



GSI Technology

Fiscal Third Quarter 2025 Earnings Results Conference Call

January 30, 2025

CORPORATE PARTICIPANTS

Lee-Lean Shu, *Chairman, President and Chief Executive Officer*

Didier Lasserre, *Vice President, Sales*

Douglas Schirle, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Robert Christian, *Private Investor*

PRESENTATION

Operator

Welcome to GSI Technology's Third Quarter Fiscal 2025 Results Conference Call.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, we will provide instructions for those interested in entering the queue for the Q&A.

Before we begin today's call, the Company has requested that I read the following safe harbor statement. The matters discussed in this conference call may include forward-looking statements regarding future events and the future performance of GSI Technology that involve risks and uncertainties that could cause actual results to differ materially from those anticipated. These risks and uncertainties are described in the Company's Form 10-K filed with the Securities and Exchange Commission.

Additionally, I have also been asked to advise you that this conference call is being recorded today, January 30, 2025, at the request of GSI Technology. Lee-Lean Shu, the Company's Chairman, President and Chief Executive Officer, will be hosting the call today. With him are Douglas Schirle, Chief Financial Officer; and Didier Lasserre, Vice President of Sales.

I would now like to turn the conference over to Mr. Shu. Please go ahead, sir.

Lee-Lean Shu

Good afternoon, and thank you for joining us to review our third quarter fiscal 2025 financial results.

I'm pleased to report that our third quarter demonstrated meaningful progress in our financial performance and ongoing initiatives with the APU. Let me start with our financial highlights before diving into our product developments.

In the third quarter, we generated revenue of \$5.4 million, representing a 2% increase year over year and 19% sequential growth from the previous quarter. More importantly, our cost reduction initiatives have begun to bear fruit, resulting in a reduction in operating and net losses compared to the third quarter of fiscal 2024.

Looking at our SRAM business, I'm encouraged by the continued momentum in our core SRAM segment. Revenue growth this quarter in SRAM came from existing customers resuming orders as their inventory levels normalized and the growing SRAM demand from a customer for our 144 SRAM, whose systems are integral to manufacturing leading AI chips. We anticipate this customer becoming our largest SRAM customer in fiscal year 2025.

Let me share a few key developments on the APU front. So far, our APU technology is progressing steadily. We made good progress using the Gemini-II's first silicon, which had minor bugs. Fortunately, software workarounds made the chip sufficiently functional to put on a board for testing and software and library development. We will be able to deliver neural network models for our Gemini-II SBIR program with the Air Force in the March quarter based on this first silicon. We are now preparing for a second spin of Gemini-II for mass production. Didier will provide additional details on Gemini-II in his prepared comments.

In parallel, we have begun work on a new chip, Plato. Plato will be designed to address the growing market for large language models in AI applications at the edge solutions with its low power features. The chip architecture will be built on Gemini-II's architecture. We're pursuing multiple funding pathways to support this \$50 million development program, including discussions with strategic and financial partners.

Our government business continues to expand through multiple SBIR programs. We recently announced a Phase I contract with the U.S. Army, securing \$250,000. In this phase, we will explore and identify best-fit applications to develop specialized edge-computing AI solutions with Gemini-II. This will strengthen our relationships with agencies within the Department of Defense. Didier will share more details on this new win and the status of our SAR projects.

In summary, while we're encouraged by our progress, we remain dedicated to disciplined execution across all areas. Our improved operational efficiency, growing SRAM sales, and strategic initiatives in commercial and government markets position us well for sustainable growth as we continue to evaluate strategic alternatives.

With that, I'll hand it over to Didier to provide more details on our APU business opportunities and cover the third quarter sales breakdown.

Didier Lasserre

Thank you, Lee-Lean.

As Lee-Lean mentioned, Gemini-II is on track for a February tape-out and availability in May, and have a new Leda board in June. This aligns with a milestone for the Air Force's SBIR. Gemini-II enhances AI capabilities with Neural Network models, together with SAR imaging capability, to target high-value applications in the defense and aerospace markets. Meeting these milestones should put us in good shape to complete algorithm development and library building for delivery by the third quarter of calendar 2025.

Leveraging Gemini-II's architecture, we can accelerate the development of our next-generation chip, Plato, with a cost-effective, faster-to-market strategy. Plato's ultra-low-power design will target rapidly growing markets for the edge and large language model solutions.

Plato is a strategic pivot from our previous plan for developing a next-generation version of Gemini with a more economical and faster development path than the previously proposed 3D Gemini-III. The distinguishing feature of Plato, targeted for the LLM market, is that it can deliver data center performance levels using very low power, making it suitable for use at the edge. As Lee-Lean mentioned, we are in discussions with potential customers who could be initial users and may also be funding sources with an expected development timeline of 12-18 months.

I am pleased to say that our ongoing SBIR projects are on track and meeting our milestones. As a reminder, we are currently working on Phase-II contracts with the Space Development Agency and Air Force Research Labs and, most recently, announced a Phase-I contract with the US Army.

We are preparing to deliver a "YOLO" algorithm for the Air Force Research Labs in the current quarter, including the benchmarks for a real-time object detection application. As a reminder, YOLO, or You Only Look Once, are algorithms that immediately determine the exact placement of objects in an image by drawing boxes around them and identifying the type of object.

Our second SBIR with the Space Development Agency is waiting for the delivery of a Gemini-II board. As I mentioned earlier, we are on track to deliver this within the required time frame. To date, we have received 45% of the \$1.25 million contract and will receive the balance upon the board's delivery.

We are now executing the Phase I for our latest win, the US Army contract, to determine which of their ongoing projects would benefit from Gemini-II's capabilities. After Phase I, we will have the opportunity to compete for Phase-II, which could be worth up to \$2 million. The focus will be on edge computing AI solutions using Gemini-II. Our key objectives are integration feasibility assessment and AI algorithm validation for military applications. The Army is the largest of the five branches of the DOD, and with this SBIR, we are gaining exposure to this branch.

Lastly, regarding our SAR projects. There has been ongoing progress in fiscal Q3. The Asian Defense R&D organization, that we have mentioned in the past, is evaluating Gemini-II for low-power in-flight applications. We are advancing with a few more deliverables to prepare them to purchase a Gemini-II board. This organization is also a potential funding partner for Plato. Also, a U.S. aerospace company is evaluating our technology for image creation and on-board satellite applications for SAR applications.

Now, I'll move on to the customer and product breakdowns for the third quarter. In the third quarter of fiscal 2025, sales to Nokia were \$239,000, or 4.4% of net revenues, compared to \$807,000, or 15.2% of net revenues, in the same period a year ago and \$812,000, or 17.8% of net revenues in the prior quarter. Military/defense sales were 30.0% of our third quarter shipments compared to 28.2% of shipments in the comparable period a year ago and 40.2% of shipments in the prior quarter. SigmaQuad sales were 39.1% of third quarter shipments compared to 46.9% in the third quarter of fiscal 2024 and 38.6% in the prior quarter.

I'd now like to hand the call over to Doug...please go ahead, Doug.

Douglas Schirle

We reported net revenues of \$5.4 million for the third quarter of fiscal 2025, compared to \$5.3 million for the third quarter of fiscal 2024 and \$4.6 million for the second quarter of fiscal 2025. Gross margin was 54.0% in the third quarter of fiscal 2025 compared to 55.9% in the third quarter of fiscal 2024 and 38.6% in the preceding second quarter of fiscal 2025. The sequential increase in gross margin in the third quarter of fiscal 2025 was primarily due to higher revenue, product mix and severance costs associated with manufacturing workforce reductions in the prior quarter.

Total operating expenses in the third quarter of fiscal 2025 were \$7.0 million, compared to \$9.7 million in the third quarter of fiscal 2024 and \$7.3 million in the prior quarter. Research and development expenses were \$4.0 million, compared to \$7.0 million in the prior-year period and \$4.8 million in the prior quarter. Selling, general and administrative expenses were \$3.0 million in the quarter ended December 31, 2024, compared to \$2.7 million in the prior-year quarter and \$2.6 million in the previous quarter.

Third quarter fiscal 2025 operating loss was \$(4.1) million compared to an operating loss of \$(6.7) million in the prior-year period and \$(5.6) million in the prior quarter. Third quarter fiscal 2025 net loss included interest and other income of \$70,000 and a tax provision of \$44,000, compared to \$155,000 in interest and other income and a tax provision of \$71,000 for the same period a year ago. In the preceding second quarter, net loss included interest and other income of \$149,000 and a tax provision of \$23,000.

Net loss in the third quarter of fiscal 2025 was \$(4.0) million, or \$(0.16) per diluted share, compared to a net loss of \$(6.6) million, or \$(0.26) per diluted share, for the third quarter of fiscal 2024 and a net loss of \$(5.5) million, or \$(0.21) per diluted share, for the second quarter of fiscal 2025.

Total third quarter pre-tax stock-based compensation expense was \$429,000 compared to \$649,000 in the comparable quarter a year ago and \$663,000 in the prior quarter.

At December 31, 2024, the Company had \$15.1 million in cash and cash equivalents, compared to \$14.4 million at March 31, 2024. Working capital was \$17.9 million as of December 31, 2024 versus \$19.1 million at March 31, 2024. Stockholders' equity as of December 31, 2024 was \$29.9 million, compared to \$36.0 million as of the fiscal year ended March 31, 2024.

Previously, we announced that the Company had initiated a comprehensive strategic review and established a special committee of the board to evaluate various strategic alternatives. We continue to work with Needham & Company as our strategic and financial advisor to assist in this process.

Operator, at this point, we will open the call to Q&A. Operator, at this point, we will open the call to Q&A.

Operator

Thank you. We will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two to remove yourself question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Robert Christian, a private investor. Please proceed with your question.

Robert Christian

Yes. I'd like to know, is the Company utilizing AI to do its algorithms and software? Are we going to get a white paper on the benchmarks for the Gemini-II?

Didier Lasserre

The algorithms, we're actually writing ourselves with the folks that we have in our Israeli division. As far as a white paper, yes. As we mentioned, the first algorithm on Gemini-II will be the YOLO model, specifically YOLOv3. We will also be following that up with the YOLOv5, but we will be publishing benchmarks when that's done, correct.

Robert Christian

Okay. The second question I have was when Needham was brought on or it was announced back last year in May, it was to enhance the Company valuation. We're actually lower now than we were. Are they the right partner?

Douglas Schirle

We've been working with them, and they have brought us opportunities that we've been looking at, and we continue to look at opportunities. I don't know that it's fair to say that they are brought in to increase the Company's valuation. The intent was to find strategic alternatives to further grow the Company and provide investment into the Company.

Robert Christian

I was almost positive, that's what was stated in May. I could be wrong. But anyway, thank you very much.

Operator

Thank you. Again, as a reminder, if anyone has any questions, you may press star, one to join the queue.

It looks like there are no further questions. Therefore, I will turn the call back over to Lee-Lean Shu for closing remarks.

Lee-Lean Shu

Thank you all for joining us. We look forward to speaking with you again when we report our fourth quarter and the full year fiscal 2025 results. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.