

**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): May 2, 2019

**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.)

**226 Airport Parkway, Suite 595  
San Jose, CA 95110  
(408) 200-9200**

(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))

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.

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

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

On May 2, 2019, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and twelve month periods ended March 31, 2019 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 May 2, 2019 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 May 2, 2019.</a>
99.2	<a href="#">Pixelworks, Inc. First Quarter Results Conference Call Script dated May 2, 2019.</a>

**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: May 2, 2019

/s/ Steven L. Moore

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Steven L. Moore  
*Vice President, Chief Financial  
Officer, Secretary and Treasurer*



## Pixelworks Reports First Quarter 2019 Financial Results

*First quarter revenue increased 9% year-over-year with strong growth in Video Delivery and Mobile*

**SAN JOSE, Calif., May 2, 2019** - Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of power efficient visual processing solutions, today announced financial results for the first quarter ended March 31, 2019.

### First Quarter and Recent Highlights

- Video Delivery revenue grew 64% year-over-year, and Mobile revenue increased over 250%, including mobile-related licensing revenue
- Recognized net gain of \$3.9 million on the sale of non-strategic patents
- Unveiled 5<sup>th</sup> generation Iris visual processor and began pre-production sampling to multiple mobile OEMs
- Announced cooperative agreement with Qualcomm to provide a subset of Pixelworks Iris features as a software-only solution optimized for Snapdragon™ 855 mobile platforms
- Black Shark incorporated Iris visual processor into its newest gaming smartphone, the Black Shark 2
- Launched TrueCut®, an end-to-end video optimization platform, extending cinematic motion and HDR across mobile, home-entertainment and cinema applications
- YouKu selected TrueCut as part of a multi-year marketing and license agreement to jointly advance the ecosystem for HDR quality video on mobile devices in China

President and CEO of Pixelworks, Todd DeBonis, commented, “First quarter revenue of \$16.6 million included strong year-over-year growth in Video Delivery and Mobile on increased demand for both our Iris and XCode families of processors. Additionally, higher mobile-related licensing revenue resulted in better than expected gross margin, contributing to quarterly EPS being at the high-end of guidance. As anticipated, we also successfully monetized certain non-strategic patents acquired as part of ViXS, resulting in the recognition of a \$3.9 million net gain in the first quarter.

“Since the beginning of the year, we’ve announced a series of new wins and strategic agreements with industry leading customers and ecosystem partners. In addition to sampling our new 5<sup>th</sup> generation Iris device to multiple mobile OEMs, we also significantly expanded our visual processing product portfolio with the introduction of Pixelworks’ first software-only solutions for mobile applications. These included a cooperative agreement with Qualcomm to offer our advanced display calibration software on Snapdragon mobile platforms, as well as the launch of Pixelworks’ TrueCut video optimization platform for cinematic motion and HDR. In conjunction with the commercial launch of TrueCut, we announced a multi-year marketing and license agreement with YouKu to jointly advance the ecosystem for high-quality HDR video on mobile devices in China.”

DeBonis concluded, “Pixelworks’ value proposition and the growing market opportunity for our advanced visual processing and video delivery technology are becoming significantly more pervasive in the current ‘Golden Age’ of content creation. Looking forward, our robust pipeline of engagements for our chip-based solutions combined with the expanding opportunities for our new software-only offerings are expected to contribute to incremental wins and momentum over the course of 2019.”

### First Quarter 2019 Financial Results

Revenue in the first quarter of 2019 was \$16.6 million, compared to \$20.5 million in the fourth quarter of 2018 and \$15.3 million in the first quarter of 2018. The year-over-year increase in revenue reflects a combination of growth in the Video Delivery and Mobile end markets.

On a GAAP basis, gross profit margin in the first quarter of 2019 was 50.9%, compared to 53.1% in the fourth quarter of 2018 and 51.0% in the first quarter of 2018. GAAP operating expenses in the first quarter of 2019 were \$11.9 million, compared to \$12.4 million in the fourth quarter of 2018 and \$9.1 million in the year-ago quarter.

For the first quarter of 2019, the Company recorded a GAAP net loss of \$29,000, or (\$0.00) per share, which included a net gain of \$3.9 million related to the sale of non-strategic patents, compared to a GAAP net loss of \$1.6 million, or (\$0.04) per share, in the fourth quarter of 2018 and a GAAP net loss of \$598,000, or (\$0.02) per share, in the year-ago quarter.

On a non-GAAP basis, first quarter 2019 gross profit margin was 53.3%, compared to 55.1% in the fourth quarter of 2018 and 54.2% in the first quarter of 2018. Non-GAAP operating expenses in the first quarter of 2019 were \$10.3 million, compared to \$10.3 million in the fourth quarter of 2018 and \$7.8 million in the year-ago quarter.

Operating expenses in the fourth and first quarters of 2018 included the recognition of offsets to R&D of approximately \$220,000 and \$2.0 million, respectively, related to the Company's since-completed co-development project with a large digital projector customer.

For the first quarter of 2019, the Company recorded a non-GAAP net loss of \$1.6 million, or (\$0.04) per share, compared to non-GAAP net income of \$1.1 million, or \$0.03 per diluted share, in the fourth quarter of 2018 and non-GAAP net income of \$38,000, or \$0.00 per diluted share, in the year-ago quarter.

Adjusted EBITDA in the first quarter of 2019 was (\$464,000), compared to \$1.8 million in the fourth quarter of 2018 and \$1.3 million in the first quarter of 2018.

### **Business Outlook**

For the second quarter of 2019, Pixelworks expects revenue to be in a range of between \$17.5 million and \$18.5 million, reflecting anticipated seasonal growth in the Digital Projection market and continued year-over-year momentum in the Company's Mobile and Video Delivery businesses. Additional guidance will be provided as part of the Company's earnings conference call.

### **Conference Call Information**

Pixelworks will host a conference call today, May 2, 2019, at 2:00 p.m. Pacific Time, which can be accessed by calling 1-877-359-9508 and using passcode 3885227. A Web broadcast of the call can be accessed by visiting the Company's investor page at [www.pixelworks.com](http://www.pixelworks.com). For those unable to listen to the live Web broadcast, it will be archived for at least 30 days. A replay of the conference call will also be available through Thursday, May 9, 2019, and can be accessed by calling 1-855-859-2056 and using passcode 3885227.

### **About Pixelworks, Inc.**

Pixelworks creates, develops and markets high-efficiency visual display processing and advanced video delivery solutions for the highest quality display and streaming applications. The Company has a 20-year history of delivering image processing innovation to providers of leading-edge consumer electronics and professional displays, as well as video delivery and streaming solutions. The Company is headquartered in San Jose, Calif. 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 are registered trademarks of Pixelworks, Inc. All other trademarks are the property of their respective owners.

### **Non-GAAP Financial Measures**

*This earnings release makes reference to non-GAAP gross profit margins, non-GAAP operating expenses, non-GAAP net income (loss) and non-GAAP net income (loss) per share, which exclude gain on sale of patents, inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, restructuring expenses, gain on extinguishment of convertible debt, and discount accretion on convertible debt fair value which are all required under GAAP as well as the tax effect of the non-GAAP adjustments. The press release also makes reference to and reconciles GAAP net income (loss) and adjusted EBITDA, which Pixelworks defines as GAAP net income (loss) before interest income (expense) 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.*

*In calculating the above non-GAAP results, management specifically adjusted for certain items related to the acquisition of ViXS Systems, Inc., including amortization of acquired intangible assets, and impact of inventory step up, both related to fair valuing the items, restructuring expenses related to a reduction in workforce and facility closure and consolidations, gain on debt extinguishment, and accretion on convertible debt. Management considers these items as either limited in term or having no impact on Pixelworks' cash flows, and therefore has excluded such items to facilitate a review of current operating performance and comparisons to our past operating performance.*

*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 digital projection, mobile and video delivery businesses, including market movement and demand, customer engagements, mobile wins and the timing thereof, growth in the mobile and video delivery markets, strategy, seasonality, the impact of our agreement as to non-strategic patents and additional guidance, particularly as to revenue for the second quarter of 2019. 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, including the integration of ViXS; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; the success of our products in expanded 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, 2018 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		
	March 31,	December 31,	March 31,
	2019	2018	2018
Revenue, net	\$ 16,648	\$ 20,539	\$ 15,292
Cost of revenue (1)	8,176	9,634	7,490
Gross profit	8,472	10,905	7,802
Operating expenses:			
Research and development (2)	6,472	6,673	4,463
Selling, general and administrative (3)	5,460	5,310	4,614
Restructuring	—	429	19
Total operating expenses	11,932	12,412	9,096
Loss from operations	(3,460)	(1,507)	(1,294)
Gain on sale of patents	3,905	—	—
Interest income (expense) and other, net (4)	(66)	(82)	972
Total other income (expense), net	3,839	(82)	972
Income (loss) before income taxes	379	(1,589)	(322)
Provision for income taxes	408	52	276
Net loss	\$ (29)	\$ (1,641)	\$ (598)
Net loss per share - basic and diluted	\$ (0.00)	\$ (0.04)	\$ (0.02)
Weighted average shares outstanding - basic and diluted	37,247	36,736	35,183

(1) Includes:

Amortization of acquired intangible assets	298	298	298
Stock-based compensation	95	93	66
Inventory step-up and backlog amortization	12	17	122

(2) Includes stock-based compensation

661	635	595
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(3) Includes:

Stock-based compensation	933	910	539
Amortization of acquired intangible assets	84	101	101

(4) Includes:

Gain on debt extinguishment	—	—	(1,272)
Discount accretion on convertible debt fair value	—	—	69

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

	Three Months Ended		
	March 31,	December 31,	March 31,
	2019	2018	2018
<b>Reconciliation of GAAP and non-GAAP gross profit</b>			
GAAP gross profit	\$ 8,472	\$ 10,905	\$ 7,802
Amortization of acquired intangible assets	298	298	298
Stock-based compensation	95	93	66
Inventory step-up and backlog amortization	12	17	122
Total reconciling items included in gross profit	405	408	486
Non-GAAP gross profit	\$ 8,877	\$ 11,313	\$ 8,288
Non-GAAP gross profit margin	53.3%	55.1%	54.2%
<b>Reconciliation of GAAP and non-GAAP operating expenses</b>			
GAAP operating expenses	\$ 11,932	\$ 12,412	\$ 9,096
Reconciling item included in research and development:			
Stock-based compensation	661	635	595
Reconciling items included in selling, general and administrative:			
Stock-based compensation	933	910	539
Amortization of acquired intangible assets	84	101	101
Restructuring	—	429	19
Total reconciling items included in operating expenses	1,678	2,075	1,254
Non-GAAP operating expenses	\$ 10,254	\$ 10,337	\$ 7,842
<b>Reconciliation of GAAP and non-GAAP net income (loss)</b>			
GAAP net loss	\$ (29)	\$ (1,641)	\$ (598)
Reconciling items included in gross profit	405	408	486
Reconciling items included in operating expenses	1,678	2,075	1,254
Reconciling items included in total other income (expense), net	(3,905)	—	(1,203)
Tax effect of non-GAAP adjustments	219	237	99
Non-GAAP net income (loss)	\$ (1,632)	\$ 1,079	\$ 38
Non-GAAP net income (loss) per share:			
Basic	\$ (0.04)	\$ 0.03	\$ 0.00
Diluted	\$ (0.04)	\$ 0.03	\$ 0.00
Non-GAAP weighted average shares outstanding:			
Basic	37,247	36,736	35,183
Diluted	37,247	38,320	37,306

\*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					
	March 31,		December 31,		March 31,	
	2019		2018		2018	
	Dollars per share		Dollars per share		Dollars per share	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
<b>Reconciliation of GAAP and non-GAAP net income (loss)</b>						
GAAP net loss	\$ 0.00	\$ 0.00	\$ (0.04)	\$ (0.04)	\$ (0.02)	\$ (0.02)
Reconciling items included in gross profit	0.01	0.01	0.01	0.01	0.01	0.01
Reconciling items included in operating expenses	0.05	0.05	0.06	0.05	0.04	0.03
Reconciling items included in total other income (expense), net	(0.10)	(0.10)	—	—	(0.03)	(0.03)
Tax effect of non-GAAP adjustments	0.01	0.01	0.01	0.01	—	—
Non-GAAP net income (loss)	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.00</u>	<u>\$ 0.00</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		
	March 31, 2019	December 31, 2018	March 31, 2018
<b>Reconciliation of GAAP and non-GAAP gross profit margin</b>			
GAAP gross profit margin	50.9%	53.1%	51.0%
Amortization of acquired intangible assets	1.8	1.5	1.9
Stock-based compensation	0.6	0.5	0.4
Inventory step-up and backlog amortization	0.1	0.1	0.8
Total reconciling items included in gross profit	2.4	2.0	3.2
Non-GAAP gross profit margin	53.3%	55.1%	54.2%

\*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		
	March 31,	December 31,	March 31,
	2019	2018	2018
<b>Reconciliation of GAAP net loss and adjusted EBITDA</b>			
GAAP net loss	\$ (29)	\$ (1,641)	\$ (598)
Gain on sale of patents	(3,905)	—	—
Stock-based compensation	1,689	1,638	1,200
Amortization of acquired intangible assets	382	399	399
Tax effect of non-GAAP adjustments	219	237	99
Inventory step-up and backlog amortization	12	17	122
Restructuring	—	429	19
Gain on debt extinguishment	—	—	(1,272)
Discount accretion on convertible debt fair value	—	—	69
Non-GAAP net income (loss)	<u>\$ (1,632)</u>	<u>\$ 1,079</u>	<u>\$ 38</u>
EBITDA adjustments:			
Depreciation and amortization	\$ 913	\$ 873	\$ 826
Non-GAAP Interest expense and other, net	66	82	231
Non-GAAP provision (benefit) for income taxes	189	(185)	177
Adjusted EBITDA	<u>\$ (464)</u>	<u>\$ 1,849</u>	<u>\$ 1,272</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)

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,346	\$ 17,944
Short-term marketable securities	6,566	6,069
Accounts receivable, net	5,853	6,982
Inventories	3,018	2,954
Prepaid expenses and other current assets	2,828	1,494
Total current assets	35,611	35,443
Property and equipment, net	5,409	6,151
Operating lease right of use assets	5,658	—
Other assets, net	1,700	1,132
Acquired intangible assets, net	3,826	4,208
Goodwill	18,407	18,407
Total assets	\$ 70,611	\$ 65,341
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,647	\$ 2,116
Accrued liabilities and current portion of long-term liabilities	13,780	14,823
Current portion of income taxes payable	440	263
Total current liabilities	16,867	17,202
Long-term liabilities, net of current portion	700	1,017
Operating lease liabilities, net of current portion	3,900	—
Income taxes payable, net of current portion	2,342	2,299
Total liabilities	23,809	20,518
Shareholders' equity	46,802	44,823
Total liabilities and shareholders' equity	\$ 70,611	\$ 65,341

**Contacts:**

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**Pixelworks, Inc. Q1 2019 Conference Call**  
**May 2, 2019**

**Operator**

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s first quarter 2019 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, we will conduct a question-and-answer session. This conference call is being recorded for replay purposes. I would now like to turn the call over to Pixelworks' Vice President and CFO, Mr. Steve Moore.

**Steve Moore**

Good afternoon and thank you for joining us today. With me on today's call is Todd DeBonis, Pixelworks' President and CEO. The purpose of today's conference call is to supplement the information provided in our press release issued earlier today announcing the Company's financial results for the first quarter 2019.

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, May 2, 2019, and we undertake 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, 2018, 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's 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 income/loss, and net income/loss per share. These non-GAAP measures exclude gain on sale of patents, inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, restructuring expenses, discount accretion on convertible debt fair value and gain on extinguishment of convertible debt. We use these non-GAAP measures internally to assess our operating performance. The Company believes these non-GAAP measures provide a meaningful perspective on our core operating results and underlying cash flow dynamics, but we caution investors to consider these measures in addition to, not as a substitute for, nor superior to, the Company's consolidated financial results as presented in accordance with GAAP.

Included in the Company's press release are definitions and reconciliations of GAAP to non-GAAP net income/loss and GAAP net income/loss to adjusted EBITDA, which provide additional details.

With that said, I will now turn the call over to Todd for his opening remarks.

**Todd DeBonis**

Thank you, Steve and good afternoon and welcome to everyone joining us on today's call.

Beginning with a quick overview of the numbers. As reported in today's press release, our first quarter financial results were at or above the high end of our guidance range. Consolidated revenue in the first quarter increased 9% year-over-year to \$16.6 million, including continued solid growth in Video Delivery and Mobile combined with mobile-related licensing revenue. As a result of the licensing revenue, gross margin came in better than anticipated and contributed to first quarter EPS at the high-end of our guidance range. Additionally, during the quarter we recognized a net gain of \$3.9 million on the previously announced sale of non-strategic patents acquired as part of ViXS.

Now turning to an update on each of our end markets.

Our Digital Projector business performed largely as expected, with the sequential decline reflecting typical first quarter seasonality combined with a softer demand profile due to the macroenvironment in late 2018, particularly in China. This resulted in an inventory correction during the quarter, as customers worked to reduce higher inventory levels in advance of the fiscal year ending in March.

Although the current macroeconomic backdrop in China will likely continue to temper end market demand, most of our projector customers appear to have made progress working down excess channel inventory. Our current bookings and backlog indicate reasonable sequential growth in the second quarter and further normalization of channel inventory and order patterns throughout 2019.

As discussed on our last call we also continue to expect our large co-development customer to begin gradually transitioning to the next-generation SoC late this year. Although this new chip will have a higher gross margin profile, it also is at a lower ASP than the current generation. Currently this product transition is forecasted to start late this year and continue through 2020, however the transition is likely to moderate the typical seasonal trends that we experience in the second half of the year.

In our Video Delivery business -- we had another strong quarter, with revenue growth of over 60% year-over-year. Most notable, we shipped to fulfill solid follow-on orders from our Japanese consumer electronic customers for our XCode family of decoder and transcoder devices.

We continue to be well positioned with previous design wins on a series of ADSB-compatible in-home media devices in Japan, including both set-top-box converter devices and advanced personal video recorders, or PVRs. Our highly-integrated and low power XCode processors are a key enabler of the performance and advanced features of these devices - all of which allow Japanese consumers to take advantage of the newly launched ADSB broadcast standard, which supports over-the-air terrestrial broadcast in 4K and HDR quality.

As we have stated previously, our leading customer's recorders incorporate two XCode processors in order to leverage Pixelworks' industry-leading transcoding, which enables users to efficiently stream high-quality recorded content to display devices, either directly or over WiFi. Our same transcoding solutions also continue to be utilized in a number of existing single, dual and quad over-the-air streaming products here in the U.S. Pixelworks' technology enables these devices to wirelessly stream free High Definition Over the Air broadcast channels to WiFi-connected TVs, smartphones and tablets.

As demonstrated by the significant year-over-year growth in our Video Delivery business, the initial ramp of our customers' ADSB-compatible devices in Japan has been progressing well. We do believe the current rate of growth is likely to moderate, as end market consumer demand from early adopters tapers off and begins to shift toward everyday Japanese consumers that are more price sensitive and likely to adopt over time as additional high-quality 4K content becomes available. That said, we still anticipate our Video Delivery business will continue to show solid year-over-year growth.

In our Mobile business -- we entered the year with strong momentum following what I've previously characterized as a transformational year in 2018. In the first quarter, Mobile revenue including mobile-related licensing revenue grew more than 250% year-over-year, representing the 5<sup>th</sup> consecutive quarter of year-over-year revenue growth. More importantly, we successfully executed on multiple strategic initiatives to significantly increase the size of Pixelworks' total market opportunity. A perfect example is the strategic partnership we announced in January with HMD Global to incorporate Pixelworks' Iris technology in a broad range of Nokia's next-generation smartphones as part of shared vision of bringing advanced visual processing to a new tier of consumers. Another example of expanded opportunity is gaming phones. In March, Xiaomi-backed Black Shark launched its latest high-performance gaming smartphone, the Black Shark 2 - which represented this customer's 3<sup>rd</sup> gaming phone, all incorporating a Pixelworks Iris visual processor.

In order to better address unique applications and requirements across a broader set of prospective OEM engagements, during the quarter we formally introduced the feature set and began sampling our 5<sup>th</sup> generation Iris visual processor to select mobile customers. Our 5<sup>th</sup> generation device incorporates significant advancements in visual processing, while simultaneously maintaining unprecedented power efficiency. A few of its many advanced features include intelligent adaptive motion processing, HDR10+ tone mapping, and advanced local contrast management and enhancement. In addition to significantly improved power efficiency and dramatically improved video and image quality on both LCD and OLED displays, our 5<sup>th</sup> generation Iris supports refresh-rates of up to 120Hz. Early customer interest has been strong, and our early adopter customers are targeting launches of the first mobile devices incorporating Iris 5 in the second half of 2019.

Also during the quarter, we announced a cooperative agreement with Qualcomm to provide smartphone OEMs with the ability to seamlessly implement Pixelworks' display calibration software on smartphones and tablets that utilize Qualcomm's flagship Snapdragon 855 platform. This agreement represented a major milestone, as it facilitated Pixelworks' first-ever software-only solution for mobile devices. In addition to this software solution being publicly endorsed by Qualcomm as part of our announcement, together we are bringing improved color accuracy to a broad set of customers. Importantly, our innovative 'Soft' Iris solution includes only a sub-set of the full features provided by our Iris family of visual processors. Currently, this sub-set primarily consists of advanced color calibration and progressive color management that can be implemented on Snapdragon 855-based mobile devices. This offering now expands our Iris product portfolio to include both hardware and software solutions, and increases the total addressable market for Pixelworks' visual enhancement solutions.

Taken together, the announcements of our 5<sup>th</sup> generation Iris processor and our 'Soft' Iris solution have resulted in further expansion of our mobile customer engagements over the last few months.

Further expanding both Pixelworks' product portfolio and market opportunity, last month we introduced TrueCut - a truly unique end-to-end video platform that extends the boundaries for both content creation and the consistent delivery of high-quality cinematic motion and HDR across a large cross-section of mobile devices, home entertainment systems and cinema displays. TrueCut is a platform that consists of independent software tools for content creators, content distributors and also individual viewing devices. In the simplest terms, the fundamental value of this innovative new platform is the ability to maintain the "content creator's intent" while also taking full advantage of the capabilities of today's incredible mobile, home entertainment and cinema displays.

In conjunction with the commercial launch of TrueCut, we announced a multi-year marketing and license agreement with YouKu to jointly advance the ecosystem for high-quality HDR video on mobile devices in China. As brief context for those not familiar with YouKu, the company operates as a subsidiary of Alibaba and is a leading video content provider and creator of digital entertainment in China with a subscriber base of over 500 million active users. YouKu is a great strategic partner for TrueCut due to a combination of their large existing subscriber base and focus on delivering high-quality video in China. As part of our announced agreement, YouKu will leverage Pixelworks' TrueCut platform to remaster its existing library of content and also master newly created content in high-quality HDR. Additionally, Pixelworks is actively in the process of qualifying a significant number of existing mobile devices that are favored by Youku's subscribers and will also certify future devices by working directly with mobile OEMs to enable high-quality HDR video streaming of YouKu content.

### **Concluding Remarks**

To conclude my remarks - Since the beginning of the year, we've successfully executed on a number of meaningful initiatives in support of driving continued growth in our mobile and video delivery businesses. This includes multiple new announced wins, initial sampling of our new 5<sup>th</sup> generation Iris visual processor to mobile OEMs, and the securing of a series of strategic agreements with industry leading customers and ecosystem partners. In addition to serving as further validation of our technology and increasing Pixelworks prominence in key ecosystems, our recently announced agreements with both Qualcomm and YouKu provided ideal platforms to introduce Pixelworks' software solutions for the mobile market. While nearly all of the milestones I've discussed on today's call are the result of years of effort, the team is excited to bring these initiatives to fruition in early 2019. By meaningfully expanding our product portfolio of hardware and software visual enhancement solutions, and dramatically increasing Pixelworks' total addressable market we are positioning the company for sustained long term growth

We continue to have a robust and growing pipeline of engagements, and we are extremely focused on converting engagements into new wins and momentum, which we look forward to announcing over the course of 2019.

With that I'll turn the call over to Steve for a more detailed review of our first quarter financial results and guidance for the second quarter. Steve?



**Steve Moore**

Thank you, Todd.

Revenue for the first quarter of 2019 was \$16.6 million, compared to \$20.5 million in the fourth quarter and revenue of \$15.3 million in the first quarter of 2018. Revenue for the first quarter of 2019 reflects expected seasonality in the Digital Projector market and continued year-over-year growth in our Video Delivery and Mobile end markets.

The breakdown of first quarter revenue by end market was as follows:

Revenue from Digital Projector was approximately \$11.1 million.

Video Delivery revenue was approximately \$3.9 million.

And revenue from Mobile, including sales of Iris processor and licensing revenue was approximately \$1.6 million.

Non-GAAP gross profit margin was 53.3% in the first quarter of 2019, compared to 55.1% in the fourth quarter of 2018 and 54.2% in the first quarter of 2018.

Non-GAAP operating expenses were \$10.3 million in the first quarter of 2019, compared to \$10.3 million in the fourth quarter of 2018 and \$7.8 million in the first quarter of 2018. Note, lower operating expenses in the year-ago quarter reflected the recognition of approximately \$2 million of offsets to R&D associated with our now-completed co-development project with a large projector customer.

Adjusted EBITDA was a negative \$464,000 for the first quarter of 2019, compared to positive \$1.8 million in the fourth quarter of 2018 and positive \$1.3 million in the first quarter of 2018. A reconciliation of adjusted EBITDA to GAAP net income/loss may be found in today's press release.

We reported a non-GAAP net loss of \$1.6 million, or 4 cents loss per share, in the first quarter of 2019, compared to non-GAAP net income of \$1.1 million, or 3 cents income per diluted share, in the prior quarter, and non-GAAP net income of \$38,000, or breakeven on a per diluted share basis, in the first quarter of 2018. As a reminder, non-GAAP net income for the first quarter of 2019 does not include the \$3.9 million net gain from the sale of non-strategic patents acquired as part of ViXS.

Moving to the balance sheet, we ended the first quarter with cash, cash equivalents and short-term investments of approximately \$23.9 million, effectively flat with the prior quarter.

Other balance sheet metrics include day's sales outstanding of 32 days at quarter-end, compared with 31 days at the end of the fourth quarter 2018. Inventory turns during the first quarter of 2019 were 10.1 times, compared to 12.3 times in the prior quarter.

Additionally, during the first quarter we adopted the new lease accounting standard ASC 842, which resulted in material changes to the balance sheet. This included the recognition of \$5.7 million in right of use assets, and \$6.1 million in short- and long-term operating lease liabilities.

Our guidance for the second quarter of 2019 is as follows:

We expect revenue to be in a range of between \$17.5 million and \$18.5 million, which reflects anticipated seasonal growth in the Digital Projection market and continued year-over-year growth in the our Mobile and Video Delivery businesses.

We expect non-GAAP gross profit margin of between 52% and 54%.

For operating expenses, we expect the second quarter to range between \$10 million and \$10.5 million on a non-GAAP basis.

And finally, we expect second quarter non-GAAP EPS to be in the range of between breakeven and 4 cents loss per share.

With that, we will now open the call for questions.