

Sequans Fourth Quarter and Full Year 2023 Earnings Conference Call

Operator:

Welcome to the Sequans Fourth Quarter and Full Year 2023 Results conference call. All participants are in a listen-only mode. As a reminder, this conference is being recorded.

I would now like to turn the call over to Kim Rogers of Hayden IR. Ms. Rogers, you may begin.

Thank you, [Operator],

And thank you to everyone participating in today's call. Joining me on the call today from Sequans Communications are Georges Karam, Chairman, and Chief Executive Officer, and Deborah Choate, Chief Financial Officer. Before turning the call over to Georges, I would like to remind our participants of the following important information on behalf of Sequans.

Sequans issued the earnings press release this morning, which was posted to the Company's website at www.sequans.com under the "Newsroom" section.

Before we start, I would like to remind everyone that this conference call contains projections and other forward-looking statements regarding future events **or** our future financial performance and potential financing sources. All statements other than present and historical facts and conditions contained in this release, including any statements regarding our business strategy, cost optimization plans, strategic options, the ability to enter into new strategic agreements, expectations for Massive IoT sales, our ability to convert our pipeline to revenue, and our objectives for future operations, are forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended). These statements are only predictions and reflect our current beliefs and expectations with respect to future events and are based on assumptions and subject to risk and uncertainties and subject to change at any time. We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. Given these risks and uncertainties, you should not rely on or place undue reliance on these forward-looking statements. Actual events or results may differ materially from those contained in the projections or forward-looking statements.

More information on factors that could affect our business and financial results are included in our public filings made with the Securities and Exchange Commission.

And now, I would like to hand the call over to Georges Karam. Please go ahead, Georges.

Georges:

Thank you, Kim. Good morning, ladies and gentlemen. Welcome to our fourth quarter and full year 2023 financial results conference call. I will begin with comments on our business, followed by a review of the strategic options we are pursuing.

Fourth quarter 2023 revenue was \$4.8 million, of which approximately \$4.0 million was product revenue, a significant increase as compared with the prior quarter. The reduction in licensing revenue was due to the revenue recognition profile of our primary 5G licensing deal. However, we are pleased that channel and customer inventory issues began to clear up in the fourth quarter, driving an increase in product shipments with customers launching new projects into mass production.

Based on customer forecasts and backlog, we expect total Q1 revenue to be over \$7 million, followed by sequential revenue growth for the remaining quarters of 2024 mainly driven by product revenue ramp. We expect to reach total revenue levels similar to those of 2022 as we exit 2024. This renewed top-line momentum is fueled primarily by multiple new customer product launches in asset tracking, smart metering, and fleet management using our LTE-M/NB-IoT Monarch 2 and Cat 1 Calliope 2 platforms. The momentum is expected to continue into 2025 as the anticipated movement of design wins to production accelerates. Also, later in 2025, we expect our initial 5G chipset sales to begin coming online.

Let's take a high-level look at how we expect to achieve this revenue ramp.

Our product growth challenge in 2023 was primarily due to delays in customer projects moving from design into mass production. Despite these delays, our design win pipeline continued to grow from the addition of new projects from new and existing customers. In the fourth quarter of 2023, we were encouraged as customers finally moved several projects into production. Notably, our top customers are some of the largest players in asset tracking, smart metering, and fleet management, three of the largest and fastest-growing segments of the Massive IoT market. Allow me to share a few examples of our success in those segments.

Our largest partner in asset tracking, holding a leading position in a specific segment, is expected to grow 4x in 2024 thanks to multiple projects that launched last year. With this

partner, we have a confirmed backlog of 2 million units for 2024, with the potential for further upside on our LTE-M/NB-IoT Monarch 2 platform. In addition, we recently secured another project with this partner to address a new market segment using the Cat 1 Calliope 2 platform. Going forward, this customer has indicated continued growth in 2025 based on their potential end customers' demand.

In the smart metering segment, Sequans has a strong footprint with several customers in multiple regions of the world. Specifically, we have a dozen active projects with three Tier 1 customers, in addition to servicing a multitude of smaller customers. Unfortunately, the convergence of those design wins into production has taken longer due to metering project complexity. We can now report that two of these Tier 1 launched their first products based on Monarch 2 late last year and we have backlog covering the next 6 months of shipment. Further revenue growth in 2025 with this customer base is expected as subsequent design win projects are planned for launch in the current year.

In the fleet management space, we have secured a commitment and commenced design with a noteworthy Tier 1 customer utilizing our Cat 1 Calliope 2 platform. This customer has entrusted us with four separate projects, all using the Calliope 2 solution, and in one case replacing a competitor's platform. The initial product launch from this customer is anticipated in 3Q 2024, to be followed by further launches in early 2025. Their launch ramp is expected to deliver yearly revenue in the tens of millions of dollars. In fact, the number of customers needing to grow their footprint while working with trusted solutions for US government applications provides Sequans with a tremendous advantage, particularly with our Cat 1 Calliope 2 offering. Also, the Calliope 2 platform is an ideal solution for smart home applications where we see an increasing interest, specifically, thanks to its capability of supporting the Voice-over-LTE feature.

In summary, the scope of new project launches forecasted in Massive IoT gives us confidence in a substantial revenue ramp in the second half of 2024 and further acceleration of our revenue growth in 2025.

On the Broadband IoT front, the expected commencement of 5G Taurus platform shipments in late 2025 will build on our Massive IoT growth trajectory. Our 5G Taurus chipset is out and currently under testing, and we are expecting to commence sampling with our lead customers

later this year. I am excited to share that, after securing our first Tier-one alpha customer in Q3 2023, we expect to land another alpha customer in the coming months. In addition, several prospective customers are showing strong interest in our 5G platform. This positions us for 5G product revenue to begin in late 2025, followed by a significant ramp-up anticipated in 2026.

To conclude on the business side, we feel very confident of our progress. Our overall product design pipeline continues to grow, and the design win portion now represents more than \$400 million of potential three-year-life revenue.

Switching now to our strategic discussions. As previously announced, Renesas terminated the MOU due to an unfavorable tax ruling in Japan. Originally, we had hoped to obtain the tax ruling result in less than 4 months, but unfortunately, this took much longer. Subsequently, the MOU was amended twice to allow more time. In the end, the ruling was unfavorable, which was a disappointing surprise for us. I want to emphasize that despite the termination of the MOU, our relationship with Renesas remains strong, and they continue to be an important business partner reselling Sequans products. We remain currently engaged in ongoing discussions with them regarding our collaborative path forward.

In addition, immediately following Renesas' termination announcement, we received inbound interest from several parties with attractive strategic alternatives. Currently, Sequans' Board of Directors is actively engaged with potential partners to explore these various options, some of which are more advanced than others. In the meantime, we are in discussions with our lenders to extend the terms of our debt and, we will resume the previous discussions we had for other government financing alternatives. Lastly, we are pleased to report that we have received approval from the French government for EUR 11 million, or about \$12 million, of new funding.

We are fully aware of the challenges confronting us, and I want to make it unequivocally clear: addressing these issues is the top priority for both our Exec team and the Board. Every decision we make is geared towards not just sustaining, but enhancing our operations, deepening our engagements with customers, and ensuring our financial health.

Due to the sensitivity of the ongoing discussions, we are unable to provide further details on the strategic process at this time. Therefore, we trust you understand that we will not be

conducting a Q&A session today. We appreciate your continued trust and support as we move forward.

I will now turn the call over to Deborah to review the results in detail.

Deborah:

Although revenues for the full year 2023 decreased 44.5% from \$60.6 million in 2022 to \$33.6 million, we were pleased to see product revenues rebound in the fourth quarter as customers worked down their inventory levels and new projects from multiple customers moved to mass production. Gross margin remained strong at 71.8% versus 70.8% in 2022 due to contribution of high margin licensing revenue. Over time, we expect product gross margins to be in the mid-forties as we transition from more module sales to chipset sales; and as product sales become an increasing part of the revenue mix, overall gross margin should return closer to our target overall margin of 50%.

Operating expenses increased by \$7.4 million to \$54.1 million compared to \$46.7 million in 2022 reflecting the increase of our investment in 5G, but also the temporary increase of expenses of approximately \$3.5 million from deal costs related to the Renesas tender offer. The combination of lower revenue and higher operating expenses resulted in an IFRS operating loss of \$30.0 million, up from an operating loss of \$3.8 million in 2022.

On a non-IFRS basis, the operating loss was \$22.7 million in 2023 compared with an operating gain of \$1.6 million in 2022; and a non-IFRS net loss of \$30.7 million in 2023 compared with \$5.4 million in 2022.

Moving to Q4:

- Product revenue increased sequentially by more than 4X as our business began to recover from the consequences of high customer inventory of earlier generation products, which had a significant impact on our business in 2023. But more importantly, the revenue increase reflects the launch of new customer projects into production. Revenue from Massive IoT product sales in Q4 2023 continued to account for nearly all of our product revenue.
- Licensing revenue, all in the Broadband IoT segment, was very low in Q4 as expected, due the revenue recognition profile of our agreement with our 5G licensing partner. We expect licensing to rebound from Q4, targeting licensing and service revenue of over \$3 million in Q1.

For the quarter, we had one customer and one channel partner that each represented 10% or more of our revenue.

IFRS operating expenses were \$13.3 million in the quarter, down 8% sequentially from \$14.5 million in Q3 2023. The decrease was primarily due to the decrease in Renesas deal fees from a high point in Q3.

Year-over-year IFRS operating expenses increased 3% compared to \$13.0 million in Q4 2022.

Non-IFRS operating expenses, which exclude stock-based compensation expense, were \$11.4 million in Q4 2023, down sequentially from \$12.8 million in Q3 2023, and compared to Q4 2022 of \$11.1 million

The combination of all these elements resulted in a fourth quarter operating loss of \$12.8 million compared to a \$7.8 million operating loss in the prior quarter and versus an operating loss of \$986,000 in the fourth quarter of 2022.

On a non-IFRS basis, our net loss for Q4 was \$13.8 million, or (\$0.23) per diluted ADS compared to a non-IFRS net loss of \$6.8 million, or (\$0.16) per diluted ADS in the third quarter, and a net loss of \$2.8 million or (\$0.06) per diluted ADS in the fourth quarter of 2022.

Cash and short-term deposits totaled \$5.7 million at the end of Q4 compared to \$6.7 million at the end of Q3. Subsequent to year-end, an additional loan of \$9 million was received from Renesas. And as Georges mentioned, we received notification that the French government has approved €11 million in new R&D financing, of which nearly €7.5 million is in the form of a grant and the rest in the form of a low-interest loan that is repayable only once the product begins to generate sales. We are awaiting the contract but expect a 25% upfront payment, or about €2.7 million, to be made during the coming months, most likely early in the second quarter.

Turning to the outlook, we are targeting Q1 2024 revenues of over \$7 million, with at least 60% gross margin and for a trend of sequential revenue growth for the remaining three quarters of 2024.

In conjunction with the evaluation of the strategic opportunities that Georges enumerated, we have also identified potential cost optimization actions, leveraging our operating cost structure flexibility, that should strengthen our financial position without a major impact on our product strategy. And lastly, we intend to reactivate our discussions with the European Investment Bank.

At the conclusion of this call, we will post a written version of our formal remarks in the Investor Relations section of our website on the “Webcasts and Presentations” page . . . the same location where you will find the audio replay.

Now I’ll turn the call back to Georges . . .

Georges:

Thank you again for joining the call today. We will keep you apprised of any strategic developments as they occur. Again, we appreciate your continued trust and support as we move forward.