

**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 9, 2023

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 9, 2023, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and twelve month periods ended December 31, 2022 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued February 9, 2023 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 9, 2023.
99.2	Pixelworks, Inc. Fourth Quarter Results Conference Call Script dated February 9, 2023.
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 9, 2023

/s/ Haley F. Aman

Haley F. Aman
Chief Financial Officer



Pixelworks Reports Fourth Quarter and Fiscal Year 2022 Financial Results

Full Year Consolidated Revenue Increases 27%, Driven by Double-Digit Yr-Yr Growth in All Target End Markets;

Full Year Mobile Revenue Grows 17% Yr-Yr to Record \$23 Million

PORTLAND, Ore., February 9, 2023 – 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, 2022.

Fourth Quarter and Recent Highlights

- Fourth quarter revenue increased year-over-year to \$16.9 million
- Expanded collaboration with MediaTek, incorporating Pixelworks' visual processing Pro Software in the newly released Dimensity 9200 5G smartphone chip to enable precision color in high frame rate displays
- HONOR 80 GT smartphone launched with Pixelworks' advanced X5 Plus visual processor to deliver more authentic picture quality and excellent motion smoothness for a premium gaming experience
- iQOO Neo7 Racing Edition smartphone launched with an upgraded X5 series visual processor and leveraging Pixelworks' patented MotionEngine® technology and HDR enhancement for superior high frame rate gaming
- OnePlus 11 and OnePlus Ace 2 smartphones incorporate Pixelworks X7 visual processor, featuring industry-first combination of ultra-low latency MotionEngine®, low power super-resolution and always-on HDR – redefining visual excellence for mobile gaming
- Disney initiated global theatrical release of James Cameron's *Avatar: The Way of Water* in 4K HDR and uniquely featuring cinematic high frame rate enabled by Pixelworks' TrueCut Motion platform
- Completed significant development milestone on a next-generation IC for a large projector OEM customer, resulting in recognition of \$2.5 million offsetting credit to research & development expenses in the quarter
- Secured third strategic investment in the Company's Shanghai subsidiary, generating proceeds of approximately \$15.7 million USD, which closed in early February 2023 and further strengthened Pixelworks Shanghai's capital position in support of its plan to apply for a local public listing later this year.

"Revenue for the fourth quarter was largely in-line with our expectations and up slightly year-over-year, as increased sales of ICs into both our projector and video delivery end markets helped to offset weaker demand in the broader mobile market," stated Todd DeBonis, President and CEO of Pixelworks. "In spite of an increasingly challenging macro environment during the second half of 2022, coupled with an industry-wide inventory correction for smartphones, total revenue for the full year increased 27% with solid growth across each of our target end markets.

“In December, we completed an agreement for a third strategic investment in our Shanghai subsidiary, with additional minority equity interest being purchased by a combination of Pixelworks Shanghai employees and private equity investors in Asia. This latest transaction valued the subsidiary at more than \$500 million.

“Although we currently expect market conditions to remain challenging in the near-term, particularly in mobile as smartphone OEM customers work down excess inventories, we are well capitalized and continue to be focused on executing to expand our strategic ecosystems and drive sustained long-term growth.”

Fourth Quarter and Fiscal Year 2022 Financial Results

Revenue in the fourth quarter of 2022 was \$16.9 million, compared to \$17.6 million in the third quarter of 2022 and \$16.6 million in the fourth quarter of 2021. For the full year 2022, total revenue was \$70.1 million compared to full year revenue of \$55.1 million in 2021. The year-over-year increase reflected significant revenue growth across all the Company’s target end markets.

On a GAAP basis, gross profit margin in the fourth quarter of 2022 was 53.1%, compared to 50.1% in the third quarter of 2022 and 53.5% in the fourth quarter of 2021. GAAP gross profit margin for the full year 2022 was 51.2% compared to 50.3% in the prior year. Fourth quarter 2022 GAAP operating expenses were \$12.0 million, compared to \$13.5 million in the third quarter of 2022 and \$12.6 million in the year-ago quarter. For the full year 2022, GAAP operating expenses were \$52.7 million compared to \$47.7 million in the prior year.

On a non-GAAP basis, fourth quarter 2022 gross profit margin was 53.3%, compared to 49.8% in the third quarter of 2022 and 55.0% in the year-ago quarter. Non-GAAP gross profit margin for the full year 2022 was 51.3% compared to 52.0% in the prior year. Fourth quarter 2022 non-GAAP operating expenses were \$10.8 million, compared to \$12.2 million in the third quarter of 2022 and \$11.0 million in the year-ago quarter. Non-GAAP operating expenses for the full year 2022 were \$47.5 million compared to \$41.4 million in the prior year.

For the fourth quarter of 2022, the Company recorded a GAAP net loss of \$1.9 million, or (\$0.04) per share, compared to a GAAP net loss of \$4.5 million, or (\$0.08) per share, in the third quarter of 2022, and a GAAP net loss of \$3.3 million, or (\$0.06) per share, in the year-ago quarter. GAAP net loss for the full year 2022 was \$16.0 million, or (\$0.30) per share, compared to a net loss of \$19.8 million, or (\$0.38) 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 2022, the Company recorded a non-GAAP net loss of \$0.8 million, or (\$0.01) per share, compared to a non-GAAP net loss of \$3.2 million, or (\$0.06) per share, in the third quarter of 2022, and a non-GAAP net loss of \$1.4 million, or (\$0.03) per share, in the fourth quarter of 2021. For the full year 2022, non-GAAP net loss was \$10.7 million, or (\$0.20) per share, compared to a net loss of \$12.6 million, or (\$0.24) per share, in the prior year.

Adjusted EBITDA in the fourth quarter of 2022 was a negative \$1.0 million, compared to a negative \$2.1 million in the third quarter of 2022 and a negative \$1.1 million in the year-ago quarter. For the full year 2022, adjusted EBITDA was a negative \$7.7 million compared to negative \$9.6 million in the prior year.

Cash and cash equivalents at the end of the fourth quarter of 2022 were \$56.8 million, compared to \$57.6 million at the end of the third quarter of 2022 and \$61.6 million at the end of the fourth quarter of 2021.

Business Outlook

The Company's current business outlook, including guidance for the first quarter of 2023, will be provided as part of the scheduled conference call.

Conference Call Information

Pixelworks will host a conference call today, February 9, 2023, at 3:00 p.m. Pacific Time. To join the conference call via phone, participants are required to complete the following registration form to receive a dial-in number and dedicated PIN for accessing the conference call. Additionally, a live and archived audio webcast of the conference call will be accessible via the investors section of Pixelworks' website at www.pixelworks.com.

About Pixelworks, Inc.

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

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

Non-GAAP Financial Measures

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

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

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

Safe Harbor Statement

This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements may be identified by use of terms such as “begin,” “continue,” “will,” “expect,” “believe,” “anticipate” and similar terms or the negative of such terms, and include, without limitation, statements about the Company’s businesses, including plans to seek a local public listing in China of the Company’s subsidiary and the market conditions for our products, particularly for the smartphone market. All statements other than statements of historical fact are forward-looking statements for purposes of this release, including any projections of revenue or other financial items or any statements regarding the plans and objectives of management for future operations. Such statements are based on management’s current expectations, estimates and projections about the Company’s business. These statements are not guarantees of future performance and involve numerous risks, uncertainties and assumptions that are difficult to predict. Actual results could vary materially from those contained in forward looking statements due to many factors, including, without limitation: our ability to execute on our strategy; our ability to obtain approval from the required agencies and organizations governing listing as a public company in one of the China exchanges; 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; our ability to attract and retain key personnel; and the impact of the COVID-19 pandemic on our business and on our suppliers and customers. More information regarding potential factors that could affect the Company’s financial results and could cause actual results to differ materially from those discussed in the forward-looking statements is included from time to time in the Company’s Securities and Exchange Commission filings, including its Annual Report on Form 10-K for the year ended December 31, 2021, as well as subsequent SEC filings.

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

[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, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Revenue, net	\$ 16,888	\$ 17,552	\$ 16,586	\$ 70,146	\$ 55,102
Cost of revenue (1)	7,914	8,756	7,713	34,265	27,409
Gross profit	8,974	8,796	8,873	35,881	27,693
Operating expenses:					
Research and development (2)	6,395	8,445	7,002	30,521	27,250
Selling, general and administrative (3)	5,587	5,082	5,598	22,177	20,445
Total operating expenses	11,982	13,527	12,600	52,698	47,695
Loss from operations	(3,008)	(4,731)	(3,727)	(16,817)	(20,002)
Interest income and other, net	272	165	165	700	457
Loss before income taxes	(2,736)	(4,566)	(3,562)	(16,117)	(19,545)
Benefit for income taxes	(1,129)	(70)	(448)	(884)	(133)
Net loss	(1,607)	(4,496)	(3,114)	(15,233)	(19,412)
Less: Net income attributable to non-controlling interests and redeemable non-controlling interests	(327)	—	(177)	(797)	(409)
Net loss attributable to Pixelworks Inc.	\$ (1,934)	\$ (4,496)	\$ (3,291)	\$ (16,030)	\$ (19,821)
Net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.04)	\$ (0.08)	\$ (0.06)	\$ (0.30)	\$ (0.38)
Weighted average shares outstanding - basic and diluted	54,974	54,826	53,293	54,335	52,509
(1) Includes:					
Stock-based compensation	21	(47)	26	41	43
Amortization of acquired intangible assets	—	—	218	72	899
(2) Includes stock-based compensation	556	565	623	2,351	2,363
(3) Includes:					
Stock-based compensation	583	776	940	2,806	3,678
Amortization of acquired intangible assets	—	—	53	18	219

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, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 8,974	\$ 8,796	\$ 8,873	\$ 35,881	\$ 27,693
Stock-based compensation	21	(47)	26	41	43
Amortization of acquired intangible assets	—	—	218	72	899
Total reconciling items included in gross profit	21	(47)	244	113	942
Non-GAAP gross profit	\$ 8,995	\$ 8,749	\$ 9,117	\$ 35,994	\$ 28,635
Non-GAAP gross profit margin	53.3 %	49.8 %	55.0 %	51.3 %	52.0 %
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 11,982	\$ 13,527	\$ 12,600	\$ 52,698	\$ 47,695
Reconciling item included in research and development:					
Stock-based compensation	556	565	623	2,351	2,363
Reconciling items included in selling, general and administrative:					
Stock-based compensation	583	776	940	2,806	3,678
Amortization of acquired intangible assets	—	—	53	18	219
Total reconciling items included in operating expenses	1,139	1,341	1,616	5,175	6,260
Non-GAAP operating expenses	\$ 10,843	\$ 12,186	\$ 10,984	\$ 47,523	\$ 41,435
Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.					
GAAP net loss attributable to Pixelworks Inc.	\$ (1,934)	\$ (4,496)	\$ (3,291)	\$ (16,030)	\$ (19,821)
Reconciling items included in gross profit	21	(47)	244	113	942
Reconciling items included in operating expenses	1,139	1,341	1,616	5,175	6,260
Tax effect of non-GAAP adjustments	3	1	9	—	—
Impact of non-GAAP adjustments to redeemable non-controlling interest	—	—	(17)	—	(26)
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (771)	\$ (3,201)	\$ (1,439)	\$ (10,742)	\$ (12,645)
Non-GAAP net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.01)	\$ (0.06)	\$ (0.03)	\$ (0.20)	\$ (0.24)
Non-GAAP weighted average shares outstanding - basic and diluted	54,974	54,826	53,293	54,335	52,509

*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, 2022		September 30, 2022		December 31, 2021		December 31, 2022		December 31, 2021			
	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.	\$ (0.04)	\$ (0.04)	\$ (0.08)	\$ (0.08)	\$ (0.06)	\$ (0.06)	\$ (0.30)	\$ (0.30)	\$ (0.38)	\$ (0.38)		
Reconciling items included in gross profit	—	—	—	—	—	—	—	—	0.02	0.02		
Reconciling items included in operating expenses	0.02	0.02	0.02	0.02	0.03	0.03	0.10	0.10	0.12	0.12		
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.20)</u>	<u>\$ (0.20)</u>	<u>\$ (0.24)</u>	<u>\$ (0.24)</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, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Reconciliation of GAAP and non-GAAP gross profit margin					
GAAP gross profit margin	53.1 %	50.1 %	53.5 %	51.2 %	50.3 %
Stock-based compensation	0.1	(0.3)	0.2	0.1	0.1
Amortization of acquired intangible assets	—	—	1.3	0.1	1.6
Total reconciling items included in gross profit	0.1	(0.3)	1.5	0.2	1.7
Non-GAAP gross profit margin	53.3 %	49.8 %	55.0 %	51.3 %	52.0 %

*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, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Reconciliation of GAAP net loss attributable to Pixelworks Inc. and adjusted EBITDA					
GAAP net loss attributable to Pixelworks Inc.	\$ (1,934)	\$ (4,496)	\$ (3,291)	\$ (16,030)	\$ (19,821)
Stock-based compensation	1,160	1,294	1,589	5,198	6,084
Tax effect of non-GAAP adjustments	3	1	9	—	—
Amortization of acquired intangible assets	—	—	271	90	1,118
Impact of non-GAAP adjustments to redeemable non-controlling interest	—	—	(17)	—	(26)
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (771)	\$ (3,201)	\$ (1,439)	\$ (10,742)	\$ (12,645)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,167	\$ 1,324	\$ 964	\$ 4,657	\$ 3,648
Non-GAAP interest income and other, net	(272)	(165)	(165)	(700)	(457)
Non-GAAP benefit for income taxes	(1,132)	(71)	(457)	(884)	(133)
Adjusted EBITDA	<u>\$ (1,008)</u>	<u>\$ (2,113)</u>	<u>\$ (1,097)</u>	<u>\$ (7,669)</u>	<u>\$ (9,587)</u>

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

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

	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,821	\$ 61,587
Accounts receivable, net	10,047	8,708
Inventories	1,760	1,469
Prepaid expenses and other current assets	3,745	2,732
Total current assets	72,373	74,496
Property and equipment, net	4,632	5,656
Operating lease right of use assets	3,331	4,789
Other assets, net	3,580	3,162
Acquired intangible assets, net	—	90
Goodwill	18,407	18,407
Total assets	<u>\$ 102,323</u>	<u>\$ 106,600</u>
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,143	\$ 2,747
Accrued liabilities and current portion of long-term liabilities	8,849	13,563
Current portion of income taxes payable	519	128
Total current liabilities	12,511	16,438
Long-term liabilities, net of current portion	1,005	519
Deposit liability	13,537	12,716
Operating lease liabilities, net of current portion	2,148	2,853
Income taxes payable, net of current portion	872	2,948
Total liabilities	30,073	35,474
Redeemable non-controlling interest	28,919	30,905
Total Pixelworks, Inc. shareholders' equity	32,422	40,221
Non-controlling interest	10,909	—
Total shareholders' equity	43,331	40,221
Total liabilities, redeemable non-controlling interest and shareholders' equity	<u>\$ 102,323</u>	<u>\$ 106,600</u>

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**Pixelworks, Inc. 4Q 2022 Conference Call
February 9, 2023**

Operator

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

Brett Perry

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 2022.

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

All forward-looking statements are based on the Company's beliefs as of today, Thursday, February 9, 2023. The Company undertakes no obligation to update any such statements to reflect events or circumstances occurring after today. Please refer to today's press release, our annual report on Form 10-K for the year ended December 31, 2021, and subsequent SEC filings for a description of factors that could cause forward-looking statements to differ materially from actual results.

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

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

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

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

Todd DeBonis

Thank you, Brett, and good afternoon to those participating on the call. I'm pleased to be joining you today from Shanghai, where I've recently been catching up with our team and customers.

Let me start with a few observations that I've made over the past two weeks here in China. First, with the rollback of China's strict COVID policies in mid-November, what many might not realize is that a majority of people here, including nearly all of our employees throughout China, spent December at home with Covid and then recovering, making it a very weak month in terms of productivity. It wasn't until the turn of the calendar year that real normalization began with increased productivity and the return of consumer engagement. And having personally witnessed the tail end of the recent Chinese New Year holiday, it is readily apparent that people are enthusiastic about getting back to normal, traveling locally and spending again.

At a high-level, these are encouraging and positive signs for not only our China-based employees and their families, but also for Pixelworks' overall business as well as the global macroeconomic environment.

Turning to a recap of our financial results. For the fourth quarter, both the top- and bottom-line were slightly lower than the midpoint of our guidance. Total revenue was up 2% year-over-year, as our team continued to execute well in the face of growing macro and end market-specific challenges. Looking at the full year, we delivered double-digit growth across each of our target end markets with total revenue growing 27% over the prior year. And this was following our annual growth of 35% in 2021.

During what has been a challenging period for most of the semiconductor industry, this solid growth combined with Pixelworks' history of technology leadership in visual processing has served us well in the local private capital markets here in China. In late December, we completed the agreement to take in another strategic investment in our Shanghai subsidiary, which was fully closed and funded in early February. This latest capital investment, which was funded by two previous investors as well as Pixelworks Shanghai employees, generated proceeds equivalent to approximately \$15.7 million in exchange for just over 3% equity interest in the subsidiary. Recalling that some U.S. investors were skeptical when we announced the first private placement in Pixelworks Shanghai in October of 2020, I would highlight that this third round of strategic investment valued the subsidiary at more than \$500 million – and today Pixelworks, Inc continues to hold a majority equity interest of approximately 78%.

Collectively, these strategic investments are a testament to recognized value of Pixelworks' technology in China as well as the future growth opportunity of the business. These transactions have also served to fund our ongoing growth initiatives as well as properly capitalize Pixelworks Shanghai in advance of applying for a local listing later this year.

Shifting to end markets, and starting with Mobile. The industry-wide inventory correction in smartphones coupled with softer consumer demand in China continued to play-out as expected, resulting in lower mobile revenue in the fourth quarter. As discussed on our last conference call, we've kept the internal inventory of our visual processor ICs lean while reducing our channel inventory back to normal levels. For Pixelworks in Q4, the impact was largely a derivative of the current market dynamics — with mobile OEMs slowing the pace of new smartphone launches, rescheduling various other models and canceling certain programs as they prioritized working-down excess component inventory.

Although the gap in OEM launches of next-gen smartphone models has temporarily paused our quarterly growth, our mobile business still had a very solid year in spite of the weaker overall smartphone market. For the full year, mobile revenue was up 17% over 2021 (which was up 200% over 2020), with our visual processing solutions incorporated into 20 newly launched smartphone models in 2022. Our mobile customers continue to include nearly all of the tier-one handset OEMs and their affiliate premium brands in China — and despite taking a little longer than originally targeted, I'm confident we will announce models from the fourth tier-one for our Visual Processor lineup in 2023.

Underpinning our expanded penetration of these tier-ones has been our commitment to maintaining a deep level of engagement with customers and deliver uniquely differentiated visual performance, as well as also our ongoing strategic initiatives to cultivate a more collaborative mobile display ecosystem. As highlighted on previous calls, we've made multiple groundbreaking achievements over the last year in our efforts to champion a comprehensive and engaged ecosystem for mobile gaming. This included our first-ever direct collaboration with multiple leading gaming engine platforms and design studios, which we expect to yield the release of a series of additional top mobile games over the coming year that are specifically designed to support the rendering accelerator in our X7 visual processor.

As the most recent example of our broader ecosystem efforts, in November we announced an expanded collaboration with MediaTek to incorporate Pixelworks' visual processing Pro Software into their latest Dimensity 9200 5G smartphone chip. This new cooperation specifically targeted the enabling of precision color in high frame rate displays, ensuring that smartphones built on the Dimensity 9200 platform are capable of delivering a true next-gen flagship gaming experience. This ongoing technical collaboration will serve to further improve the gaming experience and encourage broader market adoption of high frame rate mobile gaming models and content.

Briefly highlighting a few recently announced mobile wins, in late December the HONOR 80 GT and the iQOO Neo7 Racing Edition smartphones were both launched incorporating Pixelworks' upgraded X5 Plus visual processor. Each of these phones are built on Qualcomm's recently released Snapdragon® 8+ Gen 1 mobile platform, and they support 120Hz refresh rate while leveraging Pixelworks' X5 series for our patented MotionEngine technology, HDR Enhancement and multiple other dimensions of visual effect enhancement – all of which are tailored to providing a superior high frame rate gaming experience.

In January, OnePlus launched its latest flagship smartphone, the OnePlus 11, incorporating Pixelworks' X7 visual processor. As one of the first phones launched with our newest generation X7 series, the OnePlus 11 redefines the meaning of visual excellence for mobile gaming. Built on the Snapdragon® 8 Gen 2 mobile platform, this smartphone sports an eye-catching 6.7-inch 2K curved display with the real LTPO 3.0 technology, while simultaneously supporting refresh rates of up to 120Hz. Following a first of its kind in-depth collaboration with OnePlus on this flagship, this smartphone leverages the core

technologies in our X7 chipset and features our new ultra-low latency MotionEngine® for high frame rate together with low power super-resolution for simultaneous display in 2K resolution.

Then, earlier this week OnePlus followed-up with its launch of the OnePlus Ace 2 smartphone, also incorporating our X7 chipset. The OnePlus Ace 2 is built on the Snapdragon® 8+ Gen 1 mobile platform and comes with a 1.5K AMOLED screen supporting refresh rates up to 120Hz. This model similarly features our X7's new ultra-low latency MotionEngine® and low power super-resolution, together with always-on HDR and industry-leading color calibration solution. Also noteworthy, is that Pixelworks' ultra-low latency MotionEngine technology in both the OnePlus 11 and OnePlus Ace 2 smartphones has now been optimized for over 100 of the most popular mobile games.

Turning to the latest developments on our TrueCut Motion platform. Following the re-release of Lightstorm Entertainment's "Avatar" in September, I can now confirm that Pixelworks' TrueCut Motion grading was also utilized in James Cameron's newly released Avatar: The Way of Water. This long awaited sequel, frequently referred to as Avatar 2, was distributed globally to theaters by 20th Century in 4K HDR and uniquely shown in cinematic high frame rate. When I last looked, the film had surpassed gross box office sales of \$2.1 billion, ranking it in the top 5 highest grossing movies of all time in less than two months. Equally amazing, whether they realized it or not, is that 10s of millions of people from around the world have now personally experienced TrueCut Motion. Most importantly, this extremely successful and highly praised release proved that there is a global ecosystem in place capable of supporting cinematic high frame rate – paving the way for expanded industry adoption.

As previously announced, TrueCut Motion will also be featured in the re-release of Titanic remastered in 4K HDR later this month. These three high profile titles have significantly heightened the interest and awareness of our TrueCut Motion platform. We aim to continue building on this strong momentum in 2023 by assembling a critical mass of theatrical titles together while growing a global home entertainment ecosystem.

Shifting to our Projector business, demand remained relatively steady through the back half of the year, with revenue in the fourth quarter increasing more than 13% year-over-year. For the full year, revenue was up 23% as projector customers placed significant orders in response to the very tight supply environment. Generally speaking, projector OEMs have continued to see gradual improvement in their supply chains, however supply lead times and pricing of certain components have yet to fully normalize. Combined with two consecutive years of roughly 20% growth, the current consensus among most of these customers has been to moderate their orders and expectations entering 2023 until they have better visibility into global macro trends and end market demand.

More specific to Pixelworks and the fourth quarter, I'm pleased to report the team successfully completed a significant milestone on our co-development project with our largest projector customer. As a result of this milestone, we recognized an R&D credit, reducing our reported OpEx for the quarter. All remaining activity associated with this co-development project remains on track and we currently expect this new SoC chip to be available for production near the end of the year.

Briefly following up on my comments last quarter related to the end-of-life we implemented on a group of legacy IC products, which we've historically sold into niche Video Delivery applications. As previously discussed, these applications typically require unique packaging and are lower unit volumes, making them increasingly difficult to source materials for and supply efficiently. We received solid customer response on last time purchase orders for the fourth quarter, which contributed to a sizeable, one-time increase in revenue. The EoL of these non-strategic products will lower the quarterly revenue contribution from Video Delivery going forward, however it will also eliminate operational inefficiencies and enables a more productive reallocation of our team and resources. Although going forward we will address a relatively small legacy market, in which we will continue to market and sell a selective series of our transcoding ICs for consumer applications in Japan as well as OTA devices in the U.S.

In summary, the team has done a good job of mitigating the impacts of both macro- and industry-specific headwinds over the past couple of quarters. Although we expect market conditions to remain challenging in the current quarter, the entire organization is now well capitalized to continue executing on our longer-term strategic initiatives. This includes ongoing efforts to further expand the ecosystem in support of mobile gaming, including an aggressive Visual Processor roadmap and our TrueCut Motion platform, while we continue to prepare our Pixelworks Shanghai subsidiary to apply for a STAR market listing.

We believe we are well positioned for the market recovery in mobile and are currently seeing channel inventories and design activity support this with a growing pipeline of design-ins for our X7 visual processor. In addition we are on target to introduce a new mobile visual processor in the second half of this year and sample our new Projector SoC in Q2. Lastly, we also continue to field significant inbound interest and are evaluating multiple prospective strategic license engagements that represent potential for expanded growth opportunities, spanning both our existing and new adjacent end markets.

Taken together, I firmly believe that we can achieve renewed momentum and resume our recent growth trajectory in coming quarters.

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 2022 was \$16.9 million. Our top-line results in the quarter were primarily driven by continued year-over-year growth in the projector market, combined with an increase in revenue contribution from video delivery related to increased sales of end-of-life products.

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

- Revenue from Mobile was approximately \$3.6 million, representing 22% of total revenue in the fourth quarter.
- Revenue from Projector was approximately \$9.2 million.
- Video Delivery revenue in the fourth quarter increased to approximately \$4.0 million, reflecting the last-time purchase orders for specific end-of-life products.

Following the EoL in the fourth quarter, we anticipate lower quarterly revenue contribution from sales into the Video Delivery market. As such, beginning with the first quarter of 2023, the revenue breakout that I just provided will group revenue contribution from Projector and Video Delivery into a single market category, Home and Enterprise.

Non-GAAP gross profit margin was 53.3% in the fourth quarter of 2022, compared to 49.8% in the third quarter of 2022, and compared to 55.0% in the fourth quarter of 2021.

Non-GAAP operating expenses were \$10.8 million in the fourth quarter, compared to \$12.2 million last quarter and \$11.0 million in the fourth quarter of 2021. As indicated on our previous conference call, during the quarter we completed the next milestone related to our co-development agreement and as a result, we recognized a \$2.5 million credit to R&D which reduced our total operating expenses for the fourth quarter.

On a non-GAAP basis, fourth quarter 2022 net loss was approximately \$800,000, or a loss of (\$0.01) cent per share, compared to a net loss of \$3.2 million, or a loss of (\$0.06) cents per share, in the prior quarter, and a net loss of \$1.4 million, or a loss of (\$0.03) cents per share, in the fourth quarter of 2021.

Adjusted EBITDA for the fourth quarter of 2022 was a negative \$1.0 million, compared to a negative \$2.1 million last quarter and a negative \$1.1 million in the fourth quarter of 2021.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents of \$56.8 million. I would like to point out that the cash balance at quarter end does not include the proceeds from the most recent sale of equity interest in our Shanghai subsidiary, which we announced in late December. As Todd mentioned, we successfully closed this transaction after the end of the quarter, and the proceeds will be included in the Company's reported cash balance for the first quarter of 2023.

Shifting to our current expectations and guidance for the first quarter of 2023.

Based on current order trends and backlog, we expect a weaker than normal first quarter. In addition to historical seasonality in the projector market, we are also expecting projector customers to continue to work through existing inventory in the first quarter. Also, as Todd mentioned, we expect the first quarter to reflect the trough of the inventory correction in the smartphone market. With that, we anticipate total revenue in the first quarter to be in a range of between \$9.0 million and \$11.0 million. We believe this quarter will be the low point for the year, with revenue beginning to recover in the second quarter and followed by an anticipated return to year-over-year growth in the second half of the year.

Non-GAAP gross profit margin in the first quarter is expected to be between 43% and 45%. This anticipated gross margin range reflects product mix and reduced absorption rate associated with lower revenue. As unit sales of ICs and total revenue recover, we expect gross margin to return to our targeted historical range in the low 50s.

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 benefited from a \$2.5 million milestone credit to R&D related to our co-development project. Excluding this credit, anticipated first quarter operating expenses (at the midpoint) would be approximately flat to down compared to the fourth quarter.

Lastly, we expect first quarter non-GAAP EPS to range between a loss of (\$0.18) 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.