Operator

Welcome to the second quarter 2026 Sequans Earnings Conference Call. My name is ________, and I will be your operator for today's call. (Operator Instructions). Please note that this conference is being recorded. I will now turn the call over to David Hanover, Investor Relations. David, you may begin.

David Hanover, IR

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 Norman Brodt, 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.

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

Georges Karam, CEO and Chairman

Thank you, David, and good morning, everyone.

Before discussing our core business, I'd like to begin with an **update on our capital structure**, as we have now substantially concluded our Bitcoin treasury strategy.

As we announced on May 28, we completed the full redemption of our remaining convertible debt, funded through the sale of a portion of our Bitcoin holdings. Since then, we have continued to systematically reduce our Bitcoin position in a disciplined and opportunistic manner.

The Bitcoin market has been volatile over the past several months, and throughout that period we have remained patient, strategic and deliberate in managing our digital assets. During June, despite a challenging price environment, we made the decision to sell a portion of our holdings to further strengthen our cash position.

As a result, we ended the second quarter with approximately $21 million in cash and 314 Bitcoin remaining on our balance sheet.

At current market prices, those remaining Bitcoin represent approximately $20 million of additional value. With our IoT business continuing to perform well and our balance sheet in a strong position, we have the flexibility to monetize these remaining holdings opportunistically and when it is in the best interests of the Company to do so.

Our priority going forward is squarely on executing our IoT semiconductor strategy, scaling our product business, expanding our presence in the defense and drone markets, and advancing our 5G eRedCap roadmap to create long-term shareholder value.

As we enter the second half of 2026, we do so with a strong, debt-free balance sheet and the required financial flexibility to support our operations and invest in future growth.

Now, turning to our **IoT semiconductor business**, we continued to build momentum in the second quarter.

Revenue for the quarter was approximately $7.5 million, exceeding the guidance we provided last quarter and representing a 23% increase from the first quarter. The vast majority of that revenue came from product sales, which increased by more than 80% year-over-year, demonstrating the continued acceleration of our core business.

We also saw strong order momentum across our customer base, with several key accounts scaling meaningfully into the second half of the year and beyond. Today, we have more than 40 design-win projects that have reached mass production, several of which we expect will each generate more than $4 million in annualized revenue beginning in 2027.

These programs are contributing to a strong and growing backlog that now extends into 2027, providing us with increasing visibility and confidence in our product growth trajectory for both this year and next. More importantly, this reflects the continued conversion of our design-win pipeline into projects in production, with committed orders to come.

Our design-win pipeline, measured by potential three-year product revenue, also continues to expand beyond the more than $300 million reported at the end of 2025; we will provide an updated figure at year-end. Today, 55% of that figure is in mass production and generating revenue, representing approximately $165 million of design wins in production at quarter's end, a more than 3x increase year-over-year. We expect that percentage to continue increasing as additional customer programs move into production.

Across our product portfolio, we continue to see encouraging momentum across each of our key technology families.

Cat-M remains a core growth driver for the business, led by asset tracking and smart metering applications. Multiple design-win projects are now in production and continue to perform ahead of plan, supporting the strong product revenue growth we delivered during the quarter.

Cat-1bis is also gaining traction, with customer ramps across telematics, security and industrial applications expected to continue building through the second half of the year.

We remain encouraged by the level of customer engagement and the new IoT opportunities we see as existing design-win projects move toward production. During the second quarter, we secured 10 new project wins leveraging our Cat-M and Cat-1bis technologies, while transitioning a similar number of projects into mass production. Design activity across our pipeline remains healthy, and we expect to add additional wins throughout the remainder of the year.

Our RF transceiver business is also gaining momentum. We continue to see strong demand from existing customers, while interest from new prospects in the defense and drone markets continues to grow. During the quarter, we began shipping our SQN9506 development kit platform to several prospective customers evaluating our RF technology for these applications.

I am also pleased to report that we secured our first drone program, with product shipments expected to begin early next year. While still at an early stage, we believe this represents an important milestone as we continue to expand into this new market.

Development of our 5G eRedCap solution also remains on track. Our test chip is now in-house, and we continue to target customer sampling during the second half of 2027.

As the IoT market transitions from 4G to 5G, we continue to believe eRedCap will become a key industry standard and an important pillar of our long-term strategy. Beyond the product opportunity itself, we believe our investment in eRedCap further strengthens our technology leadership, enhances the value of our intellectual property portfolio, and creates additional opportunities for future licensing and services revenue.

Although product revenue from our eRedCap platform is expected to begin in 2028, we believe meaningful services and licensing revenue can be generated well in advance of commercial product launches.

That brings me to our broader **licensing and services business**.

Our licensing and services business continues to represent an important source of high-margin revenue, although the timing of individual engagements can vary from quarter to quarter. While it represented a modest contribution to revenue in the second quarter, we expect a meaningful increase in the second half of the year as one or more of the significant licensing opportunities currently under discussion converts into signed agreements.

Today, we have several active licensing and strategic engagements under discussion with global customers and partners across a range of end markets and geographies. The potential revenue contribution from these opportunities ranges from several hundred thousand dollars to well over $10 million, underscoring the significance of this part of our business.

Beyond their potential financial contribution, these engagements continue to expand our strategic reach into new markets and applications while providing meaningful upside to revenue and supporting our path toward break-even.

Because many of these discussions involve confidential commercial relationships and sensitive end markets, we are not in a position to provide customer-specific details at this time. However, we remain encouraged by the level of activity across our licensing pipeline and will provide updates as we reach definitive agreements.

As our product business continues to scale, **maintaining a reliable supply chain** remains equally important.

We continue to operate in a challenging supply environment. While memory remains the primary constraint, we are increasingly seeing pressure across the broader semiconductor supply chain, including silicon and packaging. Based on what we are seeing today, we expect these supply constraints to persist beyond 2026.

To address these challenges, we have continued to strengthen our supply chain strategy. Apart from wafer fabrication at TSMC, we are implementing multiple sourcing options across key components and manufacturing materials. This reduces our dependence on individual suppliers, improves supply security, and better positions us to support our expected growth in the years ahead.

We also remain focused on managing cost pressures. Where appropriate, we continue to pass through higher component costs to our customers while working closely with our suppliers to adapt to changing market conditions. This remains particularly important with memory chips, where pricing continues to be volatile and can change significantly even from month to month.

Based on our current planning assumptions, we believe supply is secured for our baseline demand through the remainder of 2026. Our focus is now shifting toward securing the capacity we will need to support continued growth in 2027.

As for our **key financial priority**, we remain focused on disciplined cost management and reducing cash burn, with the continued objective of moving toward a breakeven operating run-rate as revenue continues to scale. We made some progress this quarter and expect to make more in the second half of the year.

Overall, the second quarter reflected continued progress across the business. We strengthened our balance sheet, continued to grow our IoT semiconductor business, advanced our product roadmap, and further simplified our capital structure, positioning Sequans for continued growth.

Regarding **our outlook for the third quarter**, we currently expect revenue to be in the range of $8.5 million to $10 million, reflecting continued momentum in our core product business, with the upper end of the range further supported by the potential contribution from closing one of the significant licensing opportunities currently under discussion.

Based on our growing backlog, continued production ramps, and the strength of our design-win pipeline, we continue to expect the business to build through the second half of the year. While the timing of licensing revenue can vary from quarter to quarter, we remain encouraged by the level of activity across our pipeline and continue to believe we are well positioned to deliver sequential growth as we execute against our strategy.

Looking ahead, we believe the fundamental building blocks of the business continue to strengthen.

We have a simplified, near debt-free balance sheet with meaningful liquidity and the financial flexibility to support our long-term strategy.

Our IoT semiconductor business continues to demonstrate strong underlying momentum, supported by a growing backlog and a design-win pipeline that continues to grow and convert into production revenue.

Finally, our differentiated portfolio of 5G and RF technologies remains one of Sequans' most important long-term strategic assets, creating opportunities across both product and licensing revenue.

Our priorities remain clear. We will continue scaling our IoT semiconductor business, advancing our 5G eRedCap roadmap, expanding our licensing opportunities, and executing against the initiatives we believe will unlock the full long-term value of Sequans.

Before handing the call over to Norman, I'd like to take a moment to recognize an important leadership transition that took place at the end of June.

After 19 years with Sequans, Deborah Choate retired as our Chief Financial Officer.

Deborah has been part of Sequans through many of the Company's most important milestones. She played a significant role in strengthening our financial foundation and supporting the strategic initiatives that have positioned the Company for where it is today. On behalf of our Board of Directors and everyone at Sequans, I would like to sincerely thank Deborah for her many contributions over the years and wish her all the best in her retirement.

I am also pleased to welcome Norman Brodt as our new Chief Financial Officer.

Norman joined Sequans as Vice President of Finance in January 2025 and has been deeply involved in our financial planning, capital allocation strategy, and operational initiatives over the past year and a half. Many of the decisions and initiatives we have discussed on today’s call have benefited from his leadership and involvement, making this a natural transition for the Company.

I am confident that Norman’s experience, financial discipline and knowledge of our business will serve Sequans well as we continue executing our strategy.

With that, I will now turn the call over to Norman to review our second quarter financial results in greater detail.

Norman Brodt, Chief Financial Officer:

Thank you, Georges, and good morning, everyone.

Before reviewing our financial results, I'd like to say a few words. I assumed the role of Chief Financial Officer at the beginning of July following Deborah's retirement after 19 years with Sequans. I want to thank Deborah for the strong foundation she built and for ensuring a smooth transition. I'm pleased to have the opportunity to speak with you today for the first time as CFO.

Now let me turn to our second quarter financial results.

Total revenue for the second quarter was $7.5 million, an increase of 23.2% compared to the first quarter of 2026. Compared to the second quarter of 2025, revenue declined 8.4%, primarily because the prior-year quarter included a significant contribution from license and services revenue associated with the 2024 Qualcomm transaction. Excluding this impact our revenue grew 84.2% year over year.

Revenue in the quarter was primarily product-related, with product sales up 39% sequentially and almost doubeling year-over-year, reflecting the continued growth of our IoT business. That reflects sustained conversion of our design-win pipeline into production revenue, and with more than 40 projects now in mass production and a backlog extending far into 2027, we have strong visibility into continued growth.

Gross margin was 32.9%, compared to 37.7% in the first quarter and 64.4% in the second quarter of 2025. The sequential and year-over-year decline primarily reflects the higher mix of product revenue relative to license and services revenue, which naturally carries a different margin profile. As a reminder, the second quarter of last year included meaningful license and services revenue associated with the Qualcomm transaction, making the year-over-year comparison less meaningful.

Operating expenses, consisting of research & development, selling, general & administrative expenses, were approximately $11.9 million, compared with $11.8 million in the first quarter. We continue to execute on our cost reduction initiatives and remain on track to achieve lower operating expense levels in the second half of the year.

During the quarter, we recorded a non-cash impairment on our Bitcoin holdings of $3.0 million, down significantly from $29.3 million in the first quarter, along with a realized net gain of $5.3 million on Bitcoin sales, compared to a realized net loss of $11.7 million in the prior quarter.

Operating loss was $7.2 million, compared to losses of $50.5 million in the first quarter of 2026 and $8.5 million in the second quarter of 2025.

Net loss for the quarter was $9.6 million, or $0.65 per diluted ADS, compared to net losses of $76.2 million, or $5.23 per diluted ADS, in the first quarter, and $9.0 million, or $3.53 per diluted ADS, in the second quarter of 2025. Please note that we adjusted the Q1 2026 financial income and expenses to the re-evaluation of the convertible debt upon the amendement in February to permit the full redemption of the debt, which resulted in an increase of the financial expenses of $21.9 million. During the past quarter, debt-related net interest expense was $2.4 million, down from $4.9 million in the first quarter, reflecting the wind-down of our convertible debt.

On a non-IFRS basis, excluding non-cash impairments, stock-based compensation, and the non-cash items associated with the convertible debt and its embedded derivative, non-IFRS net loss was $4.0 million, or $0.27 per diluted ADS. This compares to a non-IFRS net loss of $20.6 million, or $1.41 per diluted ADS, in the first quarter, and non-IFRS net loss of $8.0 million, or $3.14 per diluted ADS, in the second quarter of 2025.

Turning to the balance sheet, cash and cash equivalents at June 30 totaled $21.0 million, up from $10.6 million at March 31.

For the first six months of the year, cash used in operating activities was $23.0 million. Investing activities provided $127.7 million, driven primarily by proceeds from Bitcoin sales, while financing activities used $97.0 million, reflecting the full repayment of the convertible debt associated with our Bitcoin treasury strategy.

As of June 30, we held 314 Bitcoin, valued at approximately $18.4 million, all of which is unrestricted and available for sale. This compares to 1,514 Bitcoin at March 31, valued at $103.2 million at the end of March, of which 1,217 Bitcoin was pledged as collateral for the convertible debt.

With the redemption of our convertible debt completed, and the repayment of our COVID-related loan during the quarter, Sequans now has a clean, unencumbered balance sheet. Together with our $21 million cash position and 314 unrestricted Bitcoin, we believe the Company is well positioned to support its operating and strategic priorities going forward.

Before I hand the call back to Georges, I want to briefly echo his comments on our licensing pipeline. We have several discussions that are well advanced, and we believe a number of these have the potential to contribute meaningfully to revenue in the second half of the year. As Georges noted, the timing of licensing revenue recognition can be difficult to predict, and that variability is reflected in our Q3 guidance range.

With that, I'll turn the call back to Georges.

Georges:

As we close, our priorities remain clear. We are focused on executing and scaling our IoT semiconductor business while expanding our presence in SDR applications, including drones and defense. We continue to see encouraging momentum across the business, supported by a growing backlog, a growing design-win pipeline, an increasing number of design-win projects transitioning into production, and a maturing pipeline of licensing and services opportunities. Together with continued strength across our Cat-M, Cat-1bis and RF product families, and the progress we are making with 5G eRedCap, we believe Sequans is well positioned to deliver continued growth while moving steadily toward cash flow break-even.

At the same time, we have taken important steps to strengthen our financial foundation. With the redemption of our convertible debt and the successful transition away from our Bitcoin treasury strategy, we have significantly improved our financial flexibility and sharpened our focus on our core semiconductor business. Going forward, we will continue to manage our remaining Bitcoin holdings in a disciplined and opportunistic manner while maintaining the liquidity needed to support operations, invest in innovation, and execute our long-term growth strategy.

Overall, we believe Sequans is entering an important new chapter. We have a stronger balance sheet, improving visibility into future product revenue, a differentiated technology portfolio, and multiple avenues for growth. We remain focused on disciplined execution and believe we are well positioned to create long-term value for our shareholders.