate revenue in Q3 will be up slightly from Q2 followed by a very sharp rebound in Q4 to realize our revised full-year growth projection.

I will step you through the status of our major contracts, but first I want to make a few things absolutely clear.

We did not lose any of the contracts to competitors that we expected would contribute to the 30% growth. And none of the push outs were due to delays caused by QuickLogic. We are performing on or ahead of schedule on all contracts and pending proposals. We also have deliverables scheduled to support the majority of the implied revenue outlook for Q4.

Only one of the push-outs involves a significant contract that we've discussed in our quarterly conference calls. I will cover that to the extent I can as I update you on the status of major contracts.

The balance of the push-outs are smaller deals that we believe will generate revenue beginning in early 2025. I say "beginning in 2025" because most of the IP contracts have the potential to generate revenue for years beyond the IP deliverables phase.

As I've noted in past calls, the IP deliverables phase, which has driven high growth and record profit margins, is actually the foundation for our larger business model.

We expect IP revenue will rebound sharply in Q4 of this year and that demand, from an expanding base of customers, will accelerate revenue growth going forward. In addition, we believe revenue from our next phase, which includes Storefront and Chiplet, will layer on beginning in late 2025.

Let's take a few minutes now to update the status of some of our major contracts and accomplishments:

On July 8th we announced the award of the third tranche of the Strategic Radiation Hardened FPGA government contract that was initiated in August 2022. The value of this tranche is $5.26 million, and as we forecasted in our last two conference calls, it has a funding rate similar to tranche one.

The higher than anticipated cash usage during Q2 is mostly attributable to the timing of our Strategic Radiation Hardened contract. As Elias will cover, the payments received in Q3 that we anticipated in Q2 will benefit Q3 cash flow.

Tranche three funds the continued development of Strategic Radiation Hardened FPGA technology to support identified and future DoD strategic and space system requirements.

The total potential for this contract, including future options, is $72 million. If these options are exercised, we expect the funding rate will increase significantly in 2025.

Beyond building on the success of our large government contract, we are very well positioned to significantly expand our eFPGA Hard IP business across many new customers and market sectors, as well as the number of fabrication nodes supported by our IP in 2024 and beyond.

With the award of Tranche Three, we moved $5.26 million from our sales funnel to booked business, and more than replaced it with new opportunities.

The result is a net increase to $189 million. Within this, there are numerous outstanding proposals including three new RFPs with major customers totaling approximately $8 million that we have submitted during the last month alone.

Given its two-year outlook, the funnel is also beginning to capture specific Storefront and Chiplet opportunities that we believe will begin to materialize late in 2025.

On June 18th we announced that we joined the Intel Foundry's Accelerator IP and US Military / Aerospace / and Government Alliances. This marks a significant milestone in the company's strategic growth plan.

Driven by customer demand and to capitalize on the already considerable interest from companies targeting the Intel 18A technology for new designs, we have initiated development of our Hard IP. We believe this will position QuickLogic as a leading source for eFPGA Hard IP optimized for Intel 18A.

Combined with the unique ability of our Australis eFPGA Hard IP Generator to quickly develop customer-defined Hard IP cores, we will be well-positioned to win contracts and accelerate the schedule of our deliverables.

On May 28th we announced that QuickLogic received the BAE Systems 'Partner 2 Win' Supplier of the Year award in the category of FAST Labs™ Technology Innovation Partner of The Year.

During our last conference call, I announced that we booked our second contract that will be fabricated using a 12nm process.

The first contract is with a Defense Industrial Base customer and will be fabricated on GlobalFoundries™' 12nm process known as 12LP. We are on schedule to complete our deliverables on two cores and recognize revenue during the second half of 2024.

The second contract is with a large international company that I'm sure you would recognize. This design is for a new ultra-low-power SoC that is targeting a variety of commercial and industrial IoT applications. This design will be fabricated by TSMC on its 12nm process.

Within the SoC, our eFPGA technology is used for AI acceleration, which is a necessary function in most AI applications. We believe this will prove to be a rapidly growing application that is often better served by eFPGA technology than a processor running the acceleration algorithms in software.

We are on schedule to complete our deliverables for this core and recognize revenue during the second half of 2024. We are also working closely with this customer on a new design proposal.

In November 2022, I shared that we taped out a new device for a customer that incorporates our eFPGA Hard IP. Due to strict confidentiality requirements, I can't share more details on the specific design win beyond a brief update.

In line with what I covered during our last conference call, the customer is continuing to work through certain aspects of the design. Last quarter I stated that we anticipated resuming our efforts on this design during the second half of 2024.

However, due to a delay with one of the customer's subcontractors, the completion of our deliverables and revenue recognition have been pushed out to 2025. The program is still a solid go and could represent tens of millions of dollars in potential Storefront revenue starting in a couple of years.

Last September, we announced a leading technology company chose our eFPGA Hard IP for a design that will be fabricated using GlobalFoundries 22FDX™ platform. Again, due to strict confidentiality requirements, I cannot go into more detail on the design, but I can share that we have delivered our IP to the customer that is now awaiting the availability of a multi project wafer shuttle at GlobalFoundries to move forward.

Last November, we announced a global semiconductor leader chose our eFPGA Hard IP for a design that will be fabricated on UMC's 22nm process. We have completed the delivery of our IP. Tape out was also completed on schedule and the customer expects delivery of its first chips during Q3.

In total, we are on contract to deliver our eFPGA Hard IP on six different foundry / process technology combinations; including two that will be fabricated using 12nm technology.

In addition to these, we believe we are on track to be a leading company to offer eFPGA Hard IP for Intel 18A. In advance of this, we have submitted the first two of what we believe will be many proposals to customers targeting new designs for Intel 18A.

This is up 3X from a year ago with minimal growth in the associated R&D costs. This demonstrates that the market demand for eFPGA Hard IP is accelerating and that the automation from our proprietary Australis IP Generator enables us to address this demand in a scalable way. We expect this trend to continue with our leverage becoming even more evident as we increase our 18A engagements.

In addition to these awarded contracts, we have a number of large contract proposals pending; some of which have a value in the mid-seven-figures. These include major DIB proposals and a pending new proposal with a large semiconductor company. Some of these proposals could end up as Storefront designs.

In addition to these, we have several Chiplet opportunities in our funnel including potential deals with our partner, YorChip. We are awaiting feedback from customers on two previously discussed proposals that have a combined value of over $40 million; one is in conjunction with YorChip.

We're very excited about our partnership with YorChip and the pending release of our first jointly developed FPGA Chiplet integrating QuickLogic IP in 2H

2025. Going forward, this FPGA Chiplet product line will be expanded to include devices ranging from 40K LUTs to over one million LUTs.

These Chiplets will include a UCIe interface, which is supported by industry leaders including AMD, Arm, Google Cloud, Intel, Meta, Microsoft, Qualcomm, Samsung and TSMC. We believe this will enable the rapid adoption of our FPGA Chiplet solutions across a very wide variety of applications.

In line with our earlier forecasts, shipments of EOS S3 to our lead smartphone customer increased during the first half of 2024. Q3 will be a seasonally low quarter with volume rebounding in Q4. With new designs ramping, we expect shipments will continue through 2025.

Consistent with our prior outlook, we are forecasting a modest increase in display bridge shipments and we now believe mature product revenue will also be up modestly year-over-year.

During July, we announced two new distribution agreements; one with Spur Microwave to cover markets across India and the second with Astute Electronics, which covers Europe, Israel, Turkey, Australia and New Zealand.

The primary reason for the expansion of our distribution partners is to address the sharp increase in interest we are seeing in international markets. With eFPGA Hard IP established for several of the most popular fabrication processes and our sophisticated software tools, we can address this rapidly growing international demand very efficiently through distribution.

On August 7th, we announced our partnership with CTG. CTG will fulfill a role that extends beyond traditional distribution and enable us to significantly expand our scope of coverage within the Defense Industrial Base without increasing our operating expenses.

There are literally hundreds of potential programs within the DIB that could benefit from our IP technology and soon from device solutions like Storefront and Chiplet.

CTG's close collaboration with the DIB gives them deep knowledge of the programs and key decision makers. Their established programs ensure long term inventory support, often spanning through customer-lifecycles that can extend decades. Their support will give us significant leverage by introducing us to programs that could be beyond our direct reach and pre-qualifying opportunities before we invest resources.

Aurora is our comprehensive software Tool Suite comprised of Open Source and proprietary components that is used by our customers for eFPGA design. It provides seamless integration from customer RTL to eFPGA / FPGA Bitstream.

With the release of Aurora 2.7 last June, we have continued our cadence of continuous improvements. In the 2.7 update, we further improved user interface and experience and improved timing performance by 20%.

Aurora 2.8 is in the works and scheduled for release during Q3 and 2.9 is scheduled for Q4. Between these and other improvements we have scheduled for 2024, we will provide additional improvements in flow automation, increase IP core speed by approximately 50% and reduce die area for a given size eFPGA core.

For our customers this means easier use, better performance, shorter development cycles and lower development costs. For QuickLogic it means we can address designs that require faster speeds and more cost sensitive applications.

Turning to SensiML:

Leveraging the four years of experience and success monetizing an Open-Source business model at QuickLogic, SensiML announced its own Open-Source strategy in a press release on May 14th. SensiML's Piccolo AI™ is the first complete, open-source AutoML solution for the development of edge AI/ML applications.

Piccolo AI empowers companies to rapidly develop applications including audio recognition, keyword spotting, predictive maintenance, gesture recognition and anomaly detection regardless of their expertise in data science.

On July 25th, SensiML launched a new Generative AI feature that enables developers to rapidly build ML training datasets for custom voice recognition, voice command and speaker identification applications. These models are specifically optimized to run autonomously and efficiently on low-power microcontrollers.

SensiML is collaborating with two top-tier microcontroller companies to enable its AI / ML development tools on their edge platforms and planned AI accelerator SoCs.

With these significant advances and engagements, SensiML is already on track to report all-time record revenue in 2024.

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 second quarter revenue rose 41% from the second quarter of 2023 to $4.1 million, but was down 31% compared to Q1 and was at the lower end of our guidance.

The primary reasons for this were the timing of certain contracts and lower Connectivity revenue, which is also why new product revenue was below our outlook.

New product revenue in Q2 was $3.1 million, up 37% from Q2 last year, but down 37% compared to Q1. Mature product revenue was $1.1 million, up 56% from Q2 last year and essentially flat with Q1.

Non-GAAP gross margin in Q2 was 53.1% compared with 44.2% in Q2 last year and 70.3% in Q1, and below our outlook for the quarter. The primary reasons our non-GAAP gross profit margin was below our outlook include lower than expected IP revenue and a higher allocation of what we modeled as R&D expenses to COGS.

Our Non-GAAP operating expenses in Q2 were approximately $2.9 million. This compares with non-GAAP operating expenses of $2.9 million in the second quarter last year and $2.5 million in the first quarter. Operating expenses were below our outlook because a larger portion of R&D than we expected was attributed to COGS.

It will be an ongoing challenge to correctly project how much of our R&D investments will be allocated to operating expenses and how much will be allocated to COGS. However, at the operating line on our income statement, the two will balance out.

Non-GAAP net loss was $0.7 million, or $0.05 cents per share. This compares to a non-GAAP net loss of $1.7 million, or $0.12 cents per share, in last year's second quarter, and non-GAAP net income of $1.7 million, or $0.11 cents per diluted share, in the first quarter of fiscal 2024.

For the second quarter, one customer accounted for 10% or more of our revenue.

At the close of Q2, total cash was $23.3 million compared with $24.6 million at year end 2023 and $27.4 million at the close of Q1. These figures include our $20 million credit facility.

The higher than anticipated cash usage during Q2 is mostly attributable to the timing of our Strategic Radiation Hardened contract.

In total, our accounts payable decreased by $3.44 million, which was primarily a large non-recurring payment. Our receivable accounts, which includes contract assets, increased by a net of $537 thousand. Combined, this $4 million change in the balances of our accounts was the primary reason for the reduction in our cash balance in Q2.

As I will cover in a moment, payments received in Q3 that we anticipated in Q2 will benefit Q3 cash flow.

Now moving to our guidance for the third quarter of fiscal 2024, which will end on September 30, 2024:

Revenue guidance for Q3 2024 is approximately $4.2 million, plus or minus 10%. Third quarter revenue is expected to be comprised of approximately $3.5 million in new products and $0.7 million in mature products.

Our lower than anticipated Q3 revenue guidance is attributable to the majority of the second half IP revenue recognition being scheduled now for Q4 and in some cases, pushed into 2025. With these changes, we have lowered our full-year outlook to 15% growth.

I realize this implies very large sequential growth in Q4, but as Brian noted, the majority of the deliverables needed to realize this implied revenue growth are on the books and in process.

Based on the anticipated Q3 revenue mix, non-GAAP gross margin for the third quarter is expected to be approximately 55%, plus or minus 5 percentage points.

Our non-GAAP operating expenses are expected to be approximately $3.0 million, plus or minus 10.0%.

Please note that given the nature of our industry, we may occasionally need to reclassify certain expenses to COGS or capitalize certain costs. The reclassifications are primarily related to labor and tooling for our revenue contracts with customers. Such capitalization may reduce OPEX and alter the timing for recognizing the corresponding expenses in COGS. This may cause variability in our gross margins and operating results.

Bearing these factors in mind and based on our current full-year revenue outlook, we believe our full-year 2024 non-GAAP gross profit margin will be in the upper 60% range.

After interest, other income and taxes, we currently forecast that our Q3 non-GAAP net loss will be approximately $0.6 to $1.6 million, or two cents to nine cents per share, based on roughly 14.7 million shares.

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 $800 thousand, similar to Q2.

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.

At the midpoint of our outlook for Q3, we expect cash usage to be approximately zero to $500 thousand.

Please note, we are investing in developing eFPGA Hard IP for certain strategic fabrication processes in advance of contracts. This includes the development for Intel 18A. We believe this provides us with strategic advantages in winning contracts, some of which are pending, and will shorten the time it takes us to recognize revenue if contracts for these processes are awarded.

Based on our current full-year outlook, we believe we will be cash-flow positive and report double-digit earnings for fiscal 2024.

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

Brian Faith

Thank you, Elias. I would like to take a moment to summarize what we have accomplished so far, where we are today and where I believe we are going.

We were the first and are still the only company to integrate Open-Source components into our eFPGA IP and to fully leverage Open-Source technology in our eFPGA User Tools.

We are also the only eFPGA IP company that has over three decades of experience in delivering discrete FPGAs and integrated devices that include embedded or eFPGA. These devices continue to win new designs.

While these merchant silicon solutions are not the thrust of our business model, our unique experience in managing everything from fabrication to finished goods enables us to leverage existing resources to provide Storefront services for our customers. This capability drives more IP business and opens unique opportunities for revenue and profit.

The foundation of our business model is the eFPGA IP. We leverage this foundation with software tools to create process-specific and customer-specific eFPGA Hard IP much more quickly than our competition.

With our proprietary and Open-Source software tools we will have process-specific eFPGA Hard IP for six different fabrication processes by the end of 2024. In addition to these, we believe we are on schedule to be a leading provider of eFPGA Hard IP for Intel 18A.

With our proprietary Australis eFPGA IP Generator, we can quickly leverage our process-specific Hard IP to create customer-specific Hard IP. We are the only eFPGA IP company that leverages this customer-specific Hard IP strategy. Australis also enables us to port our eFPGA Hard IP to new process technologies in about half the time it takes our competition.

This IP business model has driven significant growth during the last four years. With proposals now addressing a much wider and more diverse customer base, we expect this growth will accelerate and continue to scale very favorably relative to our operating costs.

In addition to the anticipated growth of our eFPGA IP foundation, we believe revenues from Storefront and Chiplet will begin layering on in late 2025 and accelerate our rate of growth and profitability. In short, the more our foundation of IP customers grows, the more leverage we have above it.

All in all, the things that are most important for our long-term success are going extremely well and even with a lower growth outlook for 2024; our four-year CAGR is 30%. We believe we are well positioned to maintain or exceed that rate of growth during the coming years.

Brian Faith - Closing

Thanks again for joining us today. Hopefully, we will connect with some of you at one of our upcoming investor events including the Oppenheimer Technology, Internet and Communications Conference this Wednesday, August 14th, the Needham Virtual Semiconductor and Semicap conference next week or at the H.C. Wainwright Global Investment Conference in early September.