

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

**FORM 8-K**

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

Date of Report (Date of earliest event reported): November 9, 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 November 9, 2021, Pixelworks, Inc. (the "Company") issued a press release announcing financial results for the three and nine month periods ended September 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 November 9, 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 November 9, 2021.</a>
99.2	<a href="#">Pixelworks, Inc. Third Quarter Results Conference Call Script dated November 9, 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: November 9, 2021

/s/ Elias N. Nader

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



## Pixelworks Reports Third Quarter 2021 Financial Results

*Revenue Increases Sequentially and More than 85% Year-over-Year, Driven by Record Mobile Sales and Continued Recovery in Projector Business*

**SAN JOSE, Calif., November 9, 2021** – Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of innovative video and display processing solutions, today announced financial results for the third quarter ended September 30, 2021.

### Third Quarter and Recent Highlights

- Mobile revenue increased sequentially for the fifth consecutive quarter and was up nearly 3.5x year-over-year to a record, driven by expanded customer adoption of both hardware and software-based visual processing solutions
- vivo launched its high-end iQOO 8 series of smartphones, incorporating Pixelworks' X5 Pro visual processor to enable ultra-premium display performance and support for variable frame rates of up to 120 Hz
- Pixelworks' Shanghai subsidiary entered collaboration agreement with Unity Technologies China to synchronize and deliver advanced visual display solutions across the mobile gaming ecosystem
- Projector revenue increased over 6% sequentially and 84% year-over-year, reflecting a continued recovery in customer and end market demand
- Closed previously announced investments in Pixelworks' Shanghai subsidiary by a combination of private equity and new strategic investors as well as from employee stock ownership platforms, adding total capital net proceeds equivalent to approximately \$40 million USD
- Ended the quarter with \$66.6 million in cash and cash equivalents

“During the quarter, we extended our recent momentum with sequential growth in each of our end markets and total revenue increased more than 85% year-over-year,” stated Todd DeBonis, President and CEO of Pixelworks. “Mobile revenue increased for the fifth consecutive quarter to reach another quarterly record, and a sustained recovery in the projector market resulted in the highest quarterly revenue since the onset of the pandemic. Gross margin also expanded sequentially, and we were able to hold operating expenses roughly flat to the prior quarter, contributing to another quarter of sequential and year-over-year improvement in our bottom-line results.

“Additionally, we continued to execute on our strategic realignment to establish our Shanghai subsidiary as a profit center and significantly strengthened our balance sheet with \$40 million of invested capital at a premium valuation. These actions have been well received by our partners and employees in Asia, while also successfully positioning the Company for accelerated growth and fueling expanded customer engagement, particularly with leading mobile OEMs. Looking ahead, we have strong bookings across each of our end markets and a growing number of mobile design-ins that include follow-on wins with existing tier-one customers and a first win with our third tier-one mobile OEM. Acknowledging the ongoing challenges associated with a supply-constrained environment, we believe the underlying market trends in mobile and increasing demand for higher performance displays will continue to result in expanded adoption of Pixelworks' visual display technology and drive sustained long-term growth.”

### Third Quarter Fiscal 2021 Financial Results

Revenue in the third quarter of 2021 was \$15.2 million, compared to \$14.1 million in the second quarter of 2021 and \$8.2 million in the third quarter of 2020. The sequential and year-over-year increase in third quarter revenue reflected the sustained recovery of demand in the projector market combined with continued growth and record revenue in the mobile market.

On a GAAP basis, gross profit margin in the third quarter of 2021 was 52.5%, compared to 50.6% in the second quarter of 2021 and 48.5% in the third quarter of 2020. Third quarter 2021 GAAP operating expenses were \$11.9 million, compared to \$11.6 million in the second quarter of 2021 and \$12.1 million in the year-ago quarter.

On a non-GAAP basis, third quarter 2021 gross profit margin was 53.1%, compared to 52.7% in the second quarter of 2021 and 55.6% in the year-ago quarter. Third quarter 2021 non-GAAP operating expenses were \$10.1 million, compared to \$10.1 million in the second quarter of 2021 and \$8.9 million in the year-ago quarter.

For the third quarter of 2021, the Company recorded a GAAP net loss of \$4.1 million, or (\$0.08) per share, compared to a GAAP net loss of \$4.4 million, or (\$0.08) per share, in the second quarter of 2021, and a GAAP net loss of \$8.1 million, or (\$0.20) per share, in the year-ago quarter. Note, the Company refers to "net loss attributable to Pixelworks Inc." as "net loss".

For the third quarter of 2021, the Company recorded a non-GAAP net loss of \$2.2 million, or (\$0.04) per share, compared to a non-GAAP net loss of \$2.6 million, or (\$0.05) per share, in the second quarter of 2021, and a non-GAAP net loss of \$4.5 million, or (\$0.11) per share, in the third quarter of 2020.

Adjusted EBITDA in the third quarter of 2021 was a negative \$1.6 million, compared to a negative \$1.8 million in the second quarter of 2021 and a negative \$3.5 million in the year-ago quarter.

Cash and cash equivalents at the end of the third quarter of 2021 were \$66.6 million, compared to \$23.6 million at the end of the second quarter of 2021.

## **Business Outlook**

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

## **Conference Call Information**

Pixelworks will host a conference call today, November 9, 2021, at 2:00 p.m. Pacific Time, which can be accessed by calling 1-877-359-9508 and using passcode 7737029. 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, November 16, 2021, and can be accessed by calling 1-855-859-2056 and using passcode 7737029.

## **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 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, 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; and the Company's strategic plan of re-aligning its mobile, projector, and video delivery businesses and the timing and expectations related thereto including improved access to new capital markets and the funding of its growth worldwide. 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; 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			Nine Months Ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue, net	\$ 15,196	\$ 14,051	\$ 8,190	\$ 38,516	\$ 31,217
Cost of revenue (1)	7,211	6,940	4,214	19,696	15,417
Gross profit	7,985	7,111	3,976	18,820	15,800
Operating expenses:					
Research and development (2)	6,792	6,671	6,062	20,248	18,643
Selling, general and administrative (3)	5,097	4,896	4,621	14,847	14,970
Restructuring	—	—	1,430	—	2,022
Total operating expenses	11,889	11,567	12,113	35,095	35,635
Loss from operations	(3,904)	(4,456)	(8,137)	(16,275)	(19,835)
Interest income (expense) and other, net	54	181	(28)	292	2
Total other income (expense), net	54	181	(28)	292	2
Loss before income taxes	(3,850)	(4,275)	(8,165)	(15,983)	(19,833)
Provision (benefit) for income taxes	(9)	107	(26)	315	257
Net loss	(3,841)	(4,382)	(8,139)	(16,298)	(20,090)
Less: Net income attributable to redeemable non-controlling interest	(232)	—	—	(232)	—
Net loss attributable to Pixelworks Inc.	\$ (4,073)	\$ (4,382)	\$ (8,139)	\$ (16,530)	\$ (20,090)
Net loss attributable to Pixelworks Inc. per share - basic and diluted	\$ (0.08)	\$ (0.08)	\$ (0.20)	\$ (0.32)	\$ (0.51)
Weighted average shares outstanding - basic and diluted	52,768	52,283	40,766	52,245	39,697
(1) Includes:					
Amortization of acquired intangible assets	218	218	298	681	894
Stock-based compensation	(138)	76	117	17	345
Restructuring	—	—	166	—	166
(2) Includes stock-based compensation	549	610	820	1,740	2,274
(3) Includes:					
Stock-based compensation	1,146	820	913	2,738	3,296
Amortization of acquired intangible assets	53	53	76	166	228

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

	Three Months Ended			Nine Months Ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Reconciliation of GAAP and non-GAAP gross profit</b>					
GAAP gross profit	\$ 7,985	\$ 7,111	\$ 3,976	\$ 18,820	\$ 15,800
Amortization of acquired intangible assets	218	218	298	681	894
Stock-based compensation	(138)	76	117	17	345
Restructuring	—	—	166	—	166
Total reconciling items included in gross profit	80	294	581	698	1,405
Non-GAAP gross profit	<u>\$ 8,065</u>	<u>\$ 7,405</u>	<u>\$ 4,557</u>	<u>\$ 19,518</u>	<u>\$ 17,205</u>
Non-GAAP gross profit margin	<u>53.1 %</u>	<u>52.7 %</u>	<u>55.6 %</u>	<u>50.7 %</u>	<u>55.1 %</u>
<b>Reconciliation of GAAP and non-GAAP operating expenses</b>					
GAAP operating expenses	\$ 11,889	\$ 11,567	\$ 12,113	\$ 35,095	\$ 35,635
Reconciling item included in research and development:					
Stock-based compensation	549	610	820	1,740	2,274
Reconciling items included in selling, general and administrative:					
Stock-based compensation	1,146	820	913	2,738	3,296
Amortization of acquired intangible assets	53	53	76	166	228
Restructuring	—	—	1,430	—	2,022
Total reconciling items included in operating expenses	1,748	1,483	3,239	4,644	7,820
Non-GAAP operating expenses	<u>\$ 10,141</u>	<u>\$ 10,084</u>	<u>\$ 8,874</u>	<u>\$ 30,451</u>	<u>\$ 27,815</u>
<b>Reconciliation of GAAP and non-GAAP net loss attributable to Pixelworks, Inc.</b>					
GAAP net loss attributable to Pixelworks Inc.	\$ (4,073)	\$ (4,382)	\$ (8,139)	\$ (16,530)	\$ (20,090)
Reconciling items included in gross profit	80	294	581	698	1,405
Reconciling items included in operating expenses	1,748	1,483	3,239	4,644	7,820
Impact of non-GAAP adjustments to redeemable non-controlling interest	(9)	—	—	(9)	—
Tax effect of non-GAAP adjustments	7	4	(137)	(9)	(144)
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (2,247)</u>	<u>\$ (2,601)</u>	<u>\$ (4,456)</u>	<u>\$ (11,206)</u>	<u>\$ (11,009)</u>
Non-GAAP net loss attributable to Pixelworks Inc. per share - basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>	<u>\$ (0.21)</u>	<u>\$ (0.28)</u>
Non-GAAP weighted average shares outstanding - basic and diluted	<u>52,768</u>	<u>52,283</u>	<u>40,766</u>	<u>52,245</u>	<u>39,697</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 EARNINGS PER SHARE**  
**(Figures may not sum due to rounding)**  
**(Unaudited)**

	Three Months Ended						Nine Months Ended			
	September 30, 2021		June 30, 2021		September 30, 2020		September 30, 2021		September 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 attributable to Pixelworks, Inc.</b>										
GAAP net loss attributable to Pixelworks Inc.	\$ (0.08)	\$ (0.08)	\$ (0.08)	\$ (0.08)	\$ (0.20)	\$ (0.20)	\$ (0.32)	\$ (0.32)	\$ (0.51)	\$ (0.51)
Reconciling items included in gross profit	—	—	0.01	0.01	0.01	0.01	0.01	0.01	0.04	0.04
Reconciling items included in operating expenses	0.03	0.03	0.03	0.03	0.08	0.08	0.09	0.09	0.20	0.20
Non-GAAP net loss attributable to Pixelworks Inc.	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>	<u>\$ (0.11)</u>	<u>\$ (0.21)</u>	<u>\$ (0.21)</u>	<u>\$ (0.28)</u>	<u>\$ (0.28)</u>

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

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

	Three Months Ended			Nine Months Ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Reconciliation of GAAP and non-GAAP gross profit margin</b>					
GAAP gross profit margin	52.5 %	50.6 %	48.5 %	48.9 %	50.6 %
Amortization of acquired intangible assets	1.4	1.6	3.6	1.8	2.9
Stock-based compensation	(0.9)	0.5	1.4	—	1.1
Restructuring	—	—	2.0	—	0.5
Total reconciling items included in gross profit	0.5	2.1	7.1	1.8	4.5
Non-GAAP gross profit margin	<u>53.1 %</u>	<u>52.7 %</u>	<u>55.6 %</u>	<u>50.7 %</u>	<u>55.1 %</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			Nine Months Ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Reconciliation of GAAP net loss attributable to Pixelworks Inc. and adjusted EBITDA</b>					
GAAP net loss attributable to Pixelworks Inc.	\$ (4,073)	\$ (4,382)	\$ (8,139)	\$ (16,530)	\$ (20,090)
Stock-based compensation	1,557	1,506	1,850	4,495	5,915
Amortization of acquired intangible assets	271	271	374	847	1,122
Impact of non-GAAP adjustments to redeemable non-controlling interest	(9)	—	—	(9)	—
Tax effect of non-GAAP adjustments	7	4	(137)	(9)	(144)
Restructuring	—	—	1,596	—	2,188
Non-GAAP net loss attributable to Pixelworks Inc.	\$ (2,247)	\$ (2,601)	\$ (4,456)	\$ (11,206)	\$ (11,009)
<b>EBITDA adjustments:</b>					
Depreciation and amortization	\$ 762	\$ 906	\$ 861	\$ 2,684	\$ 2,754
Non-GAAP interest expense (income) and other, net	(54)	(181)	28	(292)	(2)
Non-GAAP provision (benefit) for income taxes	(16)	103	111	324	401
Adjusted EBITDA	<u>\$ (1,555)</u>	<u>\$ (1,773)</u>	<u>\$ (3,456)</u>	<u>\$ (8,490)</u>	<u>\$ (7,856)</u>

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

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

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 66,559	\$ 31,257
Short-term marketable securities	—	250
Accounts receivable, net	6,086	4,672
Inventories	1,601	2,445
Prepaid expenses and other current assets	2,002	1,010
Total current assets	76,248	39,634
Property and equipment, net	5,526	5,103
Operating lease right of use assets	5,401	6,606
Other assets, net	960	1,081
Acquired intangible assets, net	361	1,207
Goodwill	18,407	18,407
Total assets	\$ 106,903	\$ 72,038
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,765	\$ 995
Accrued liabilities and current portion of long-term liabilities	15,075	9,452
Current portion of income taxes payable	457	147
Total current liabilities	18,297	10,594
Long-term liabilities, net of current portion	649	1,007
Deposit liability	9,741	—
Operating lease liabilities, net of current portion	3,468	5,088
Income taxes payable, net of current portion	2,090	2,479
Total liabilities	34,245	19,168
Redeemable non-controlling interest	30,288	—
Shareholders' equity	42,370	52,870
Total liabilities, redeemable non-controlling interest and shareholders' equity	\$ 106,903	\$ 72,038

**Contacts:**

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Company Contact

Pixelworks, Inc.

Elias Nader

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**Pixelworks, Inc. Q3 2021 Conference Call  
November 9, 2021**

**Operator**

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s third 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 third 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, November 9, 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 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. 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 or morning to everyone on the phone and webcast.

As reported in our press release earlier today, Pixelworks had a solid quarter as we extended our recent momentum with sequential growth in each of our end markets. Mobile revenue increased for the fifth consecutive quarter to reach another quarterly record and combined with a sustained recovery in the projector market resulted in our highest quarterly revenue since the onset of the pandemic. Total revenue for the quarter was up 85% year-over-year.

Gross margin expanded over the prior quarter, driven by a combination of improved overhead absorption as well as our ability to pass a portion of higher material costs to customers. We also held OpEx flat sequentially, contributing to another quarter of improvement in our bottom-line results.

Also, during the quarter we closed on the previously committed investments in the Pixelworks Shanghai subsidiary from a combination of private equity and new strategic investors as well as most of our employees. In total, we brought-in the

equivalent of approximately \$40 million in net capital investment at a premium valuation – significantly strengthening our cash balance and overall financial position.

Since our last conference call, we've continued to finalize on the strategic realignment by transforming our Shanghai subsidiary, which has served as our primary R&D center for many years, into an established profit center while maintaining majority-ownership by Pixelworks, Inc.

To briefly reiterate the rationale, our strategic realignment accomplished several objectives that further supports accelerated long-term growth. First, it facilitates direct employee equity ownership in Pixelworks Shanghai, which provides a critical advantage for attracting and retaining key talent in a highly competitive China labor market. Second, it consolidates Pixelworks' resources and focus on our mobile, projector, and video delivery businesses in Asia, bringing us closer to our core customers. And as I just highlighted, the reworked operating structure provides access to new sources of capital as well as alignment with strategic investors and ecosystem partners on new potential opportunities in adjacent markets. Finally, it positions us to address specific qualification requirements for the Pixelworks Shanghai subsidiary to pursue a future IPO and listing on the STAR Market in China. Specific to the pursuit of an IPO and listing for Pixelworks Shanghai, I want to re-emphasize that this is a lengthy process that requires meeting certain regulatory criteria and multiple periods of review. Consistent with our previously communicated plan, we estimate the earliest we could apply for a listing would be the second half of 2022.

Turning to a review of our end markets and beginning with the Mobile business. During the quarter, we continued to extend our momentum in Mobile, achieving another consecutive quarter of growth and a new quarterly record. Mobile revenue in the third quarter and for the first nine months both increased more than 200% over the same periods in 2020, driven by growth from both our Iris hardware and Soft Iris solutions.

One of the contributors to our growth in Q3 was the ramp of our most recent win with Vivo on their iQOO brand 8 series smartphones. The incorporation of Pixelworks' X5 Pro visual processor in the iQOO 8 series builds on the previous success of our first-ever win with Vivo in the iQOO Neo5, which was launched earlier this year. As the flagship device in the new 8 series, the iQOO 8 Pro features a 6.783" slightly curved AMOLED screen and is capable of 1-120Hz variable frame rate adjustment with resolution of 1440 x 3200 pixels. Following extensive lab tests and measurements, this smartphone earned DisplayMate's highest Display Performance Grade of A+ while also setting 14 performance records. All phones in the iQOO 8 series leverage Pixelworks' content-optimized motion estimation and motion compensation (MEMC) to combine ultra-smooth motion with high refresh rates, proving end users with ultra-premium display performance and a truly differentiated gaming experience.

More broadly speaking, gaming has emerged as the dominant market trend that's driving the next wave of innovation in mobile devices. As advanced display panels and technology increasingly become mainstream and standard hardware in smartphones, mobile OEMs are confronting new system-related and display pipeline optimization challenges. A prominent example of this is high frame rate, high resolution gaming – where an OEM elects to incorporate a high-resolution display panel capable of 90 to 120Hz refresh rates, but encounters detrimental impacts to overall device performance, such as reduced battery life, excessive heat and AP throttling which ends up limiting the rendering performance significantly below the capabilities of the display. These challenges do not apply only to gaming-centric phones, these are the exact issues that numerous OEMs are facing on an increasing number of their next-generation models as they adopt display panels capable of higher resolution, higher frame rates and wider color gamuts.

Pixelworks' visual display processors solve these critical system performance challenges by utilizing a distributed visual architecture to offload the intensive processing and upscaling associated with higher frame rate and resolution from the AP/GPU. The result is dramatically lower power drain, extended battery life and allows the user to take full advantage of the high frame capabilities of the display.

To-date, the value proposition of our visual processing technology has primarily been evaluated and adopted by OEMs as a standalone solution for improving display quality and performance. However, we've been working to position Pixelworks more aggressively and cultivate an ecosystem that inherently drives accelerated adoption of our technology. Consistent with this objective, this week our Pixelworks Shanghai subsidiary announced a collaboration agreement with Unity Technologies China. Unity is the world's leading gaming engine platform for creating real-time 3D (RT3D) content. Unity provides game developers a comprehensive set of software solutions to create, run and monetize interactive, real-time 2D and 3D content across multiple categories of devices. Unity's platform is utilized to develop nearly 50% of all mobile games.

The genesis of this collaboration is to synchronize and enhance the mobile gaming ecosystem with advanced visual display solutions that are optimized for gaming on mobile devices. As part of our joint efforts, we aim to bring together and integrate resources of the key players across the gaming ecosystem, including game developers, mobile platforms and technology solution providers – to align on a shared goal of enabling superior visual display performance, with high frame rate and higher resolution, and deliver the highest quality, immersive gaming experience possible.

Today, a growing number of OEMs are looking to Pixelworks' visual processing solutions to make sustainable high frame rate mobile gaming a reality across an expanding range of next-generation smartphones. We have a growing pipeline of new design-ins for both our X5 and Soft Iris solutions, with several of these smartphones targeted for customer launches in Q4 and throughout Q1. I can confidently say that we now fully expect this timeframe to include a launch of the first of multiple planned models with our 3<sup>rd</sup> tier-one mobile OEM. Separately, we've continued to make very good progress on our initiative aimed at expanding Soft Iris' capability to run on a new application processor platform, which will represent an expansion of our current mobile SAM.

Additionally, following the tape-out of our new seventh-generation visual processor that I mentioned last quarter, we have successfully brought up initial samples and finalized the preparation to demonstrate the solution to customers. Our newest visual processor is by far our most advanced processor to-date, incorporating improved versions of all the features from both our X5 and i6 devices, including improved MEMC performance as well as the advanced AI optimized picture quality we first introduced in our i6 processor. We will formally announce this solution later this month and will be able to expand on all the benefits this solution will bring to the mobile gaming and entertainment experience.

Shifting to the Projector business, we continued to see a sustained recovery in customer demand throughout the quarter. Revenue increased sequentially from the strong initial snap-back in orders experienced in Q2, resulting in the highest quarterly projector revenue since the onset of the pandemic. While both customer and end market demand have demonstrated steady improvement, customers have noted ongoing concerns related to the tight supply of other non-Pixelworks components limiting further upside volume in the near-term.

Specific to Pixelworks' ability to supply, our operations team has continued to work closely with both our projector OEM customers and supply chain partners. As a result, we've largely been able to mitigate any significant impact. We have extended the required lead times on purchase orders and modified cancellation terms to better reflect the current environment. We expect supply conditions to remain very tight in the coming quarters, and we currently have bookings from certain projector OEMs that extend as far out as the second half of next year.

With respect to an update on the broader supply and capacity constrained environment, the industry-wide challenges are considerable, and costs have increased across our supply chain. That said, to-date I believe with the support of our supply chain partners, the team has done a terrific job to mitigate the impact on our overall business. The biggest challenge is securing the incremental capacity allocation needed to meet the accelerated growth our mobile customers are demanding. In the current environment, upside capacity is priced at a premium, which further adds to the higher cost of materials. Through a combination of efforts, we've largely been successful in passing through this higher pricing to customers in all our visual display solutions. Through this and similar collective efforts, we have been able to maintain our historical gross margins.

Looking beyond Q4, it remains difficult to forecast how current supply chain dynamics will evolve throughout 2022 although we believe new capacity from our partners will start coming online in the 2<sup>nd</sup> half of next year. Currently, we have indications from customers for demand that meaningfully exceeds the supply we've secured to-date for next year. We believe that we will have enough headroom to grow, however the magnitude of growth is likely to be gated based upon how much supply we're ultimately able to secure.

Turning to an update on TrueCut. As part of recent and ongoing evaluations by several of the world leading entertainment companies, we continue to receive positive feedback affirming that TrueCut remains unmatched as a solution for preserving and delivering the original artistic intent of video, including resolution, HDR color tone and motion. Our TrueCut tools and solution are a platform technology, therefore the trigger for adoption has always required alignment of a supporting ecosystem. This includes content creators, post-production studios, content distributors as well as leading device manufacturers. In recent months, we've made continued progress on advancing multiple in-depth engagements across all categories of the ecosystem. Our goal remains to coordinate buy-in from multiple parts of the ecosystem simultaneously.

In summary, we are executing well and continue to build momentum in our mobile business as well as support the steady demand recovery in our projector business, despite the natural challenges associated with driving accelerated growth in a supply constrained environment. There are several positive catalysts and potential milestones on the horizon for Pixelworks in 2022, the most immediate of which include a healthy pipeline of design-ins with mobile customers, the availability of our most advanced seventh-generation visual processor and expanded engagements with both strategic and ecosystem partnerships. We've recently begun adding to our team and capabilities in support of expanding opportunities, which also demonstrates our confidence about the broadening adoption of Pixelworks' technology.

The magnitude of our growth in the coming year will continue to depend on supply chain dynamics, and our operations team focus on securing additional capacity to support the significant growth potential we believe exists. Near-term, we are well



positioned and expect to deliver another consecutive quarter of sequential and year-over-year revenue growth in the fourth quarter.

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

### **Elias Nader**

Thank you, Todd.

Revenue for the third quarter of 2021 was \$15.2 million, compared to \$14.1 million in the second quarter of 2021, and \$8.2 million in the third quarter of 2020. As Todd previously highlighted, the sequential increase in revenue and year-over-year growth of 85% reflected a combination of continued traction and record revenue in the mobile market and a sustained recovery in demand from project customers during the quarter.

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

- Revenue from Mobile increased to approximately \$4.8 million, representing 32% of total revenue, driven by strong sales of both our visual display processors and software solutions.
- Revenue from Digital Projector increased to approximately \$9.0 million.
- Video Delivery revenue was approximately \$1.4 million.

Non-GAAP gross profit margin expanded by 40 basis points sequentially to 53.1% in the third quarter of 2021, from 52.7% in the second quarter of 2021 and compared to 55.6% in the third quarter of 2020. We anticipate gross margin to remain steady and near our historical range for the balance of the year, as we continue to pursue initiatives targeted at offsetting generally higher material costs as well as succeed in passing through increased pricing to customers.

Non-GAAP operating expenses were \$10.1 million in the third quarter of 2021, flat with the \$10.1 million reported last quarter, compared to \$8.9 million in the third quarter of last year.

On a non-GAAP basis, third quarter 2021 net loss was \$2.2 million, or loss of (\$0.04) cents per share, compared to a net loss of \$2.6 million, or loss of (\$0.05) cents per share, in the prior quarter, and a net loss of \$4.5 million, or loss of (\$0.11) cents per share, in the third quarter of 2020.

Adjusted EBITDA for the third quarter of 2021 was a negative \$1.6 million, compared to a negative \$1.8 million in the second quarter of 2021 and a negative \$3.5 million in the third quarter of 2020.

Moving to the balance sheet, we ended the third quarter of 2021 with cash and cash equivalents of approximately \$66.6 million, a significant increase from \$23.6 million at the end of second quarter. The primary contributor to the \$43.0 million increase was the previously discussed closing of investments in our Pixelworks Shanghai subsidiary by a combination of private equity and strategic investors as well as employees of the company. Also contributing to the increased cash balance quarter over quarter was receipt of the first \$5.8M payment from our projector co-development customer. We expect to use these funds over next 6 months as we continue this development activity associated with the previously announced co-development agreement.

In terms of other balance sheet metrics for the third quarter, days sales outstanding were 36 days at quarter-end, compared to 41 days at the end of the second quarter. Inventory turns were 17.8 times in the second quarter, up from 16.0 times in the prior quarter.

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

Based on recent order trends and our current backlog, we expect continued sequential growth and another quarter of strong year-over-year revenue growth in the fourth quarter, driven by solid demand in both Mobile and Projector. Specific to the supply chain for Q4, we expect supply to remain very tight across both businesses, with 40nm for projector continuing to be the most acutely constrained. Taking all factors into account, we currently anticipate total revenue in the fourth quarter to range between \$15.5 million and \$17.5 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 fourth quarter of between 53.0% and 55.0%.

We anticipate operating expenses in the fourth quarter to range between \$11.0 million and \$12.0 million on a non-GAAP basis. The higher anticipated range for OpEx in the fourth quarter primarily reflects a combination of annual merit increases as well as planned hiring to support a growing number of customer engagements on new mobile programs in Asia.

Finally, we expect fourth quarter non-GAAP EPS to be in the range of between a loss of (\$0.07) cents and a non-GAAP loss of (\$0.03) 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.