

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): August 10, 2022

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

Oregon
(State or other jurisdiction
of incorporation)

000-30269
(Commission File Number)

91-1761992
(I.R.S. Employer
Identification No.)

16760 SW Upper Boones Ferry Rd., Suite 101
Portland, OR 97224
(503) 601-4545
(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	PXLW	The Nasdaq Global Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On August 10, 2022, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and six month periods ended June 30, 2022 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued August 10, 2022 is furnished herewith as Exhibit 99.1, to this Report and a copy of the Company's conference call script announcing these financial results is furnished herewith as Exhibit 99.2. The information in this Item 2.02, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that Section, nor shall such information be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press Release issued by Pixelworks, Inc. dated August 10, 2022.
99.2	Pixelworks, Inc. Second Quarter Results Conference Call Script dated August 10, 2022.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PIXELWORKS, INC.
(Registrant)

Dated: August 10, 2022

/s/ Haley F. Aman

Haley F. Aman
Chief Financial Officer



Pixelworks Reports Second Quarter 2022 Financial Results

*Mobile Revenue Increased 68% Year-over-Year to New Quarterly Record and 40% of Total Revenue;
Projector Revenue Increased 12% Year-over-Year*

PORTLAND, Ore., August 10, 2022 – Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of innovative video and display processing solutions, today announced financial results for the second quarter ended June 30, 2022.

Second Quarter and Recent Highlights

- Total revenue increased 15% sequentially and 36% year-over-year, driven by double-digit growth in both mobile and projector end markets
- Mobile revenue increased 33% sequentially and expanded to 40% of total revenue, driven by another consecutive quarter of record sales of hardware-based visual processor solutions for smartphones
- OPPO affiliate, realme, launched the realme GT2 Explorer Master, the first smartphone to incorporate Pixelworks' X7 visual processor, featuring ultra-low latency MotionEngine® and low power super-resolution technology
- Pixelworks' Rendering Accelerator SDK incorporated by ByteDance's game studio Nuverse and CMGE Group into *One Piece Fighting Path*, the industry's first game leveraging ecosystem collaboration to achieve optimized visual performance for high frame rate mobile gaming
- vivo S15 Pro smartphone launched with Pixelworks' X5 Plus visual processor to elevate visual quality for superior gaming performance, including the introduction of new user-customizable game display filters
- ASUS launched the ROG Phone 6 series integrating Pixelworks' advanced visual processing technology, including industry-leading HDR, professional color calibration, DC Dimming and superior eye-comfort
- Lightstorm and Pixelworks partner in multi-title license agreement for TrueCut Motion™ platform, enabling remastered versions of *Avatar* and *Titanic* to be released in cinematic high frame rate

"Second quarter revenue increased sequentially and grew 36% year-over-year, marking another consecutive quarter of strong double-digit growth and highlighted by record quarterly revenue in our mobile business," stated Todd DeBonis, President and CEO of Pixelworks. "We also experienced sustained customer demand outside of mobile, with revenue in our Projector business reaching the highest quarterly level in more than two years."

"Complementing our strong topline results, we continue to achieve notable milestones on our strategic initiatives to cultivate synergistic ecosystems for both our mobile and TrueCut Motion solutions. During the quarter, we expanded Pixelworks' collaborative engagements in mobile gaming, including our first-ever partnership with an industry-leading gaming studio to optimize their latest release of *One Piece Fighting Path* for high-efficiency 120 fps gaming on mobile devices. This was followed by the launch of the realme GT2 Explorer Master Edition, the first announced smartphone to incorporate our ground-breaking X7 visual processor, featuring Pixelworks' proprietary ultra-low latency MotionEngine® and low power super-resolution technology. Additionally, we announced in partnership with Lightstorm that our TrueCut Motion platform is being used to remaster two iconic films, *Avatar* and *Titanic*, in high frame rate for theatrical release later this year."

"Acknowledging the broadly accepted uncertainty related to the current macroeconomic environment, including global consumer demand and evolving supply chain dynamics, we continue to see exceptional customer interest and expanding market opportunities for Pixelworks' leading-edge video and motion processing solutions."

Second Quarter Fiscal 2022 Financial Results

Revenue in the second quarter of 2022 was \$19.1 million, compared to \$16.6 million in the first quarter of 2022 and \$14.1 million in the second quarter of 2021. The sequential and year-over-year increase in second quarter revenue reflected strong growth and record revenue in the mobile market, combined with a sustained recovery of demand in the projector market.

On a GAAP basis, gross profit margin in the second quarter of 2022 was 49.0%, compared to 52.7% in the first quarter of 2022 and 50.6% in the second quarter of 2021. Second quarter 2022 GAAP operating expenses were \$14.5 million, compared to \$12.6 million in the first quarter of 2022 and \$11.6 million in the year-ago quarter.

On a non-GAAP basis, second quarter 2022 gross profit margin was 49.3%, compared to 53.2% in the first quarter of 2022 and 52.7% in the year-ago quarter. Second quarter 2022 non-GAAP operating expenses were \$12.9 million, compared to \$11.6 million in the first quarter of 2022 and \$10.1 million in the year-ago quarter.

For the second quarter of 2022, the Company recorded a GAAP net loss of \$5.0 million, or (\$0.09) per share, compared to a GAAP net loss of \$4.6 million, or (\$0.09) per share, in the first quarter of 2022, and a GAAP net loss of \$4.4 million, or (\$0.08) per share, in the year-ago quarter. Note, the Company refers to "net loss attributable to Pixelworks Inc." as "net loss".

For the second quarter of 2022, the Company recorded a non-GAAP net loss of \$3.3 million, or (\$0.06) per share, compared to a non-GAAP net loss of \$3.5 million, or (\$0.06) per share, in the first quarter of 2022, and a non-GAAP net loss of \$2.6 million, or (\$0.05) per share, in the second quarter of 2021.

Adjusted EBITDA in the second quarter of 2022 was a negative \$2.4 million, compared to a negative \$2.2 million in the first quarter of 2022 and a negative \$1.8 million in the year-ago quarter.

Cash and cash equivalents at the end of the second quarter of 2022 were \$49.6 million, compared to \$55.2 million at the end of the first quarter of 2022.

Business Outlook

The Company's current business outlook, including guidance for the third quarter of 2022, will be provided as part of the scheduled conference call.

Conference Call Information

Pixelworks will host a conference call today, August 10, 2022, at 2:00 p.m. Pacific Time. To join the conference call via phone, participants are required to complete the following registration form to receive a dial-in number and dedicated PIN for accessing the conference call. Additionally, a live and archived audio webcast of the conference call will be accessible via the investors section of Pixelworks' website at www.pixelworks.com.

About Pixelworks, Inc.

Pixelworks provides industry-leading content creation, video delivery and display processing solutions and technology that enable highly authentic viewing experiences with superior visual quality, across all screens – from cinema to smartphone and beyond. The Company has a 20-year history of delivering image processing innovation to leading providers of consumer electronics, professional displays, and video streaming services. For more information, please visit the company's web site at www.pixelworks.com.

Note: Pixelworks, the Pixelworks logo and TrueCut Motion are trademarks of Pixelworks, Inc.

Non-GAAP Financial Measures

This earnings release makes reference to non-GAAP gross profit margins, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share, which exclude amortization of acquired intangible assets and stock-based compensation expense which are required under GAAP as well as the tax effect of the non-GAAP adjustments and the impact of non-GAAP adjustments to redeemable non-controlling interest. The press release also makes reference to and reconciles GAAP net loss and adjusted EBITDA, which Pixelworks defines as GAAP net loss attributable to Pixelworks Inc. before interest income and other, net, income tax provision (benefit), depreciation and amortization, as well as the specific items listed above.

Pixelworks management uses these non-GAAP financial measures internally to understand, manage and evaluate the business and establish its operational goals, review its operations on a period-to-period basis, for compensation evaluations, to measure performance, and for budgeting and resource allocation. Pixelworks management believes it is useful for the Company and investors to review, as applicable, both GAAP information and non-GAAP financial measures to help assess the performance of Pixelworks' continuing business and to evaluate Pixelworks' future prospects. These non-GAAP measures, when reviewed together with the GAAP financial information, provide additional transparency and information for comparison and analysis of operating performance and trends. These non-GAAP measures exclude certain items to facilitate management's review of the comparability of our core operating results on a period-to-period basis.

Because the Company's non-GAAP financial measures are not calculated in accordance with GAAP, they may not necessarily be comparable to similarly titled measures employed by other companies. These non-GAAP financial measures should not be considered in isolation or as a substitute for the comparable GAAP measures and should be read only in conjunction with the Company's consolidated financial results as presented in accordance with GAAP. A reconciliation between GAAP and non-GAAP financial measures is included in this earnings release which is available in the investor relations section of the Pixelworks' website.

Safe Harbor Statement

This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements may be identified by use of terms such as "begin," "continue," "will," "expect," "believe," "anticipate" and similar terms or the negative of such terms, and include, without limitation, statements about the Company's businesses, including market movement and demand, the momentum of our mobile growth strategy, efforts to expand partnerships and adoption rates, bookings, and supply allocation. All statements other than statements of historical fact are forward-looking statements for purposes of this release, including any projections of revenue or other financial items or any statements regarding the plans and objectives of management for future operations. Such statements are based on management's current expectations, estimates and projections about the Company's business. These statements are not guarantees of future performance and involve numerous risks, uncertainties and assumptions that are difficult to predict. Actual results could vary materially from those contained in forward looking statements due to many factors, including, without limitation: our ability to execute on our strategy; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; the success of our products in expanding markets; current global economic challenges; changes in the digital display and projection markets; seasonality in the consumer electronics market; lack of adoption of our TrueCut Motion platform; our efforts to achieve profitability from operations; our limited financial resources; our ability to attract and retain key personnel; and the impact of the COVID-19 pandemic on our business and on our suppliers and customers. More information regarding potential factors that could affect the Company's financial results and could cause actual results to differ materially from those discussed in the forward-looking statements is included from time to time in the Company's Securities and Exchange Commission filings, including its Annual Report on Form 10-K for the year ended December 31, 2021, as well as subsequent SEC filings.

The forward-looking statements contained in this release are as of the date of this release, and the Company does not undertake any obligation to update any such statements, whether as a result of new information, future events or otherwise.

The forward-looking statements contained in this release are as of the date of this release, and the Company does not undertake any obligation to update any such statements, whether as a result of new information, future events or otherwise.

[Financial Tables Follow]

PIXELWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Revenue, net	\$ 19,078	\$ 16,628	\$ 14,051	\$ 35,706	\$ 23,321
Cost of revenue (1)	9,730	7,865	6,940	17,595	12,485
Gross profit	9,348	8,763	7,111	18,111	10,836
Operating expenses:					
Research and development (2)	8,521	7,160	6,671	15,681	13,456
Selling, general and administrative (3)	6,024	5,484	4,896	11,508	9,750
Total operating expenses	14,545	12,644	11,567	27,189	23,206
Loss from operations	(5,197)	(3,881)	(4,456)	(9,078)	(12,370)
Interest income and other, net	101	162	181	263	237
Total other income, net	101	162	181	263	237
Loss before income taxes	(5,096)	(3,719)	(4,275)	(8,815)	(12,133)
Provision (benefit) for income taxes	(88)	403	107	315	324
Net loss	(5,008)	(4,122)	(4,382)	(9,130)	(12,457)
Less: Net income attributable to redeemable non-controlling interest	—	(470)	—	(470)	—
Net loss attributable to Pixelworks Inc.	<u>\$ (5,008)</u>	<u>\$ (4,592)</u>	<u>\$ (4,382)</u>	<u>\$ (9,600)</u>	<u>\$ (12,457)</u>
Net loss attributable to Pixelworks Inc. per share - basic and diluted	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>	<u>\$ (0.08)</u>	<u>\$ (0.18)</u>	<u>\$ (0.24)</u>
Weighted average shares outstanding - basic and diluted	<u>54,120</u>	<u>53,680</u>	<u>52,283</u>	<u>53,901</u>	<u>51,980</u>
(1) Includes:					
Stock-based compensation	59	8	76	67	155
Amortization of acquired intangible assets	—	72	218	72	463
(2) Includes stock-based compensation	647	583	610	1,230	1,191
(3) Includes:					
Stock-based compensation	989	458	820	1,447	1,592
Amortization of acquired intangible assets	—	18	53	18	113

PIXELWORKS, INC.
RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL INFORMATION *
(In thousands, except per share data)
(Unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 9,348	\$ 8,763	\$ 7,111	\$ 18,111	\$ 10,836
Stock-based compensation	59	8	76	67	155
Amortization of acquired intangible assets	—	72	218	72	463
Total reconciling items included in gross profit	59	80	294	139	618
Non-GAAP gross profit	<u>\$ 9,407</u>	<u>\$ 8,843</u>	<u>\$ 7,405</u>	<u>\$ 18,250</u>	<u>\$ 11,454</u>
Non-GAAP gross profit margin	<u>49.3 %</u>	<u>53.2 %</u>	<u>52.7 %</u>	<u>51.1 %</u>	<u>49.1 %</u>
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 14,545	\$ 12,644	\$ 11,567	\$ 27,189	\$ 23,206
Reconciling item included in research and development:					
Stock-based compensation	647	583	610	1,230	1,191
Reconciling items included in selling, general and administrative:					
Stock-based compensation	989	458	820	1,447	1,592
Amortization of acquired intangible assets	—	18	53	18	113
Total reconciling items included in operating expenses	1,636	1,059	1,483	2,695	2,896
Non-GAAP operating expenses	<u>\$ 12,909</u>	<u>\$ 11,585</u>	<u>\$ 10,084</u>	<u>\$ 24,494</u>	<u>\$ 20,310</u>
Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.					
GAAP net loss attributable to Pixelworks Inc.	\$ (5,008)	\$ (4,592)	\$ (4,382)	\$ (9,600)	\$ (12,457)
Reconciling items included in gross profit	59	80	294	139	618
Reconciling items included in operating expenses	1,636	1,059	1,483	2,695	2,896
Tax effect of non-GAAP adjustments	(1)	(3)	4	(4)	(16)
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (3,314)</u>	<u>\$ (3,456)</u>	<u>\$ (2,601)</u>	<u>\$ (6,770)</u>	<u>\$ (8,959)</u>
Non-GAAP net loss attributable to Pixelworks Inc. per share - basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>	<u>\$ (0.17)</u>
Non-GAAP weighted average shares outstanding - basic and diluted	<u>54,120</u>	<u>53,680</u>	<u>52,283</u>	<u>53,901</u>	<u>51,980</u>

*Set forth above are reconciliations of the non-GAAP financial measure to the most directly comparable GAAP financial measure. The non-GAAP financial measure disclosed by the company has limitations and should not be considered a substitute for, or superior to, the financial measure prepared in accordance with GAAP, and the reconciliations from GAAP to Non-GAAP actuals should be carefully evaluated. Please refer to "Non-GAAP Financial Measures" in this document for an explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures, and the reasons why management believes the non-GAAP measures provide useful information for investors.

PIXELWORKS, INC.
RECONCILIATION OF GAAP AND NON-GAAP EARNINGS PER SHARE
(Figures may not sum due to rounding)
(Unaudited)

	Three Months Ended						Six Months Ended					
	June 30, 2022		March 31, 2022		June 30, 2021		June 30, 2022		June 30, 2021			
	Dollars per share		Dollars per share		Dollars per share		Dollars per share		Dollars per share		Dollars per share	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.												
GAAP net loss attributable to Pixelworks Inc.	\$ (0.09)	\$ (0.09)	\$ (0.09)	\$ (0.09)	\$ (0.08)	\$ (0.08)	\$ (0.18)	\$ (0.18)	\$ (0.24)	\$ (0.24)		
Reconciling items included in gross profit	—	—	—	—	0.01	0.01	—	—	0.01	0.01		
Reconciling items included in operating expenses	0.03	0.03	0.02	0.02	0.03	0.03	0.05	0.05	0.06	0.06		
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>	<u>\$ (0.13)</u>	<u>\$ (0.17)</u>	<u>\$ (0.17)</u>		

*Set forth above are reconciliations of the non-GAAP financial measure to the most directly comparable GAAP financial measure. The non-GAAP financial measure disclosed by the company has limitations and should not be considered a substitute for, or superior to, the financial measure prepared in accordance with GAAP, and the reconciliations from GAAP to Non-GAAP actuals should be carefully evaluated. Please refer to "Non-GAAP Financial Measures" in this document for an explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures, and the reasons why management believes the non-GAAP measures provide useful information for investors.

PIXELWORKS, INC.
RECONCILIATION OF GAAP AND NON-GAAP GROSS PROFIT MARGIN *
(Figures may not sum due to rounding)
(Unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Reconciliation of GAAP and non-GAAP gross profit margin					
GAAP gross profit margin	49.0 %	52.7 %	50.6 %	50.7 %	46.5 %
Stock-based compensation	0.3	—	0.5	0.2	0.7
Amortization of acquired intangible assets	—	0.4	1.6	0.2	2.0
Total reconciling items included in gross profit	0.3	0.5	2.1	0.4	2.6
Non-GAAP gross profit margin	49.3 %	53.2 %	52.7 %	51.1 %	49.1 %

*Set forth above are reconciliations of the non-GAAP financial measure to the most directly comparable GAAP financial measure. The non-GAAP financial measure disclosed by the company has limitations and should not be considered a substitute for, or superior to, the financial measure prepared in accordance with GAAP, and the reconciliations from GAAP to Non-GAAP actuals should be carefully evaluated. Please refer to "Non-GAAP Financial Measures" in this document for an explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures, and the reasons why management believes the non-GAAP measures provide useful information for investors.

PIXELWORKS, INC.
RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL INFORMATION *
(In thousands)
(Unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Reconciliation of GAAP net loss attributable to Pixelworks Inc. and adjusted EBITDA					
GAAP net loss attributable to Pixelworks Inc.	\$ (5,008)	\$ (4,592)	\$ (4,382)	\$ (9,600)	\$ (12,457)
Stock-based compensation	1,695	1,049	1,506	2,744	2,938
Tax effect of non-GAAP adjustments	(1)	(3)	4	(4)	(16)
Amortization of acquired intangible assets	—	90	271	90	576
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (3,314)	\$ (3,456)	\$ (2,601)	\$ (6,770)	\$ (8,959)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,126	\$ 1,040	\$ 906	\$ 2,166	\$ 1,922
Non-GAAP interest income and other, net	(101)	(162)	(181)	(263)	(237)
Non-GAAP provision (benefit) for income taxes	(87)	406	103	319	340
Adjusted EBITDA	<u>\$ (2,376)</u>	<u>\$ (2,172)</u>	<u>\$ (1,773)</u>	<u>\$ (4,548)</u>	<u>\$ (6,934)</u>

*Set forth above are reconciliations of the non-GAAP financial measure to the most directly comparable GAAP financial measure. The non-GAAP financial measure disclosed by the company has limitations and should not be considered a substitute for, or superior to, the financial measure prepared in accordance with GAAP, and the reconciliations from GAAP to Non-GAAP actuals should be carefully evaluated. Please refer to "Non-GAAP Financial Measures" in this document for an explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures, and the reasons why management believes the non-GAAP measures provide useful information for investors

PIXELWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49,568	\$ 61,587
Accounts receivable, net	12,431	8,708
Inventories	2,198	1,469
Prepaid expenses and other current assets	2,023	2,732
Total current assets	66,220	74,496
Property and equipment, net	4,850	5,656
Operating lease right of use assets	3,565	4,789
Other assets, net	3,745	3,162
Acquired intangible assets, net	—	90
Goodwill	18,407	18,407
Total assets	\$ 96,787	\$ 106,600
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,581	\$ 2,747
Accrued liabilities and current portion of long-term liabilities	10,573	13,563
Current portion of income taxes payable	181	128
Total current liabilities	14,335	16,438
Long-term liabilities, net of current portion	380	519
Deposit liability	12,371	12,716
Operating lease liabilities, net of current portion	2,039	2,853
Income taxes payable, net of current portion	2,705	2,948
Total liabilities	31,830	35,474
Redeemable non-controlling interest	29,859	30,905
Shareholders' equity	35,098	40,221
Total liabilities, redeemable non-controlling interest and shareholders' equity	\$ 96,787	\$ 106,600

Contacts:

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**Pixelworks, Inc. Q2 2022 Conference Call
August 10, 2022**

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s second quarter 2022 earnings conference call. I will be your operator for today's call. At this time, all participants are in a listen-only mode. Following Management's prepared remarks, instructions will be given for the question-and-answer session. This conference call is being recorded for replay purposes. I would now like to turn the call over to Brett Perry of Shelton Group Investor Relations.

Brett Perry

Thank you. Good afternoon and thank you for joining today's call. With me on the call is Pixelworks President and CEO, Todd DeBonis, and Chief Financial Officer, Haley Aman. The purpose of today's conference call is to supplement the information provided in Pixelworks' press release issued earlier today announcing the company's financial results for the second quarter of 2022.

Before we begin, I would like to remind you that various remarks we make on this call, including those about our projected future financial results, economic and market trends and our competitive position constitute forward-looking statements. These forward-looking statements and all other statements made on this call that are not historical facts are subject to a number of risks and uncertainties that may cause actual results to differ materially.

All forward-looking statements are based on the Company's beliefs as of today, Wednesday, August 10, 2022. The Company undertakes no obligation to update any such statements to reflect events or circumstances occurring after today. Please refer to today's press release, our annual report on Form 10-K for the year ended December 31, 2021, and subsequent SEC filings for a description of factors that could cause forward-looking statements to differ materially from actual results.

Additionally, the Company's press release and management statements during this conference call will include discussions of certain measures and financial information in GAAP and non-GAAP terms, including gross margin, operating expenses, net loss, and net loss per share. Non-GAAP measures exclude amortization of acquired intangible assets and stock-based compensation expense.

The Company uses these non-GAAP measures internally to assess our operating performance. We believe these non-GAAP measures provide a meaningful perspective on our core operating results and underlying cash flow dynamics. We caution investors to consider these measures in addition to, and not as a substitute for nor superior to, the Company's consolidated financial results as presented in accordance with GAAP.

Also note, throughout the Company's press release and management statements during this conference, we refer to net loss attributable to Pixelworks, Inc. as simply net loss. For additional details and reconciliations of GAAP to non-GAAP net loss and GAAP net loss to adjusted EBITDA, please refer to the Company's press release issued earlier today.

With that, it's my pleasure to turn the call over to Todd for his opening remarks.

Todd DeBonis

Thanks, Brett, and good afternoon to everyone joining us on today's call.

As reported in today's press release, we had a very solid quarter. Second quarter revenue increased sequentially and grew 36% year-over-year, marking another consecutive quarter of strong double-digit topline growth. Revenue in our mobile business increased to a new quarterly record, and our Projector business reflected the highest quarterly revenue in more than two years. Looking at the first half of the year, total revenue grew more than 50% year-over-year, and we realized a nearly 30% improvement in our adjusted bottom-line results compared to the first half of 2021.

I also want to highlight that we achieved these results with most of our employees at our Pixelworks Shanghai subsidiary as well as multiple key customers being impacted by COVID-related lockdowns for a significant portion of the second quarter. Despite the associated challenges, our team did an excellent job remaining productive and continuing to advance our initiatives as well as fully supporting our customers. As of today, all our offices throughout the region are open and employees are back to conducting business as usual.

Turning to updates on our primary end markets. As previously mentioned, we had a record quarter in our Mobile business, with revenue increasing 33% sequentially and 68% year-over-year. Mobile also expanded to represent nearly 40% of total revenue in the second quarter, with both the revenue and growth driven predominantly by sales of our visual processor hardware.

A key factor underpinning our continued growth has been mobile gaming, which has increasingly become a cornerstone for smartphone OEMs, both in terms of how they spec phone performance and their associated marketing strategies. This influence of mobile gaming on OEMs is especially prevalent for premium models targeting consumers in China and broadly across Asia. As outlined on previous calls, we have embraced this market trend and continue to extend the differentiated value proposition that Pixelworks' visual processing solutions enable for low power, high frame rate mobile gaming. This strategic focus and our traction to-date is observable in the marketing campaigns of our mobile OEM customers and their newly launched smartphones, which are increasingly positioned around the advanced visual quality, low power performance and features for gaming that Pixelworks' technology enables.

To briefly highlight a few of the mobile wins launched since our last conference call. First, in May vivo launched its S15 Pro smartphone incorporating our X5 Plus visual processor. Built on MediaTek's latest Dimensity 8100 flagship-light 5G mobile platform, vivo positioned its S15 Pro smartphone as delivering premium display performance for mobile gaming. The S15 Pro features a 6.56-inch FHD+ POLED curved screen with 2K resolution, and supports refresh rates of up to 120 Hz, 100% DCI-P3 wide color gamut and peak brightness of 1500 nits. Unique to this smartphone and in addition to High Frame Rate gaming, Pixelworks worked closely with the design team at vivo to incorporate a series of newly customizable game display filters that enable optimal visual performance on several of the most popular mobile games in China.

In July, our longtime mobile customer ASUS launched the ROG Phone 6 series smartphone, incorporating our advanced visual processing, including Pixelworks' industry-leading HDR, professional color calibration, DC Dimming and superior eye-comfort. Built on the latest Qualcomm Snapdragon® 8+ Gen 1 mobile platform, the ROG Phone 6 series smartphone features a 6.78-inch AMOLED screen with resolution of 2448x1080 pixels and supports refresh rates of up to 165 Hz. In addition to setting a new benchmark with its ultra-high refresh rate, the smartphone model sold in China is being offered in collaboration with Tencent Games, a division of Tencent, and is optimized to provide uniquely vibrant colors, greater contrast, and even more visual detail for Tencent's gaming content.

As discussed last quarter, earlier this year Pixelworks became a Unity verified solutions partner, or VSP, making our high frame rate rendering accelerator SDK available to leading mobile game developers and studios through Unity's gaming engine platform. This represented an important step in our strategy to establish a mutually beneficial ecosystem and encourage expanded collaboration across the mobile gaming industry. In June, we took the next step with the announcement of Pixelworks' first direct engagement with a major gaming studio, Niverse, a ByteDance company, who we collaborated with to integrate our rendering accelerator SDK into one of the more popular mobile games in China, *One Piece Fighting Path*. This is the first-ever mobile game to leverage our ecosystem collaboration between a gaming content provider and the mobile gaming device itself. This well publicized joint effort served as an important example for other prospective ecosystem partners to emulate. In recent months, we have expanded our pipeline of committed and prospective engagements with a growing number of gaming studios to integrate our SDK in additional games scheduled for release later this year and early 2023.

Building upon our ecosystem partnerships with both Unity and ByteDance, in July OPPO's affiliate brand realme unveiled the GT2 Explorer Master, becoming the first smartphone launched with our latest generation X7 visual processor. Also based on Qualcomm's newest Snapdragon® 8+ Gen 1 mobile platform, the phone has a 6.7-inch flexible AMOLED panel with 2K resolution and supports a refresh rate of up to 120Hz. In addition to benefiting from the full suite of features offered in our new X7 processor, including our ultra-low latency MotionEngine, low power super-resolution technology and our proven AI based adaptive display functions. Pixelworks' rendering accelerator SDK was specifically designed to leverage the unique advanced capabilities built into our X7 chip. When utilized together for playing games such as *One Piece Fighting Path* on a realme GT2 Explorer Master smartphone, it allows frame rate output to be increased by up to 4x the native rendering frame rate, while maintaining much lower power consumption. These previously contrasting performance benefits provided by the combination of our X7 processor and SDK are truly ground-breaking for high frame rate mobile gaming.

We are engaged with several additional customers that are currently in late-stage design-in and/or evaluations of our X7 visual processor for next-generation models. Due in part to the impact of the COVID-related China lockdowns on OEMs' overall design and decision processes as well as some shifts in OEMs' schedules for new product introductions, these near-term engagements are now likely to materialize in the fourth quarter and into early 2023. Despite the current macroeconomic uncertainty and well documented decline in consumer end demand for smartphones, especially mid-range phones in China,

we are continuing to see strong interest in our X7 visual processor from mobile OEMs. Highlighting this point - the X7 is our first Visual Processor being evaluated by all 4 Tier one mobile OEMs in China at introduction.

Turning to an update on TrueCut, which many of you have been closely following as we continue to grow the ecosystem around our TrueCut Motion platform. For those who are new to what TrueCut is about – TrueCut Motion is a technology platform that Pixelworks developed in-house over multiple years, specifically designed to solve the inherent and broadly acknowledged challenges associated with motion resulting from how and where content is created and viewed. As the industry's first and only end-to-end platform solution for motion grading, TrueCut also ensures the content creator's original intended motion look and feel is consistently delivered regardless of the screen on which it's viewed.

As discussed on previous conference calls, commercializing the full potential of the TrueCut Motion platform requires acceptance and buy-in from ecosystem partners across three primary domains: content creation, content distribution, and device manufacturers. Early this year, TCL became the first foundational ecosystem partner on the device side, and then in April we announced Pixelogic as a Certified Services Partner for providing TrueCut Motion post-production services. The consistent feedback we received from other interested device and streaming ecosystem partners, going back more than a year, was that the content creators needed to get behind the technology first. Following a longstanding informal engagement, in July we announced a multi-title license agreement with James Cameron's Lightstorm Entertainment. As part of this latest ecosystem milestone, Pixelworks' TrueCut Motion platform is being used to remaster both Avatar and Titanic in cinematic high frame rate 4K/HDR for theatrical release. Notably, these respective titles rank as having the #1 and #3 highest grossing global box office sales of all time, which together with James Cameron's public endorsement we expect to significantly elevate awareness and interest for the TrueCut Motion platform.

We cannot comment on what comes next specific to these two theatrical releases with Lightstorm, however I can highlight our prevailing thesis related to broader content distribution in general. A large portion of the TVs currently in people's living rooms, and effectively all new TVs from manufacturers like TCL, have a dramatically higher luminance than what you would experience in a movie theater. This increased brightness, when combined with HDR and larger screen sizes, further accentuates motion issues such as strobing, judder and de-blur – all of which the TrueCut motion platform solves without the viewer having to adjust any settings on their TV. Therefore, the value proposition absolutely extends beyond the theater and into every living room, which we believe is one of the primary opportunities to monetize our TrueCut Motion platform technology.

Shifting to our Projector business, revenue increased 20% sequentially and 12% year-over-year, reflecting the highest quarterly revenue in more than two years. The post-pandemic recovery in end market demand has continued to exceed our customer's ability to source supply of various projector components, including timing controllers and panels. Due to the longer lead times for other key components, order patterns for our projector SoCs have remained very healthy as projector OEMs work to backfill end demand as well as build certain levels of buffer inventory of all critical components.

While we have largely been successful at securing the requisite supply each quarter to meet customer demand for our projector SoCs, available capacity has continued to be extremely tight. As of today, we are effectively fully booked through the end of the year in our projector business.

To summarize, we delivered another quarter of strong topline growth. Although a large portion of our team and customers were subject to lockdowns for multiple months, we were able to grow revenue in the first half of 2022 by more than 50% year-over-year. We have also continued to execute on our strategic initiatives, including the cultivation of expanded synergistic ecosystems that further support our anticipated long-term growth of both the mobile business and TrueCut Motion platform and over the last six months, we have achieved a series of notable milestones. Additionally, we continue to make progress on preparing our Pixelworks Shanghai subsidiary for a local listing in China. We have taken the necessary steps to convert to a joint stock corporation, which we expect to complete in the next couple of months. For the next step we will apply to begin what the CRSC calls the 'tutoring' period, which is a key prerequisite for submitting the subsidiary's application for a new listing. More broadly related to the second half of the year, there's obviously increased uncertainty with respect to the macroeconomic environment and consumer end demand. With that said, we feel good about our pipeline of new and expanding opportunities, and I'm confident that we have a very sound strategy in place to achieve our intermediate- and long-term growth objectives. Regardless of the prevailing environment, as we've done in the past, we will remain focused on execution and the variables we can control.

With that, I'll hand the call to Haley to review the financials and provide our guidance for the third quarter.

Haley Aman

Thank you, Todd.

Revenue for the second quarter of 2022 was \$19.1 million, up 15% from \$16.6 million in the first quarter of 2022, and represented an increase of 36% from \$14.1 million in the second quarter of 2021. Our strong top-line results were driven by a combination of another record quarter in our mobile business and the highest quarterly revenue in Projector since before the pandemic began.

The breakdown of revenue in the second quarter was as follows:

- Revenue from Mobile increased sequentially and year-over-year to approximately \$7.5 million, which represented nearly 40% of total revenue in the second quarter of 2022.
- Revenue from Digital Projector was approximately \$9.5 million, increasing 20% sequentially and up 12% year-over-year, reflecting the sustained recovery of both end market demand and order patterns from projector customers.
- Video Delivery revenue was approximately \$2.1 million in the second quarter.

Non-GAAP gross profit margin was 49.3% in the second quarter of 2022, compared to 53.2% in the first quarter of 2022, and compared to 52.7% in the second quarter of 2021. As anticipated, gross margin in the second quarter reflected the results of expected product mix.

Non-GAAP operating expenses were \$12.9 million in the second quarter compared to \$11.6 million last quarter and \$10.1 million in the second quarter of 2021.

On a non-GAAP basis, second quarter 2022 net loss was \$3.3 million, or a loss of (\$0.06) cents per share, compared to a net loss of \$3.5 million, or a loss of (\$0.06) cents per share, in the prior quarter, and a net loss of \$2.6 million, or a loss of (\$0.05) cents per share, in the second quarter of 2021.

Adjusted EBITDA for the second quarter of 2022 was a negative \$2.4 million, compared to a negative \$2.2 million in the first quarter of 2022 and a negative \$1.8 million in the second quarter of 2021.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents of \$49.6 million.

Shifting to our current expectations and guidance for the third quarter of 2022.

We anticipate third quarter total revenue to be in a range of between \$16.0 million and \$19.0 million. At the midpoint of this range, total revenue would represent growth of 15% year-over-year.

Non-GAAP gross margin in the third quarter is expected to be between 49.0% and 51.0%.

We expect operating expenses in the third quarter to range between \$12.0 million and \$13.0 million on a non-GAAP basis.

Lastly, we expect third quarter non-GAAP EPS to be in a range of between a loss of (\$0.09) cents per share and a loss of (\$0.05) cents per share.

That completes our prepared remarks, and we look forward to taking a few of your questions. Operator, please proceed with the Q&A session. Thank you.