

**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): November 7, 2022

**PIXELWORKS, INC.**

(Exact name of registrant as specified in its charter)

**Oregon**  
(State or other jurisdiction  
of incorporation)

**000-30269**  
(Commission File Number)

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

**16760 SW Upper Boones Ferry Rd., Suite 101  
Portland, OR 97224  
(503) 601-4545**

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

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

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

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

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

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

Emerging growth company

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

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**Item 2.02 Results of Operations and Financial Condition.**

On November 7, 2022, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and nine month periods ended September 30, 2022 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued November 7, 2022 is furnished herewith as Exhibit 99.1, to this Report and a copy of the Company's conference call script announcing these financial results is furnished herewith as Exhibit 99.2. The information in this Item 2.02, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that Section, nor shall such information be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

<b>Exhibit No.</b>	<b>Description</b>
99.1	<a href="#">Press Release issued by Pixelworks, Inc. dated November 7, 2022.</a>
99.2	<a href="#">Pixelworks, Inc. Third Quarter Results Conference Call Script dated November 7, 2022.</a>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

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**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: November 7, 2022

/s/ Haley F. Aman

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Haley F. Aman  
*Chief Financial Officer*



## Pixelworks Reports Third Quarter 2022 Financial Results

*Mobile Revenue Grew 25% Year-over-Year Despite Challenging Smartphone Market;  
Projector Revenue Increased 10% Year-over-Year*

**PORTLAND, Ore., November 7, 2022** – Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of innovative video and display processing solutions, today announced financial results for the third quarter ended September 30, 2022.

### Third Quarter Overview

- Total revenue increased 16% year-over-year and decreased 8% sequentially, in line with expectations
- Mobile revenue increased 25% year-over-year, contributing to growth of 44% year-to-date compared to the same period in 2021
- Projector revenue increased 10% year-over-year and 5% sequentially to represent the highest quarterly level in more than two years
- iQOO Neo7 smartphone incorporated the upgraded Pixelworks X5 series visual processor, providing end-users with a more captivating gaming and video experience
- Disney and 20th Century rereleased James Cameron's *Avatar* in 4K HDR to theaters, marking the first-ever title to be remastered and released in cinematic high frame rate utilizing the TrueCut Motion platform
- Closed new strategic investment in the Company's Shanghai subsidiary, generating net proceeds of approximately \$10.7 million USD and valuing the subsidiary at approximately \$471.5 million.

"Total revenue was at the mid-point of our guidance, demonstrating the team's continued execution while navigating a weaker smartphone market and overall macro environment," stated Todd DeBonis, President and CEO of Pixelworks. "Further underscoring our sustained progress against this challenging backdrop, both our mobile and projector businesses achieved double-digit revenue growth year-over-year for the sixth consecutive quarter."

"In addition to our solid operating performance, during the quarter we successfully closed a strategic investment in our Shanghai subsidiary at nearly 2x the valuation of the previous investment round. Our ability to execute this transaction in the current environment highlights the recognition and growing opportunity for our visual processing technology across Asia. It also enabled us to further strengthen our balance sheet in support of driving continued momentum in our mobile business and commercialization of our TrueCut Motion platform.

"We also continue to expand the ecosystems around our growth businesses, which includes a growing number of strategic engagements and design wins targeted at mobile gaming as well as advancing in-depth evaluations of our TrueCut Motion platform with a series of leading content creators and streaming service providers. Although we remain cautious about the overall macro environment and consumer demand, we are in a strong financial position to fully execute on our growth initiatives and extend Pixelworks' technology leadership in our target end markets."

### **Third Quarter Fiscal 2022 Financial Results**

Revenue in the third quarter of 2022 was \$17.6 million, compared to \$19.1 million in the second quarter of 2022 and \$15.2 million in the third quarter of 2021. The year-over-year increase in third quarter revenue reflected strong growth of visual processor solutions in the mobile market combined with sustained customer demand and recovery in the projector market.

On a GAAP basis, gross profit margin in the third quarter of 2022 was 50.1%, compared to 49.0% in the second quarter of 2022 and 52.5% in the third quarter of 2021. Third quarter 2022 GAAP operating expenses were \$13.5 million, compared to \$14.5 million in the second quarter of 2022 and \$11.9 million in the year-ago quarter.

On a non-GAAP basis, third quarter 2022 gross profit margin was 49.8%, compared to 49.3% in the second quarter of 2022 and 53.1% in the year-ago quarter. Third quarter 2022 non-GAAP operating expenses were \$12.2 million, compared to \$12.9 million in the second quarter of 2022 and \$10.1 million in the year-ago quarter.

For the third quarter of 2022, the Company recorded a GAAP net loss of \$4.5 million, or (\$0.08) per share, compared to a GAAP net loss of \$5.0 million, or (\$0.09) per share, in the second quarter of 2022, and a GAAP net loss of \$4.1 million, or (\$0.08) per share, in the year-ago quarter. Note, the Company refers to “net loss attributable to Pixelworks Inc.” as “net loss”.

For the third quarter of 2022, the Company recorded a non-GAAP net loss of \$3.2 million, or (\$0.06) per share, compared to a non-GAAP net loss of \$3.3 million, or (\$0.06) per share, in the second quarter of 2022, and a non-GAAP net loss of \$2.2 million, or (\$0.04) per share, in the third quarter of 2021.

Adjusted EBITDA in the third quarter of 2022 was a negative \$2.1 million, compared to a negative \$2.4 million in the second quarter of 2022 and a negative \$1.6 million in the year-ago quarter.

Cash and cash equivalents at the end of the third quarter of 2022 were \$57.6 million, compared to \$49.6 million at the end of the second quarter of 2022.

### **Business Outlook**

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

### **Conference Call Information**

Pixelworks will host a conference call today, November 7, 2022, at 2:00 p.m. Pacific Time. To join the conference call via phone, participants are required to complete the following registration form to receive a dial-in number and dedicated PIN for accessing the conference call. Additionally, a live and archived audio webcast of the conference call will be accessible via the investors section of Pixelworks’ website at [www.pixelworks.com](http://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](http://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 efforts to expand the ecosystem for our growth businesses, to advance evaluations of the TrueCut Motion platform, and to execute on our growth initiatives and extend Pixelworks’ technology leadership in our target end markets. All statements other than statements of historical fact are forward-looking statements for purposes of this release, including any projections of revenue or other financial items or any statements regarding the plans and objectives of management for future operations. Such statements are based on management’s current expectations, estimates and projections about the Company’s business. These statements are not guarantees of future performance and involve numerous risks, uncertainties and assumptions that are difficult to predict. Actual results could vary materially from those contained in forward looking statements due to many factors, including, without limitation: our ability to execute on our strategy; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; the success of our products in expanding markets; current global economic challenges; changes in the digital display and projection markets; seasonality in the consumer electronics market; lack of adoption of our TrueCut Motion platform; our efforts to achieve profitability from operations; our limited financial resources; our ability to attract and retain key personnel; and the impact of the COVID-19 pandemic on our business and on our suppliers and customers. More information regarding potential factors that could affect the Company’s financial results and could cause actual results to differ materially from those discussed in the forward-looking statements is included from time to time in the Company’s Securities and Exchange Commission filings, including its Annual Report on Form 10-K for the year ended December 31, 2021, as well as subsequent SEC filings.*

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

[Financial Tables Follow]

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

	Three Months Ended			Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue, net	\$ 17,552	\$ 19,078	\$ 15,196	\$ 53,258	\$ 38,516
Cost of revenue (1)	8,756	9,730	7,211	26,351	19,696
Gross profit	8,796	9,348	7,985	26,907	18,820
Operating expenses:					
Research and development (2)	8,445	8,521	6,792	24,126	20,248
Selling, general and administrative (3)	5,082	6,024	5,097	16,590	14,847
Total operating expenses	13,527	14,545	11,889	40,716	35,095
Loss from operations	(4,731)	(5,197)	(3,904)	(13,809)	(16,275)
Interest income and other, net	165	101	54	428	292
Loss before income taxes	(4,566)	(5,096)	(3,850)	(13,381)	(15,983)
Provision (benefit) for income taxes	(70)	(88)	(9)	245	315
Net loss	(4,496)	(5,008)	(3,841)	(13,626)	(16,298)
Less: Net income attributable to redeemable non-controlling interest	—	—	(232)	(470)	(232)
Net loss attributable to Pixelworks Inc.	\$ (4,496)	\$ (5,008)	\$ (4,073)	\$ (14,096)	\$ (16,530)
Net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.08)	\$ (0.09)	\$ (0.08)	\$ (0.26)	\$ (0.32)
Weighted average shares outstanding - basic and diluted	54,826	54,120	52,768	54,120	52,245

(1) Includes:					
Stock-based compensation	(47)	59	(138)	20	17
Amortization of acquired intangible assets	—	—	218	72	681
(2) Includes stock-based compensation	565	647	549	1,795	1,740
(3) Includes:					
Stock-based compensation	776	989	1,146	2,223	2,738
Amortization of acquired intangible assets	—	—	53	18	166



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

	Three Months Ended			Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<b>Reconciliation of GAAP and non-GAAP gross profit</b>					
GAAP gross profit	\$ 8,796	\$ 9,348	\$ 7,985	\$ 26,907	\$ 18,820
Stock-based compensation	(47)	59	(138)	20	17
Amortization of acquired intangible assets	—	—	218	72	681
Total reconciling items included in gross profit	(47)	59	80	92	698
Non-GAAP gross profit	\$ 8,749	\$ 9,407	\$ 8,065	\$ 26,999	\$ 19,518
Non-GAAP gross profit margin	49.8 %	49.3 %	53.1 %	50.7 %	50.7 %
<b>Reconciliation of GAAP and non-GAAP operating expenses</b>					
GAAP operating expenses	\$ 13,527	\$ 14,545	\$ 11,889	\$ 40,716	\$ 35,095
Reconciling item included in research and development:					
Stock-based compensation	565	647	549	1,795	1,740
Reconciling items included in selling, general and administrative:					
Stock-based compensation	776	989	1,146	2,223	2,738
Amortization of acquired intangible assets	—	—	53	18	166
Total reconciling items included in operating expenses	1,341	1,636	1,748	4,036	4,644
Non-GAAP operating expenses	\$ 12,186	\$ 12,909	\$ 10,141	\$ 36,680	\$ 30,451
<b>Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.</b>					
GAAP net loss attributable to Pixelworks Inc.	\$ (4,496)	\$ (5,008)	\$ (4,073)	\$ (14,096)	\$ (16,530)
Reconciling items included in gross profit	(47)	59	80	92	698
Reconciling items included in operating expenses	1,341	1,636	1,748	4,036	4,644
Tax effect of non-GAAP adjustments	1	(1)	7	(3)	(9)
Impact of non-GAAP adjustments to redeemable non-controlling interest	—	—	(9)	—	(9)
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (3,201)	\$ (3,314)	\$ (2,247)	\$ (9,971)	\$ (11,206)
Non-GAAP net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.06)	\$ (0.06)	\$ (0.04)	\$ (0.18)	\$ (0.21)
Non-GAAP weighted average shares outstanding - basic and diluted	54,826	54,120	52,768	54,120	52,245

\*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						Nine Months Ended					
	September 30, 2022		June 30, 2022		September 30, 2021		September 30, 2022		September 30, 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		
<b>Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.</b>												
GAAP net loss attributable to Pixelworks Inc.	\$ (0.08)	\$ (0.08)	\$ (0.09)	\$ (0.09)	\$ (0.08)	\$ (0.08)	\$ (0.26)	\$ (0.26)	\$ (0.32)	\$ (0.32)		
Reconciling items included in gross profit	—	—	—	—	—	—	—	—	0.01	0.01		
Reconciling items included in operating expenses	0.02	0.02	0.03	0.03	0.03	0.03	0.07	0.07	0.09	0.09		
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.18)</u>	<u>\$ (0.18)</u>	<u>\$ (0.21)</u>	<u>\$ (0.21)</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			Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<b>Reconciliation of GAAP and non-GAAP gross profit margin</b>					
GAAP gross profit margin	50.1 %	49.0 %	52.5 %	50.5 %	48.9 %
Stock-based compensation	(0.3)	0.3	(0.9)	—	—
Amortization of acquired intangible assets	—	—	1.4	0.1	1.8
Total reconciling items included in gross profit	(0.3)	0.3	0.5	0.2	1.8
Non-GAAP gross profit margin	49.8 %	49.3 %	53.1 %	50.7 %	50.7 %

\*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			Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<b>Reconciliation of GAAP net loss attributable to Pixelworks Inc. and adjusted EBITDA</b>					
GAAP net loss attributable to Pixelworks Inc.	\$ (4,496)	\$ (5,008)	\$ (4,073)	\$ (14,096)	\$ (16,530)
Stock-based compensation	1,294	1,695	1,557	4,038	4,495
Tax effect of non-GAAP adjustments	1	(1)	7	(3)	(9)
Amortization of acquired intangible assets	—	—	271	90	847
Impact of non-GAAP adjustments to redeemable non-controlling interest	—	—	(9)	—	(9)
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (3,201)	\$ (3,314)	\$ (2,247)	\$ (9,971)	\$ (11,206)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,324	\$ 1,126	\$ 762	\$ 3,490	\$ 2,684
Non-GAAP interest income and other, net	(165)	(101)	(54)	(428)	(292)
Non-GAAP provision (benefit) for income taxes	(71)	(87)	(16)	248	324
Adjusted EBITDA	<u>\$ (2,113)</u>	<u>\$ (2,376)</u>	<u>\$ (1,555)</u>	<u>\$ (6,661)</u>	<u>\$ (8,490)</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)

	September 30, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 57,615	\$ 61,587
Accounts receivable, net	10,770	8,708
Inventories	2,716	1,469
Prepaid expenses and other current assets	1,522	2,732
Total current assets	72,623	74,496
Property and equipment, net	3,825	5,656
Operating lease right of use assets	3,687	4,789
Other assets, net	3,758	3,162
Acquired intangible assets, net	—	90
Goodwill	18,407	18,407
Total assets	\$ 102,300	\$ 106,600
<b>LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,354	\$ 2,747
Accrued liabilities and current portion of long-term liabilities	10,070	13,563
Current portion of income taxes payable	148	128
Total current liabilities	12,572	16,438
Long-term liabilities, net of current portion	421	519
Deposit liability	11,815	12,716
Operating lease liabilities, net of current portion	2,254	2,853
Income taxes payable, net of current portion	2,575	2,948
Total liabilities	29,637	35,474
Redeemable non-controlling interest	28,202	30,905
Total Pixelworks, Inc. shareholders' equity	33,723	40,221
Non-controlling interest	10,738	—
Total shareholders' equity	44,461	40,221
Total liabilities, redeemable non-controlling interest and shareholders' equity	\$ 102,300	\$ 106,600

**Contacts:**

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Company Contact

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**Pixelworks, Inc. 3Q 2022 Conference Call  
November 7, 2022**

**Operator**

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s third 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 third 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, Monday, November 7, 2022. The Company undertakes no obligation to update any such statements to reflect events or circumstances occurring after today. Please refer to today's press release, our annual report on Form 10-K for the year ended December 31, 2021, and subsequent SEC filings for a description of factors that could cause forward-looking statements to differ materially from actual results.

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

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

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

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

**Todd DeBonis**

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

Starting with our reported results. We delivered another solid quarter, with revenue at the midpoint of guidance and growing 16% year-over-year during what continues to be a very challenging environment for the broader semiconductor industry. The Pixelworks team has continued to execute despite the various macro challenges, and this quarter marked the sixth consecutive quarter of double-digit, year-over-year growth in both our mobile and projector businesses. Total revenue year-to-date is up 38% over the first nine months of 2021, and we expect to close out 2022 with full year growth in excess of 25%.

Despite inflationary cost pressure throughout the year and our mobile growth contributing to an increasing portion of our total business, we've maintained healthy gross margins that were at 50% in the third quarter. Additionally, both OpEx and EPS for the quarter were better than the midpoint of guidance, reflecting our careful cost management and attention to improving bottom-line results over time.

In addition to our solid operating performance, during the quarter we closed a strategic investment in our Shanghai subsidiary at nearly 2 times the valuation of the previous investment round. Our ability to execute this transaction in the current environment highlights the recognition and growing opportunity for our visual processing technology across Asia. It also enabled us to further strengthen our balance sheet in support of driving continued momentum in our mobile business and our growth initiatives for the TrueCut Motion platform.

Turning to updates on our primary end markets. As expected, Mobile business was down sequentially from the record quarterly revenue we posted in the second quarter, primarily reflecting the start of a broadly acknowledged inventory correction in smartphones and weaker consumer demand in China. With that said, we maintained solid growth year-over-year, with mobile revenue increasing more than 25%, which represented the 7<sup>th</sup> consecutive quarter of year-over-year growth, and year-to-date, our mobile revenue was up 44% compared to the first nine months of 2021.

Although the pace of new smartphone launches by mobile OEMs has slowed with various planned models either being pushed-out or canceled as the industry focuses on working-down excess component inventories, we have maintained a high level of engagement activity and continued to secure new design wins. As a result of the current market dynamics, we've experienced certain customer programs that were originally targeted for our latest X7 processor instead incorporate our X5+ solution as part of efforts to either reduce existing component inventories and/or minimize the total BoM cost of devices. While this defers the opportunity to penetrate the market with our X7 solutions into early next year, we are still securing many of the targeted sockets on these models.

To briefly highlight one of our recently announced mobile wins. In October, vivo launched the iQOO Neo7 smartphone incorporating an upgraded Pixelworks X5 series visual processor, with the goal of delivering a more captivating gaming and video experience. Built on MediaTek's Dimensity 9000+ flagship 5G mobile platform, the iQOO Neo7 leverages our patented MEMC technology with high-efficiency interpolation algorithm to boost low frame rate gaming content to high frame rates of up to 120 fps. In addition to our MotionEngine now being adapted for optimal performance on 21 popular mobile games, we also worked closely with iQOO to incorporate a unique set of built-in visual effects enhancement modes. The modes or gaming filters give the end user full autonomy to choose between preset visual styles or create their own custom filter by adjusting individual visual quality parameters.

Earlier in the quarter, we also added Sharp as a first-time customer in mobile with Sharp's launch of its AQUOS sense7 plus smartphone. Although primarily targeted for consumers in Japan, the device based on Qualcomm's Snapdragon 695 5G Mobile Platform features an impressive 6.4-inch IGZO OLED display with 10-bit color depth and 1,300 nits peak brightness. As a result of our collaboration and the incorporation of our X5+ advanced visual processing solution, the AQUOS sense7 plus enables 5 times video frame insertion, or up to 120Hz, and also supports variable refresh rate.

Stepping back, year-to-date our mobile visual processing solutions have been incorporated in smartphones launched by 3 of the 4 tier-one OEMs and their respective affiliate brands in China, including vivo, iQOO, OPPO, realme, OnePlus and Honor. More broadly, our technology has also enabled devices launched this year by ASUS and Sharp. Effectively all of the models launched by these OEM customers were either directly targeted at or marketed as supporting advanced visual quality for higher frame rate mobile gaming at low power. Together with our efforts to spearhead an engaged ecosystem for mobile gaming through ongoing collaboration with multiple leading gaming engine platforms and design studios, Pixelworks has distinguished itself within China as a technology leader in the area of mobile visual processing.

This recognition is creating expanded opportunities for our technology, both in the form of deeper strategic engagements with AP platform vendors and increasing inbound interest from IC Design firms to license and incorporate certain Pixelworks' visual processing IP into their next-generation solutions. We are currently in late-stage discussions on multiple prospective license engagements. One point I'd like to emphasize about any prospective deal involving IP licensing is they are carefully evaluated and subject to key engagement criteria. Most important, we will not pursue a licensing arrangement which erodes existing market potential that we could otherwise address directly. In other words, we believe these current prospective IP deals are incremental opportunities to further monetize our technology.

Turning to an update on our TrueCut Motion platform, we were excited to see the successful re-release of Lightstorm Entertainment's "Avatar" this September, the first globally available title re-mastered with TrueCut Motion. Our tools were used on every frame of this iconic movie, allowing cinemas to play at 4K resolution, in High Dynamic Range, with the motion look tuned shot by shot to achieve exactly what the filmmaker intended. This re-release was seen in 47 markets worldwide, achieving a gross box office sales of over \$76 million, further cementing its position as the highest grossing movie of all time. We can now confidently say that we have a global TrueCut Motion cinema ecosystem in place.



As part of our previously announced multi-title license agreement with Lightstorm Entertainment, today we are actively working to replicate the same level of success with the re-release of *Titanic*, which is slated to hit theaters in early February. With growing momentum on the content side of the ecosystem, our team's focus is on securing a global home entertainment ecosystem.

Shifting to our Projector business, revenue grew single-digits sequentially and increased 10% year-over-year, reflecting the highest quarterly revenue in more than two years. Although customers have more recently indicated some improvement in their ability to source other key projector components, such as timing controllers and panels, the extremely tight supply environment and long lead times for components earlier in the year hampered projector OEMs from meeting total end demand. So far, this demand is still present, and our Projector customers believe they will no longer be supply constrained by early next year.

Also notable within the projector business, our co-development project with our largest projector customer remains on track and we expect to complete development work on this next-generation SoC by year-end. Upon completing development work, we are entitled to receive a contracted milestone payment, which will be recognized as a credit to R&D and meaningfully reduce our reported OpEx for the fourth quarter. As a reminder, we anticipate this new SoC to be in production by late 2023 and then continue to ramp in support of an increasing number of our lead customer's projector models.

Finally, I want to highlight a recent strategic action we took in our Video Delivery business to end-of-life a series of legacy ICs. As a reminder, we acquired this business as part of ViXS Systems in the second half of 2017, and it has been comprised of several transcoding ICs that we've primarily sold into Consumer applications in Japan as well as OTA devices here in the U.S. Another area these transcoders are used is in video delivery infrastructure. These applications often require unique packaging and are generally much lower volume, making them increasingly difficult to source and supply efficiently over time. As such, we've implemented an EOL on a certain portion of these transcoding ICs, which will result in a one-time increase in Video Delivery revenue in the fourth quarter.

In summary, we are executing well in the face of many macro-related headwinds and continue to pursue strategic actions to mitigate the near-term impacts of the current environment. We have kept our inventory in check and at healthy levels. We are being prudent on costs and spending, including limiting any incremental new headcount, and we've added cash to the balance sheet at a very attractive valuation with minimal dilutive impact to shareholders. During the quarter, we also completed the planned conversion to a joint stock corporation as part of preparing our Pixelworks Shanghai subsidiary for a local listing on the STAR Market in China. This structural change brings us one step closer to Pixelworks Shanghai beginning the CRSC's tutoring process and ultimately submitting its formal application for listing.

While we remain cautious about the near-term macro environment and consumer demand, we are in a strong financial position to fully execute on our growth initiatives and further extend Pixelworks' technology leadership in our target end markets.

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

## Haley Aman

Thank you, Todd.

Revenue for the third quarter of 2022 was \$17.6 million, down 8% sequentially from \$19.1 million in the second quarter, and representing an increase of 16% from \$15.2 million in the third quarter of 2021. Our top-line results for the quarter were driven by a combination of continued strong year-over-year growth in our mobile business and sustained customer demand in our projector business, with projector revenue once again reaching the highest quarterly level since the onset of the pandemic.

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

- Revenue from Mobile increased more than 25% year-over-year to approximately \$6.0 million, which represented just over 34% of total revenue in the third quarter. Similar to recent quarters, sales of our integrated circuits were the largest contributor to mobile revenue this quarter.
- Revenue from Projector was approximately \$9.9 million, increasing 5% sequentially and 10% year-over-year, reflecting sustained customer demand.
- Video Delivery revenue was approximately \$1.6 million in the third quarter.

Non-GAAP gross profit margin was 49.8% in the third quarter of 2022, compared to 49.3% in the second quarter of 2022, and compared to 53.1% in the third quarter of 2021.

Non-GAAP operating expenses were \$12.2 million in the third quarter compared to \$12.9 million last quarter and \$10.1 million in the third quarter of 2021.

On a non-GAAP basis, third quarter 2022 net loss was \$3.2 million, or a loss of (\$0.06) cents per share, compared to a net loss of \$3.3 million, or a loss of (\$0.06) cents per share, in the prior quarter, and a net loss of \$2.2 million, or a loss of (\$0.04) cents per share, in the third quarter of 2021.

Adjusted EBITDA for the third quarter of 2022 was a negative \$2.1 million, compared to a negative \$2.4 million last quarter and a negative \$1.6 million in the third quarter of 2021.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents of \$57.6 million. The sequential increase primarily reflected \$10.7 million in net proceeds from closing the transaction to transfer approximately 2.7% of Pixelworks' equity interest in our Shanghai subsidiary to new private equity investors. This increase was partially offset by cash used in operating activities.

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

We anticipate fourth quarter total revenue to be in a range of between \$16.0 million and \$18.0 million. At the midpoint of this range, total revenue for the full year 2022 would represent annual growth of approximately 27.5% over 2021.

Non-GAAP gross profit margin in the fourth quarter is expected to be between 56% and 58%. The anticipated sequential increase reflects a more favorable product mix, comprised of an expected increase in licensing revenue and an increase in revenue related to the end-of-life of certain legacy chips sold into the Video Delivery market.

In terms of operating expenses in the fourth quarter, we currently expect to achieve a planned milestone related to our co-development agreement. As with previous treatment, the milestone payment will be recognized as a credit to R&D reducing our anticipated reported operating expenses in the fourth quarter. Taking this credit into account, we expect operating expenses to range between \$10 million and \$11 million on a non-GAAP basis.

Lastly, we expect fourth quarter non-GAAP EPS to range between a loss of (\$0.04) cents per share and income of \$0.01 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.