

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 7, 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 August 7, 2024, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and six month periods ended June 30, 2024 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 7, 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 August 7, 2024.
99.2	Pixelworks, Inc. Second Quarter Results Conference Call Script dated August 7, 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: August 7, 2024

/s/ Haley F. Aman

Haley F. Aman
Chief Financial Officer



Pixelworks Reports Second Quarter 2024 Financial Results

PORTLAND, Ore., August 7, 2024 – 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, 2024.

Second Quarter and Recent Highlights

- OPPO affiliate, OnePlus, launched the OnePlus Ace 3 Pro smartphone, incorporating Pixelworks' X7 Gen 2 visual processor featuring AI-based distributed computing architecture and enhanced rendering capability
- Announced collaboration with Tencent's TiMi Studio group and the integration of Pixelworks' IRX rendering acceleration technology in the Honor of Kings mobile game
- Collaborated with Season Games to optimize visual processing and bring detailed 120fps display effects to JX3 Ultimate Mobile, making it the latest mobile game to leverage IRX certified rendering acceleration
- Implemented reduction in workforce to better align operating expense with near-term revenue levels, anticipated to contribute approximately \$4.0 million of annualized savings beginning in the third quarter

"Second quarter revenue was at the midpoint guidance and largely reflected the expected headwinds in our mobile business, primarily related to the inventory correction at a large mobile OEM customer," stated Todd DeBonis, President and CEO of Pixelworks. "In response and to better align expenses with near-term revenue levels, we implemented cost reduction actions during the quarter, which are anticipated to result in \$4 million of annualized cost saving beginning in the third quarter of 2024.

"During the quarter, we made continued progress on the expansion of our IRX gaming ecosystem. Our recent announced collaborations with Tencent on Honor of Kings and Season Games on JX3 Ultimate Mobile represent the latest additions to the growing list of IRX certified mobile games. Coupled with one of Pixelworks' X-series of visual processors, our IRX rendering accelerator technology enables PC-quality visual performance on a smartphone without generating excessive heat or battery consumption. Growing this ecosystem remains a fundamental element of our multi-pronged mobile strategy to drive broader adoption of our mobile visual processors, and we currently engaged with multiple top gaming studios to release several additional high-profile IRX mobile games later this year.

"Looking ahead, we are confronting the recent challenges head-on while remaining focused on strategic and operational execution across all areas of the business. We are well positioned today for renewed growth in mobile, as we increasingly target an expanded served market for mid to lower tier smartphones. Additionally, the size and influence of our IRX gaming ecosystem continues to grow and will soon be further supported by the introduction of our next-generation mobile visual processor. Together with stable performance of our home and enterprise business, we expect to deliver sequential revenue growth in the third quarter as we continue to target improved operational results over the intermediate-term."

Second Quarter 2024 Financial Results

Revenue in the second quarter of 2024 was \$8.5 million, compared to \$16.1 million in the first quarter of 2024 and \$13.6 million in the second quarter of 2023. The sequential and year-over-year decline in revenue primarily reflected the anticipated near-term headwinds in the Company's mobile business.

On a GAAP basis, gross profit margin in the second quarter of 2024 was 50.7%, compared to 50.5% in the first quarter of 2024 and 40.3% in the second quarter of 2023. Second quarter 2024 GAAP operating expenses were \$15.1 million, compared to \$13.6 million in the first quarter of 2024 and \$12.0 million in the year-ago quarter.

On a non-GAAP basis, second quarter 2024 gross profit margin was 51.0%, compared to 50.7% in the first quarter of 2024 and 40.5% in the year-ago quarter. Second quarter 2024 non-GAAP operating expenses were \$12.8 million, compared to \$12.6 million in the first quarter of 2024 and \$10.7 million in the year-ago quarter.

For the second quarter of 2024, the Company recorded a GAAP net loss of \$10.1 million, or (\$0.17) per share, compared to a GAAP net loss of \$5.1 million, or (\$0.09) per share, in the first quarter of 2024, and a GAAP net loss of \$6.0 million, or (\$0.11) 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 2024, the Company recorded a non-GAAP net loss of \$7.7 million, or (\$0.13) per share, compared to a non-GAAP net loss of \$4.0 million, or (\$0.07) per share, in the first quarter of 2024, and a non-GAAP net loss of \$4.8 million, or (\$0.09) per share, in the second quarter of 2023.

Adjusted EBITDA in the second quarter of 2024 was a negative \$7.0 million, compared to a negative \$3.2 million in the first quarter of 2024 and a negative \$4.0 million in the year-ago quarter.

Cash and cash equivalents at the end of the second quarter of 2024 were \$37.8 million, compared to \$47.5 million as of the year ended December 31, 2023.

Business Outlook

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

Conference Call Information

Pixelworks will host a conference call today, August 7, 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 stock-based compensation expense and restructuring expense which are both required under GAAP. 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, depreciation and amortization, as well as the specific item 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 future collaborations with game studios, the expected growth of the IRX ecosystem, expected adoption rates for our mobile visual processors, expansion into mid- to low-tier smartphones, continued performance of our home and enterprise business, and expected cost savings. 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 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, 2023, 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			Six Months Ended	
	June 30, 2024	March 31, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Revenue, net	\$ 8,535	\$ 16,054	\$ 13,605	\$ 24,589	\$ 23,571
Cost of revenue (1)	4,209	7,940	8,121	12,149	13,720
Gross profit	4,326	8,114	5,484	12,440	9,851
Operating expenses:					
Research and development (2)	7,943	8,073	6,507	16,016	15,173
Selling, general and administrative (3)	5,722	5,534	5,468	11,256	11,540
Restructuring	1,403	—	—	1,403	—
Total operating expenses	15,068	13,607	11,975	28,675	26,713
Loss from operations	(10,742)	(5,493)	(6,491)	(16,235)	(16,862)
Interest income and other, net	327	434	473	761	1,144
Loss before income taxes	(10,415)	(5,059)	(6,018)	(15,474)	(15,718)
Provision for income taxes	32	105	126	137	160
Net loss	(10,447)	(5,164)	(6,144)	(15,611)	(15,878)
Less: Net loss attributable to non-controlling interests and redeemable non-controlling interests	298	98	107	396	445
Net loss attributable to Pixelworks Inc.	\$ (10,149)	\$ (5,066)	\$ (6,037)	\$ (15,215)	\$ (15,433)
Net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.17)	\$ (0.09)	\$ (0.11)	\$ (0.26)	\$ (0.28)
Weighted average shares outstanding - basic and diluted	58,151	57,472	55,917	57,812	55,666

(1) Includes:

Restructuring	16	—	—	16	—
Stock-based compensation	10	18	22	28	46
(2) Includes stock-based compensation	316	330	527	646	1,018
(3) Includes stock-based compensation	599	727	710	1,326	1,361

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, 2024	March 31, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 4,326	\$ 8,114	\$ 5,484	\$ 12,440	\$ 9,851
Restructuring	16	—	—	16	—
Stock-based compensation	10	18	22	28	46
Total reconciling items included in gross profit	26	18	22	44	46
Non-GAAP gross profit	\$ 4,352	\$ 8,132	\$ 5,506	\$ 12,484	\$ 9,897
Non-GAAP gross profit margin	51.0 %	50.7 %	40.5 %	50.8 %	42.0 %
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 15,068	\$ 13,607	\$ 11,975	\$ 28,675	\$ 26,713
Reconciling item included in research and development:					
Stock-based compensation	316	330	527	646	1,018
Reconciling items included in selling, general and administrative:					
Stock-based compensation	599	727	710	1,326	1,361
Restructuring	1,403	—	—	1,403	—
Total reconciling items included in operating expenses	2,318	1,057	1,237	3,375	2,379
Non-GAAP operating expenses	\$ 12,750	\$ 12,550	\$ 10,738	\$ 25,300	\$ 24,334
Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.					
GAAP net loss attributable to Pixelworks Inc.	\$ (10,149)	\$ (5,066)	\$ (6,037)	\$ (15,215)	\$ (15,433)
Reconciling items included in gross profit	26	18	22	44	46
Reconciling items included in operating expenses	2,318	1,057	1,237	3,375	2,379
Tax effect of non-GAAP adjustments	74	—	—	74	—
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (7,731)	\$ (3,991)	\$ (4,778)	\$ (11,722)	\$ (13,008)
Non-GAAP net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.13)	\$ (0.07)	\$ (0.09)	\$ (0.20)	\$ (0.23)
Non-GAAP weighted average shares outstanding - basic and diluted	58,151	57,472	55,917	57,812	55,666

*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, 2024		March 31, 2024		June 30, 2023		June 30, 2024		June 30, 2023	
	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.	\$ (0.17)	\$ (0.17)	\$ (0.09)	\$ (0.09)	\$ (0.11)	\$ (0.11)	\$ (0.26)	\$ (0.26)	\$ (0.28)	\$ (0.28)
Reconciling items included in gross profit	—	—	—	—	—	—	—	—	—	—
Reconciling items included in operating expenses	0.04	0.04	0.02	0.02	0.02	0.02	0.06	0.06	0.04	0.04
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (0.13)</u>	<u>\$ (0.13)</u>	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>	<u>\$ (0.20)</u>	<u>\$ (0.20)</u>	<u>\$ (0.23)</u>	<u>\$ (0.23)</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 2024	March 31, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Reconciliation of GAAP and non-GAAP gross profit margin					
GAAP gross profit margin	50.7 %	50.5 %	40.3 %	50.6 %	41.8 %
Stock-based compensation	0.1	0.1	0.2	0.1	0.2
Restructuring	0.2	—	—	0.1	—
Total reconciling items included in gross profit	0.3	0.1	0.2	0.2	0.2
Non-GAAP gross profit margin	<u>51.0 %</u>	<u>50.7 %</u>	<u>40.5 %</u>	<u>50.8 %</u>	<u>42.0 %</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			Six Months Ended	
	June 30, 2024	March 31, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Reconciliation of GAAP net loss attributable to Pixelworks Inc. and adjusted EBITDA					
GAAP net loss attributable to Pixelworks Inc.	\$ (10,149)	\$ (5,066)	\$ (6,037)	\$ (15,215)	\$ (15,433)
Restructuring	1,419	—	—	1,419	—
Stock-based compensation	925	1,075	1,259	2,000	2,425
Tax effect of non-GAAP adjustments	74	—	—	74	—
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (7,731)	\$ (3,991)	\$ (4,778)	\$ (11,722)	\$ (13,008)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,059	\$ 1,109	\$ 1,077	\$ 2,168	\$ 2,158
Non-GAAP interest income and other, net	(327)	(434)	(473)	(761)	(1,144)
Non-GAAP provision (benefit) for income taxes	(42)	105	126	63	160
Adjusted EBITDA	\$ (7,041)	\$ (3,211)	\$ (4,048)	\$ (10,252)	\$ (11,834)

*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, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,824	\$ 47,544
Accounts receivable, net	4,910	10,075
Inventories	5,021	3,968
Prepaid expenses and other current assets	2,222	3,138
Total current assets	49,977	64,725
Property and equipment, net	7,051	5,997
Operating lease right of use assets	4,547	4,725
Other assets, net	1,652	2,115
Goodwill	18,407	18,407
Total assets	\$ 81,634	\$ 95,969
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,500	\$ 2,416
Accrued liabilities and current portion of long-term liabilities	9,148	9,692
Current portion of income taxes payable	220	189
Total current liabilities	11,868	12,297
Long-term liabilities, net of current portion	673	1,373
Deposit liability	14,098	13,781
Operating lease liabilities, net of current portion	2,463	2,567
Income taxes payable, net of current portion	1,006	939
Total liabilities	30,108	30,957
Redeemable non-controlling interest	27,517	28,214
Total Pixelworks, Inc. shareholders' equity	486	12,541
Non-controlling interest	23,523	24,257
Total shareholders' equity	24,009	36,798
Total liabilities, redeemable non-controlling interest and shareholders' equity	\$ 81,634	\$ 95,969

Contacts:

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Company Contact

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Pixelworks, Inc. 2Q 2024 Conference Call
Thursday, August 7, 2024

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s second quarter 2024 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 second quarter of 2024.

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 7, 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, 2023, 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 restructuring costs and stock-based compensation expense.

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 on the phone and webcast. We appreciate you joining today's call.

As discussed on our conference call in May, we expected the second quarter to be challenging due to specific near-term headwinds in our mobile business. Earlier today, we reported revenue for the quarter at the midpoint of guidance, reflecting the anticipated pause in orders from a large mobile customer. Gross margin ticked-up sequentially, remaining above 50% and representing more than a 1,000 basis point improvement year-over-year. Operating expenses and bottom-line results for the quarter were both better than the midpoint of our guidance.

We continue to believe the current headwinds are primarily near-term, with signs of initial improvement and sequential revenue growth expected in the third quarter. Acknowledging the current drawdown in quarterly revenue, we have implemented a number of cost reduction actions to better align operating expenses with near-term revenue levels.

In addition to a series of other measures taken over the last several months to maximize operational efficiencies, we implemented a reduction in headcount across all areas of businesses – effective June 30. Never an easy action, the reduced headcount is anticipated to result in approximately \$4 million of annualized cost savings beginning in the third quarter. Combined with other cost containment measures, we believe the collective expense reductions we've implemented to-date will contribute to total OpEx savings of \$10 million over the next 18 months.

Turning to a review of our Mobile business. As previously indicated, second quarter mobile revenue was down significantly and primarily reflected the impact of the pause in new orders from what had recently been our largest mobile customer. This customer experienced unanticipated weaker sell-through of its newly launched smartphone models in the 1st Half of 2024. Although completely unrelated to Pixelworks, this resulted in excess inventory of our visual processors. They are now working-down this existing inventory through a combination of prior and recently launched models that incorporate our technology. We continue to be closely engaged with this customer on evaluation of our upcoming next-gen visual processor and IRX ecosystem.

More broadly within our mobile business, we continue to make steady progress on the expansion of our IRX-branded gaming ecosystem. With the goal of enabling a dramatically enhanced visual experience for mobile gaming, we established the IRX ecosystem to align and promote a collaborative end-to-end approach that benefits all industry participants – from gaming studios to smartphone OEMs. Leveraging our IRX rendering acceleration solution, ecosystem partners gain the unique ability to deliver ultra-high frame rate, desktop-level photo-realism and high image resolution without excessive device temperature or power consumption.

Since our prior conference call, our team completed integration work on two additional IRX mobile games, making a total of 11 IRX certified mobile games available to-date. The most recent of these two new IRX certified games was a product of collaboration with Seasun Games to help adapt and optimize a mobile version of the popular game JX3 Ultimate. Unlike most mobile games created based on existing IP, JX3 Ultimate Mobile innovatively leveraged cross-platform data inheritance to produce full-platform, high-quality mobile graphics that are comparable to the PC version. Separately, in June we announced our latest collaboration with Tencent and its TiMi Studio group on Honor of Kings. For those less familiar with gaming, Honor of Kings is multiple player online battle arena game that was first launched several years ago – today it's literally a household name in China. According to mobile gaming industry reports, Honor of Kings remains the single most played multi-player battle game globally – it also ranks #1 in revenue generated from in-app purchases.

We continue to have healthy engagement with multiple leading game studios, and plan to announce additional IRX certified mobile games this year. In addition to our direct collaboration with studios on certified games, we continue to expand a growing list of more than 100 IRX qualified mobile games – these qualified games have been individually tested and tuned for our solution to optimize their visual performance.

IRX remains the first and only industry-wide ecosystem of its kind dedicated to improving the visual performance of mobile gaming. We have several ongoing initiatives underway to consistently drive increasing awareness of IRX – not only with game studios and device OEMs, but also targeting broader awareness directly with consumer gamers. Currently these IRX promotion and co-marketing efforts are primarily targeted within the APAC region and specifically in China as the largest mobile gaming market. To highlight one recent example, in late July we showcased our IRX solutions ChinaJoy 2024. Held at the Shanghai New International Expo Center, ChinaJoy is widely recognized as China's largest annual global gaming convention. Our team hosted an IRX-branded booth, which featured hands-on demos allowing participants to experience playing several IRX certified mobile games on recently released IRX certified devices. In conjunction with the show, we also launched a new dedicated IRX website and promotional video, which I would encourage investors to check out at IRXGaming.com.

The IRX ecosystem is a fundamental part of our mobile strategy, serving to further differentiate the performance advantages and premium visual gaming experience that visual processors bring to mobile devices. We believe that as the IRX ecosystem continues to grow, so does incentive for OEM customers to incorporate our visual processors across a broader range of smartphone models.

Consistent with my comments last quarter, we remain focused on addressing an expanded served available market in mobile. This includes both increased penetration of mid- and lower-tier smartphones as well as expanded adoption in customers' models targeted for global markets outside of China. In April, we demonstrated progress on each of these expansion goals with our first announced program win with Transsion on the launch of its Infinix GT 20 Pro smartphone. The incorporation our X5-series processor in the Infinix GT 20 Pro represented the first time that Pixelworks technology has been featured in a sub-\$350 smartphone also targeted for emerging markets outside of China.

Also announced during quarter, OnePlus incorporated our X7 Gen 2 visual processor in its newly launched OnePlus Ace 3 Pro smartphone. Positioned as more affordable smartphone that still delivers flagship-like performance, the OnePlus Ace 3 Pro is priced between \$450 to \$600 depending on memory configuration – making it the second win with our X7 Gen 2 processor in a mid-tier smartphone model.

These two newly launched smartphones both feature our IRX certified solution, while utilizing different generations of our visual processor, and both models have been well received in their targeted markets.

Lastly within mobile, I want to provide an update on our next-generation mobile visual processor. As discussed on our prior call, we pushed-out the production release of our next-gen solution after encountering a few technical hurdles that were

impairing the device's full range of capabilities and intended performance. As an update our engineering team has completed work on the required design changes, and we are confident we have resolved all previously identified issues. We are scheduled to receive new samples of our next-gen device for testing and final verification at the end of August, which will position us to be ready for its production launch in the fourth quarter.

As anticipated, this push-out in timing unfortunately results in missing the design-in window for customers' smartphone models in the back-half of 2024. We do however remain engaged with multiple customers for our next-gen solution on their subsequent planned models. Architected with direct feedback from existing IRX ecosystem partners, this will be Pixelworks' first mobile visual processor in 12nm process technology. We believe this newest-generation solution is poised to bring market disruptive performance to mobile gaming, with a series of new, industry-first features and the ability to deliver a true immersive PC "like" gaming experience to mobile devices. We look forward to a planned formal market introduction of our next-generation visual processor later this year.

Turning to TrueCut Motion. We continue to see growing interest from premium large format exhibitors that are specifically requesting TrueCut Motion for movie titles shown on their screens.

As further evidence, two of the largest global premium large format exhibitors are now actively recommending TrueCut Motion, citing a demonstrably better viewing experience on their premium large screens. Movies shown in premium large format theaters represent a growing portion of the global box office, out-performing non-premium formats both in viewer satisfaction and box office sales. As result, premium large format exhibitors not only have increasing influence, they're also engaging more than ever directly with filmmakers. Our current focus is on leveraging these endorsements of TrueCut Motion by premium large format exhibitors to facilitate increased awareness among filmmakers, studio and consumers in support of driving accelerated use of TrueCut technology for new release titles.

Additionally our TrueCut motion R&D team will soon release a new generation of motion grading and re-projection tools to be used on upcoming projects. These new tools leverage a combination of both expertly trained AI and new, patented algorithms, to deliver faster results, at higher resolution – in addition these tools are more tightly integrated with leading post production tools and formats. As motion grading becomes standard practice within the film industry, this new generation of tools will be increasingly important for supporting new and expanded TrueCut Motion engagements.

Shifting to our Home and Enterprise business, which as a reminder is predominantly comprised of our visual processor System-on-Chips for the 3LCD digital projector market. For the second quarter, total revenue from Home and Enterprise was roughly flat on both a sequential and year-over-year basis. This was consistent with our internal expectations, and also mirrors the recent feedback from our projector customers that market supply and demand dynamics are generally well-balanced.

As mentioned on the last call, in April we secured final acceptance from our largest projector customer on production samples of our co-developed next-generation projector SoC. We subsequently received the first purchase orders and the new co-developed SoC is now scheduled for volume production in the fourth quarter. The first volume production shipments will support two new planned projector models, and then this new chip will gradually be adopted more broadly over time as our lead customer introduces additional new projector models.

In conclusion, we knew the second quarter was going to be difficult. I'm proud of our team, which has confronted the recent challenges head-on while remaining focused on strategic and operational execution across the business. We remain encouraged by our recent progress and look forward to delivering improved results in the second half of the year. Specific to mobile, we believe that we are positioned for renewed growth in the coming quarters, as we increasingly target an expanded served market for mid- to lower-tier smartphones as well as incremental customer adoption in international models. Additionally, engagements and the influence of our IRX gaming ecosystem continue to grow and will soon be further supported by the introduction of our next-generation mobile visual processor. We also expect to benefit from continued stable performance within our home and enterprise business. Together with our recently implemented cost reduction actions, we expect to deliver sequential revenue growth in the third quarter while continuing to target improved operational results over the intermediate-term.

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 2024 was \$8.5 million, which was at the midpoint of our guidance. The revenue decrease from the prior quarter was primarily driven by the anticipated near-term headwinds in mobile.

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

- Revenue from Mobile was approximately \$2.1 million, comprised primarily of shipments of our X-series visual processors.
- Home and Enterprise revenue was approximately \$6.4 million.

Second quarter non-GAAP gross profit margin expanded 30 basis points sequentially to 51.0%, from 50.7% in the first quarter of 2024, and increased over 1,000 basis points from 40.5% in the second quarter of 2023. The significant year-over-year expansion in gross margin reflects our ongoing focus to drive healthy margins.

Non-GAAP operating expenses were \$12.8 million in the second quarter, compared to \$12.6 million in the prior quarter and \$10.7 million in the second quarter of 2023. With respect to the year-over-year comparison, as a reminder lower operating expenses in the second quarter of 2023 included the benefit of a \$1.9 million credit to R&D related to the now completed co-development agreement with our largest projector customer.

As Todd previously highlighted, we've recently implemented expense reduction actions to more appropriately align expenses with current revenue levels, including an approximately 16% reduction in workforce, which was affected at the end of the second quarter. As a result, we expect to realize approximately \$4.0 million in annualized savings.

On a non-GAAP basis, second quarter 2024 net loss was \$7.7 million, or a loss of (\$0.13) cents per share, compared to a net loss of \$4.0 million, or a loss of (\$0.07) cents per share, in the prior quarter, and a net loss of \$4.8 million, or a loss of (\$0.09) cents per share, in the second quarter of 2023.

Adjusted EBITDA for the second quarter of 2024 was a negative \$7.0 million, compared to a negative \$3.2 million in the first quarter and a negative \$4.0 million in the second quarter of 2023.

Turning to the balance sheet, we ended the second quarter with cash and cash equivalents of \$37.8 million, compared to \$46.2 million at the end of the first quarter and \$47.5 million at year-end 2023. In addition to cash used for operations, the cash balance at quarter-end also reflected approximately \$2.5 million used during the quarter for a one-time purchase of a mask set associated with our next-generation mobile visual processor.

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

As Todd discussed and consistent with the expectations we outlined on our previous conference call, we expect a return to sequential revenue growth in the third quarter. Based on current order patterns and existing backlog, we currently anticipate total revenue for the third quarter to be in a range of between \$9.0 million and \$10.0 million.

In terms of gross profit margin. For the third quarter, we expect non-GAAP gross profit margin to be between 49% and 51%.

With respect to operating expenses, we expect to realize the initial benefits from the previously discussed cost reduction beginning in the third quarter. However, we anticipate the resulting reduction in expenses to be partially offset by a one-time expense associated with the design revisions completed on our next-generation mobile visual processor. Net of these factors, 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 range between a loss of (\$0.11) cents per share and a loss of (\$0.14) 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.