GSI Technology, Inc.

Fourth Quarter Fiscal 2024 Financial Results Conference Call

May 2, 2024

CORPORATE PARTICIPANTS

Lee-Lean Shu, *Chairman, President and Chief Executive Officer*

Didier Lasserre, *Vice President, Sales*

***Douglas Schirle**, Chief Financial Officer*

PRESENTATION

Operator

Ladies and gentlemen, and thank you for standing by, and welcome to the GSI Technologies Fourth Quarter Fiscal 2024 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and will provide instructions for those interested in entering the queue for the Q&A.

Before we begin today's call, the Company has requested that I read the following Safe Harbor statement. The matters discussed in this conference call may include forward-looking statements regarding future events and the future performance of GSI Technology that involve risks and uncertainties that could cause actual results to differ materially from those anticipated. These risks and uncertainties are described in the Company's Form 10-K filed with the Securities and Exchange Commission.

Additionally, I've been advised to advise you that this conference call is being recorded today, May 2, 2024, at the request of GSI Technology.

Hosting the call today is Lee-Lean Shu, the Company's Chairman, President and Chief Executive Officer. With him are Douglas Schirle, Chief Financial Officer; and Didier Lasserre, Vice President of Sales.

I would now like to turn the conference over to Mr. Shu. Please go ahead, sir.

Lee-Lean Shu

Good afternoon and thank you for joining us today. Let's start with some highlights from our fourth-quarter activities.

During the quarter and subsequently, we achieved significant milestones across our key initiatives.

First, we launched two high capacity, low power 1U and 2U servers, integrated with the powerful Gemini-I APU designed specifically for SAR and Fast Vector Search applications. These servers can enable mobile applications, such as planes and satellites, and will offer enterprise-level processing at the edge. In addition, we now have benchmarks on 8 and 16 Leda boards for SAR, providing crucial tools for our follow-up efforts with SAR targets over the past year. We are finalizing marketing materials and plan to begin sales promotion to targeted customers by the end of the second calendar year quarter.

Second, we've made considerable progress with chips from the first spin of Gemini-II, presently undergoing rigorous testing and debugging. The result showcased during testing was sufficient for the integration of the chip onto a board. Having the chip mounted on a board has enabled comprehensive performance assessments. The chip can perform the basic functions in the processing cores and is able to move data between the processing array and L1 and L2 local memories. This verifies that the instructions can be successfully executed through the embedded processor and that the data path is also working. So far, we are pleased with the chip's result, which has been better than we expected. We aim to conclude this phase by the end of calendar Q2 and then proceed with a second spin. We anticipate receiving the next chip by fall, and initiate benchmarking shortly after. This would allow us to begin preliminary customer sampling with the expectation of starting alpha testing with target customers before year-end along with further the software development and writing of libraries.

Due to the huge model size requirement introduced by Large Language Models, there are many efforts in the AI industry to reduce model size, notably Binary Neural Network and BitNet. Those algorithms reduce the model weights to 1 bit or 1.58 bits, instead of 16 bits and 8 bits in the present models. The reduced weight size relieves the memory storage requirements and simplifies the computation. The simplified computation is especially beneficial to APU architecture over the traditional GPU architectures. GPU architectures are based on high resolution Matrix Multiplication for computation that is good for high resolution model size. However, BitNet and BNN require Boolean operation and Integer Addition for computation instead of matrix multiplication. APU architecture has Boolean operation and Integer Addition as the basic building blocks. That means that the APU is well suited for this kind of operation and offers advantages for higher performance and lower power. Our plan with Gemini-II is to target these algorithms and demonstrate to users of BNN and BitNet that the APU can fit the small models entirely into the chip for edge applications. We expect to begin these demonstrations early next calendar year once the next spin of the chip becomes available.

Another important development since the close of Q4 is the sale and lease-back of our headquarters in Sunnyvale, California. The sale, expected to close in early June, will provide additional funding [to support the finalization of Gemini-II and other R&D projects].

Last, our ongoing engagement with the hyperscalers continue to show promise. We have received great feedback on what we need to focus on as we start to discuss the design and applications for Gemini-III.

We are seeking a technical partner for Gemini-III. We are pleased with the progress we have made in our conversations with some potential partners, who could provide technology to support the functionality of Gemini-III with High Bandwidth Memory.

Now, I will hand the call over to Didier, who will discuss our business performance further. Please go ahead, Didier.

Didier Lasserre

Thank you, Lee-Lean.

Starting with Fiscal Year 2025, I would like to highlight several strategic goals and initiatives we will work on with each of the APU generations:

- First, we aim to sustain our legacy sales at the current run rate, and now, with two APU servers available, we're primed to pursue Gemini-I sales, particularly focusing on the SAR SaaS solution. It's our intention to achieve the first sales of Gemini-I in the second half of calendar year 2024.
- With Gemini-II, we are actively writing libraries to develop new applications on the edge or near edge. The second generation of our APU brings significant performance enhancements, with more

than 10 times the processing power with 8 times the memory density compared to Gemini-I. Gemini-II offers substantial processing capabilities, being suitable for both low power data center expansion and enabling data center functions at the edge. This empowers the local execution of computationally intensive tasks, increasing the edge application capabilities like advanced driver assistance systems for automobiles, and HPC in delivery drones, autonomous robots, unmanned aerial vehicles, and satellites. Additionally, Gemini -II's memory can hold a small database, a potential door-opener for enhanced performance in several applications. One example would be an off-the-shelf facial recognition solution, potentially in hardware with on-prem software or SaaS.

- This fiscal year, we are highly committed to further engaging with potential Gemini-III partners, including customers for the chip and technology partners for HBM integration. Getting partner funding for Gemini-III development is also a key priority.

In addition, I am pleased to share that we shipped parts for a new prototype for a European Space Agency robotic spacecraft mission to intercept a comet.

Before I conclude, I'd like to emphasize the key objectives that the GSI team and I are actively pursuing:

- Securing sales for Gemini-I,
- advancing Gemini-II for its second iteration, which will enable us to commence customer sampling later this year,
- and actively seeking strategic partnerships for Gemini-III,

Achieving these objectives will build awareness of the APU, improve our financial standing, and position us to enter larger, high-growth markets related to AI.

Let me close with the customer and product breakdown for the fourth quarter of fiscal 2024, sales to Nokia were $694,000, or 13.5% of net revenues, compared to $1.2 million, or 21.8% of net revenues, in the same period a year ago and $807,000, or 15.2% of net revenues, in the prior quarter. Military/defense sales were 35.5% of fourth quarter shipments compared to 44.2% of shipments in the comparable period a year ago and 28.2% of shipments in the prior quarter. SigmaQuad sales were 42.4% of fourth quarter shipments compared to 46.3% in the fourth quarter of fiscal 2023 and 46.9% in the prior quarter.

I would like to hand the call over to Doug. Doug, go ahead, please.

Douglas Schirle

Before I cover the Fourth Quarter and full-year fiscal 2024 results, I want to reference the Business Update that was in the earnings release issued today after the close of the market.

In the press release, we announced that we have initiated a broad strategic review to maximize stockholder value. The review will be administered by a special committee of the board of directors to bring focus on strategic alternatives while the Company's management focuses on the development of its family of compute-in-memory solutions for high-performance computing and Artificial Intelligence.

The Company plans to consider a wide range of options, including equity or debt financing, the divestiture of assets, technology licensing, or other strategic arrangements including the sale of the Company. Over the course of the last eight years, the Company has invested approximately $150 million of internally generated capital to develop its novel associated processer (APU) architecture and built a team of approximately 80 engineers in both hardware and software development. The Company's Board of Directors is of the opinion that the market has yet to recognize the progress and promise of the Company's position.

Any actions taken as a result of the strategic review will be directed at driving stockholder value. The Company has retained Needham & Company, LLC as our strategic and financial advisor in addressing these alternatives. There can be no assurance that this strategic review process will result in the completion of any transaction. The Company has not set a timetable for completion of this strategic review process.

Turning to the Fourth Quarter results, we reported a net loss of $(4.3) million, or $(0.17) per diluted share, on net revenues of $5.2 million for the fourth quarter of fiscal 2024, compared to a net loss of $(4.0) million, or $(0.16) per diluted share, on net revenues of $5.4 million for the fourth quarter of fiscal 2023 and a net loss of $(6.6) million, or $(0.26) per diluted share, on net revenues of $5.3 million for the third quarter of fiscal 2024.

Gross margin was 51.6% in the fourth quarter of fiscal 2024 compared to 55.9% in both the prior-year period and the preceding third quarter. The decrease in gross margin in the fourth quarter of 2024 was primarily due to product mix and the effect of lower revenue on the fixed costs in our cost of revenues.

Total operating expenses in the fourth quarter of fiscal 2024 were $7.2 million, compared to $6.9 million in the fourth quarter of fiscal 2023 and $9.7 million in the prior quarter. Research and development expenses were $4.8 million, compared to $5.0 million in the prior-year period and $7.0 million in the prior quarter. Selling, general and administrative expenses were $2.4 million in the quarter ended March 31, 2024, compared to $1.9 million in the prior-year quarter and $2.7 million in the previous quarter.

Fourth quarter fiscal 2024 operating loss was $(4.5) million compared to an operating loss of $(3.9) million in the prior-year period and an operating loss of $(6.7) million in the prior quarter. Fourth quarter fiscal 2024 net loss included interest and other income of $108,000 and a tax benefit of $(85,000), compared to $101,000 in interest and other income and a tax provision of $191,000 for the same period a year ago. In the preceding third quarter, net loss included interest and other income of $155,000 and a tax provision of $71,000.

Total fourth quarter pre-tax stock-based compensation expense was $693,000 compared to $515,000 in the comparable quarter a year ago and $649,000 in the prior quarter.

For the fiscal year ended March 31, 2024, we reported a net loss of $(20.1) million, or $(0.80) per diluted share, on net revenues of $21.8 million, compared to a net loss of $(16.0) million, or $(0.65) per diluted share, on net revenues of $29.7 million in the fiscal year ended March 31, 2023.

Gross margin for fiscal 2024 was 54.3%, compared to 59.6% in the prior year. The decrease in gross margin was primarily due to product mix and the effect of lower revenue on the fixed costs in our cost of revenues. Total operating expenses were $32.3 million in fiscal 2024, compared to $33.5 million in fiscal 2023.

Research and development expenses were $21.7 million, compared to $23.6 million in the prior fiscal year. Selling, general and administrative expenses were $10.6 million, compared to $9.9 million in fiscal 2023. The decline in research and development expenses was primarily due to cost reduction measures announced by the Company in November 2022.

The operating loss for fiscal 2024 was $(20.4) million compared to an operating loss of $(15.8) million in the prior year. The fiscal 2024 net loss included interest and other income of $414,000 and a tax provision of $70,000, compared to $202,000 in interest and other income and a tax provision of $372,000 in the prior year.

At March 31, 2024, we had $14.4 million in cash and cash equivalents, compared to $30.6 million in cash, cash equivalents and short-term investments at March 31, 2023. Working capital was $19.1 million as of

March 31, 2024 versus $34.7 million at March 31, 2023, with no debt. Stockholders' equity as of March 31, 2024 was $36.0 million compared to $51.4 million as of the fiscal year ended March 31, 2023.

Concluding with the outlook for the first quarter of fiscal 2025, we anticipate net revenues in a range of $4.6 million to $5.2 million, with gross margin of approximately 52% to 54%.

Operator, at this call, we'd like to open the call to Q&A.

Operator

Thank you, presenters. Ladies and gentlemen, we will now begin the question-and-answer session.

(Operator instructions)

Presenters, I don't see any questions at this time.

I would now like to turn the call over to our CEO, Lee-Lean Shu, for closing remarks.

Lee-Lean Shu

Thank you all for joining us. Please check out my recent published article in Forbes, *The Untold Story of AI's Huge Carbon Footprint*. You can find it on the Forbes website at forbes.com. We look forward to speaking with you again when we report our first quarter fiscal 2025 results. Thank you.

Operator

Thank you so much. Ladies and gentlemen, this concludes today's conference call. Thank you for listening. You may now disconnect. Have a great day.