Sequans Communications S.A.

First Quarter 2025 Financial Results Conference Call

May 6, 2025

CORPORATE PARTICIPANTS

Kim Rogers, *Investor Relations*

Dr. Georges Karam, *CEO and Chairman*

Deborah Choate, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Scott Searle, *ROTH Capital*

Nick Doyle, *Needham & Company*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Sequans Communications First Quarter 2025 Financial Results Conference Call.

At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star, zero for the Operator.

This call is being recorded on Tuesday, May 6, 2025.

I would now like to turn the conference over to Kim Rogers. Please go ahead, ma'am.

Kim Rogers

Thank you, Operator, and thank you to everyone participating in today's call.

Joining me on the call from Sequans Communications are Georges Karam, CEO and Chairman, and Deborah Choate, CFO.

Before turning the call over to Georges, I would like to remind our participants of the following important information on behalf of Sequans. First, Sequans issued an earnings press release this morning, and you'll find a copy of the release on the Company's website at www.sequans.com under the Newsroom section.

Second, 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 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.

Now, I'd like to hand the call over to Dr. Georges Karam. Please go ahead, Georges.

Dr. Georges Karam

We are pleased to report that we delivered first quarter revenue of $8.1 million, slightly above the high end of our guidance range, reflecting steady execution of our plan.

Drilling into the details, product revenue was $3.5 million, in line with our target. This represents an increase of 42% compared to Q1 2024, mainly driven by the continued rollout of our Monarch 2 projects. Also, license and services revenue grew 28% year-over-year, largely due to the timing of revenue recognition from the 5G Taurus license to Qualcomm. As explained on our previous earnings call, the sequential decline was due to the timing of various deliveries under the Qualcomm license and the variability of product shipments with some design-win projects still moving through pre-launch phases.

On the product and technology front, we are making substantial progress. Monarch 2 remains a key driver of our revenue growth with many design-win projects in the pipeline. In Q1, we saw new momentum with several metering projects entering the pilot rollout phase. Also, the Monarch 2 pipeline continues to expand with new projects in tracking, metering, e-Health, and other industrial segments.

We began shipping Calliope 2 to our first design-win customers, preparing for product launches in the second half of 2025. We expect Calliope 2 shipments to ramp through the second half of this year and accelerate in 2026, particularly in telematics and security markets.

Our next-generation Monarch 3 and Calliope 3 chips, which we announced at Mobile World Congress, are planned for launch in the second half of 2026. These chips will further improve cost structure, power consumption, and radio performance, while supporting the 5G eRedCap modem category to help customers future-proof the transition from 4G to 5G IoT. The market response has been extremely positive, and we're engaged in advanced discussions with several customers and partners interested in collaborating with us more closely on this technology. The ACP acquisition accelerated our 5G eRedCap roadmap by approximately 18 months, giving us a first-to-market advantage. We expect this next generation of chips to contribute to our revenue in late 2027.

We are also excited about our 5G RedCap platform, called Taurus LT, as it is derived from our high-end

5G broadband Taurus IP. 5G RedCap is targeting high bandwidth IoT applications with speeds exceeding 100 Mbps, like cameras, edge routers, and high-end industrial devices. We plan to sample this platform to early customers by year end, completing our portfolio to address the full range of IoT connectivity needs.

Additionally, with the technology and resources gained from the ACP acquisition, we now offer RF transceiver chips that serve vertical markets such as defense, public safety, and proprietary radio devices. This radio chip is already in the mass production stage. It is shipping to one customer, but several other engagements are underway. We are preparing for a broader commercial launch supported by an enhanced marketing campaign to expand our market reach. This represents a significant new opportunity with meaningful revenue contributions expected to begin in late 2026.

With our comprehensive and rich portfolio, Sequans is one of the few comprehensive cellular IoT providers outside of China. This has become a meaningful differentiator in today's geopolitical environment and has already contributed to new opportunities and design wins.

Turning to customers, we are seeing strong momentum across the board. Our total pipeline, representing advanced customer engagements or design-ins and secured design wins, is reaching approximately $480 million of potential revenue, counting the first three years of sales for each project. More than half of this pipeline, $250 million, is already in the design-win phase, and the balance, $230 million, covers the design-ins projects.

I am pleased to report that we were awarded nine new projects in Q1, from six customers, including four new ones. They cover applications in telematics, metering, and e-Health and represent more than $10 million in expected annual revenue at full production. Some of them are part of our “high velocity” targets and are expected to contribute to revenue in 2026. These projects will be classified as full design wins in our pipeline as soon as our customers have initial hardware design sampling with our chip or module. Also, we have made progress on many other design-in opportunities where we are short-listed for final evaluation and selection.

So, how does the design-win pipeline translate to revenue growth? About 18 design-win projects are currently in production launch, contributing to revenue, representing around 20% of our design-win revenue pipeline. We expect this number to grow to over 30 projects by the end of 2025, where around 50% of our design-win pipeline will generate revenue. And most of the remaining design-win projects should reach the production phase by the end of 2026.

On the licensing side, we’re also seeing progress. Our Chinese partner, who licensed our 5G Taurus broadband platform, is advancing swiftly with their development, and we expect to begin receiving royalty revenue in 2026. Separately, we are engaged in discussions on three new strategic deals, all leveraging our 5G RedCap and eRedCap IP. We anticipate closing one or more of these deals by year-end 2025.

Looking ahead, our strategic priorities for the rest of 2025 are clear.

- We will continue moving design-win projects into production, converting Monarch 2 and ramping Calliope 2 projects.
- We will remain focused on winning new customers, expanding our design-win pipeline, and capturing share in high-growth markets like security, fleet management, and asset tracking.
- We are also aggressively executing our RedCap and eRedCap product roadmaps to further solidify our leadership position in next-generation 5G IoT and secure new strategic and licensing deals.
- Finally, we are expanding our vertical market sales by leveraging the RF chip opportunities

we acquired with ACP.

Financially, we remain disciplined and focused on execution. While macroeconomic conditions are uncertain, we are managing what we can control. We remain focused on our target to achieve operating income breakeven in 2026.

- We are managing our cash operating expenses with a target of below $10 million per quarter. We have two important levers to help with this: first, the maturity of our Monarch 2 and Calliope 2 product lines, which require limited additional investment; and second, the flexibility to adjust spending on next-generation chips, if needed.

As revenue increases, we expect to reduce our cash burn rate to below $5 million per quarter by the end of 2025 and continue growing to achieve our breakeven target.

Many new design-win projects are expected to begin production in the second half of the year. While there is some market uncertainty around potential new U.S. tariffs, it's too early to draw firm conclusions. We are monitoring the situation closely and will respond as needed. For now, we are not seeing a direct impact on our business.

On the corporate governance side, the Board Governance Committee recommended refreshing our Board of Directors to strengthen our strategic execution and refine our long-term vision. More information will be provided in our May proxy filing.

In closing, I want to thank our employees, customers, partners, and shareholders for their continued support. We are proud of our progress in the first quarter of 2025 and are excited about the opportunities ahead. With the strength of our product portfolio, the accelerating pace of projects into production, and the strategic initiatives we are executing, we believe we are well-positioned to drive significant value for our stakeholders.

I will now turn the call over to Deborah to review the first quarter 2025 preliminary financial results and details.

Deborah Choate

Thank you, George, and good morning to everyone.

Before we get started, please note that the financial results released today are preliminary. Our final results are subject to the finalization of the ACP purchase price allocation.

Revenues for the first quarter of 2025 increased 34% to $8.1 million, up from $6.1 million in the first quarter of 2024, and as projected, declined sequentially by 27%.

Product revenue reached $3.5 million in the quarter and accounted for 44% of total revenues. Product revenue increased 42% from the year-ago period and declined 26% sequentially, as we had a large customer shipment in Q4 that didn't repeat in Q1.

Licensing and other revenue was $4.5 million, an increase compared to $3.6 million in the prior year quarter and a 28% decline compared to $6.3 million in the fourth quarter of 2024, due to the revenue recognition distribution of the 5G Taurus license to Qualcomm. This quarter, we recognized $3.9 million in revenue, versus $5.5 million in Q4 2024, from partial delivery under a 5G Taurus license to Qualcomm as part of the overall transaction.

Gross margin in the first quarter of 2025 was 64.5% compared to 67.4% in the prior quarter and 63.9% in the first quarter of 2024, reflecting the mix of revenue we had between chip, module, and licensing and services. Product gross margin was 31.0% in Q1 versus 35.5% in Q4 2024, reflecting a higher portion of module sales as well as initial sales of Calliope 2 with higher costs incurred during the product introduction phase.

IFRS operating loss was $6.8 million in the quarter, compared to an operating loss of $5.6 million in Q4 2024 and a loss of $8.5 million in the first quarter of 2024. Please note that our non-IFRS operating expense of $11.0 million declined from $12.5 million in Q4, even with ACP operating expenses now included in Q1. Operating expenses also declined from the prior year period of $11.3 million. The Q1 2024 number included the benefit of capitalizing $9.1 million of R&D costs, whereas no R&D costs were capitalized in Q1 2025 or Q4 2024. The reductions in our operating expenses show that we are making progress toward our goal to bring cash operating expenses down to below $10 million on a quarterly basis.

We recorded **net interest income** in Q1 (and Q4 2024) compared to net interest expense in the first quarter of 2024 due to our investment of excess cash from the Qualcomm deal after repayment of all matured debt in October.

Net loss in Q1 2025 was $7.3 million, or ($0.29) per diluted ADS. This compares to a net loss of $2.4 million, or ($0.10) per diluted ADS in Q4 2024, and to a net loss in the first quarter of last year of $11.8 million or ($0.48) per diluted ADS. The net loss in Q4 2024 benefited from the reduction of the estimated tax expense recorded in Q3 2024 related to the gain on the Qualcomm transaction – this shows as a tax benefit in Q4.

On a non-IFRS basis, our net loss for Q1 2025 was $6.1 million, or ($0.24) per diluted ADS, compared to $1.8 million loss, or ($0.07) per diluted ADS in the prior quarter and a non-IFRS net loss of $8.8 million or ($0.36) per diluted ADS in the first quarter of 2024.

Cash and short-term deposits totaled $45.9 million at the end of Q1 compared to $62.1 million at the end of 2024. We had several non-operating or unusual items that had a $9.2 million drag on cash burn in the first quarter, including the payment of bonus and severance packages expensed in 2024, the impact of the termination of factoring, and ACP acquisition payments. Excluding these items, the normalized cash burn for the first quarter would have been around $7.2 million.

We anticipate certain non-recurring items again in Q2, including final payments to ACP shareholders. However, we will maintain a disciplined spending approach and target to finish 2025 with over $25 million in cash. Based on our capital allocation plan, we do not foresee the need for an equity raise in 2025 or 2026.

Turning to the outlook for the second quarter of 2025, we expect total revenue in the range of $8.0 million to $9.0 million, including final revenue recognition related to the 5G license to Qualcomm.

Turning now to some housekeeping items:

- After 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.

We filed our annual report on Form 20-F on April 30th.

Now I'll turn the call back to Georges.

Dr. Georges Karam

Thank you, Deborah.

Operator, we can turn now the call for Q&A, please.

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star, followed by the number one on your touchtone phone, and you will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the star, followed by the number two. If you use the speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question. Your first question comes from Scott Searle with ROTH Capital. Please go ahead.

Scott Searle

Hi, good morning. Good afternoon. Thanks for taking the questions and nice job on the first quarter.

Dr. Georges Karam

Hi, Scott.

Deborah Choate

Thanks, Scott.

Scott Searle

Georges, maybe to dive in, in terms of the pipeline composition, I think you said now the design-in opportunity is around $230 million. Last quarter, I guess about 60 or so days ago, was about $200 million. It sounds like you've had $10-plus million worth of wins. In that 60-day period, we've added about another $40 million of opportunities. Just wanted to confirm that.

And, in terms of the velocity of what's in that pipeline, we've been skewing more towards quick-design opportunities that translate into revenue a lot sooner. I wonder if you could provide a little bit more color. I think you gave some of the end-market categories, but how quickly some of those revenue, or those design-in opportunities should be able to translate into revenue. Is it nine months, 12 months, 18 months?

Then I had a couple follow-ups.

Dr. Georges Karam

Yes. Hi, Scott. For the first question regarding the pipeline, as I said, we secured nine projects this quarter. The only problem of our KPI, I mean, we have a lot of discipline on measuring design win, and we don't measure it as design win before really being sure that the customer has achieved a key milestone on his hardware, which is the availability of the hardware in hand, that we can see it, because you never know. Sometimes customers, they can delay the ramp or it takes them some time. We don't want to change the pipeline by adding numbers then deduct them the following quarter. We are prudent on this.

When you look at the $230 million there, this means some of this is awarded, but not yet moved to the design win, and this will be done in the coming quarter or the following quarter, depending on the speed of the execution on each project. In the same time, it shows, as well, more opportunity in this new deal, and with many of them, by the way, advanced, because we are on a few of them in a short list. We have been notified that we are shortlisted and we are finalizing the negotiation with the customer to close it. Yes, all this is progressing well and your understanding is right in the 60 days progress we have done.

In terms, now, on the velocity of the market, in reality, we spoke a lot about it in the past, and this was a level of frustration we all had, that we have a lot of design win projects in the metering space, and unfortunately, the metering is taking longer time to converge to revenue, because the design is complex and the design cycle in general is much more complicated than regular—other business. When you go to other IoT devices, like fleet management, like security, we expect time-to-revenue to be faster, but what happens specifically, and I mentioned this, that some of the new deals will generate revenue, we are sure about it, in 2026, and very likely beginning of 2026. They are on one side related to the nature of the business, as I mentioned, they are not in metering, they are in high velocity segment, but also some of those deals, they were like customers changing the modem, if you want, not redesigning the full product, and just only changing the modem, for some related to the geopolitical situation, for some related to some people exiting the market, where Sequans won those cues, and the refresh of this product was much faster. We are expec6ting revenue from, let's say, a couple of those projects to happen in less than 12 months, as we are speaking.

Scott Searle

Very helpful. Thank you. Georges, it sounds like we are looking for a little bit of a product inflection as we get into the second half of this year. I think some of those have been some long-standing metering projects. What's your comfort and visibility to that product revenue starting to accelerate in the second half of this year?

Dr. Georges Karam

Yes. Honestly, Scott, all is progressing very well in terms of design, unfortunately, as always, sometimes, customer, you're not sure about the level of ramp, in other words, the execution, I believe, it's moving. We're seeing, I mentioned, a couple of metering, by the way, projects, that they moved to pilot phase. Now, the phase from pilot to full mass production, we are a little bit in the—we don't have full visibility on it, because it depends on the end customer validation, and so on, so this can take six months, maybe less, maybe a little bit more, but this is the order of magnitude on those projects, so we have that. On the others, they are in the space of fleet and other applications related, by the way, to the automotive segment. We're seeing some progress, and we have confidence that we'll get the order, and we'll be shipping in the second half. Definitely, all is positive. It's more the order of magnitude where we are a little bit—we have uncertainty around it, if you want, like quarter-to-quarter, because it depends if the guys will move their ramp very quickly in the first quarter, or takes them two quarter to ramp, and we need to make some estimates for the time being, but that all positive and progressing.

Scott Searle

Got you. Thank you. Georges, I think for the first time we've heard you talk a little bit about additional RF and transceiver opportunities, going into some other markets, be it defense, public safety. I'm wondering if you could quantify the size of that, and the timeline of that opportunity?

Dr. Georges Karam

Indeed. By the way, more will come from us towards the end of the quarter, because we'll be making launch of this product. We decided to take a little bit of time after the acquisition of ACP, although we knew about it, but we want to really to assess the market, understand, and so on. As I mentioned, we have strong expertise in radio, where they sell—ACP sold in hundreds of millions of those IPs, to many, many products in the past. We have an existing product, very, very advanced, in mass production, shipping to one customer, by the way, in China, initial shipment, not big shipment for this customer. Assessing all those applications of defense and public safety, we realized there is a real demand for this chip, which is very advanced in comparison to what you can find in the market. We'll be moving there. We engaged already few customers, all the feedback was extremely positive, so that's why we are excited to launch the product, and put it on our portfolio, and start selling and marketing this. Opportunity could be—we should be able to do $10 million per year easily, just to give a number. The market is very, I would say, diverse, so it's very, very hard to look to the study where you can attack, because you can go to base station, you can go to a point-to-point radio, you can go to defense, you can go to drones application, so many applications. We are talking with the customer and everyone—those customers like this product. I would give it like 12 months to 18 months to—ramp-to-revenue, but we should—I have—I'm quite positive that even in 2026, we could generate maybe $5 million, to give you a number like this, from this product line.

Scott Searle

Great. Very helpful. Lastly, if I could, just on the licensing front, it's encouraging to hear the Chinese customer converting to royalties, but it also sounds like you remain pretty actively engaged on RedCap and eRedCap. I'm wondering if you could just provide a little bit more color on that front.

Deborah, just on the cash, I just want to clarify, I think that there were some final escrow payments coming from Qualcomm of $10 million sometime in the second half of this year, and there was some additional grant money, I'm wondering if you could just clarify that. Thanks.

Dr. Georges Karam

Yes. On licensing, indeed with our Chinese partner, they are reaching the MP version of the chip. It's still not MP tip-off, I should say. It should go to production for sure towards the end of the year, and we should start getting revenue from them next year. It's good with the geopolitical environment, you could imagine those guys selling in China, they should be able to make some good numbers. China is full speed on 5G, I'd say, so RedCap will be quite a strong market there, and this could generate a few million dollars for us per year in terms of royalty, depending on the volume, what they can do. Today, we are not putting this yet in our forecast, so this will be like an upside for us next year a part of the servicing—as part of the service and licensing. Also, we're engaged with, as you mentioned, a few other opportunities. All interested in RedCap, eRedCap, or other applications, or for different regions as well. We're quite advanced. I cannot say more on this, but there are serious opportunities, well-identified engagement and negotiation is there, and we feel comfortable that we should close something this year. It's not something to drag for next year. You will hear from us, I would say, hopefully, in the second half of the year, closing at least one, maybe two opportunities there.

Deborah Choate

Yes. Scott, on the cash, yes, we have $10 million in escrow from the Qualcomm deal that we're expecting to have released on September 30. In terms of government grants, in the second half of the year, we're expecting about $5.5 million to come in.

Scott Searle

Great. Thanks so much. Nice quarter.

Dr. Georges Karam

Thank you, Scott.

Deborah Choate

Thanks, Scott.

Operator

Thank you. The next question comes from Nick Doyle with Needham. Please go ahead, sir.

Nick Doyle

Hi guys. Thanks for taking my questions. For the non-GAAP gross margin that came in a little below, and you discussed some drivers, but my question is, what is the Calliope 2 gross margin improvement roadmap? How long until that drag grows away on product gross margin? Thanks.

Dr. Georges Karam

Hi, Nick. It's essentially—first of all, more generic, Nick, that all our chip businesses stand around the 50% gross margin. Yes, it can vary. You could have, depending on the phase of the lifecycle, or depending on the size of the deal, you could be a little bit below 50% or you could be above 50%, up to 55%, with the volume we're talking about today. We're not talking about improvement over time, which definitely will happen when the volume will grow, we'll solidify it and make it above 50%, and hopefully closer to 55%. The module business, as we said in the past, this varies as well around the 30% number. It could be 35%, it could be 25%, again, depending on the deal and so on. The mix of the two give you the product gross margin, which is in the above 40% today, if we—where we should be, around 40%.

Now for this quarter, again you have two elements when you look to the margin currently. We have a fixed cost of our manufacturing cost, which is included. In other words, if we have a revenue of a few million dollars, this fixed cost is going to impact by more than maybe close to five points in our margin. Our variable gross margin today is not what you see. You need to add like 5% as we grow. Just only by growing volume, this cost will be negligible to our variable gross margin. We had, specifically this quarter, the mix of module and chip plus some launch of initial production of Calliope 2. As you know, the initial production will come a little bit at high cost of the module, just serving the customer with the first thousands, ten thousands units here and there. The cost is not really optimized. There is nothing unique to Calliope 2, I would say, which is different from the Monarch 2 recipe. In terms of gross margin, whether Monarch 2, or Calliope 2, or even in the future eRedCap, they will play with the number I explained to you more generically, 50% of the chip, 35% for the module, and obviously licensing and services about 70%.

Nick Doyle

Yes, that makes sense. It sounds a lot more like a volume-leverage issue. I know we'll find out soon, but maybe you can give us a hint at what kind of board changes are being discussed. Thank you.

Dr. Georges Karam

Yes. Obviously, we don't want to—I give you the guideline. Obviously, the Board, we have great people on our Board, but they serve many mandates, and I believe for the interest of the Company is to refresh, bring in new blood. This is one trend, if you want. Also, we believe the size of the Board could be a little bit lower. At some time, we increase the size. We have the complexity of when we added some strategic—when we got Renesas on board, and then we had to increase the size of the Board to compensate for the U.S. versus non-U.S., as we are a foreign issuer. This adds another constraint when we build our Board. Now, we believe we can reduce the size of the Board to be in any case, maybe six, in any case below seven people in total and have at least a couple of new guys. In the same time, obviously, some people will be reaching their term now and they will be leaving immediately. Also, others are very likely, as soon as we hire other board members, they will be resigning and leaving afterwards. This is a process that we will engage now, starting, obviously, with the next shareholder meeting. In the coming, I would say, two or three quarters, we should be able to achieve this target, reduce the size of the Board to six or maybe—in any case, below seven or six, and have almost more—half of the board, new blood, or new people, that they are serving for their first mandate on our Board.

Nick Doyle

Thank you very much.

Dr. Georges Karam

Thank you, Nick.

Operator

Thank you.

There are no further questions at this time. I would now like to turn the call over to Dr. Georges Karam, President and CEO. Please go ahead, sir.

Dr. Georges Karam

Thank you, Operator.

As we wrap up, I want to reiterate our confidence in the direction of our business. The strength of our revenue pipeline, the ramp-up of key design-win projects into production, and the progress on our 5G RedCap/eRedCap roadmap all position Sequans for long-term value creation. We are staying focused on execution—scaling our product portfolio, deepening and broadening customer engagement, and managing expenses with discipline.

With disciplined execution and strong demand for our solutions, we're confident not only in reaching breakeven in 2026, but in unlocking meaningful growth beyond that goal.
Thank you again for your continued support.

Operator, we can close the connection.

Operator

Thank you.

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.