Q1 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 First Quarter Fiscal 2023 Earnings Results Conference Call. As a reminder, today's call is being recorded for replay purposes through May 23, 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 first quarter fiscal 2023 financial results conference call.

I'd like to open today's call by sharing that, given our progress in the first part of this year, I am even more bullish about 2023 today than when we spoke during our earnings call last quarter. We now expect to grow fiscal 2023 revenue by more than 30% over fiscal 2022. During Elias' prepared remarks, you will hear us provide our highest quarterly revenue guidance in recent history. And most importantly, my confidence is high that we will achieve positive non-GAAP operating income starting in the third quarter of 2023, as well as on an annual basis.

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

Q1 was in line with our expectations provided during our fourth quarter call. We reported revenue of $4.1 million of which New Product Revenue was $3.1 million. Our results continue to be driven by our eFPGA IP-based products, including the Rad Hard program for the US Government, our continued shipments of smart connectivity and display products, and our SensiML AI Software Platform.

Looking at some of the quarter's highlights, the top-tier semiconductor company that is integrating a private label version of a SensiML-powered solution to address its own customers' demand across its broad microcontroller line of products is nearing their product launch. This private labeling of the SensiML toolkit provides significant revenue potential as a result of their large installed customer base and sales force.

Our large, Strategic Radiation Hardened FPGA contract for the US Government was our largest contributor to revenue in the quarter and we remain positive on the next steps, based upon continued successful performance of the Base Contract. The next steps are of course at the discretion of the US Government. As a reminder, this current contract is for the development of the prototype FPGA and does not include **any** of the possible device sales to the Defense Industrial Base customers. We believe this market to be several hundred million dollars in size and are intent on capturing our share of it in the coming years.

On the strength of our numerous eFPGA IP-based opportunities, our sales funnel grew to over $125 million, the largest in QuickLogic's history. Included in this number are deals for both eFPGA IP as well as bespoke, or semi-custom, device 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 small percentage of the final device ASP, 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. This could be because they lack the expertise in developing eFPGA-enabled products, or it could be that they don't have the supply chain in place to produce and test the devices for volume production. We've had this supply chain in place for decades and can monetize this value with our customers. 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 will be recognized during this current fiscal quarter. Due to confidentiality requirements, I am not allowed to 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, and we continue to believe there will be several more during this fiscal year. We did recognize revenue from this contract in Q1 and expect to recognize additional revenue throughout 2023.

Moving to chiplets. We are seeing additional customer interest in chiplet-based opportunities, and we do expect to generate some revenue this fiscal year from either design services and/or IP licensing that would fall into the chiplet category.

Moving to our mobile phone business, we expect our customers' inventory digestion to continue through at least the current quarter of this year, however we have been told that we are being designed into new models of phones that will ship well into 2024.

Finally, we are forecasting flat revenue in our Display Bridge and Mature Product segments. While both will continue to contribute to gross margin uplift, they are still being impacted by well-publicized macro-economic factors.   Fortunately, our fiscal 2023 growth is forecasted to primarily come from eFPGA IP-related design wins.

Before turning the call to Elias, I want to reiterate our revenue outlook for Q2 and the remainder of fiscal 2023. As discussed earlier in my prepared remarks, we have made significant progress in building our eFPGA IP-related and software businesses over the past two years. This groundwork has led to a diverse and growing pipeline which supports our current expectation for revenue in Q2 to be approximately $5.0 million, plus or minus 10%.

Our current forecast shows a sequential ramp in our revenue throughout the remainder of the year, making us confident we will now exceed the 30% annual revenue growth we discussed last quarter. We are also on track to report our best non-GAAP operating income in over ten years, turning the corner to profitability starting in the third quarter of this year and on an annual basis as well.

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 Q1 was in line with our expectations with revenues of $4.1 million and a non-GAAP net loss of $0.5 million, reflecting another full quarter of revenue contribution from our large $6.9 million contract for Strategic Radiation Hardened FPGA Technology. With anticipated future additions to this contract, plus growth in other commercial areas, we continue to believe we will likely get to profitability on a non-GAAP basis in each of the final two quarters of 2023, and for the fiscal year.

Let me now turn to the review of the results for the first quarter.

As I said, revenue in Q1 was $4.1 million, an increase of 1.2% compared with the fourth quarter of 2022, and an increase of 0.9% compared with the first quarter of 2022. The sustained growth is mainly due to increases in eFPGA-related revenue partially offset by a decrease in new hardware product revenue.

Within our Q1 revenue, sales of new products were approximately $3.1 million. This compares with $2.8 million last quarter (up 7.5%) and $3.5 million in the first quarter of 2022 (down 11.4%). Mature product revenue was approximately $1.1 million compared to $1.2 million last quarter and $0.6 million in Q1 last year.

Non-GAAP gross margin in Q1 was 59.7%, compared with 53.2% in the fourth quarter of 2022 and 61.5% in the first quarter of 2022. The improvement in gross margins from the fourth quarter benefited from a change in the mix of deliverables within eFPGA-related revenue.

Non-GAAP operating expenses in Q1 ’23 were approximately $2.9 million. The OpEx for Q1 was lower than our forecast due to reclassifications of certain R&D expenses to Cost of Goods. This compares to operating expenses of $2.4 million last quarter and $3.1 million in the first quarter a year ago.

Non-GAAP net loss was $0.5 million, or a loss of $0.04 cents per share, based on 13.2 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 $0.8 million, or $0.06 cents per share, in the first quarter of fiscal 2022.

Total cash at the end of Q1 was $20.9 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 Q1 2023, we had three customers that each accounted for 10% or more of our revenue.

Now moving to our guidance for the second quarter of fiscal 2023, which will end on July 2, 2023:

As Brian discussed, revenue guidance for Q2 is approximately $5.0 million, plus or minus 10%, due to the reasons he outlined. Revenue is expected to be comprised of approximately $4.0 million of new products and $1.0 million of mature products. Based on this revenue mix, non-GAAP gross margin for the quarter will be approximately 55.0%, 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 loss will be approximately $0.3 million to $0.6 million, or a net loss of $0.02 to $0.06 per share, based on roughly 13.4 million shares outstanding.

The difference between our GAAP and non-GAAP results is related to non-cash, stock-based compensation expenses. In Q2, we expect this compensation will be approximately $0.7 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, at the midpoint, we expect cash usage to continue to be below $1.0 million per 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 continued sequential improvement in revenue in the back half of the year leading to positive non-GAAP operating income.

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

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.

This is a very exciting time at QuickLogic. We are on the cusp of profitability. The business has been transformed, driven by our eFPGA IP-based products, including the Rad Hard program for the US Government, our continued shipments of smart connectivity and display products, and our SensiML AI Software Platform. QuickLogic FPGA technology is steadily extending its reach to new customers, markets, and applications. Our growing pipeline is supporting our strong conviction that we will see acceleration in our revenues starting this quarter, and sequentially in each of the remaining quarters this year, leading to non-GAAP operating income profitability for all of 2023.

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 second quarter fiscal year 2023 results in

August or at some of the conferences we are attending over the next few months including Craig Hallum on May 31st, Stifel on June 6th and Oppenheimer on August 8th and 9th.

Have a good day!