



Q1 FY19 Earnings Conference Call Prepared Remarks

Operator

Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic Corporation's First Quarter Fiscal Year 2019 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through May 15, 2019. 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. On the call today are Brian Faith, President and Chief Executive Officer, and Dr. Sue Cheung, 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 projected production start dates that could impact the timing of shipments; the company's future evaluation systems; broadening our ecosystem partners, expected results and financial expectations for revenue, gross margin, operating expenses, profitability and cash.

These statements should be considered in conjunction with the cautionary warnings that appear in QuickLogic's SEC filings. For additional information, please refer to the company's SEC filings posted on its website and the SEC's website. Investors are cautioned that all



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forward-looking statements in this call involve risks and uncertainties and that future events may differ materially from the statements made. For more details of the risks, uncertainties and assumptions, please refer to those discussed under the heading “Risk Factors” in most recent annual report on Form 10 K, most recent quarterly report on Form 10 Q, recent Forms 8-K and other documents we periodically file with the SEC. These forward-looking statements are made as of today, the day of the conference call, and management undertakes no obligation to revise or publicly release any revisions of the forward-looking statements in light of any new information or future events.

In today’s call we will be reporting non-GAAP financial measures. These non-GAAP measures should not be considered as a substitute for or superior to financials prepared in accordance with GAAP. 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 products, its planned financial and other announcements, its attendance at upcoming investor and industry conferences, and other matters. Such information may be deemed material information, and QuickLogic may use these channels to comply with its disclosure obligations under Regulation FD.



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A supplemental presentation management may reference on today's call is posted at QuickLogic's IR portion of its website and also available through today's webcast.

I would now like to turn the call over to Brian.

Brian Faith – Chief Executive Officer

Thank you, Jim and thank you all for joining our Q1 2019 conference call.

I'm sure most of you have read the April 25th press release from SiFive announcing its strategic partnership with QuickLogic and the introduction of the industry's first SoC Templates.

The Freedom Aware family of SoC Templates represents a disruptive approach to SoC design and significantly extends our software and IP business model. I will provide you with more background and color later in my prepared remarks, but first let's review Q1 and our outlook.

We benefitted from an unexpected upside in mature products in Q1. Based on customer forecasts, we now believe mature product revenue will be approximately \$9 million for full year 2019 and account for roughly 45% of total revenue.

New product revenue for Q1 was below our expectations due to lower than anticipated sales of EOS™ S3 to support hearable design wins, an embedded FPGA license agreement that was pushed to second quarter and a decrease in combined sales of display bridge and connectivity solutions.



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Driven by new hearable designs moving into production, we expect our new product revenue will rebound in Q2.

Let's start with an update on our embedded FPGA IP business:

ETH received test samples of its new Arnold PULP IC that includes its RISC-V processor and our embedded FPGA. We are on schedule to complete internal testing this quarter.

We released our new Applications Programming Interface or API and the first entry in our hardware accelerator library. These are being evaluated now by our lead partner for these initiatives.

We anticipate booking an embedded FPGA license agreement during Q2 with a prime military contractor that has been commissioned by the DoD to evaluate and recommend embedded FPGA solutions and suppliers.

Military contractors already represent a large market for discrete FPGAs and the DoD is taking steps now that will make it easier for its contractors to incorporate embedded FPGA in ASIC designs. We are optimistic the evaluation of our solution will be favorable and with that, help us close one of our ongoing engagements with a DoD contractor and lead to new opportunities for us.

We finalized our strategic partnership agreement with SiFive where embedded FPGA is included in the QuickLogic Always-on subsystem IP that is optimized for ultra-low-power AI endpoint applications and is integral to the new Freedom Aware SoC Templates.



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The bottom line for our embedded FPGA IP is we think with the software tools that we have released during the last twelve months and the ETH test chip in hand, we are well positioned to close several embedded FPGA license agreements in 2019.

We anticipate a rebound in EOS S3 revenue in Q2 followed by a ramp in the second half of 2019 as a number of high-volume design wins move into production.

During Q1 we shipped EOS S3 to support manufacturing for a number of customers, including JD.com, SF Express and Cleer.

Expected new product rollouts suggest that 2019 will be a break-out year for always-on / always listening hearable products. The new hands-free Powerbeats Pro is scheduled for release soon, and there has been broad speculation that a similarly featured Apple AirPods will follow. There have been several articles predicting Amazon and Microsoft will also release new always-on / always listening designs in the coming quarters.

These anticipated introductions have led to a number of new design engagements with Asian companies that are fast-tracking new always-on / always listening hearable products for introduction in 2019. This increases our confidence that more of the numerous design wins we've already secured will begin moving into production this quarter and optimism that new designs targeting EOS S3 will follow later in the year.

Last year we announced a broad MOU with a large Japanese smartphone company and our first smartphone design win. EOS S3 has since been selected for a total of four smartphone models and one feature phone model that are all scheduled for release in 2019.



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During Q1 we made initial shipments to support pre-production of the first smartphone model and we are scheduled to ship similar volume during Q2. Based on current forecasts, we expect volume to ramp significantly during the second half of 2019 as all five models move into production.

Mass production for the consumer electronics design that I've previously discussed has been pushed out to late-Q3. This push impacts our Q2 outlook by about \$200 thousand.

While delayed, the customer has also indicated it will use our EOS S3 design in a higher volume model than it originally projected. We continue to expect additional OEMs will release products later in 2019 that incorporate a platform version of the EOS S3 design. Our engagement on a second platform design is ongoing.

I'm very pleased to announce that we have secured platform design wins with two large companies that are targeting a variety of smart home consumer goods applications. We anticipate these designs will ramp into production during the second half of 2019.

We expect to provide more detail on many of these and other EOS S3 design wins in press releases during the coming months.

In AI we are offering a very unique platform solution that continues to build traction and leverage even faster than I had imagined.

When we acquired SensiML™ last year it had an extremely rich sales funnel that included a number of Global Fortune 500 companies, but it had only started signing up subscribers to its unique SaaS development platform.



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During Q1, SensiML generated a modest amount of revenue from its first three SaaS subscriptions. For Q2 we are forecasting a sharp ramp to between 10 and 16 SaaS subscribers with as many as five of those being Global Fortune 500 companies.

Four of the Global Fortune 500 companies are forecasted to buy our QuickAI™ Hardware Development Kits or HDKs and one of those companies has already committed to buy ten HDKs to support its various IoT design groups.

While SensiML's full-stack software solution supports a variety of processors, when customers buy an HDK in conjunction with the SaaS subscription, it suggests they intend to target our AI silicon solutions. We are optimistic this early success will establish QuickLogic and SensiML as a complete end-to-end software / hardware platform source for AI applications with some very large OEMs.

This bolsters my confidence that we are on track to meet the previously discussed financial targets provided when we announced the acquisition of SensiML.

Now I want to take a few minutes to highlight our recently announced strategic partnership with SiFive. We believe this significantly extends the scope and scale of our IP and Software business model, as well as creates new points of cross-leverage.

SiFive was founded in 2015 by the inventors of the RISC-V processor and in 2018, was named by the Global Semiconductor Alliance or GSA, as the Most Respected Private Semiconductor Company.



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SiFive's vision is to enable innovation by radically reducing the cost, design time and risks associated with SoC development. It has already demonstrated its ability to do this with RISC-V processor cores. Now, with its new Freedom Aware SoC Templates, SiFive is bringing its disruptive business model to SoC design.

With this revolutionary approach to SoC design, companies will be able to select resources from verified SoC Templates to create a customer-specific SoC inside of three months and for a small fraction of the cost of traditional design methods.

SiFive partnered with QuickLogic to develop its first SoC Templates for several reasons that extend far beyond our long history in developing ultra-low-power FPGA IP and development tools. Key to our selection was the experience we've gained in AI, Voice and the sophisticated methods we have developed to allocate tasks across heterogeneous processing resources and intelligently manage power consumption across an SoC.

Integral to the SoC Template architecture is the QuickLogic Always-on Subsystem IP where our embedded FPGA is leveraged to process data using algorithms and AI models that are very likely to change over the course of an end-product lifecycle.

This is an application where the flexibility of embedded FPGA is critical. Running AI models in edge and endpoint applications is not a good application for a traditional processor because an MCU would consume far too much power. It is also not a good application for traditional hard logic accelerators because there is a need to adapt to new algorithms and AI models during the end-product lifecycle. We believe embedded FPGA is the optimal way to enable these products to adapt to new algorithms and AI models.



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QuickLogic and SiFive are working closely with a select number of customers that have expressed interest in joining our Freedom Aware Early Adopter program. Companies that join the Early Adopter program will have exclusive, early access to Freedom Aware SoC Templates, and the ability to add features.

While this program has the potential to provide near-term revenue, it is too early to offer any outlook as to the amount or when it could be recognized as revenue. Beyond the Early Adopter program, Freedom Aware is a long-term initiative with license and royalty revenue opportunities for QuickLogic starting in 2020 and extending for years beyond that.

I would now like to turn the call over to Sue for discussion of the Company recent financial performance and our Q2 Outlook. Sue:

Dr. Sue Cheung– Chief Financial Officer

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

For the first quarter of 2019, total revenue was \$3.2 million, an increase of 16% compared with revenue of \$2.8 million in the same quarter a year ago. Of the \$3.2 million in Q1 revenue, sales of new products were \$700 thousand. This compares with \$1.3 million in the first quarter a year ago. This decline was due to significantly lower sales of display bridge and connectivity products that were not fully offset by increased EOS S3, Quick AI and SaaS subscription revenue.



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Our mature product revenue was \$2.5 million, up from \$1.5 million in the same quarter a year ago. The increase in mature product revenue was driven by stronger demand from our military, aerospace and defense customers.

In the first quarter we had 2 customers each accounting for 10% or greater of sales. Although this is the same number as the first quarter last year, the customers in each period are different, which reflects our continued success in diversifying our customer base.

Gross margin in the first quarter was 62.8%, an increase of approximately 11 percentage points from 51.5% in Q1 last year.

This was driven by increased revenue from mature products, EOS S3, QuickAI and SaaS subscription revenue, and a significant decrease in sales of low margin display bridge and connectivity products.

Based on our current outlook, we believe continued strong mature product sales, along with increasing revenue from IP, Software and SaaS subscriptions, will lead to our quarterly gross margin staying in the mid-60s range through at least the remainder of the year.

Operating expenses for Q1 were approximately \$4.8 million, compared with \$4.9 million in Q1 last year. Within our Q1'19 OpEx, our R&D expenses were \$2.6 million and SG&A expenses were \$2.2 million.

The net total for other income, expense and taxes in Q1 was a \$233 thousand credit, compared with a \$99 thousand expense in the first quarter last year. In Q1 2019, we recorded a one-time tax benefit of \$282 thousand related to the intangibles from the acquisition of SensiML.



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Net loss in Q1 was \$2.5 million, or \$0.03 per share. This compares with a net loss of \$3.5 million, or \$0.04 per share in the same quarter last year.

Now turning to the balance sheet for Q1:

Net cash usage in Q1 was \$3.2 million, a decline from \$4.0 million in Q1 last year. Our cash balance at the end of the quarter was \$23.2 million, which includes a \$15 million draw from the revolving line of credit.

Working capital in Q1 was relatively flat with the prior quarter.

Now, let's turn to the second quarter 2019 forecast:

Our revenue guidance for the second quarter is approximately \$3.8 million, plus or minus 10%. At the midpoint, this represents sequential revenue growth of approximately 20%. Total revenue is expected to be comprised of approximately \$1.3 million of new product revenue and \$2.5 million of mature product revenue. The higher new product revenue is expected to be driven by new hearable designs that are starting to move into production, and an embedded FPGA license agreement to be executed in Q2.

On a non-GAAP basis, we expect our gross margin to be approximately 63% plus or minus 3 percent.

We are forecasting non-GAAP operating expenses at approximately \$5.1 million, plus or minus \$300 thousand. Within operating expenses, we expect our non-GAAP R&D costs to be approximately \$3.1 million and SG&A to be approximately \$2.0 million.



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After Interest expense, other income and taxes, we currently forecast our non-GAAP net loss to be approximately \$2.7 million, or \$0.03 per share.

The primary difference between our GAAP to non-GAAP results is our stock-based compensation expense, which we expect to be approximately \$750 thousand. We expect our stock-based compensation expense will remain in this mid \$700 thousand range for the foreseeable future.

Finally, in Q2, we expect to use between \$3.4 and \$3.9 million in cash. This will include a one-time payment of approximately \$300 thousand related to the pending move of our headquarters to San Jose in the second quarter. This move is expected to be net neutral to cash in fiscal 2019, and lead to a savings of approximately \$500 thousand annually starting in fiscal 2020.

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

Brian Faith – Chief Executive Officer

Thank you, Sue.

We are very encouraged by the progress we've made this year. With this progress, we believe our full year 2019 revenue will be approximately \$20 million. We also believe that with this trajectory we will be cash flow breakeven and profitable by the close of Q1 2020 on a non-GAAP basis.

Current customer forecasts project mature product sales will be about 45% of total revenue. We believe revenue from connectivity and display bridge sales will be a little over 5% of the



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total and that the balance will be fairly equally split between EOS S3 and a combination of eFPGA IP, Software inclusive of SensiML SaaS, and our AI platforms.

Based on our outlook for higher revenue from mature products, IP and software, we believe our full-year 2019 non-GAAP gross profit margin will be about 64%. This target is 13 percentage points higher than the 51% margin we reported last year and underscores the ongoing transformation of our business model and the dramatic improvement of our value proposition since 2016 when our gross profit margin was only 35%.

Over the last two years, much of our progress has been masked by the attrition of non-strategic low margin business. That attrition will continue in 2019, but with traction established in our strategic initiatives, I believe our financial progress will become more obvious.

With a solid and growing design base spread across an increasing number of customers, and a much clearer view of our near-term growth in sight, we are in the process of recruiting a VP of Sales to build on this momentum.

During the coming months, we expect our design win activity and the number of designs we are supporting with production shipments will accelerate. To the extent our customer NDAs will allow, we plan to publicly update investors on this progress. These include designs we've won in hearable devices, smartphones, consumer electronics, consumer goods and in Industrial IoT driven by our end-to-end AI solutions. You can subscribe to receive notification of these anticipated press releases and blog posts on the QuickLogic website.

Operator, I would now like to open the call for questions.



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Brian Faith – Chief Executive Officer

Post Q&A

We will be participating in several investor and industry events this quarter. A few of the highlights include:

- Oppenheimer 4th Annual Emerging Growth Conference in New York on May 14
- RISC-V Workshop in Zurich, Switzerland from June 12-14
- Silicon Summit in Santa Clara, CA on June 18 where I will be presenting and participating on a panel
- Sensors Expo and Conference in San Jose on June 26 & 27

All the events we plan to attend will be available on the Events Section of our website.

Our next conference call is scheduled for Wednesday, August 7, at 2:30 PM Pacific Time.

Thank you for your participation and continued support. Good bye!