

NASDAQ:GSIT Q2 2025 Earnings Call Transcript

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Operator | Conference Call Operator:

Ladies and gentlemen, thank you for standing by. Welcome to GSI Technology's second quarter fiscal 2025 results conference call. At this time, all participants are on a listen-only mode. Later, we will conduct a question-and-answer session. At that time, we 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 statements. 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 also been asked to advise you that this conference call is being recorded today, October 24, 2024,

Li-Lin Xu | Chairman, President, and Chief Executive Officer:

at the request of GSI Technology. Li-Lin Xu, the company's Chairman, President, and Chief Executive Officer, will be hosting the call today.

Operator | Conference Call Operator:

With him are Douglas Shirley, Chief Financial Officer, and Didier Le Serre, Vice President of Sales. I would now like to turn the conference over to Mr. Xu. Please go ahead, sir.

Li-Lin Xu | Chairman, President, and Chief Executive Officer:

Good afternoon. and thank you for joining us to review our second quarter physical 2025 financial results. We are starting to see a significant turnaround in our excellent business this quarter, driven by two key factors. First, existing customers are actively depleting their channel inventories, and we anticipate They will resume orders in the upcoming quarters. Second, we have secured a new SM design with significant growth potential. Our longstanding partnership with the provider in the semiconductor manufacturing process is yielding significant demand related to a new AI chip. Didier will cover this exciting development in more detail in his comments. I want to update you on our Phase 1 and 2 SBIR contracts. We are on track to meet the deadline for the Gemini 2 benchmarking project and fulfill our SBIR contract with the U.S. Air Force Research Lab by December 31, 2024, followed by the delivery of the software algorithm in the first quarter of calendar 2025. Didier will turn further on our SBIR opportunities in his comments. Switching now to the APU development, we remain on track to meet our milestones on Gemini 2, including the benchmarking, which will be completed by the end of this year. We are excited that we have software fixes for the bugs in the first game of Gemini 2. This means we are much further ahead on the Gemini 2 software development and the library building at this stage than we were with Gemini 1. Lastly, on the APU roadmap, we are in the early stage of hardware development of a potential APU for use with LLM, which we named Plato. On our third quarter earning conference call, I will provide more detailed plans for this product and its potential applications. However, I want to ensure stakeholders, now that we have a roadmap beyond Gemini 1 and 2 for the APU, that we can execute given the company's resources. In previous calls, I discussed our external opportunities, extra opportunities, Two companies are currently using the APU for SAR applications, and both projects are progressing well. This year will give an update on the current status of this engagement. For the fiscal second quarter, we reported revenue of \$4.6 million, in line with our guidance. Our gross margin was

under pressure this quarter due to the mix of products and non-recurring surveillance costs related to workforce reduction in manufacturing. During the quarter, we introduced strategic cost-cutting measures to extend our financial runway and capitalize on our immediate and long-term opportunities. This action, including workforce reduction across all departments and enhanced operational efficiency, our project to generate annualized savings of about \$3.5 million. We take this restructuring initiative and improve as a revenue outlook to reduce our cash burn significantly. Now, I will hand the call over to Didier, who will discuss our business performance further. Please go ahead, Didier.

Didier Le Serre | Vice President of Sales:

Thank you, Lillian. Let me start with the new SRAM opportunity that Leline mentioned earlier. Our customer system is used to manufacture our leading AI chip developers' top-selling chip and their newly released chip. Volumes, shipments of our 144 megabit SRAM to this customer began at the start of calendar 2024, coinciding with an increase in the forecast for its product used in AI chip that is coming online. Demand for their product has been rising along the rapidly growing need for the top-selling and newly launched chips for the leading AI chip maker, fueled by the growth in high-performance computing hardware. Looking ahead, we anticipate even greater demand due to indications for a newly released chip requiring a higher capacity of this manufacturing product for this next-generation chip production needs. Interest in this new AI chip has been exceptional as leading tech companies compete to deliver the best hardware for their large language model platforms. We expect our collaboration with this customer to drive substantial demand for our SRAM chips. This customer is now positioned to become our number one customer in the near future. In addition, we have two other large existing customers that have worked through excessive inventory and we anticipate this will increase SRAM orders in the future quarters. Let me switch to recap our SBIR work. We are still working through the milestones of the two SBIRs that we previously were granted. As a reminder, these were the 1.25 million and the 1.1 million, respectively. For the 1.1 million grant, we aim to deliver a YOLO3 and YOLO5 model within four months that can be used for any real-time object detection application. If you are unfamiliar with the acronym YOLO, it stands for You Only Look Once. YOLO models are real-time object detection algorithms that immediately determine where objects are by drawing boxes around them and what those objects are by identifying their types in any image. We are still in contract negotiations on the SBIR. We were awarded last quarter by a new large division of the DOD for an edge board application. We hope to finalize that contract within the next month and begin working on the project deliverables before calendar year end. Before I move on to customer and product breakdown, I want to expand on the SAR opportunities that Leline mentioned. GSI is engaged with two customers on SAR Edge applications that have completed evaluations with Gemini One. Recently, they both began evaluating Gemini Two. Our ongoing SAR engagement with an Asian defense research and development organization is transitioning from evaluating Gemini One to a Gemini Two L. which is a low power version of our Gemini 2. This is intended for an in-flight application using SAR image generation. The project using Gemini 2L has specific applications that better align with the lower power profile needed for this flight application. Another customer, a US aerospace company specializing in SAR technology, is investigating the possibility of using Gemini 2 on a satellite for SAR applications. The company recently requested new benchmarks for a more complex application, which we are in the process of executing now. As Leneen mentioned, we are using the lessons learned from that experience to advance our timeline for Gemini 2. In both cases, we successfully used Gemini 1 to demonstrate the sar capabilities which paved the way for gemini 2 to be evaluated for use as a real-time edge application i'm sorry edge device for these applications we are also leveraging sbir opportunities including ones that we have won to help fund the further development of gemini 2 and plato let me switch now to customer and product breakdowns for the second quarter in the second Quarter of fiscal 2025, sales to Nokia were \$812,000 or 17.8% of net revenues compared to \$1.2 million or 20.3% of net revenues in the same period a year ago and \$998,000 or 21.4% of net revenues in the prior quarter. Military defense sales were 40.2% of second quarter shipments compared to 34.8% of shipments in the comparable period a year ago. and 31.9% of shipments in the prior quarter. Sigma Quad sales were 38.6% of second quarter shipments, compared to 55.8 in the second quarter of fiscal 24, and 36.3% in the prior quarter. I'd now like to hand the call over to Doug.

Douglas Shirley | Chief Financial Officer:

Go ahead, please. We reported net revenues of \$4.6 million for the second quarter of fiscal 2025, compared to \$5.7 million for the second quarter of fiscal 2024 and \$4.7 million for the first quarter of fiscal 2025. Gross margin was 38.6% in the second quarter of fiscal 2025 compared to 54.7% in the second quarter of fiscal 2024 and 46.3% in the preceding first quarter of fiscal 2025. The decrease in gross margin in the second quarter of 2025 was primarily due to a shift to product mix and non-recurring severance costs associated with manufacturing workforce reductions. Total operating expenses in the second quarter of fiscal 2025 were \$7.3 million compared to \$7.2 million in the second quarter of fiscal 2024 and \$1.1 million in the prior quarter. Prior quarter operating expenses included a gain of \$5.7 million related to the sale and leaseback of the company's headquarters. Research and development expenses were \$4.8 million compared to \$4.7 million in the prior year period and \$4.2 million in the prior quarter. Selling general and administrative expenses were \$2.6 million in the quarter ended September 30th, 2024, compared to \$2.5 million in the prior year quarter and \$2.6 million in the previous quarter. Second quarter fiscal 2025 operating loss was \$5.6 million compared to an operating loss of \$4.1 million in the prior year period and operating income of \$1.1 million in the prior quarter. Second quarter fiscal 2025 net income included interest and other income of \$149,000 and a tax provision of \$23,000 compared to \$71,000 in interest and other income and a tax provision of \$33,000 for the same period a year ago. In the preceding first quarter, net loss included interest and under income of \$55,000 and a tax provision of \$57,000. Net loss in the second quarter fiscal 2025 was \$5.4 million, or 21 cents per diluted share, compared to net loss of \$4.1 million, or 16 cents per diluted share, for the second quarter fiscal 2024. And net income of 1.1 million, or 4 cents per diluted share, inclusive of a one-time gain of \$5.7 million on the sale and leaseback transaction related to the sale of the company's headquarters for the first quarter of fiscal 2025. Total second quarter pre-tax stock-based compensation expense was \$663,000 compared to \$676,000 in the comparable quarter a year ago and \$658,000 in the prior quarter. September 30th, 2024, The company had \$18.4 million in cash and cash equivalents compared to \$14.4 million on March 31st, 2024. Working capital was \$21.1 million as of September 30th, 2024 versus \$19.1 million on March 31st, 2024. Stockholders' equity as of September 30th, 2024 was \$33.3 million compared to \$36 million as of the fiscal year ended March 31st, 2024. On a prior earnings call this year, we announced that the company had initiated comprehensive strategic review and established a special committee of the board to evaluate specific strategic alternatives. We continue to work with Needham & Company as our strategic and financial advisor to assist in this process. Operator, at this point, we will open the call to Q&A.

Operator | Conference Call Operator:

Thank you. At this time, we'll be conducting a question and answer session. If you'd like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star 2 if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Li-Lin Xu | Chairman, President, and Chief Executive Officer:

One moment, please, while we poll for questions. My first question comes from Jeff Bernstein with Silverberg Bernstein.

Operator | Conference Call Operator:

Please proceed with your question.

Jeff Bernstein | Analyst, Silverberg Bernstein:

Hi, good afternoon. Question on the S-RAM opportunity. So are you saying that's for a semi-equipment, wasteful fabrication equipment customer or is it a semi-test equipment customer?

Didier Le Serre | Vice President of Sales:

Along those lines. Yeah, we don't want to give too much detail because right now we don't want to name our customer. I mean, it's been a customer we've had for, many years, but they've never been a 10% customer, so we haven't identified them specifically. You know, that will certainly change in the quarters coming up because they'll exceed that.

Jeff Bernstein | Analyst, Silverberg Bernstein:

Gotcha. Gotcha. Okay. But it's associated with manufacturing. Okay. And then just on the – various APUs now. So there was mention of something called Cradle. Is that like a low-power version of Gemini 2, or what's Cradle, and what's the L that you referred to, the low-power Gemini 2?

Didier Le Serre | Vice President of Sales:

Sure. So we have Gemini, as you know. Gemini 2L is a derivative of Gemini 2. It's not a new design. It's just a way that we can configure the die to make it work with one core or two core. If you recall, our Gemini 2, in fact Gemini 1 for that matter, have four cores. And so it's a way for us to limit what's working inside the chip. And so people can use kind of a smaller variable of the device, which in turn gives them a very low power part. And so that's the Gemini 2L is just a derivative of our existing Gemini 2. PLATO, however, is a new design. And it's going after, you know, a different market. It's going after the LLM market specifically on the edge. And so it'll be very low power as well. You know, if you're familiar with the LLM market today, you know, some of the, folks going after it or going after it with very, very large GPUs that require water cooling, what have you. And so in this case, this is more for edge LLMs, and it would be a low-power solution.

Jeff Bernstein | Analyst, Silverberg Bernstein:

Gotcha. And that's for inference?

Li-Lin Xu | Chairman, President, and Chief Executive Officer:

Correct. Gotcha. Okay, that's great. Thanks. I'll let somebody else ask. As a reminder, if you'd like to ask a question, please press star 1 on your telephone keypad. One moment, please, while we poll for questions. There are no further questions. At this time, I'd like to turn the call back over to management for any closing comments.

Li-Lin Xu | Chairman, President, and Chief Executive Officer:

Thank you all for joining us. We look forward to speaking with you again when we report our third quarter physical 2025 results. Thank you.

Operator | Conference Call Operator:

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.