



**GSI Technology, Inc.**

**Second Quarter Fiscal 2025 Results Conference Call**

**October 24, 2024**

## C O R P O R A T E P A R T I C I P A N T S

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

**Didier Lasserre**, *Vice President, Sales*

**Douglas Schirle**, *Chief Financial Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Jeffrey Bernstein**, *Silverberg Bernstein*

## P R E S E N T A T I O N

### **Operator**

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

At this time, all participants are on 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, October 24, 2024, 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 second quarter fiscal 2025 financial results.

We're starting to see a significant turnaround in our SRAM business this quarter, driven by two key factors, First, existing customers are actively depleting their channel inventories, and we anticipate they will resume orders in the upcoming quarters. Second, we've secured a new SRAM design with significant growth potential. Our long-standing partnership with a provider in the semiconductor manufacturing process is

yielding significant demand related to a new AI chip. Didier will cover this exciting development in more detail in his comments.

I want to update you on our Phase I and II SBIR contracts. We are on track to meet the deadlines for the Gemini-II benchmarking project and fulfill our SBIR contract with the U.S. Air Force Research Labs by December 31, 2024, followed by the delivery of the software algorithm in the first quarter of calendar 2025. Didier will expand further on our SBIR opportunities in his comments.

Switching now to the APU development, we remain on track to meet our milestones on Gemini-II, including the benchmarking, which will be completed by the end of this year. We are excited that we have software fixes for the bugs in the first spin of Gemini-II. This means we are much further ahead on the Gemini-II software development and library building at this stage than we were with Gemini-I.

Lastly, on the APU roadmap, we are in the early stages of hardware development of a potential edge APU for use with LLMs, which we named Plato. On our third-quarter earnings conference call, I will provide a more detailed plan for this product and its potential applications. However, I want to ensure stakeholders now that we have a roadmap beyond Gemini-I and -II for the APU that we can execute given the Company's resources.

In previous calls, I discussed our SAR opportunities. Two companies are currently using the APU for SAR applications, and both projects are progressing well. Didier will give an update on the current status of these engagements.

For the fiscal second quarter, we reported revenue of \$4.6 million, in line with our guidance. Our gross margin was under pressure this quarter due to the mix of products and non-recurring severance costs related to workforce reductions in manufacturing.

During the quarter, we introduced strategic cost-cutting measures to extend our financial runway and capitalize on our immediate and long-term opportunities. These actions, including workforce reductions across all departments and enhanced operational efficiencies, are projected to generate annualized savings of about \$3.5 million. We expect this restructuring initiative and an improved SRAM revenue outlook to reduce our cash burn significantly.

Now, I'll hand the call over to Didier, who will discuss our business performance further.

Please go ahead, Didier.

**Didier Lasserre**

Thank you, Lee-Lean.

Let me start with the new SRAM opportunity that Lee-Lean mentioned earlier. This customer's system is now used to manufacture a leading AI chip developer's top-selling chip and their newly released chip.

Volume shipments of our 144M SRAM to this customer began at the start of calendar 2024, coinciding with an increase in the forecast for its product used in the AI chip that is coming online. Demand for their product has been rising alongside the rapidly growing need for the top-selling and newly launched chips from the leading AI chipmaker, fueled by the growth in high-performance computing hardware. Looking ahead, we anticipate even greater demand due to indications for a newly released chip requiring a higher capacity of this manufacturing product for this next-generation chip production needs.

Interest in this new AI chip has been exceptional, as leading tech companies compete to deliver the best hardware for their large language model platforms. We expect our collaboration with this customer to drive sustained demand for our SRAM chips. This customer is now positioned to become our number one customer in the near future.

In addition, we have two other large existing customers that have worked through excess inventory and we anticipate this will increase SRAM orders in future quarters.

Let me switch to a recap of our SBIR work. We are still working through the milestones on the two SBIRs that were previously granted; as a reminder, these were for \$1.25M and \$1.1M, respectively.

For the \$1.1M grant, we aim to deliver a YOLO3 and YOLO5 model within four months that can be used for any real-time object detection application. If you are unfamiliar with the acronym “YOLO,” it stands for “You Only Look Once.” YOLO models are real-time object detection algorithms that immediately determine where objects are (by drawing boxes around them) and what those objects are (by identifying their types) in an image.

We are still in contract negotiations on the SBIR we were awarded last quarter by a new, large division of the DoD for an edge board application. We hope to finalize that within the next month and begin working on the project deliverables before calendar year-end.

Before I move on to the customer and product breakdown, I want to expand on the SAR opportunities that Lee-Lean mentioned. GSI is engaged with two customers on SAR edge applications that have completed evaluations with Gemini-I. Recently, both have begun evaluating Gemini-II.

Our ongoing SAR engagement with an Asian defense research and development organization is transitioning from evaluating Gemini-I to a Gemini-II-L, which is a low-power version of Gemini-II. This is intended for an in-flight application using SAR image generation. The project using Gemini-II-L has specific applications that better align with the lower power profile needed for this flight application.

Another customer, a US aerospace company specializing in SAR technology, is investigating the possibility of using Gemini-II on a satellite for SAR applications. The company recently requested new benchmarks for a more complex application, which we are in the process of executing.

As Lee-Lean mentioned, we are using the lessons learned from that experience to advance our timeline for Gemini-II. In both cases, we successfully used Gemini-I to demonstrate our SAR capabilities, which paved the way for Gemini-II to be evaluated for use as a real-time edge device for its applications. We are also leveraging SBIR opportunities, including ones that we have won, to help fund the further development of Gemini-II and Plato.

Let me switch now to customer and product breakdowns for the second quarter. In the second quarter of fiscal 2025, sales to Nokia were \$812,000, or 17.8% of net revenues, compared to \$1.2 million, or 20.3% of net revenues, in the same period a year ago and \$998,000, or 21.4% of net revenues in the prior quarter. Military/defense sales were 40.2% of second quarter shipments compared to 34.8% of shipments in the comparable period a year ago and 31.9% of shipments in the prior quarter. SigmaQuad sales were 38.6% of second quarter shipments compared to 55.8% in the second quarter of fiscal 2024 and 36.3% 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 \$4.6 million for the second quarter of fiscal 2025, compared to \$5.7 million for the second quarter of fiscal 2024 and \$4.7 million for the first quarter of fiscal 2025.

Gross margin was 38.6% in the second quarter of fiscal 2025 compared to 54.7% in the second quarter of fiscal 2024 and 46.3% in the preceding first quarter of fiscal 2025. The decrease in gross margin in the second quarter of 2025 was primarily due to a shift in product mix and non-recurring severance costs associated with manufacturing workforce reductions.

Total operating expenses in the second quarter of fiscal 2025 were \$7.3 million, compared to \$7.2 million in the second quarter of fiscal 2024 and \$1.1 million in the prior quarter. Prior quarter operating expenses included a gain of \$5.7 million related to the sale and leaseback of the Company's headquarters. Research and development expenses were \$4.8 million, compared to \$4.7 million in the prior-year period and \$4.2 million in the prior quarter. Selling, general and administrative expenses were \$2.6 million in the quarter ended September 30, 2024, compared to \$2.5 million in the prior-year quarter and \$2.6 million in the previous quarter.

Second quarter fiscal 2025 operating loss was \$(5.6) million compared to an operating loss of \$(4.1) million in the prior-year period and operating income of \$1.1 million in the prior quarter. Second quarter fiscal 2025 net income included interest and other income of \$149,000 and a tax provision of \$23,000, compared to \$71,000 in interest and other income and a tax provision of \$33,000 for the same period a year ago. In the preceding first quarter, net loss included interest and other income of \$55,000 and a tax provision of \$57,000.

Net loss in the second quarter of fiscal 2025 was \$(5.4) million, or \$(0.21) per diluted share, compared to a net loss of \$(4.1) million, or \$(0.16) per diluted share, for the second quarter of fiscal 2024 and net income of \$1.1 million, or \$0.04 per diluted share, inclusive a one-time gain of \$5.7 million on the sale and leaseback transaction related to the sale of the Company's headquarters, for the first quarter of fiscal 2025.

Total second quarter pre-tax stock-based compensation expense was \$663,000 compared to \$676,000 in the comparable quarter a year ago and \$658,000 in the prior quarter.

At September 30, 2024, the Company had \$18.4 million in cash and cash equivalents, compared to \$14.4 million at March 31, 2024. Working capital was \$21.1 million as of September 30, 2024 versus \$19.1 million at March 31, 2024. Stockholders' equity as of September 30, 2024 was \$33.3 million, compared to \$36.0 million as of the fiscal year ended March 31, 2024.

On a prior earnings call this year, 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**

Thank you. At this time, we'll 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 if you'd like to remove your 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 Jeff Bernstein with Silverberg Bernstein. Please proceed with your question.

## **Jeffrey Bernstein**

Hi. Good afternoon. Question on the SRAM opportunity, are you saying that's for semi equipment wafer fabrication equipment customer, or is there semi test equipment customer?

## **Didier Lasserre**

Along those lines, yes, we don't want to give too much detail because right now, we don't want to name our customer. It's been a customer we have had for many years, but they have never been a 10% customer. We haven't identified them specifically. That will certainly change in the quarters coming up, because they will exceed that.

**Jeffrey Bernstein**

Got it. Okay. But it's associated with manufacturing. Okay. Then just on the various APUs now. There was a mention of something called Plato. Is that like a low-power version of Gemini-II, or what's Plato and what's the L that you referred to, the low-power Gemini-II?

**Didier Lasserre**

Sure. We have Gemini, as you know, Gemini-II L is a derivative of Gemini-II. It's not a new design. It's just a way that we can configure the die to make it work with one core or two core. If you recall, our Gemini-II, in fact, Gemini-I for that matter, have four cores. It's a way for us to limit what's working inside the chip, and so people can use a smaller variable of the device, which in turn, gives them a very low power part. The Gemini-II L is just a derivative of our existing Gemini-II.

Plato, however, is a new design. It's going after a different market. It's going after the LLM market specifically on the edge. It will be very low power as well. If you are familiar with the LLM market today, some of the folks going after are going after with very, very large GPUs that require water cooling, what have you. In this case, this is more for edge LLMs, and it will be a low-power solution.

**Jeffrey Bernstein**

Got it. That's for inference?

**Didier Lasserre**

Yes, correct.

**Jeffrey Bernstein**

Got it. Okay. That's great. Thanks. I will let somebody else.

**Operator**

As a reminder, if you'd like to ask a question, please press star one on your telephone keypad. One moment, please, while we poll for questions.

There were no further questions. At this time, I would like to turn the call back over to Management for any closing comments.

**Lee-Lean Shu**

Thank you all for joining us. We look forward to speaking with you again when we report our third quarter fiscal 2025 results.

**Operator**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.