



Q3 FY20 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 Year 2020 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through November 11, 2020. 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 Dr. Sue Cheung, Chief Financial Officer. Following current social distancing practices, management is doing this call from different locations today.

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 projected 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.



Q3 FY20 Earnings Conference Call Prepared Remarks

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 their 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 third quarter fiscal 2020 financial results conference call.



Q3 FY20 Earnings Conference Call Prepared Remarks

I want to kick-off today's call by again thanking the QuickLogic team for their continued resiliency as we work through the COVID-19 restrictions. In the face of both personal and business challenges, their focus on innovation and serving our customers despite the barriers presented by this pandemic has been extraordinary. As we continue to chart our new course for the company, the team is going above and beyond to ensure the future success of QuickLogic.

The third quarter marked another step in our ongoing transformation that started more than a year ago. We have been evolving our focus from being primarily a product company serving only large customers in the consumer markets to a platform company serving a much broader set of markets and more diverse set of customers. These include consumer, IoT, industrial and the military space. I remain confident we will see this change deliver improved financial results in fiscal 2021.

Our third quarter revenue reflected the continued headwinds associated with the broad impact from the COVID-19 pandemic that we discussed in our last call. However, a favorable product mix, and continued decline in our operating expenses from the proactive changes taken earlier this year, resulted in higher gross margin and much better than forecasted bottom line performance.

The good news is that we currently see Q3 as the revenue low point and expect sequential improvement with a better trajectory into 2021. Sue will offer our full outlook later in the call.



Q3 FY20 Earnings Conference Call Prepared Remarks

I want to now shift the discussion to some of the initiatives we announced in the last couple of months and provide additional context around their importance to our strategy.

You will remember that in June we announced the QuickLogic Open Reconfigurable Computing, or QORC, initiative. This project marks a milestone for the industry with QuickLogic becoming the first Programmable Logic company to actively contribute to a fully open-source FPGA toolchain. QORC not only significantly leverages our IP and op/ex investments to grow a high margin revenue stream; of equal importance is that it makes our technology more diversified and available to a larger customer base. With the strong growth in open source initiatives such as RISC-V, this is the ideal time to drive this strategy forward.

Since our announcement, we've received overwhelmingly positive feedback from potential customers, our co-development partners, which include Google and AntMicro, and the technical press that have covered open-source initiatives for a very long time. We are convinced we are offering our open-source solution the right way; a way that will drive our business objectives.

Even more telling is the fact we have shipped more than 450 of our QuickFeather development kits to customers in just a few months. The pace is accelerating, and we remain on path to realize our goal of roughly 1,000 dev kit orders by the end of 2020.

All of these development kits should be viewed as seeding opportunities in the market with our technology that should drive EOS S3 and SensiML revenue next year as they take those dev kits and turn them into actual real products with real volume behind them.



Q3 FY20 Earnings Conference Call Prepared Remarks

While we have invested resources to develop our FPGA design and verification software, those software platforms are simply tools that enable us to sell our proprietary, patented IP that customers can use to embed into ASICs and SoCs.

To take this a step further, if we think about who we traditionally sold to, it was the hardware engineer, and let's say there are approximately 100,000 of those types of hardware engineers in the just US that understand our type of technology. On the other hand, there are a few million software engineers in the world, with Google alone probably having tens of thousands. What Google has helped us do in this collaboration is to understand what it takes to make hardware easier to use for the software engineer. In doing so, we're talking about an order of magnitude increase in the number of engineers we can sell our solutions to, some of which have never used this technology before.

By making our technology easier to use, we get broader exposure and reduce our cost of sales. Since our launch in June, we've seen the community take on numerous developments on their own - complementing our own R&D efforts by allowing solutions to develop organically, filling multiple niches and evolving more quickly towards the best fit for particular classes of problems. It also meshes well with the SensiML AI and AutoML tools, and our eFPGA technology – both of which have very high value for a wide range of IoT applications.

In August, we joined the Open Hardware Group, furthering our commitment to open source. The most recent development being undertaken by the Open Hardware Group is a derivative of the RISC-V and QuickLogic eFPGA-based SoC completed by ETH in Zurich. And while we can't claim we knew two years ago that the ETH development would have such leverage, it



Q3 FY20 Earnings Conference Call Prepared Remarks

does put us in a great position moving forward to accelerate our silicon and eFPGA roadmap in a cost effective manner.

Fiscal 2020 is all about laying the groundwork for the QORC initiative. Starting next year, we expect QORC will be one of the primary catalysts to our path to profitability before year end.

Another lynchpin to our open source initiative is the integration of SensiML's Analytics Toolkit with Google's open source machine learning framework, called TensorFlow Lite for Microcontrollers.

Together, they complement each other by offering a powerful neural network algorithm execution from TensorFlow Lite with the ease of use of the SensiML AI tool. We are excited to enable a seamless, fast, and productive workflow for developers creating and deploying edge AI sensor algorithms for IoT devices. The openness, flexibility, and performance enabled by this effort is important and valued by our MCU partners and IoT device customers. It will be a key enabler for our SaaS revenue growth in the coming quarters.

In August, we announced the SensiML Analytics Toolkit now running on the SensorTile.Box IoT kit from STMicroelectronics. This combination enables up to five times faster development of even the most complex AI-based pattern recognition algorithms for time-series sensors than what could be done using more traditional methods.

We are very excited about the growing relationship with STMicro. SensiML participated with a speaking spot at the recent ST Developers Conference two weeks ago, providing yet another example of the large-scale opportunities possible through our membership in the STMicroelectronics Partner Program.



Q3 FY20 Earnings Conference Call Prepared Remarks

Now let's move to our collaboration with the consortium of companies that includes ARC, Skywater, LinearASICs, and others for the COVID-19 testing solution that I discussed last quarter. Phase 1 of the product is part of a research study at a prominent US-based university. We expect the study to conclude within Q4 and go before an Institutional Review Board for approval. And while this is the first medical solution built using the SensiML AI software platform, we hope that there are several others that follow. If you are interested in this testing solution, please to go arc.health for more information.

Where things are getting even more interesting is how our work with TensorFlow Lite is converging with our open source FPGA initiative. We recently delivered several evaluation systems to a maker of home computing devices. If the program is successful, the platform could be included in devices targeted for late 2021 shipments.

Further supporting our IP focus, last week we announced some exciting developments with Samsung Foundry. First, we announced that the third generation of our ArcticPro embedded FPGA, technology – ArcticPro 3 - is now available on Samsung's 28nm FD-SOI process. This achievement was the culmination of more than a year of development with Samsung. ArcticPro 3 was designed from the ground up on their 28FDS process, delivers a significant boost in performance with ultra-low standby current leakage. Second, with the IP development completed, QuickLogic was accepted into the Samsung Advanced Foundry Ecosystem as a member of their IP Partner Program. As a result, we have started engagements immediately. This is an exciting development that we believe will lead to future IP licenses and royalties.



Q3 FY20 Earnings Conference Call Prepared Remarks

I wanted to share this context on the key events from the last few months to help everyone understand their importance to QuickLogic as we transform our business.

Turning to the current environment and what we expect to see in the fourth quarter. After a difficult first 3 quarters of 2020, several existing parts of our business are finally seeing some improvement.

Let's start with our smartphone business. Our momentum is accelerating, and the phone market is definitely a highlight for 2020. We have locked up several phone wins during the second half of 2020, including our first 5G smartphone production win. We currently expect the total number of phones using QuickLogic's technology to reach at least 10 by year end, up from 3 at the start of the year. These new phone launches should lead to much stronger smartphone revenue this quarter.

In the hearables market, yesterday, we formally submitted our developer kit for official Amazon certification. If all goes well, and we expect it will, we will achieve certification and launch these kits to the market before the end of the quarter.

In our eFPGA IP business, one of our early engagements has recently taped-out their test chip. Barring any geopolitical-related risks, we could see a full eFPGA IP license in the first half next year from this customer.

Within our voice-activated products program, as discussed on prior calls, we realigned our efforts with one of the largest providers of microphone technology to leverage our previous developments and launch an always-on voice-activated remote-control solution. Our EOS S3 based low-power platform will enable voice activated remote controls to operate with



Q3 FY20 Earnings Conference Call Prepared Remarks

almost one year of battery life, more than twice that of current remote controls in the market. We are moving quickly to work with several OEMs and expect incremental revenue starting in Q1 of next year.

In our mature segment, the COVID-19 related issues remain a challenge, particularly for the civilian aerospace sector. Q3 was certainly impacted, as revenue declined again due to certain projects being delayed.

The positive news is that in Q4 we expect to see a temporary snapback in sales with mature revenue nearly doubling. In particular, we expect military-related sales to exceed even our typical seasonal strength in Q4. On the other hand, the civilian aerospace market is expected to remain sluggish for the coming quarters until the consumer air travel market begins to rebound. While forecasting beyond a couple of quarters is difficult, with the continued uncertainty in several markets we serve, it is our current belief that mature sales in 2021 will at best be flat compared with 2020.

Before handing the call to Sue, I want to reiterate that the pathway for better financial performance in 2021 is in place, and our future is bright. We are beginning to see accelerated traction around our open source initiatives and with some of the largest platform companies in the world. When combined with the feedback our new product customers are providing related to improvements in their business, as well as expected growth in our software related programs, I remain confident we will deliver improved financial performance in the fourth quarter and into fiscal 2021.



Q3 FY20 Earnings Conference Call Prepared Remarks

I would now like to turn the call over to Sue for a discussion of our recent financial performance and full Q4 outlook. Sue?

Dr. Sue Cheung– Chief Financial Officer

Thank you, Brian. Good afternoon and thanks to everyone for joining us.

For the third quarter of fiscal 2020, revenue was \$1.8 million. This compares with revenue of \$2.2 million in both the second quarter of 2020 and the third quarter of 2019. Q3 revenue reflected the broad impact in the civilian aerospace market from the global pandemic.

Within our Q3 revenue, sales of new products were \$639,000. This compares with \$820,000 in Q2 and \$1 million in the third quarter of 2019. Our mature product revenue was \$1.1 million, compared with \$1.4 million last quarter and \$1.1 million of Q3 2019.

In the third quarter, we had four customers who each accounted for 10% or greater of our sales.

Non-GAAP gross margin in Q3 improved to 53.9%, compared with 47.1% in the prior quarter and 48.9% in the same quarter of 2019. The improvement in gross margin compared with the two other periods was mainly due to the restructuring and continued cost control effort.

Non-GAAP operating expenses for Q3 were approximately \$2.6 million, representing an improvement from \$3.2 million in Q2 and \$4.5 million in the third quarter of last year. The lower operating expenses in Q3 were primarily due to two factors: 1) updates to estimated non-recurring restructuring charges and asset write-offs, and 2) greater than expected on-going capitalization of SaaS software development costs related to milestones achieved in



Q3 FY20 Earnings Conference Call Prepared Remarks

the quarter. Even when factoring out these non-recurring adjustments, our operating expenses in Q3 were still about \$1.5 million lower than the same period last year. We believe operating expenses will remain in the low \$3 million range for the foreseeable future.

Within our Q3 operating expenses, R&D and SG&A were both approximately \$1.3 million. This compares with R&D and SG&A of \$1.7 million and \$1.4 million in Q2 this year, and \$2.6 million and \$1.9 million in Q3 last year.

The net total for other income, expenses, and taxes in Q3 was a charge of \$19,000, compared with \$84,000 in Q2 and \$78,000 in the third quarter last year.

Non-GAAP net loss in Q3 improved to \$1.7 million, or a loss of \$0.15 per share. This compares with a net loss of \$2.2 million, or \$0.26 per share in Q2 and a net loss of \$3.5 million, or \$0.42 per share in the third quarter of last year. The per share calculation for both periods reflects the reverse stock split that was effective last December.

The total cash at the end of Q3 was \$24.7 million, compared with \$26.4 million at the end of last quarter. The Q3 cash balance includes the \$461,000 in net proceeds from the exercise of the overallotment that closed in July and \$1.2 million from the PPP loan we received in Q2. On the PPP loan, we are in the process of applying for the forgiveness provision and should complete this process before year-end. The cash balances also include the \$15 million draw from the revolving line of credit.

Now moving to our forecast for the fourth quarter of fiscal 2020, which will end on January 3, 2021:



Q3 FY20 Earnings Conference Call Prepared Remarks

The revenue guidance for Q4 is \$2.7 million, plus or minus 15%. At the midpoint, this represents an approximately 50% increase from Q3. We believe total revenue will be comprised of roughly \$800,000 of new product and \$1.9 million of mature product.

Based on the expected revenue mix, non-GAAP gross margin in the fourth quarter will be approximately 60%, plus or minus 5%.

In Q4, our non-GAAP operating expenses will be approximately \$3.1 million, plus or minus \$300 thousand. As I mentioned earlier, we expect this to be a normalized level for the next few quarters. At the midpoint of the Q4 range, R&D should be \$1.6 million and SG&A \$1.5 million.

After interest expense, other income and taxes, at the midpoint, we currently forecast our non-GAAP net loss will improve to approximately \$1.4 million, or a net loss of \$0.12 per share based on roughly 11.5 million shares outstanding.

Most of the difference between our GAAP and non-GAAP results is our stock-based compensation expense. We expect stock-based comp to be in the range of \$700,000 for the next few quarters.

Finally, in Q4, we expect cash usage to decline from Q3 and be in the range of \$1.3 to \$1.8 million. Cash usage should decline further over the course of 2021 with expected improvements to revenue and gross margin. With the strength in our balance sheet, we believe we are well positioned to achieve our growth objectives.

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



Q3 FY20 Earnings Conference Call Prepared Remarks

Brian Faith – Chief Executive Officer

Thank you, Sue.

As we look back on what we have accomplished to transition QuickLogic – particularly in the context of the COVID-19 pandemic - I could not be prouder of what our team has achieved. We have re-aligned the company, not just in terms of having the right resources to execute on the open source initiative, but also significantly reducing our cost structure, making profitability before the end of 2021 much more attainable. With what we have in place, and the opportunities that are opening up for new business, it is clear we have made tremendous progress on the continued evolution of QuickLogic.

In closing, I would again like to thank our many stakeholders for their continued support during these extraordinary and challenging times.

That completes our prepared remarks. Hector, 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 you again when we report our fourth quarter and fiscal year results in February. Have a good day!