

**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 10, 2021

**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 August 10, 2021, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and six month periods ended June 30, 2021 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 10, 2021 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 August 10, 2021.</a>
99.2	<a href="#">Pixelworks, Inc. Second Quarter Results Conference Call Script dated August 10, 2021.</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: August 10, 2021

/s/ Elias N. Nader

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Elias N. Nader  
*Vice President and Chief Financial  
Officer*



## Pixelworks Reports Second Quarter 2021 Financial Results and Announces Realignment Plan and Strategic Equity Investments Into Pixelworks Shanghai

*Revenue Increases More than 50% Sequentially and Year-over-Year, Driven by Continued Growth in Mobile and Strong Recovery in Projector Business*

*Announces Strategic Realignment Plan to Transform Shanghai Subsidiary into Profit Center for Mobile, Projector, and Video Delivery Businesses to Better Capture Accelerated Growth Opportunities in Asia*

**SAN JOSE, Calif., August 10, 2021** – 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, 2021.

### Second Quarter and Recent Highlights

- Mobile revenue increased sequentially and year-over-year to a record, driven by expanded adoption of both hardware and software-based visual processing solutions across a growing number of launched smartphones
- ASUS launched Zenfone 8 and Zenfone 8 Flip flagship smartphones incorporating Pixelworks' leading color calibration, DC Dimming and HDR tone mapping technology
- Projector revenue increased over 100% sequentially and 30% year-over-year, reflecting a recovery in customer and end market demand
- Secured \$10.6 million co-development agreement with existing Japanese OEM customer to develop an advanced SoC for a planned next-generation product family for the 3LCD Projector market
- Appointed Mr. Lei (Leo) Shen, a seasoned mobile industry executive, to the newly created position of Senior VP & General Manager to lead continued growth and expansion of Mobile business in China
- Announced a strategic plan to transform Pixelworks' Shanghai subsidiary ("PWSH") from an R&D center into a profit center for the Mobile, Projector, and Video Delivery businesses, including the positioning of that subsidiary to qualify and seek an initial public offering on the STAR Market in China
- Signed agreements for funding commitments into PWSH from private equity and strategic investors, with our existing partner MTM contributing amounts in RMB equivalent to approximately \$20.0M and new investors Verisilicon, Canaan, and Chipone Technology contributing amounts in RMB equivalent to approximately \$3.1M, \$3.1M, and \$4.6M, respectively
- Signed agreements for funding commitments into PWSH by employee stock ownership platforms representing approximately 75% of PWSH employees and totaling amounts in RMB equivalent to approximately \$12.3M.

"We had a solid and very busy second quarter, highlighted by revenue growth of over 50% on both a sequential and year-over-year basis," stated Todd DeBonis, President and CEO of Pixelworks. "Mobile revenue set another quarterly record, as we continued to gain increased traction across an expanded number of OEMs and launched models during the first half of the year. Also in the second quarter, our projector business benefited from a significant market recovery as well as increased demand, with revenue more than doubling from the first quarter. Consolidated gross margin also expanded significantly in the quarter to above 50% and contributed to sequential and year-over-year improvement in our bottom-line results.

"Additionally, as announced today we have completed a series of actions as part of a broader strategic plan designed to accelerate Pixelworks' future growth and success by transforming our existing Shanghai R&D center (PWSH) into a profit center. This will enable us to enhance the focus of our mobile, projector, and video delivery businesses on their global center in Asia, increasing our ability to access capital, ecosystem partners, customers, and key talent. In conjunction with these efforts, we have secured commitments for significant capital investments in PWSH from a combination of private equity, strategic partners and our current employees in China. Longer-term, we intend to continue to take steps to qualify PWSH for an initial public offering on the STAR Market in China. We believe a listing in China will provide expanded access to future potential growth capital at what could be meaningfully higher valuations than what Pixelworks trades at today in the U.S. This plan will also allow Pixelworks to increase the focus on its TrueCut business, as well as other licensing opportunities.

“Overall, we have executed well during a dynamic and supply-constrained environment. Our team’s aggressive and ongoing efforts to secure committed capacity from both our foundry and backend packaging partners has been effective and enabled us to support a large majority of the product demand from our customers. We’ve also expanded our pipeline of mobile design-ins on next-generation smartphones across both existing and new tier-one mobile OEMs. In July, we taped-out our seventh-generation visual processor for Mobile, which we will be sampling with select customers in the third quarter. Looking to the second half of the year and into the first half of 2022, we have strong bookings from a combination of mobile and projector customers. The magnitude of our growth will depend on continued execution from all areas of the organization and support from our supply chain partners.”

### **Strategic Plan and Pixelworks Shanghai Subsidiary**

The Company has been engaged in a strategic plan to transform its existing subsidiary, Pixelworks Semiconductor Technology (Shanghai) Co., Ltd (“PWSH”) into a profit center for its mobile, projector, and video delivery businesses. The global center of those businesses continues to be in Asia, and the steps taken by the Company to date and going forward are intended to improve its ability to access capital, customers, and talent. The Company has operated PWSH as its primary R&D center in Asia for over 15 years and feels that the time is right to take advantage of that existing footprint and develop PWSH as a full profit-and-loss center underneath the Company for the mobile, projector, and video delivery businesses. Most of these steps have been completed or will be completed before the end of 2021.

This plan will further enable PWSH to seek qualification to file an application for an initial public offering on the Shanghai Stock Exchange’s Sci-Tech innovAtion boARd, known as the STAR Market (the “Listing”). The Company believes that the Listing will have many benefits, including improved access to new capital markets and the funding of its growth worldwide. The Company presently intends to qualify PWSH to apply for the Listing so that the Listing is consummated in the first half of 2023.

In support of its strategic plan, Pixelworks entered into an agreement with a private equity fund and other strategic investors that are based in China, as well as with entities owned by approximately 75% of PWSH employees, under which committed investments will be made in exchange for equity interest in PWSH. The private equity funds are affiliates of MTM, to which the Company sold common stock in December of 2020, and the strategic investors are funds owned by Verisilicon, Canaan, and Chipone Technology.

In aggregate, the capital increase agreements consist of the commitment by employee entities to pay amounts in RMB equating to approximately \$12.3 million in exchange for total equity interest of 5.95% in PWSH, reflecting a pre-money valuation of the RMB equivalent of approximately \$172.7 million, and by non-employee investors to pay amounts in RMB equivalent to approximately \$30.8 million in exchange for total equity interest of 10.45% in PWSH, reflecting a pre-money valuation of the RMB-equivalent of approximately \$246.8 million. Following the closing of these transactions, Pixelworks would continue to hold an 83.6% equity interest in PWSH.

The Company will continue to maintain its global headquarters in the United States and operate its TrueCut business, as well as other licensing businesses, out of that headquarters. The Company is committed to maintaining its listing on the Nasdaq Global Market.

Additional information related to the strategic plan and associated capital increase agreements can be found in the Company’s Securities and Exchange Commission filings, including the Form 8-K filed August 9, 2021.

### **Second Quarter Fiscal 2021 Financial Results**

Revenue in the second quarter of 2021 was \$14.1 million, compared to \$9.3 million in the first quarter of 2021 and \$9.3 million in the second quarter of 2020. The over 50% sequential and year-over-year increase in second quarter revenue reflected a significant rebound in demand in the projector market combined with continued strong growth and record revenue in the mobile market.

On a GAAP basis, gross profit margin in the second quarter of 2021 was 50.6%, compared to 40.2% in the first quarter of 2021 and 54.6% in the second quarter of 2020. Second quarter 2021 GAAP operating expenses were \$11.6 million, compared to \$11.6 million in the first quarter of 2021 and \$11.5 million in the year-ago quarter.

On a non-GAAP basis, second quarter 2021 gross profit margin was 52.7%, compared to 43.7% in the first quarter of 2021 and 59.2% in the year-ago quarter. Second quarter 2021 non-GAAP operating expenses were \$10.1 million, compared to \$10.2 million in the second quarter of 2020 and \$9.3 million in the year-ago quarter.

For the second quarter of 2021, the Company recorded a GAAP net loss of \$4.4 million, or (\$0.08) per share, compared to a GAAP net loss of \$8.1 million, or (\$0.16) per share, in the first quarter of 2021 and a GAAP net loss of \$6.6 million, or (\$0.17) per share, in the year-ago quarter.

For the second quarter of 2021, the Company recorded a non-GAAP net loss of \$2.6 million, or (\$0.05) per share, compared to a non-GAAP net loss of \$6.4 million, or (\$0.12) per share, in the first quarter of 2021, and a non-GAAP net loss of \$3.9 million, or (\$0.10) per share, in the second quarter of 2020.

Adjusted EBITDA in the second quarter of 2021 was a negative \$1.8 million, compared to a negative \$5.2 million in the first quarter of 2021 and a negative \$2.9 million in the year-ago quarter.

Cash, cash equivalents and short-term investments at the end of the second quarter of 2021 were \$23.6 million, compared to \$25.4 million at the end of the first quarter of 2021.

## **Business Outlook**

The Company's current business outlook, including guidance for the third quarter of 2021, will be provided as part of the scheduled conference call.

## **Conference Call Information**

Pixelworks will host a conference call today, August 10, 2021, at 2:00 p.m. Pacific Time, which can be accessed by calling 1-877-359-9508 and using passcode 5398425. A live audio webcast of the call can also 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 webcast, it will be archived for approximately 90 days. A replay of the conference call will also be available through Tuesday, August 17, 2021, and can be accessed by calling 1-855-859-2056 and using passcode 5398425.

## **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. Pixelworks is headquartered in San Jose, CA. For more information, please visit the company's web site at [www.pixelworks.com](http://www.pixelworks.com).

Note: Pixelworks, the Pixelworks logo and MotionEngine are registered 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, stock-based compensation expense, and restructuring expenses, 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 loss and adjusted EBITDA, which Pixelworks defines as GAAP net loss before interest income and other, net, income tax provision, 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 digital projection, mobile, and video delivery businesses, including market movement and demand, customer engagements, growth in the mobile market, recovery of the projector market, strategy, and additional guidance, particularly as to the business outlook and current market environment and the impact of the COVID-19 pandemic on the same; the sale of PWSH securities to purchasers, including the timing thereof, the expected proceeds and use thereof, and the resulting ownership of PWSH; the Company’s strategic plan of re-aligning its mobile, projector, and video delivery businesses and timing and expectations related thereto, including the Listing and timing and benefits thereof, including improved access to new capital markets and the funding of its growth worldwide; any expected valuation of PWSH for the Listing; and the Company’s expectations regarding its global headquarters, its listing on the Nasdaq Global Market, and its plans with respect to its TrueCut and licensing businesses. 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; our efforts to achieve profitability from operations; our limited financial resources; our ability to attract and retain key personnel; changes in the requirements for listing on the STAR Market; 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, 2020 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, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenue, net	\$ 14,051	\$ 9,270	\$ 9,253	\$ 23,321	\$ 23,027
Cost of revenue (1)	6,940	5,545	4,204	12,485	11,203
Gross profit	7,111	3,725	5,049	10,836	11,824
Operating expenses:					
Research and development (2)	6,671	6,785	6,314	13,456	12,581
Selling, general and administrative (3)	4,896	4,854	5,156	9,750	10,349
Restructuring	—	—	—	—	592
Total operating expenses	11,567	11,639	11,470	23,206	23,522
Loss from operations	(4,456)	(7,914)	(6,421)	(12,370)	(11,698)
Interest income (expense) and other, net	181	56	(24)	237	30
Total other income (expense), net	181	56	(24)	237	30
Loss before income taxes	(4,275)	(7,858)	(6,445)	(12,133)	(11,668)
Provision for income taxes	107	217	107	324	283
Net loss	\$ (4,382)	\$ (8,075)	\$ (6,552)	\$ (12,457)	\$ (11,951)
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.16)	\$ (0.17)	\$ (0.24)	\$ (0.31)
Weighted average shares outstanding - basic and diluted	52,283	51,673	39,444	51,980	39,156
(1) Includes:					
Amortization of acquired intangible assets	218	245	298	463	596
Stock-based compensation	76	79	127	155	228
(2) Includes stock-based compensation	610	581	806	1,191	1,454
(3) Includes:					
Stock-based compensation	820	772	1,310	1,592	2,383
Amortization of acquired intangible assets	53	60	76	113	152



**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, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Reconciliation of GAAP and non-GAAP gross profit</b>					
GAAP gross profit	\$ 7,111	\$ 3,725	\$ 5,049	\$ 10,836	\$ 11,824
Amortization of acquired intangible assets	218	245	298	463	596
Stock-based compensation	76	79	127	155	228
Total reconciling items included in gross profit	294	324	425	618	824
Non-GAAP gross profit	\$ 7,405	\$ 4,049	\$ 5,474	\$ 11,454	\$ 12,648
Non-GAAP gross profit margin	52.7 %	43.7 %	59.2 %	49.1 %	54.9 %
<b>Reconciliation of GAAP and non-GAAP operating expenses</b>					
GAAP operating expenses	\$ 11,567	\$ 11,639	\$ 11,470	\$ 23,206	\$ 23,522
Reconciling item included in research and development:					
Stock-based compensation	610	581	806	1,191	1,454
Reconciling items included in selling, general and administrative:					
Stock-based compensation	820	772	1,310	1,592	2,383
Amortization of acquired intangible assets	53	60	76	113	152
Restructuring	—	—	—	—	592
Total reconciling items included in operating expenses	1,483	1,413	2,192	2,896	4,581
Non-GAAP operating expenses	\$ 10,084	\$ 10,226	\$ 9,278	\$ 20,310	\$ 18,941
<b>Reconciliation of GAAP and non-GAAP net loss</b>					
GAAP net loss	\$ (4,382)	\$ (8,075)	\$ (6,552)	\$ (12,457)	\$ (11,951)
Reconciling items included in gross profit	294	324	425	618	824
Reconciling items included in operating expenses	1,483	1,413	2,192	2,896	4,581
Tax effect of non-GAAP adjustments	4	(20)	18	(16)	(7)
Non-GAAP net loss	\$ (2,601)	\$ (6,358)	\$ (3,917)	\$ (8,959)	\$ (6,553)
Non-GAAP net loss per share - basic and diluted	\$ (0.05)	\$ (0.12)	\$ (0.10)	\$ (0.17)	\$ (0.17)
Non-GAAP weighted average shares outstanding - basic and diluted	52,283	51,673	39,444	51,980	39,156

\*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, 2021		March 31, 2021		June 30, 2020		June 30, 2021		June 30, 2020			
	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</b>												
GAAP net loss	\$ (0.08)	\$ (0.08)	\$ (0.16)	\$ (0.16)	\$ (0.17)	\$ (0.17)	\$ (0.24)	\$ (0.24)	\$ (0.31)	\$ (0.31)		
Reconciling items included in gross profit	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02		
Reconciling items included in operating expenses	0.03	0.03	0.03	0.03	0.06	0.06	0.06	0.06	0.12	0.12		
Non-GAAP net loss	<u>\$ (0.05)</u>	<u>\$ (0.05)</u>	<u>\$ (0.12)</u>	<u>\$ (0.12)</u>	<u>\$ (0.10)</u>	<u>\$ (0.10)</u>	<u>\$ (0.17)</u>	<u>\$ (0.17)</u>	<u>\$ (0.17)</u>	<u>\$ (0.17)</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, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Reconciliation of GAAP and non-GAAP gross profit margin</b>					
GAAP gross profit margin	50.6 %	40.2 %	54.6 %	46.5 %	51.3 %
Amortization of acquired intangible assets	1.6	2.6	3.2	2.0	2.6
Stock-based compensation	0.5	0.9	1.4	0.7	1.0
Total reconciling items included in gross profit	2.1	3.5	4.6	2.6	3.6
Non-GAAP gross profit margin	52.7 %	43.7 %	59.2 %	49.1 %	54.9 %

\*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, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Reconciliation of GAAP net loss and adjusted EBITDA</b>					
GAAP net loss	\$ (4,382)	\$ (8,075)	\$ (6,552)	\$ (12,457)	\$ (11,951)
Stock-based compensation	1,506	1,432	2,243	2,938	4,065
Amortization of acquired intangible assets	271	305	374	576	748
Tax effect of non-GAAP adjustments	4	(20)	18	(16)	(7)
Restructuring	—	—	—	—	592
Non-GAAP net loss	\$ (2,601)	\$ (6,358)	\$ (3,917)	\$ (8,959)	\$ (6,553)
EBITDA adjustments:					
Depreciation and amortization	\$ 906	\$ 1,016	\$ 871	\$ 1,922	\$ 1,893
Non-GAAP interest expense (income) and other, net	(181)	(56)	24	(237)	(30)
Non-GAAP provision for income taxes	103	237	89	340	290
Adjusted EBITDA	<u>\$ (1,773)</u>	<u>\$ (5,161)</u>	<u>\$ (2,933)</u>	<u>\$ (6,934)</u>	<u>\$ (4,400)</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)

	June 30, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,624	\$ 31,257
Short-term marketable securities	—	250
Accounts receivable, net	6,351	4,672
Inventories	1,577	2,445
Prepaid expenses and other current assets	1,888	1,010
Total current assets	33,440	39,634
Property and equipment, net	3,900	5,103
Operating lease right of use assets	6,013	6,606
Other assets, net	992	1,081
Acquired intangible assets, net	631	1,207
Goodwill	18,407	18,407
Total assets	\$ 63,383	\$ 72,038
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,664	\$ 995
Accrued liabilities and current portion of long-term liabilities	8,745	9,452
Current portion of income taxes payable	140	147
Total current liabilities	11,549	10,594
Long-term liabilities, net of current portion	569	1,007
Operating lease liabilities, net of current portion	4,178	5,088
Income taxes payable, net of current portion	2,673	2,479
Total liabilities	18,969	19,168
Shareholders' equity	44,414	52,870
Total liabilities and shareholders' equity	\$ 63,383	\$ 72,038

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**Pixelworks, Inc. Q2 2021 Conference Call**  
**August 10, 2021**

**Operator**

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s second quarter 2021 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 Pixelworks' CFO, Mr. Elias Nader.

**Elias Nader**

Thank you. Good afternoon, everyone, and thank you for tuning-in to today's call. With me on the call is Todd DeBonis, Pixelworks' President and CEO. 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 2021.

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 10, 2021. 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, 2020, 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, stock-based compensation expense, and restructuring 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 included in the company's press release are definitions and reconciliations of GAAP to non-GAAP net loss and GAAP net 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, Elias, and good afternoon to those joining us on today's call and webcast.

I'm looking forward to walking through the significant developments that we announced as part of our 8-K filing yesterday, but first I'll provide a brief recap of our results for the second quarter. Total revenue came in just above the midpoint of guidance at \$14.1 million, representing over 50% growth on both a sequential and year-over-year basis. Revenue from mobile set another quarterly record of \$4.5 million, and we benefited from a recovery in our projector business, which more than doubled over the previous quarter. Gross margin was also in-line with the midpoint of our guidance, improving to nearly 53% as we began passing-through higher material costs to customers and realized the benefit of increased unit volumes. Additionally, we did a good job of managing operational expenses in the second quarter, all of which contributed to sequential and year-over-year improvement in our bottom-line results.

As announced in our 8-K filing yesterday, we have completed a series of actions as part of a broader strategic plan designed to accelerate Pixelworks' future growth and success by transforming our existing Shanghai R&D center (PWSH) into a profit center. This will enable us to enhance the focus of our mobile, projector, and video delivery businesses on their global center in Asia, increasing our ability to access capital, ecosystem partners, customers, and key talent.

As part of this strategic plan to establish greater prominence in Asia, we re-aligned our Mobile, Projector and Video Delivery resources and established our existing subsidiary, Pixelworks Shanghai, to operate as a profit center. This does not represent a fundamental shift from our previous product strategies, but rather an optimization of our operating structure to accelerate the growth of the company.

This new structure provides for the following benefits:

- Direct equity ownership by employees through a newly established ESOP in the Shanghai-based subsidiary enhances our ability to attract and retain key talent. We had approximately 75% participation from our existing employees reporting into Pixelworks Shanghai.
- Provides access to a new source of capital that's aligned with strategic relationships and opens adjacent markets for our industry-leading visual processing technology.
- Addresses specific qualification requirements for our Pixelworks Shanghai subsidiary to pursue an initial public offering and listing of shares on the STAR Market in China.
- Further aligns our resources closer to our key customers, ecosystems and end markets.
- Allows Pixelworks US to increase the focus on its TrueCut business, as well as other licensing opportunities.

In addition to the realignment of resources, Pixelworks entered into an agreement with a private equity fund and other strategic investors that are based in China, as well as with entities owned by approximately 75% of PWSH employees, under which committed investments will be made in exchange for equity interest in PWSH. The private equity funds are affiliates of MtoM, to which the Company sold common stock in December of 2020, and the strategic investors are funds owned by Verisilicon, Canaan, and Chipone Technology.

In aggregate, the capital increase agreements consist of the commitment by employee entities to pay amounts in RMB equating to approximately \$12.3 million in exchange for total equity interest of 5.95% in PWSH, reflecting a pre-money valuation of approximately \$173 million, and by non-employee investors to pay amounts equating to approximately \$30.8 million in exchange for total equity interest of 10.45% in PWSH, reflecting a pre-money valuation of approximately \$247 million. Following the closing of these transactions, Pixelworks would continue to hold an 83.6% equity interest in PWSH.

Specific to pursuing a listing of the Pixelworks Shanghai subsidiary on the STAR Exchange, we would like to emphasize that this is a lengthy process that is comprised of meeting certain regulatory criteria and multiple periods of review. As such, we currently intend to qualify the subsidiary and apply for its listing as early as Q3 2022 but no later than June of 2023. Longer-term, we believe listing the Pixelworks Shanghai subsidiary in China will provide expanded access to future potential capital at what could be more competitive valuations.

Coming back to our second quarter results and updates on our end markets.

In our Mobile business, we've continued to gain increased traction across an expanding number of OEMs and launched smartphone models, and in Q2 we delivered the fourth consecutive quarter of sequential revenue growth. Mobile revenue for the first half of 2021 grew by nearly 200% compared to the first half 2020.

Year-to-date, our visual processing and enhancement technologies have been incorporated into more than a dozen models across a half-dozen different OEMs, including two first-time mobile customers and two tier-one mobile OEMs. A number of these launched phones using Pixelworks technology set new industry records for display performance and several have been ranked by independent third-party reviews as delivering visual quality on par with the industry's ultra-flagships, while selling at a fraction of the price. Even more important has been the very positive feedback from end user consumers on the display features and functionality enabled by Pixelworks across these launched devices. This market validation has reinforced the value proposition of our technology and ability to influence consumers' buying decisions, resulting in OEMs coming back and incorporating our solutions into more of their future devices.

Further supporting our realignment to directly operate our mobile business from within Asia, we recently recruited Leo Shen to join the Company in a newly created role of Senior VP & General Manager of our Mobile business. Leo is a seasoned mobile industry executive with over 20 years of mobile experience, and the last 10 years in various roles for Qualcomm-China. He is based in Shanghai and will lead our team's mobile growth and expansion initiatives throughout Asia.



During the quarter, we secured several new design-in for our X5 Pro and i6 visual processors, with multiple phones scheduled to be launch in the second half of the year as well as in early 2022. In addition, we believe we are close to securing our third tier-one mobile OEM customer on a device targeted for launch later this year.

We've also continued to secure additional wins for our Soft Iris solution, which is serving a strategic benefit in the current hardware-constrained environment. In addition to continuously increasing the value proposition of our software-only solution, our mobile team has been actively working to expand Soft Iris' compatibility for use with a new family of application processors.

Pixelworks' mobile value proposition remains well aligned with the most prominent market trends, including mainstream adoption of AMOLED displays, higher refresh rates and 5G-enable mobile gaming. As OEMs continue to confront the non-trivial challenges of combining these three attributes into their next-generation smartphones, they are increasingly coming to Pixelworks for solutions. While higher frame rates are fundamental to providing the most immersive and realistic gaming experience, the need to render high resolution at ever increasing frame rates creates a challenging system engineering problem. When not addressed properly, it results in reduced battery life and overheating that impact device performance and the mobile gaming experience. Our visual processors utilize a distributed visual architecture to offload this intensive processing and upscaling both resolution and frame rate from the apps processor, enabling less power drain and lower operating temperature even during sustained high frame rate gaming, providing a unique mobile gaming experience.

According to recent third-party estimates, revenue from mobile gaming in 2020 exceeded \$90 billion and represented just over half of the total global videogame market. With the growing popularity of mobile gaming in China, an improved gaming experience has become one of the highest priorities for mobile OEMs on their next generation devices.

Our newest and most advanced seventh-generation visual processor, which we taped-out last month, is specifically designed to address the fundamental challenges associated with delivering high-performance gaming on a mobile device. I'll defer a full review of the specs and industry-first features until we formally unveil the chip to the market later this year, however we will begin sampling this visual processor to select customers later this month. We already have an alpha customer committed to use the chip in a device scheduled for mid-next year.

Shifting to the Projector business. Following an initial improvement in order patterns that began early in the year, we realized a significant recovery in shipments and bookings during Q2, with revenue more than doubling sequentially and increasing 30% year-over-year. A number of factors contributed to this outsized rebound, including channel inventories that were unsustainably low after having adjusted to the weaker sell-through in 2020 due to the pandemic, coupled with improving end market demand in China and parts of the U.S.

During the quarter, our Operations team worked with our supply chain partners to eliminate a large majority of the supply gap going into the quarter and meet a significant portion of customer demand in Q2. As a result of the ongoing supply constrained environment, we have continued to extend our required lead times on orders and customers are placing orders through early next year.

Also notable for our Projector business, in late July we finalized a \$10.6 million, multi-year agreement to develop an advanced SoC for a large existing customer's planned next-generation product family. As part of this co-develop agreement, the customer will effectively fund a significant portion of the research and development expenses related to the new product, which we in turn expect to deliver and ramp into production beginning in 2023. Keeping in mind the relatively long life cycles of our solutions in the Projector market, our successful execution of this new SoC that can be repurposed and targeted to the broader projector market, represents an opportunity to solidify and extend Pixelworks' market leading position through the majority of this decade.

Regarding the broader supply constrained environment across the semiconductor industry, and more specifically what we're doing to mitigate the impact on Pixelworks and our ability to meet customer demand in all end markets. Our customers have responded favorably to our extending of lead-times across all product lines, resulting in increased backlog and visibility for the second half of the year. We've also been making progress with our supply partners to mostly meet anticipated demand throughout the rest of this year. Our Operations team, whose focus is on all elements of our supply chain, has been doing an incredible job at successfully back-filling customer demand in Q1 and Q2, and securing for supply during the second half of the year. These focused efforts also include back-end assembly and test, where we recently qualified two additional testing houses for Projector to give us multiple sources for testing. While we currently have very good visibility into future demand, we expect supply constraints to remain an ongoing challenge and element of uncertainty. Our ability to support further upside demand in mobile and sustained recovery in Projector beyond Q3 will continue to be contingent on mitigating the prevailing supply constraints in the latter part of the year.

Turning to a brief update on TrueCut. Following an industry-wide halt of more than a year on theatrical production due to COVID, the major studios have started to re-open and production activity is ramping-up again in Hollywood. While progress had been slower during this period, our team's ongoing efforts have been very productive over the past few months, especially as it relates to building-out a supporting ecosystem for TrueCut adoption. Today, we are focused on a narrowed group of existing engagements and in-depth technology evaluations with a combination of prospective TrueCut ecosystem partners. We are increasingly optimistic about securing our first breakthrough partners for TrueCut in North America before year-end.

In summary, we've been extremely busy. We are executing well during a dynamic and supply constrained environment, and we had a solid second quarter with significant growth and improved operating results. Our team continues to be aggressive and focused on securing supply from both our foundry and backend packaging partners to support growing product demand from our customers. Entering the second half of the year, we have strong bookings from a combination of mobile and projector customers, with orders extending into 2022. This includes a healthy pipeline of mobile design-ins on next-generation smartphones across both existing and new tier-one mobile OEMs, and we are also on track to begin sampling our recently taped-out seventh-generation visual processor in the third quarter.

With the implementation of the strategic plan introduced today, we have repositioned the Company to fully align with our customers in Asia and accelerate Pixelworks' growth trajectory. Although the magnitude of our growth in the near term will depend in large part on our ability to secure incremental support from our supply chain, I'm confident we will deliver sustained solid revenue growth through the remainder of the year.

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

### **Elias Nader**

Thank you, Todd.

Revenue for the second quarter of 2021 was \$14.1 million, compared to \$9.3 million in the first quarter of 2021, and compared to revenue of \$9.3 million in the second quarter of 2020. As Todd previously highlighted, the sequential and year-over-year revenue increase of over 50% reflected a combination of continued strong growth and record revenue in the mobile market and a solid recovery of demand in the projector market.

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

- Revenue from Mobile increased to approximately \$4.5 million, representing 32% of total revenue, driven by strong growth in sales of both visual display processors and software solutions.
- Revenue from Digital Projector increased to approximately \$8.5 million.
- Video Delivery revenue was approximately \$1.1 million.

Non-GAAP gross profit margin increased by over 900 basis points sequentially to 52.7% in the second quarter of 2021, from 43.7% in the first quarter of 2021 and compared to 59.2% in the second quarter of 2020. As we indicated last quarter, the lower than historical gross margin in Q1 was primarily the result of product mix and temporary pricing extended to a new mobile customer. We anticipate gross margin will remain near our historical range for the remainder of 2021 while continuing to trend higher from Q2 levels as Mobile revenue expands and demand stabilizes in the Projector market.

Non-GAAP operating expenses were \$10.1 million in the second quarter of 2021, compared to \$10.2 million last quarter and \$9.3 million in the same period last year.

On a non-GAAP basis, second quarter 2021 net loss was \$2.6 million, or loss of (\$0.05) cents per share, compared to a net loss of \$6.4 million, or loss of (\$0.12) cents per share, in the prior quarter, and a net loss of \$3.9 million, or loss of (\$0.10) cents per share, in the second quarter of 2020.

Adjusted EBITDA for the second quarter of 2021 was a negative \$1.8 million, compared to a negative \$5.2 million in the first quarter of 2021 and a negative \$2.9 million in the second quarter of 2020.

Moving to the balance sheet, we ended the second quarter of 2021 with cash and cash equivalents of approximately \$23.6 million.

In terms of other balance sheet metrics for the second quarter, days sales outstanding were 41 days at quarter-end, compared to 54 days at the end of the first quarter. Inventory turns were 16 times in the second quarter, up from 10 times in the prior quarter.

Now turning to our guidance for the third quarter of 2021.

Based on recent order trends and our current backlog, we expect another quarter of very strong year-over-year revenue growth in the third quarter, driven by sustained solid demand in both Mobile and Projector. We expect to remain supply constrained in Q3 for both mobile at 22nm and projector at 40nm, and we are working with our suppliers to resolve all delinquencies by the end of the year. Specifically, we currently anticipate total revenue in the third quarter to range between \$14.0 million and \$16.0 million.

Consistent with my previous comments, we anticipate gross margin to remain near our historical range in the third quarter, supported by sustained trends in mobile and projector as well as the benefit of better overhead absorption associated with higher total revenue. More specifically, we expect non-GAAP gross profit margin in the third quarter of between 52.0% and 55.0%.

We anticipate operating expenses in the third quarter to range between \$10.0 million and \$11.0 million on a non-GAAP basis.

Finally, we expect third quarter non-GAAP EPS to be in the range of between a loss of (\$0.07) cents and a non-GAAP loss of (\$0.02) cents per share.

That concludes our prepared remarks, and we will now open the call for questions.

Operator, please proceed with managing the Q&A session. Thank you.