

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): August 8, 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 August 8, 2023, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and six month periods ended June 30, 2023 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued August 8, 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 August 8, 2023.
99.2	Pixelworks, Inc. Second Quarter Results Conference Call Script dated August 8, 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: August 8, 2023

/s/ Haley F. Aman

Haley F. Aman
Chief Financial Officer



Pixelworks Reports Second Quarter 2023 Financial Results

Mobile Revenue Increased 109% Sequentially, Reaching a Record 50% of Total Revenue

PORTLAND, Ore., August 8, 2023 – Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of innovative video and display processing solutions, today announced financial results for the second quarter ended June 30, 2023.

Second Quarter and Recent Highlights

- Total revenue increased 37% sequentially, driven by triple-digit growth in sales of mobile visual processors to tier-one mobile OEM customers in support of previously and soon to be launched smartphone models
- Formally launched new IRX Gaming Experience brand and certification program for the mobile gaming ecosystem, representing a combination of Pixelworks' visual processor solutions and in-depth game tuning services to facilitate outstanding visual performance for top mobile games and smartphones
- Xiaomi, in collaboration with MediaTek and Pixelworks Shanghai, pre-announced the Xiaomi Redmi K60 Ultra smartphone, incorporating Pixelworks' X7 visual processor and newly launched IRX Gaming Experience device certification
- OPPO affiliate OnePlus previewed the scheduled launch of its OnePlus Ace2 Pro flagship smartphone, featuring simultaneous super frame rate and super-resolution functionality enabled by Pixelworks' X7 visual processor
- Announced incorporation of Pixelworks' Rendering Accelerator SDK in Nuvverse's latest release of the popular mobile game, *Crystal of Atlan (CoA)*, enabling exceptionally smooth 120fps gameplay with low power consumption
- Retained CITIC Securities, a leading investment bank in China, and formally began the required tutoring process in support of the planned future listing of Pixelworks Shanghai subsidiary on the STAR exchange

"The sequential growth in the quarter was primarily driven by increased shipments of our mobile ICs, which contributed to mobile revenue more than doubling and reaching a record 50% of total revenue," stated Todd DeBonis, President and CEO of Pixelworks. "Our results also reflected the expected initial rebound from the low point in the cycle and the end of the smartphone inventory correction for Pixelworks.

"Also in the second quarter, we began ramping shipments to fulfill initial production orders from our fourth tier-one mobile customer, which is scheduled to officially launch its first model incorporating Pixelworks' visual processing solutions later this month. Additionally, we continue to make headway on building-out a collaborative ecosystem around mobile gaming, as highlighted by the recent launch of Pixelworks' IRX Gaming Experience brand. This new IRX branding and certification program represents an expansion of our ongoing mobile ecosystem initiatives and is specifically aimed at delivering higher consistency, quality and consumer awareness for Pixelworks as well as our content and OEM partners.

“Despite the generally subdued recovery of end market demand specifically in China, we remain optimistic about Pixelworks’ positioning and expanding prospects for the second half of the year. Specific to the third quarter, we are guiding for solid sequential top-line growth as the projector market continues to gradually recover and we further ramp mobile shipments in support of a healthy pipeline of design-ins on customers’ next-gen programs.”

Second Quarter Fiscal 2023 Financial Results

Revenue in the second quarter of 2023 was \$13.6 million, compared to \$10.0 million in the first quarter of 2023 and \$19.1 million in the second quarter of 2022. The sequential increase in revenue was driven by strong growth in Pixelworks’ mobile business, while the year-over-year decline primarily reflected lower revenue contribution from the Company’s home and enterprise business due to an inventory correction in the projector market as well as the previously implemented end-of-life of products sold into the video delivery market.

On a GAAP basis, gross profit margin in the second quarter of 2023 was 40.3%, compared to 43.8% in the first quarter of 2023 and 49.0% in the second quarter of 2022. Second quarter 2023 GAAP operating expenses were \$12.0 million, compared to \$14.7 million in the first quarter of 2023 and \$14.5 million in the year-ago quarter.

On a non-GAAP basis, second quarter 2023 gross profit margin was 40.5%, compared to 44.1% in the first quarter of 2023 and 49.3% in the year-ago quarter. Second quarter 2023 non-GAAP operating expenses were \$10.7 million, compared to \$13.6 million in the first quarter of 2023 and \$12.9 million in the year-ago quarter.

For the second quarter of 2023, the Company recorded a GAAP net loss of \$6.0 million, or (\$0.11) per share, compared to a GAAP net loss of \$9.4 million, or (\$0.17) per share, in the first quarter of 2023, and a GAAP net loss of \$5.0 million, or (\$0.09) per share, in the year-ago quarter. Note, the Company refers to “net loss attributable to Pixelworks Inc.” as “net loss”.

For the second quarter of 2023, the Company recorded a non-GAAP net loss of \$4.8 million, or (\$0.09) per share, compared to a non-GAAP net loss of \$8.2 million, or (\$0.15) per share, in the first quarter of 2023, and a non-GAAP net loss of \$3.3 million, or (\$0.06) per share, in the second quarter of 2022.

Adjusted EBITDA in the second quarter of 2023 was a negative \$4.0 million, compared to a negative \$7.8 million in the first quarter of 2023 and a negative \$2.4 million in the year-ago quarter.

Cash and cash equivalents at the end of the second quarter of 2023 were \$54.5 million, compared to \$62.8 million at the end of the first quarter of 2023 and \$49.6 million at the end of the second quarter of 2022.

Business Outlook

The Company’s current business outlook, including guidance for the third quarter of 2023, will be discussed as part of the scheduled conference call.

Conference Call Information

Pixelworks will host a conference call today, August 8, 2023, at 2:00 p.m. Pacific Time. To join the conference call via phone, participants are required to complete the following registration form to receive a dial-in number and dedicated PIN for accessing the conference call. Additionally, a live and archived audio webcast of the conference call will be accessible via the investors section of Pixelworks’ website at www.pixelworks.com.

About Pixelworks, Inc.

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

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

Non-GAAP Financial Measures

This earnings release makes reference to non-GAAP gross profit margins, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share, which exclude amortization of acquired intangible assets and stock-based compensation expense which are required under GAAP as well as the tax effect of the non-GAAP adjustments 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: the actual performance of the smartphone market throughout 2023; 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, 2022, as well as subsequent SEC filings.

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

[Financial Tables Follow]

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

	Three Months Ended			Six Months Ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenue, net	\$ 13,605	\$ 9,966	\$ 19,078	\$ 23,571	\$ 35,706
Cost of revenue (1)	8,121	5,599	9,730	13,720	17,595
Gross profit	5,484	4,367	9,348	9,851	18,111
Operating expenses:					
Research and development (2)	6,507	8,666	8,521	15,173	15,681
Selling, general and administrative (3)	5,468	6,072	6,024	11,540	11,508
Total operating expenses	11,975	14,738	14,545	26,713	27,189
Loss from operations	(6,491)	(10,371)	(5,197)	(16,862)	(9,078)
Interest income and other, net	473	671	101	1,144	263
Loss before income taxes	(6,018)	(9,700)	(5,096)	(15,718)	(8,815)
Provision (benefit) for income taxes	126	34	(88)	160	315
Net loss	(6,144)	(9,734)	(5,008)	(15,878)	(9,130)
Less: Net (income) loss attributable to non-controlling interests and redeemable non-controlling interests	107	338	—	445	(470)
Net loss attributable to Pixelworks Inc.	\$ (6,037)	\$ (9,396)	\$ (5,008)	\$ (15,433)	\$ (9,600)
Net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.11)	\$ (0.17)	\$ (0.09)	\$ (0.28)	\$ (0.18)
Weighted average shares outstanding - basic and diluted	55,917	55,720	54,120	55,666	53,901

(1) Includes:

Stock-based compensation	22	24	59	46	67
Amortization of acquired intangible assets	—	—	—	—	72

(2) Includes stock-based compensation

527	491	647	1,018	1,230
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(3) Includes:

Stock-based compensation	710	651	989	1,361	1,447
Amortization of acquired intangible assets	—	—	—	—	18

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

	Three Months Ended			Six Months Ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 5,484	\$ 4,367	\$ 9,348	\$ 9,851	\$ 18,111
Stock-based compensation	22	24	59	46	67
Amortization of acquired intangible assets	—	—	—	—	72
Total reconciling items included in gross profit	22	24	59	46	139
Non-GAAP gross profit	\$ 5,506	\$ 4,391	\$ 9,407	\$ 9,897	\$ 18,250
Non-GAAP gross profit margin	40.5 %	44.1 %	49.3 %	42.0 %	51.1 %
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 11,975	\$ 14,738	\$ 14,545	\$ 26,713	\$ 27,189
Reconciling item included in research and development:					
Stock-based compensation	527	491	647	1,018	1,230
Reconciling items included in selling, general and administrative:					
Stock-based compensation	710	651	989	1,361	1,447
Amortization of acquired intangible assets	—	—	—	—	18
Total reconciling items included in operating expenses	1,237	1,142	1,636	2,379	2,695
Non-GAAP operating expenses	\$ 10,738	\$ 13,596	\$ 12,909	\$ 24,334	\$ 24,494
Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.					
GAAP net loss attributable to Pixelworks Inc.	\$ (6,037)	\$ (9,396)	\$ (5,008)	\$ (15,433)	\$ (9,600)
Reconciling items included in gross profit	22	24	59	46	139
Reconciling items included in operating expenses	1,237	1,142	1,636	2,379	2,695
Tax effect of non-GAAP adjustments	—	—	(1)	—	(4)
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (4,778)	\$ (8,230)	\$ (3,314)	\$ (13,008)	\$ (6,770)
Non-GAAP net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.09)	\$ (0.15)	\$ (0.06)	\$ (0.23)	\$ (0.13)
Non-GAAP weighted average shares outstanding - basic and diluted	55,917	55,720	54,120	55,666	53,901

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

PIXELWORKS, INC.
RECONCILIATION OF GAAP AND NON-GAAP EARNINGS PER SHARE
(Figures may not sum due to rounding)
(Unaudited)

	Three Months Ended						Six Months Ended				
	June 30, 2023		March 31, 2023		June 30, 2022		June 30, 2023		June 30, 2022		
	Dollars per share Basic	Diluted	Dollars per share Basic	Diluted	Dollars per share Basic	Diluted	Dollars per share Basic	Diluted	Dollars per share Basic	Diluted	
Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.											
GAAP net loss attributable to Pixelworks Inc.	\$ (0.11)	\$ (0.11)	\$ (0.17)	\$ (0.17)	\$ (0.09)	\$ (0.09)	\$ (0.28)	\$ (0.28)	\$ (0.18)	\$ (0.18)	
Reconciling items included in gross profit	—	—	—	—	—	—	—	—	—	—	
Reconciling items included in operating expenses	0.02	0.02	0.02	0.02	0.03	0.03	0.04	0.04	0.05	0.05	
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.23)</u>	<u>\$ (0.23)</u>	<u>\$ (0.13)</u>	<u>\$ (0.13)</u>	

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

PIXELWORKS, INC.
RECONCILIATION OF GAAP AND NON-GAAP GROSS PROFIT MARGIN *
(Figures may not sum due to rounding)
(Unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Reconciliation of GAAP and non-GAAP gross profit margin					
GAAP gross profit margin	40.3 %	43.8 %	49.0 %	41.8 %	50.7 %
Stock-based compensation	0.2	0.2	0.3	0.2	0.2
Amortization of acquired intangible assets	—	—	—	—	0.2
Total reconciling items included in gross profit	0.2	0.2	0.3	0.2	0.4
Non-GAAP gross profit margin	<u>40.5 %</u>	<u>44.1 %</u>	<u>49.3 %</u>	<u>42.0 %</u>	<u>51.1 %</u>

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

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

	Three Months Ended			Six Months Ended	
	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Reconciliation of GAAP net loss attributable to Pixelworks Inc. and adjusted EBITDA					
GAAP net loss attributable to Pixelworks Inc.	\$ (6,037)	\$ (9,396)	\$ (5,008)	\$ (15,433)	\$ (9,600)
Stock-based compensation	1,259	1,166	1,695	2,425	2,744
Tax effect of non-GAAP adjustments	—	—	(1)	—	(4)
Amortization of acquired intangible assets	—	—	—	—	90
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (4,778)	\$ (8,230)	\$ (3,314)	\$ (13,008)	\$ (6,770)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,077	\$ 1,081	\$ 1,126	\$ 2,158	\$ 2,166
Non-GAAP interest income and other, net	(473)	(671)	(101)	(1,144)	(263)
Non-GAAP provision (benefit) for income taxes	126	34	(87)	160	319
Adjusted EBITDA	\$ (4,048)	\$ (7,786)	\$ (2,376)	\$ (11,834)	\$ (4,548)

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

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

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,477	\$ 56,821
Accounts receivable, net	7,422	10,047
Inventories	5,530	1,760
Prepaid expenses and other current assets	2,693	3,745
Total current assets	70,122	72,373
Property and equipment, net	7,191	4,632
Operating lease right of use assets	5,640	3,331
Other assets, net	2,683	3,580
Goodwill	18,407	18,407
Total assets	\$ 104,043	\$ 102,323
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,431	\$ 3,143
Accrued liabilities and current portion of long-term liabilities	9,018	8,849
Current portion of income taxes payable	431	519
Total current liabilities	10,880	12,511
Long-term liabilities, net of current portion	1,883	1,005
Deposit liability	13,214	13,537
Operating lease liabilities, net of current portion	3,588	2,148
Income taxes payable, net of current portion	929	872
Total liabilities	30,494	30,073
Redeemable non-controlling interest	27,708	28,919
Total Pixelworks, Inc. shareholders' equity	21,590	32,422
Non-controlling interest	24,251	10,909
Total shareholders' equity	45,841	43,331
Total liabilities, redeemable non-controlling interest and shareholders' equity	\$ 104,043	\$ 102,323

Contacts:

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Company Contact

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Pixelworks, Inc. 2Q 2023 Conference Call
Tuesday, August 8, 2023

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s second quarter 2023 earnings conference call. I will be your operator for today's call. At this time, all participants are in a listen-only mode. Following Management's prepared remarks, instructions will be given for the question-and-answer session. This conference call is being recorded for replay purposes. I would now like to turn the call over to Brett Perry with Shelton Group Investor Relations.

Brett Perry

Good afternoon and thank you for joining today's call. With me on the call are Pixelworks' President and CEO, Todd DeBonis, and Chief Financial Officer, Haley Aman. The purpose of today's conference call is to supplement the information provided in Pixelworks' press release issued earlier today announcing the Company's financial results for the second quarter of 2023.

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

All forward-looking statements are based on the Company's beliefs as of today, Tuesday, August 8, 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, the Company's annual report on Form 10-K for the year ended December 31, 2022, and subsequent SEC filings for a description of factors that could cause forward-looking statements to differ materially from actual results.

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

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

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

With that, I will now turn the call over to Pixelworks' CEO, Todd DeBonis, for his opening remarks.

Todd DeBonis

Thank you, Brett, and good afternoon and welcome to all of you joining us on today's call.

As reported in today's press release, our top- and bottom-line results for the quarter were within guidance and reflected the rebound from a uniquely challenging first quarter. Our 37% sequential revenue growth in the second quarter was primarily driven by increased shipments of our mobile ICs, resulting in mobile revenue more than doubling and reaching a record 50% of total revenue. Combined with a moderate sequential increase in home and enterprise attributable to stabilization in the projector market, Q2 marked the end of the smartphone inventory correction for Pixelworks which gives us confidence in resuming our growth trajectory.

Before jumping into commentary on our end markets, I believe it would be helpful to first provide some brief, high-level perspective on what we're generally expecting in terms of the rest of the year. First, we believe our sequential revenue growth in Q2 was not a one-quarter event, even though it was coming off an unusually low base in the first quarter. We expect continued sequential growth in mobile for the balance of the year. Looking at our internal forecast for the second half of the year, which today is largely booked, we also anticipate mobile revenue to reflect significant top-line growth over the first half of 2023.

With that as background context, I'll start with a review of our mobile business. As widely reported, many component suppliers that sell into the smartphone market are continuing to experience weaker demand as distributors and smartphone OEMs continue to work-down previously overbuilt inventories. This combined with a more sluggish recovery than expected in end demand has contributed to prolonged market weakness, with the prevailing consensus suggesting that the current inventory correction in the smartphone supply chain will likely extend into next year.

As reflected by the sequential increase in mobile revenue for the second quarter and our current expectation for continued sequential growth in the second half, the trend we are experiencing is meaningfully different than those of the broader smartphone market.

While Pixelworks certainly experienced the impact from a correction of mobile inventory during the 4th quarter of last year and first quarter of this year since April we've effectively been completely clear on inventory of our mobile ICs both within the channel and held by current customers. In fact, and as mentioned on our prior call, we experienced multiple instances of Mobile OEM customers requesting upside orders due to better than anticipated sell-through on several smartphone models incorporating our X5 and X7 visual processor ICs. This has continued into the current quarter as many of the programs we are participating on have experienced upside demand post launch.

In addition to closely managing inventories, we've sustained our aggressive mobile product and ecosystem development efforts throughout the downturn. A significant portion of these efforts have been centered around cultivating and leveraging a robust mobile gaming ecosystem. Our team has and continues to execute well on this strategy, and our growth in an otherwise weak demand environment is evidence that our mobile strategy is working.

In July, we expanded upon our existing mobile ecosystem initiatives with the announcement and formal introduction of Pixelworks' IRX Gaming Experience branding. In a first for Pixelworks, our new IRX Gaming Experience brand directly targets smartphone end users. The brand itself is underpinned by Pixelworks' extensive portfolio of proprietary mobile visual processing solutions coupled together with our unique and in-depth gaming tuning services. In conjunction with the IRX brand, we are also establishing a supporting IRX certification program that will comprise both a mobile device incorporating Pixelworks' mobile visual processor as well as a certified list of top mobile games that meet our minimum visual quality performance standards after tuning these games for play on IRX certified smartphones.

Concurrent with the launch of the IRX Gaming Experience brand, we published the initial pre-certified list of 20 top mobile games, which we will continue to expand over time. We are also engaged with multiple mobile OEMs to incorporate IRX device certification on their next-gen models. In advance of the phone officially being launched, at a press briefing held last week the Redmi K60 Ultra smartphone was pre-announced in collaboration with MediaTek, Xiaomi and Pixelworks Shanghai. This announcement with our fourth tier-one mobile customer, Xiaomi, also revealed that the Redmi K60 Ultra smartphone will be the first-ever IRX certified phone when it is officially launched later this month. Also last week Oppo affiliate OnePlus previewed the scheduled launch of its OnePlus Ace2 Pro flagship smartphone, reminding consumers of OnePlus' groundbreaking, multiyear partnership with Pixelworks and featuring simultaneous super frame rate and super-resolution functionality enabled by Pixelworks' X7 visual processor.

As additional mobile games and devices are certified, we believe the IRX Gaming Experience will contribute to higher consistency and quality mobile gaming for end users while also bringing increased consumer awareness to Pixelworks and our content and OEM partners.

Turning to a brief update on our TrueCut Motion platform. TrueCut Motion has now been established as THE only commercially validated, scalable, and Filmmaker endorsed, end-to-end solution for creating and delivering a premium experience through cinematic high frame rate content.

Today, though most of us are accustomed to new technology seemingly being adopted and proliferating overnight – the professional film industry is different. Despite all the technological advancements, including most device display systems capable of high frame rate and high-resolution output, Hollywood-centric content production has continued to utilize 24 frames per second since the early commercialization of motion pictures. While there are multiple reasons behind the historical aversion to embracing higher frame rates, there is growing evidence that adoption of higher frame rates is necessary to deliver high resolution, HDR content without artifacts.

Most prominently, the future of motion pictures was foreshadowed by the theatrical release of James Cameron's Avatar, The Way of Water, as well as the re-releases of Avatar and Titanic – all three of which were released globally to theaters in 4K HDR and featured cinematic high frame rate enabled by Pixelworks' TrueCut Motion platform. The box office success of these three titles instilled a new motivation among multiple industry participants to not only accept change, but also pivot towards increased releases of premium large format content.

Specific to Pixelworks and our TrueCut Motion platform, we believe that we are making significant progress toward broader commercialization. I want to reemphasize that TrueCut Motion is a full ecosystem play, and the opportunity for Truecut Motion is bigger than any one customer or partner announcement. We do however expect that we will be making additional announcements before year-end that will serve as tangible proof-points of TrueCut Motion's value proposition and continued adoption.

Continuing with an update on our Home and Enterprise business, which now predominantly consists of visual processor SoCs for the digital projector market. Revenue was up sequentially over the first quarter, however continued to reflect subdued orders from projector OEMs in response to macro-related uncertainty and softer end market demand, particularly in China. Additionally, our largest projector OEM customer is still working to normalize their internal inventories and lead-times following the prolonged period of supply chain constraints and demand imbalances.

With that said, order patterns have stabilized in recent months, and we currently expect a slow recovery in customer demand during the second half as the ongoing inventory correction continues to run its course. During the second quarter we delivered initial samples of our next-generation SoC as part of our co-development project with our largest projector customer. As a result, we recognized an anticipated milestone payment as an R&D credit that reduced total OpEx for the quarter, and we continue to expect this new SoC to achieve volume production and contribute to overall revenue growth beginning in 2024.

Finally, an update on the progress related to our Pixelworks Shanghai subsidiary and status of our progress towards a listing on the STAR exchange. As briefly highlighted on our last call, we've retained CITIC Securities, as our advisor and sponsor to support Pixelworks Shanghai throughout the application and underwriting process. During the quarter we submitted the application to formally begin the tutoring process, which is now well underway. The tutoring process is a prerequisite for any company seeking to apply for a new listing and is anticipated to take roughly three-to-four months. The team is concurrently compiling a draft of the prospectus and supporting the associated multi-year audit for the subsidiary. I'm very pleased with our continued preparation and advancement toward a local listing, and today we remain on track to formally file before year-end.

In conclusion, I continue to be inspired with our team's execution of our strategic initiatives and our renewed growth and momentum in mobile in spite of the current environment. Although the ultimate recovery in end market demand specifically in China is slower than most had anticipated, we are optimistic about our positioning and growth prospects for the second half of the year. Specific to the third quarter, we are fully booked to achieve sequential top-line growth coupled with expected improvement in gross margins as the projector market continues to gradually recover and we further ramp mobile shipments in support of customers' upcoming launches of new smartphone models.

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

Haley Aman

Thank you, Todd.

Revenue for the second quarter of 2023 increased 37% sequentially to \$13.6 million, from \$10.0 million in the first quarter, and was lower compared to \$19.1 million in second quarter of 2022. The sequential revenue growth in the second quarter was primarily driven by increased shipments into the mobile market.

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

- Revenue from Mobile increased by over 100% sequentially to approximately \$6.9 million, which represented a record 50% of total revenue in the quarter.
- Home and Enterprise revenue was approximately \$6.7 million, reflecting a small sequential increase compared to the prior quarter. Within Home and Enterprise, sales into the Projector end market continued to represent approximately 90% of this business during the second quarter.

Non-GAAP gross profit margin was 40.5% in the second quarter of 2023, compared to 44.1% in the first quarter of 2023, and 49.3% in the second quarter of 2022. As discussed last quarter, the lower gross margin level in the second quarter reflected not only the shift in product mix toward mobile, but also previous increases in cost of materials that we chose not to immediately pass through to customers. Beginning in the third quarter, we have begun passing through a portion of the higher cost of materials to customers. As a result, we believe the second quarter marked the bottom for corporate gross margin, and expect to realize incremental improvement in gross margin starting in the second half of this year.

Non-GAAP operating expenses were \$10.7 million in the second quarter, compared to \$13.6 million in the prior quarter and \$12.9 million in the second quarter of 2022. During the second quarter, we achieved another anticipated milestone related to our co-development agreement resulting in a \$1.9 million credit to R&D, which contributed to our reduced total operating expenses for the second quarter.

On a non-GAAP basis, second quarter 2023 net loss was \$4.8 million, or a loss of (\$0.09) cent per share, compared to a net loss of approximately \$8.2, or a loss of (\$0.15) cents per share, in the prior quarter, and a net loss of \$3.3 million, or a loss of (\$0.06) cents per share, in the year ago quarter.

Adjusted EBITDA for the second quarter of 2023 was a negative \$4.0 million, compared to a negative \$7.8 million last quarter and a negative \$2.4 million in the second quarter of 2022.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents of \$54.5 million and the Company continued to have no outstanding debt.

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

Based on current order trends and backlog, we anticipate third quarter total revenue to be in a range of between \$15.0 million and \$17.0 million. At the midpoint of this range, total revenue would represent an increase of approximately 17% over the second quarter, driven by expected sequential growth in both our mobile and home and enterprise end markets during the third quarter.

In terms of gross profit margin. As discussed in my earlier remarks, we've recently begun passing through incrementally higher material costs to our customers. This, combined with higher unit volumes and increased overhead absorption from higher total revenue, we expect to drive a steady expansion of gross margin over the course of the next several quarters. Specific to the third quarter, we expect non-GAAP gross profit margin to be between 42% and 44%.

We expect operating expenses in the third quarter to range between \$13 million and \$14 million on a non-GAAP basis. Keep in mind that operating expenses in the second quarter had the benefit of a milestone credit to R&D, and we do not expect a credit associated with the co-development agreement during the third quarter.

Lastly, we expect third quarter non-GAAP EPS to range between a loss of (\$0.13) cents per share and a loss of (\$0.09) 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.