

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): February 8, 2024

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 February 8, 2024, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and twelve month periods ended December 31, 2023 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 February 8, 2024 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 February 8, 2024.
99.2	Pixelworks, Inc. Fourth Quarter Results Conference Call Script dated February 8, 2024
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: February 8, 2024

/s/ Haley F. Aman

Haley F. Aman
Chief Financial Officer



Pixelworks Reports Fourth Quarter 2023 Financial Results

Total Revenue for the Fourth Quarter Increased 25% Sequentially and 19% Year-over-Year

Record Quarterly Mobile Revenue Increased 44% Sequentially and More Than 200% Year-over-Year

Full Year Mobile Revenue Grew 33% to a Record \$30 million

PORTLAND, Ore., February 8, 2024 – Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of innovative video and display processing solutions, today announced financial results for the fourth quarter and fiscal year ended December 31, 2023.

Fourth Quarter and Recent Highlights

- Total revenue increased 25% sequentially, driven by record mobile revenue
- Mobile revenue increased 44% sequentially to a record \$11.9 million, driven by customers' newly launched IRX-certified smartphones
- Recently announced multi-year agreement with Walt Disney Studios to bring initial collection of TrueCut Motion™ graded titles to select home entertainment devices through the Disney+ streaming service
- Universal Pictures released Matthew Vaughn's newest film, *Argylle*, to select premium theaters globally in TrueCut Motion format, featuring Pixelworks' cinematic high frame rate technology
- OPPO affiliate, OnePlus, launched its OnePlus 12 and OnePlus 12 global version, both incorporating Pixelworks' X7 visual processor and end-to-end IRX image rendering accelerator solution, delivering unmatched visual performance for mobile gaming globally
- Pixelworks X7 Gen 2 visual processor featuring AI-based High Efficiency Super-Resolution (HESR) technology, debuted in OnePlus Ace 3 smartphone, enabling both 120fps and 1.5K super resolution with lower power
- HONOR 90 GT smartphone launched featuring Pixelworks' advanced X5 Plus visual processor and MotionEngine® technology to enable cinematic video quality and ultra-smooth mobile gaming

"Our fourth quarter results marked a strong finish to the year, which was highlighted by the continued momentum and significant growth of our mobile business," stated Todd DeBonis, President and CEO of Pixelworks. "Mobile revenue increased to a record for the quarter and the full year, representing more than half of total revenue. We also expanded fourth quarter gross margin by 170 basis points sequentially and delivered significant improvement in our bottom-line results.

"Our growth initiatives across our mobile business, along with TrueCut Motion have continued to gain increasing traction and generate tangible results. In mobile, smartphone customers and mobile gaming studios have embraced our IRX-branded gaming experience and certification program, as well as the visual performance benefits this end-to-end solution provides to the mobile gaming ecosystem. We also achieved a significant commercial milestone for our TrueCut Motion platform with the recent adoption of our cinematic high frame rate technology by two of the largest studios, Walt Disney and Universal Pictures. We believe this early commercial validation of TrueCut Motion by these respected leaders in entertainment will pave the way for expanded adoption, as filmmakers and studios increasingly seek to deliver a premium, high frame rate experience to audiences in theaters and at home.

“Looking ahead, we are entering 2024 with strong momentum across our visual processing solutions and IRX certification program in mobile, coupled with initial studio adoption of our TrueCut Motion platform. We expect to achieve another year of accelerated growth in mobile, driven by a combination of increased unit volumes and new product introductions. Complementing our anticipated growth, we are driving continued gross margin expansion as part of an established path to achieve quarterly non-GAAP profitability in the second half of the year.”

Fourth Quarter and Fiscal Year 2023 Financial Results

Revenue in the fourth quarter of 2023 was \$20.1 million, compared to \$16.0 million in the third quarter of 2023 and \$16.9 million in the fourth quarter of 2022. The sequential and year-over-year increase in fourth quarter revenue was driven by continued growth and record revenue contribution from Pixelworks’ mobile business. For the full year 2023, total revenue was \$59.7 million compared to \$70.1 million in 2022. The year-over-year decrease reflected lower revenue contribution from the Company’s home and enterprise business, which was partly offset by strong growth and record revenue in the mobile business.

On a GAAP basis, gross profit margin in the fourth quarter of 2023 was 44.7%, compared to 42.9% in the third quarter of 2023 and 53.1% in the fourth quarter of 2022. GAAP gross profit margin for the full year 2023 was 43.1% compared to 51.2% in the prior year. Fourth quarter 2023 GAAP operating expenses were \$13.1 million, compared to \$14.5 million in the third quarter of 2023 and \$12.0 million in the year-ago quarter. For the full year 2023, GAAP operating expenses were \$54.3 million compared to \$52.7 million in the prior year.

On a non-GAAP basis, fourth quarter 2023 gross profit margin was 44.8%, compared to 43.1% in the third quarter of 2023 and 53.3% in the year-ago quarter. Non-GAAP gross profit margin for the full year 2023 was 43.2% compared to 51.3% in the prior year. Fourth quarter 2023 non-GAAP operating expenses were \$12.0 million, compared to \$13.3 million in the third quarter of 2023 and \$10.8 million in the year-ago quarter. Non-GAAP operating expenses for the full year 2023 were \$49.6 million compared to \$47.5 million in the prior year.

For the fourth quarter of 2023, the Company recorded a GAAP net loss of \$3.7 million, or (\$0.07) per share, compared to a GAAP net loss of \$7.0 million, or (\$0.12) per share, in the third quarter of 2023, and a GAAP net loss of \$1.9 million, or (\$0.04) per share, in the year-ago quarter. GAAP net loss for the full year 2023 was \$26.2 million, or (\$0.47) per share, compared to a net loss of \$16.0 million, or (\$0.30) per share, in the prior year. Note, the Company refers to “net loss attributable to Pixelworks, Inc.” as “net loss”.

For the fourth quarter of 2023, the Company recorded a non-GAAP net loss of \$2.6 million, or (\$0.05) per share, compared to a non-GAAP net loss of \$5.7 million, or (\$0.10) per share, in the third quarter of 2023, and a non-GAAP net loss of \$0.8 million, or (\$0.01) per share, in the fourth quarter of 2022. For the full year 2023, non-GAAP net loss was \$21.4 million, or (\$0.38) per share, compared to a non-GAAP net loss of \$10.7 million, or (\$0.20) per share, in the prior year.

Adjusted EBITDA in the fourth quarter of 2023 was a negative \$1.9 million, compared to a negative \$5.0 million in the third quarter of 2023 and a negative \$1.0 million in the year-ago quarter. For the full year 2023, adjusted EBITDA was a negative \$18.8 million compared to negative \$7.7 million in the prior year.

Cash and cash equivalents at the end of the fourth quarter of 2023 were \$47.5 million, compared to \$50.3 million at the end of the third quarter of 2023 and \$56.8 million at the end of the fourth quarter of 2022.

Business Outlook

The Company’s current business outlook, including guidance for the first quarter of 2024, will be discussed as part of the scheduled conference call.

Conference Call Information

Pixelworks will host a conference call today, February 8, 2024, 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, MotionEngine, TrueCut Motion and the Pixelworks logo 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. 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 expected adoption rates, increased volumes, new product introductions, gross margin expansion, and achievement of quarterly breakeven results. 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: the actual adoption rate of our TrueCut Motion technology or of high frame rate content by the motion picture and streaming video industries; the actual performance of the motion picture and streaming video industries; the actual performance of the smartphone market throughout 2024; 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; our efforts to achieve profitability from operations; our limited financial resources; and our ability to attract and retain key personnel. 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, 2022, 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.

[Financial Tables Follow]

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

	Three Months Ended			Twelve Months Ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Revenue, net	\$ 20,074	\$ 16,032	\$ 16,888	\$ 59,677	\$ 70,146
Cost of revenue (1)	11,098	9,150	7,914	33,968	34,265
Gross profit	8,976	6,882	8,974	25,709	35,881
Operating expenses:					
Research and development (2)	6,953	8,752	6,395	30,878	30,521
Selling, general and administrative (3)	6,151	5,776	5,587	23,467	22,177
Total operating expenses	13,104	14,528	11,982	54,345	52,698
Loss from operations	(4,128)	(7,646)	(3,008)	(28,636)	(16,817)
Interest income and other, net	435	471	272	2,050	700
Loss before income taxes	(3,693)	(7,175)	(2,736)	(26,586)	(16,117)
Provision (benefit) for income taxes	39	158	(1,129)	357	(884)
Net loss	(3,732)	(7,333)	(1,607)	(26,943)	(15,233)
Less: Net (income) loss attributable to non-controlling interests and redeemable non-controlling interests	(12)	334	(327)	767	(797)
Net loss attributable to Pixelworks Inc.	\$ (3,744)	\$ (6,999)	\$ (1,934)	\$ (26,176)	\$ (16,030)
Net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.07)	\$ (0.12)	\$ (0.04)	\$ (0.47)	\$ (0.30)
Weighted average shares outstanding - basic and diluted	56,895	56,410	54,974	56,163	54,335
(1) Includes:					
Stock-based compensation	22	21	21	89	41
Amortization of acquired intangible assets	—	—	—	—	72
(2) Includes stock-based compensation	396	452	556	1,866	2,351
(3) Includes:					
Stock-based compensation	701	779	583	2,841	2,806
Amortization of acquired intangible assets	—	—	—	—	18

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

	Three Months Ended			Twelve Months Ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 8,976	\$ 6,882	\$ 8,974	\$ 25,709	\$ 35,881
Stock-based compensation	22	21	21	89	41
Amortization of acquired intangible assets	—	—	—	—	72
Total reconciling items included in gross profit	22	21	21	89	113
Non-GAAP gross profit	\$ 8,998	\$ 6,903	\$ 8,995	\$ 25,798	\$ 35,994
Non-GAAP gross profit margin	44.8 %	43.1 %	53.3 %	43.2 %	51.3 %
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 13,104	\$ 14,528	\$ 11,982	\$ 54,345	\$ 52,698
Reconciling item included in research and development:					
Stock-based compensation	396	452	556	1,866	2,351
Reconciling items included in selling, general and administrative:					
Stock-based compensation	701	779	583	2,841	2,806
Amortization of acquired intangible assets	—	—	—	—	18
Total reconciling items included in operating expenses	1,097	1,231	1,139	4,707	5,175
Non-GAAP operating expenses	\$ 12,007	\$ 13,297	\$ 10,843	\$ 49,638	\$ 47,523
Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.					
GAAP net loss attributable to Pixelworks Inc.	\$ (3,744)	\$ (6,999)	\$ (1,934)	\$ (26,176)	\$ (16,030)
Reconciling items included in gross profit	22	21	21	89	113
Reconciling items included in operating expenses	1,097	1,231	1,139	4,707	5,175
Tax effect of non-GAAP adjustments	—	—	3	—	—
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (2,625)	\$ (5,747)	\$ (771)	\$ (21,380)	\$ (10,742)
Non-GAAP net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.05)	\$ (0.10)	\$ (0.01)	\$ (0.38)	\$ (0.20)
Non-GAAP weighted average shares outstanding - basic and diluted	56,895	56,410	54,974	56,163	54,335

*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						Twelve Months Ended			
	December 31, 2023		September 30, 2023		December 31, 2022		December 31, 2023		December 31, 2022	
	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
Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.										
GAAP net loss attributable to Pixelworks Inc.	\$ (0.07)	\$ (0.07)	\$ (0.12)	\$ (0.12)	\$ (0.04)	\$ (0.04)	\$ (0.47)	\$ (0.47)	\$ (0.30)	\$ (0.30)
Reconciling items included in gross profit	—	—	—	—	—	—	—	—	—	—
Reconciling items included in operating expenses	0.02	0.02	0.02	0.02	0.02	0.02	0.08	0.08	0.10	0.10
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (0.05)</u>	<u>\$ (0.05)</u>	<u>\$ (0.10)</u>	<u>\$ (0.10)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.38)</u>	<u>\$ (0.38)</u>	<u>\$ (0.20)</u>	<u>\$ (0.20)</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			Twelve Months Ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Reconciliation of GAAP and non-GAAP gross profit margin					
GAAP gross profit margin	44.7 %	42.9 %	53.1 %	43.1 %	51.2 %
Stock-based compensation	0.1	0.1	0.1	0.1	0.1
Amortization of acquired intangible assets	—	—	—	—	0.1
Total reconciling items included in gross profit	0.1	0.1	0.1	0.1	0.2
Non-GAAP gross profit margin	<u>44.8 %</u>	<u>43.1 %</u>	<u>53.3 %</u>	<u>43.2 %</u>	<u>51.3 %</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 FINANCIAL INFORMATION *
(In thousands)
(Unaudited)

	Three Months Ended			Twelve Months Ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Reconciliation of GAAP net loss attributable to Pixelworks Inc. and adjusted EBITDA					
GAAP net loss attributable to Pixelworks Inc.	\$ (3,744)	\$ (6,999)	\$ (1,934)	\$ (26,176)	\$ (16,030)
Stock-based compensation	1,119	1,252	1,160	4,796	5,198
Tax effect of non-GAAP adjustments	—	—	3	—	—
Amortization of acquired intangible assets	—	—	—	—	90
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (2,625)	\$ (5,747)	\$ (771)	\$ (21,380)	\$ (10,742)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,076	\$ 1,053	\$ 1,167	\$ 4,287	\$ 4,657
Non-GAAP interest income and other, net	(435)	(471)	(272)	(2,050)	(700)
Non-GAAP provision (benefit) for income taxes	39	158	(1,132)	357	(884)
Adjusted EBITDA	\$ (1,945)	\$ (5,007)	\$ (1,008)	\$ (18,786)	\$ (7,669)

*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)

	December 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,544	\$ 56,821
Accounts receivable, net	10,075	10,047
Inventories	3,968	1,760
Prepaid expenses and other current assets	3,138	3,745
Total current assets	64,725	72,373
Property and equipment, net	5,997	4,632
Operating lease right of use assets	4,725	3,331
Other assets, net	2,115	3,580
Goodwill	18,407	18,407
Total assets	\$ 95,969	\$ 102,323
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,416	\$ 3,143
Accrued liabilities and current portion of long-term liabilities	9,692	8,849
Current portion of income taxes payable	189	519
Total current liabilities	12,297	12,511
Long-term liabilities, net of current portion	1,373	1,005
Deposit liability	13,781	13,537
Operating lease liabilities, net of current portion	2,567	2,148
Income taxes payable, net of current portion	939	872
Total liabilities	30,957	30,073
Redeemable non-controlling interest	28,214	28,919
Total Pixelworks, Inc. shareholders' equity	12,541	32,422
Non-controlling interest	24,257	10,909
Total shareholders' equity	36,798	43,331
Total liabilities, redeemable non-controlling interest and shareholders' equity	\$ 95,969	\$ 102,323

Contacts:

Investor Contact

Shelton Group

Brett Perry

P: +1-214-272-0070

E: bperry@sheltongroup.com

Company Contact

Pixelworks, Inc.

Haley Aman

P: +1-503-601-4540

E: haman@pixelworks.com

Pixelworks, Inc. 4Q 2023 Conference Call
Thursday, February 8, 2024

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s fourth quarter 2023 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 with Shelton Group Investor Relations.

Brett Perry

Good afternoon and thank you for joining today's call. With me on the call are 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 fourth quarter of 2023.

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, Thursday, February 8, 2024. 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, the Company's annual report on Form 10-K for the year ended December 31, 2022, 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 as well as the tax effect of the non-GAAP adjustments.

The Company uses these non-GAAP measures internally to assess its 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, I will now turn the call over to Pixelworks' CEO, Todd DeBonis, for his opening remarks.

Todd DeBonis

Thank you, Brett. Good afternoon and welcome to everyone joining us on the phone and webcast.

Jumping right in, our fourth quarter results marked a strong finish to the year, which was highlighted by the continued momentum and significant growth of our mobile business. Total revenue for the quarter increased 25% sequentially and was up 19% year-over-year. Mobile revenue reached a new quarterly record, increasing 44% sequentially and growing more than 200% year-over-year.

In addition to strong top-line growth, gross margin expanded for the second consecutive quarter as we continued to execute on certain cost-related initiatives, while also driving increased sales of newer products with higher ASPs and better margin profiles. We expect this gross margin expansion to continue in 2024, as we introduce and ramp shipments of additional higher-value processors and Truecut services and licensing.

As previously mentioned, the highlight of the past year was the breakout performance of our Mobile business, with revenue for the second half of 2023 growing more than 100% year-over-year. For the full year, mobile revenue grew 33% to a record \$30 million, expanding to represent more than half of total revenue.

Underpinning our momentum in mobile, against a challenging market backdrop for consumer semiconductors, is the differentiated display performance enabled by our visual processing technology. With this superior visual experience being

especially prevalent for mobile gaming, we formally introduced Pixelworks' IRX-branded gaming experience and certification program. IRX, which stands for Image Rendering Xcelerator, represents an end-to-end ecosystem solution that has been quickly embraced by leading gaming engine companies, including Unity and Unreal, as well as top gaming studios, including Nuvser, Tencent, NetEase and Perfect World. To date, there are 8 IRX certified games by these leading game studios that integrate our SDK solution. Additionally, our current generation mobile visual processors have been individually tuned to optimize the visual performance on another 30 mobile games that have not yet integrated our SDK. IRX certified games integrating our SDK deliver unparalleled visual quality, enabling a truly immersive gaming experience, while also saving overall system power and providing for longer battery life. The most recent game, Earth: Revival, was announced earlier this week and we expect to see a significant number of both new IRX certified games incorporating our SDK as well as IRX tuned games released over the coming year.

Complementing our engagement with mobile game developers is our expanding product portfolio of IRX-capable mobile visual processors, which are designed to leverage our rendering accelerator SDK integrated into IRX games. Following the formal introduction of our latest mobile visual processor in October, in early January the OnePlus Ace 3 smartphone became the first device launched incorporating our X7 Gen 2. The X7 Gen 2 is the first to feature our internally developed – AI-based High Efficiency Super-Resolution technology. This enables exceptional picture quality with simultaneous operation of up to 144fps and 1.5K resolution for immersive mobile gaming while also maintaining lower power consumption.

For the next phase of our growth, we continue to focus on expanding to global model adoption of our visual processing solutions within our existing tier-one handset customers. Our past design wins and the growth of our mobile business have historically been in customers' flagship and premium smartphone models sold domestically within China. Following the December launch of the OnePlus 12 in China, the global version of the OnePlus 12 was launched in January, becoming the first flagship international model to incorporate both our X7 visual processor and IRX certification. Launching a model into multiple international markets while marketing the benefits of IRX and the X7 visual processor in local languages around the world is no easy feat. We believe that this model launch represents a definable moment in our next leg of growth.

While these expansion efforts have been focused on our four existing tier-one customers, we also expect an initial program win with a new first-time volume mobile OEM later this year. To the extent we are successful in securing additional international models and expanding our customer base we believe that both will contribute incremental unit volumes, accelerate the ecosystem development and accelerate our mobile growth.

Specific to our expectations for mobile in 2024, we are targeting annual revenue growth of 50% driven by a combination of increased unit volumes and a favorable mix of newer visual processors with higher ASPs. This growth also takes into consideration the recent ecosystem traction and momentum of our IRX-based solutions, resulting in an increasing pipeline of design-ins.

Turning to our TrueCut Motion platform, which we are now just beginning to commercialize following years of technology development and evangelism within the Hollywood technical community. Given the recent news and subsequent inbound questions, I want to briefly reiterate what TrueCut is and what this technology platform enables. TrueCut Motion is both a first-of-its-kind, end-to-end solution for the creation of cinematic high frame rate content, as well as a delivery platform. It enables filmmakers to fine-tune or "motion grade" the motion look of cinematic content, shot-by-shot, while also eliminating motion playback artifacts, all as part of a standard post-production workflow. This can be done with both new release titles and the remastered re-release of existing titles. The TrueCut Motion delivery platform precisely captures the content creator's intended cinematic look and feel, in the source, and through device certification, ensures consistent delivery and appearance across all screens – from premium large format theaters to any premium home entertainment screen.

As articulated on previous conference calls, establishing the foundational end-to-end ecosystem for TrueCut Motion requires bringing together content creation and content distribution – first theatrical and then to home entertainment devices in order to deliver a truly cinematic high frame experience to consumers. Our announced partnership with Lightstorm Entertainment and the endorsement of James Cameron was a major turning point. This led to TrueCut motion grading being used in the theatrical re-releases of both the original "Avatar" and "Titanic" as well as Disney's global theatrical release of James Cameron's "Avatar: The Way of Water". All of which were released to theaters in 4K HDR and 3D, featuring cinematic high frame rate for which Pixelworks was credited.

The global box office success of these three titles was an important first step. Not only did it validate the commercial viability of our TrueCut Motion technology with millions of global consumers in theaters, but it also ushered in broader industry acceptance and started a pivot toward more cinematic high frame rate content.

In 2023, we focused on the next element of the ecosystem development -- to formalize engagements with global home entertainment partners. We've now secured our first such ecosystem partner, with our recently announced multi-year agreement with Walt Disney Studios to bring a collection of TrueCut Motion graded titles to select home entertainment

devices. Initially available for streaming via the Disney+ app and in the Apple TV store will be two of the three previously mentioned titles, which for the first time can be experienced exactly as James Cameron brought to theaters, but now in the home on the recently launched Apple Vision Pro.

Separately, last week we announced Matthew Vaughn's newest film "Argylle" would be released to select premium theatrical screens worldwide in TrueCut Motion's cinematic high frame rate format. Argylle was produced by Apple Original Films in association with MARV and released in theaters globally by Universal Studios.

With the support of multiple filmmakers and leading studios for TrueCut Motion, showing in both premium theaters and the home, consumers will get to truly experience the joy of immersive cinematic high frame rate content. We believe this is only the beginning, and you can expect additional announcements of new titles and ecosystem partners as we progress throughout the year.

Shifting to an update on our Home and Enterprise business, which largely consists of visual processor SoCs for the 3LCD digital projector market. Revenue from Home and Enterprise increased sequentially in the fourth quarter and was in line with our expectations. More generally, the market dynamics throughout 2023 reflected a prolonged period of inventory adjustment by projector OEMs. Although end demand for digital projectors appears to have stabilized, most of our projector customers are still in various stages of realigning their business following previous component supply imbalances.

Regarding our multi-year co-development project with our largest projector customer, we successfully taped out this next generation SoC in the fourth quarter. Achieving this final development milestone allowed us to recognize an anticipated R&D credit, which reduced our reported OpEx in the quarter. We'll be delivering production samples to the customer in the first quarter, and this new SoC will go into volume production in the second half of the year.

Overall, we anticipate the projector market to reflect further normalization of customer and channel inventories over the next few quarters, contributing to roughly flat year-over-year revenue from home and enterprise revenue in 2024. However, additional takeaways include that this continues to be a high-margin, profitable and cash generating business for Pixelworks. In addition, we believe our new co-developed chip will increase our market share in the 3LCD projector market over the next several years.

Shifting gears, I want to briefly comment on the status with respect to our Pixelworks Shanghai subsidiary, especially for new investors and those new to our story. As part of a now completed multi-year effort, we have reorganized our existing business operations and employees in China, Japan, Canada and some in the US into a independent P&L center with the end goal of the subsidiary pursuing a public listing on the STAR market in China. As discussed on our previous conference call, the filing of an application for listing requires suitable market conditions in China, which we continue to monitor together with our advisors. Today, we are and will remain fully prepared to move forward with a local listing when we believe market conditions in China are supportive.

In closing, over time we believe 2023 will prove to have been the pivotal year for Pixelworks and our growth trajectory. I would like to specifically acknowledge our team's solid execution on our strategic growth initiatives, including the building of two influential ecosystems that will become the foundation of our Mobile and TrueCut businesses. Exiting 2023, I believe the company is well poised and better positioned than any time in my tenure as CEO, and we continue to build a strong a capable team.

Collectively, these factors have cleared a path to profitability. Which looks to be achievable this year and accelerating in 2025. We believe both of these objectives are within reach. We have entered 2024 with strong momentum across our mobile visual processing solutions and IRX certification program, coupled with the recently secured commercial engagements with two major Hollywood studios for our TrueCut Motion platform.

Specific to mobile, we expect to achieve another year of accelerated growth, driven by a combination of increased unit volumes and the continued ramp of new product introductions. As previously communicated, we do anticipate revenue contribution from TrueCut Motion in 2024, however the size of contribution will be lumpy as we progress throughout the year. Additionally, our current base case assumes that home and enterprise will be roughly flat in 2024. Also fundamental to achieving non-GAAP profitability in the back half of this year will be our continued expansion of corporate gross margins, and tightly managing OpEx while still adequately funding our existing growth initiatives.

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

Haley Aman

Thank you, Todd.

Revenue for the fourth quarter of 2023 increased 25% sequentially to \$20.1 million, from \$16.0 million in the third quarter, and increased 19% from \$16.9 million in the fourth quarter of 2022. As Todd previously highlighted, the sequential and year-over-year increase in fourth quarter revenue was primarily driven by continued strong growth in Mobile.

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

- Revenue from Mobile increased 44% sequentially to approximately \$11.9 million, which was a quarterly record and a record 59% of total revenue.
- Home and Enterprise revenue was approximately \$8.2 million.

Third quarter non-GAAP gross profit margin expanded 170 basis points sequentially to 44.8%, from 43.1% in the third quarter of 2023, and compared to 53.3% in the fourth quarter of 2022. As discussed in recent quarters, we expect to continue to drive gross margin expansion by passing through an increased portion of previously incurred higher material costs to customers, as well as improving manufacturing cost efficiencies with our suppliers. We anticipate further benefits to gross margin from a combination of incremental sales of new products with higher margins as well as increased overhead absorption.

Non-GAAP operating expenses were \$12.0 million in the fourth quarter, compared to \$13.3 million in the prior quarter and \$10.8 million in the fourth quarter of 2022. During the fourth quarter we completed the last scheduled milestone related to our co-development agreement with our largest projector customer, resulting in a final credit of \$1.3 million to R&D. Excluding the credit, fourth quarter operating expenses would have been effectively flat compared to the prior quarter.

On a non-GAAP basis, fourth quarter 2023 net loss was \$2.6 million, or a loss of (\$0.05) cents per share, compared to a net loss of \$5.7 million, or a loss of (\$0.10) cents per share, in the prior quarter, and a net loss of \$0.8 million, or a loss of (\$0.01) cents per share, in the year ago fourth quarter.

Adjusted EBITDA for the fourth quarter of 2023 was a negative \$1.9 million, compared to a negative \$5.0 million in the third quarter and a negative \$1.0 million in the fourth quarter of 2022.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents of \$47.5 million.

Shifting to our current expectations and guidance for the first quarter of 2024.

As a reminder, our first quarter results typically reflect seasonality in both the mobile market and the home and enterprise market. Recent order patterns and our current backlog are consistent with this seasonality, and we expect total revenue for the first quarter to be in a range of between \$15.0 million and \$17.0 million. In addition to this guidance reflecting normal seasonality, I want to highlight that at the midpoint of this range, total revenue for the first quarter would represent year-over-year growth of approximately 60%.

In terms of gross profit margin, as discussed in my earlier remarks, we expect to drive continued gross margin expansion in the current quarter and throughout the year. Specific to the first quarter, we anticipate non-GAAP gross profit margin to increase by more than 600 basis points sequentially and be between 51% and 53%. The expected sequential increase in first quarter gross margin primarily reflects increased shipments of our newest generation mobile visual processor, which has a higher margin profile compared to prior generation mobile chips.

We expect operating expenses in the first quarter to range between \$12.5 million and \$13.5 million on a non-GAAP basis. As a reminder operating expenses in the fourth quarter had the benefit of the final milestone credit related to our co-development project, and we do not expect additional credits associated with this project going forward.

Lastly, we expect first quarter non-GAAP EPS to range between a loss of (\$0.10) cents per share and a loss of (\$0.06) cent per share.

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