NASDAQ:GSIT Q4 2025 Earnings Call Transcript

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Conference Call Operator | Call Moderator:

Welcome to GSI Technologies fourth quarter and fiscal year 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 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 have also been asked to advise you that this conference call is being recorded today, May 1st, 2025, at the request of GSI Technology. Li-Lin Xu, the company's chairman, president, and chief executive officer, will be hosting the call today. With him are Douglas Shirley, chief financial officer, and D.G.L. Assay, 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 & Chief Executive Officer:

Good afternoon, and thank you for joining us to review our fourth quarter and the fiscal year 2025 financial results. Let's start with a few highlights from fiscal year 2025. We closed the fourth quarter with solid revenue growth, significantly reduced debt loss, and a meaningful improvement in cash burn, finish the year with $13.4 million in cash, and a more disciplined operating structure. Revenue for the fourth quarter increased by 14% year over year, and a 9% sequentially to $5.9 million, driven by strong demand for our essence chip, as we exit this year. This revenue growth and the low operating expense result in a sharp reduction in quantity rate loss and a material decrease in cash usage. For fiscal year 2025, quite annual revenue declined 6% compared to the prior year. we meaningfully reduced our debt loss by 47% from $20.1 million in 2024 to $10.6 million, driven by the 35% reduction in operating expenses. This structural cost improvement is central to our goal of preserving cash and extending our runway. We expect to maintain our quality operating expenses at current levels to minimize our cash burn until we secure new funding sources. In the fourth quarter, we made good progress across multiple funds to advance our technology roadmap and the commercial strategy. Notably, we secured an initial order for radiation hub and X-ray from a North American prime contractor, a key validation of our product. We anticipate follow all orders this fiscal year. This trip carries a significant higher gross margin than all traditional X-rays. EDA is the point person with this customer and will intend further on the opportunities. Our ongoing SBIR programs with government agencies are progressing well, and we are successfully meeting our milestones. Today, our SBIRs have generated a payment total of $1.6 million, and we anticipate receiving an additional $1 million once we complete the program. This quarter, $870,000 was booked as a reduction to RMD expense, further helping to lower operating expenses. We are especially excited about recent enhancement to Prato, adding the integration of a camera interface directly into the chip. This new feature paired with other connectivity enhancements allow the chip to interface with a wide range of sensors. This makes PRATO particularly well-suited for AI agents requiring object recognition. The new capability has increased strategic interest in PRATO, and we are currently in preliminary discussion with multiple parties to scale partnerships and access funds for the next phases of development. Delia will provide more detail on this exciting development. As we look ahead to fiscal year 2026, we plan to build on the progress of our APU development, drive continued growth in excellence sales, and advance execution of our strategic initiatives. across both commercial and the government markets. At the same time, we remain committed to maintain operational efficiency. In parallel, we continue to explore strategic alternatives with a primary focus on securing funding to support the next

phase of operator development. We are also working with our banking team to explore other options. that could provide new sources of cash to execute our AS strategy. With that, I will now hand it over to you.

D.G.L. Assay | Vice President of Sales:

Thank you, Leline. As Leline mentioned, this quarter's primary revenue driver was the continued strong demand for our high-density SRAM. Our SRAM has been deployed in critical systems used in chip manufacturing and the recent uptick in business with KYEC is being driven by surging demand for next generation AI chip from a leading GPU provider. Despite the ongoing tariff negotiations between the US and its trading partners, we currently anticipate the demand from this customer to continue in fiscal year 2026 at a similar level to what we experienced in 2025. With that said, we may have some variability in the timing of the shipments, but importantly, the demand is still anticipated to remain consistent. The big news this quarter is an initial order for our radiation hardened SRAM. While waiting for the forecast from the prime contractor, we anticipate follow-on orders in fiscal 2026. In addition, we are actively working with this customer to secure heritage status. Gaining this status would enhance the market acceptance of our radiation hardened SRAM and unlock access to new high-value sales channels. It is worth noting that radiation-hardened SRAMs carry a gross margin well above those of our traditional SRAM chips, providing a strong financial lever as we work to reduce our net loss and cash burn. Let me switch to Plato and elaborate on Lillian's earlier comments. By integrating a camera interface directly into the chip alongside enhanced connectivity features, Plato significantly broadens its addressable market. Able to process data locally without relying on cloud infrastructure, it's now optimized for edge devices and ideal for agents performing object recognition. To clarify what an agent is, it's helpful to look at how the approach to AI is shifting to agentic AI. These AI systems don't just analyze data, but they also act independently, for example, generating motor commands for a robot or a drone. This involves multiple capabilities that a single-purpose GPU is not well-suited for. Plato, on the other hand, can manage a combination of computing tasks that involve more than just a single number of crunching or graphic workloads. Put another way, agentic AI goes beyond basic data analysis. It must make decisions, process inputs from sensors like cameras and microphones, respond in real time, and take actions in the physical world. In this context, Plato's capabilities position it at the forefront of sectors preparing for significant growth driven by the increasing demand for intelligent, autonomous systems or agents across various industries at the edge. Thus, interest in PLATO has grown among the strategic partners we've engaged with over the past year. Pivoting to our ongoing SBIRs, as Leland stated, these projects are on track and we are meeting the milestones. As a reminder, we are currently working on a Phase II contract from both the Space Development Agency and the Air Force Research Labs, along with our most recently announced Phase I contract with the U.S. Army. As planned, we delivered a server with a LITA-2 board to the Air Force Research Labs and will shortly deliver another LITA-2 board to the Space Development Agency. The Phase 1 SBIR for the U.S. Army contract is evaluating the use of Gemini 2 in edge computing AI solutions, and we are on track to meet all expectations with this partner. This quarter, we also delivered a YOLO algorithm for the Air Force features labs, including the benchmarks for real-time object detection application. We continue to increase the performance of the YOLO algorithms, which can immediately determine the exact placement and identify the type of objects. We plan to deliver the improved YOLO3 and YOLO5 algorithms this summer. Lastly, an update on our STAR projects. We made further progress with an offshore defense R&D customer, which ordered a Gemini 2 system to evaluate the chip's capabilities for low-power in-flight application. We will be shipping this system this quarter. This organization is also a potential funding partner for PLATO. In addition, a U.S. aerospace company continues to evaluate our Gemini for onboard satellite applications. Taken together, these activities support the use of Gemini 2 for integrated edge applications such as SAR generation and drones with subsequent object detection and actionable decisions. Now I will move on to the customer and product breakdowns for the fourth quarter. In the fourth quarter of fiscal 2025, sales to KYEC were 1.7 million, or 29.5% of net revenues. compared to 544,000 or 10.6% of net revenues in the same period a year ago and 1.2 million or 22.7% of net revenues in the prior quarter. In the fourth quarter of fiscal 2025, sales to Nokia were 444,000 or 7.5% of revenues compared to 694,000 or 13.5% of net revenues in the same period a year ago and 239,000 or 4.4% of net revenues in the

prior quarter. Military defense sales were 30.7% of fourth quarter shipments compared to 35.5% of shipments in the comparable period a year ago and 30.0% of shipments in the prior quarter. Sigma Quad sales were 39.3% of fourth quarter shipments compared to 42.4% in the fourth quarter of fiscal 2024 and 39.1% in the prior quarter. I'd now like to hand the call over to Doug. Go ahead, Doug.

Douglas Shirley | Chief Financial Officer:

Beginning with the results for the quarter, we reported net revenues of $5.9 million for the fourth quarter of fiscal 2025 compared to $5.2 million for the fourth quarter of fiscal 2024. and $5.4 million for the third quarter of fiscal 2025. Gross margin was 56.1% in the fourth quarter of fiscal 2025 compared to 51.6% in the fourth quarter of fiscal 2024 and 54% in the preceding third quarter of fiscal 2025. The year-over-year and sequential increase in gross margins was primarily due to higher revenue and product mix. Total operating expenses in the fourth quarter of fiscal 2025 were $5.6 million compared to $7.2 million in the fourth quarter of fiscal 2024 and $7 million in the prior quarter. Research and development expenses were $3 million compared to $4.8 million in the prior year period and $4 million in the prior quarter. Research and development expenses in the fourth quarter of fiscal 2025 were reduced by $870,000, reflecting government funding under the SBIR programs. Selling general and administrative expenses were $2.6 million in the quarter ended March 31st, 2025 compared to $2.4 million in the prior year quarter and $3 million in the previous quarter. Fourth quarter fiscal 2025 operating loss was $2.3 million compared to an operating loss of $4.5 million in the prior year period and $4.1 million in the prior quarter. Fourth quarter fiscal 2025 results included interest and other income of $52,000 and a tax provision of $6,000, compared to $108,000 in interest and other income and a tax benefit of $85,000 for the same period a year ago. In the preceding third quarter, net loss included interest and other income of $70,000 and a tax provision of $44,000. Net loss in the fourth quarter fiscal 2025 was $2.2 million, or $0.09 per diluted share, compared to a net loss of $4.3 million, or $0.17 per diluted share in the fourth quarter fiscal 2024, and a net loss of $4 million, or $0.16 per diluted share in the third quarter fiscal 2025. Fourth quarter pre-tax stock-based compensation expense was $512,000, compared to $693,000 in the comparable quarter a year ago, and $429,000 in the prior quarter. Turning now to the full year results for fiscal 2025, we reported net revenues of $20.5 million for fiscal 2025 compared to $21.8 million for fiscal 2024. Gross margin for fiscal 2025 was 49.4% compared to 54.3% in the prior year. The decrease in gross margin was primarily due to product mix and the effect of lower revenue on a fixed cost on our cost of revenues. Total operating expenses were $21 million in fiscal 25 compared to $32.3 million in fiscal 2024. Research and development expenses of $16 million compared to $21.7 million in the prior fiscal year. Selling general and administrative expenses were $10.8 million compared to $10.6 million in fiscal 2024. The decline in research and development expenses was primarily due to cost reductions announced in August 2024. Research and development expense in fiscal 2024 included pre-production mass costs of $2.4 million related to our APU2 product. Research and development expenses in 2025 and fiscal 2024 were reduced by $1.2 million and $440,000 respectively. reflecting government funding under the SPIR programs. Operating expenses in fiscal 2025 include a gain on the sale of assets of $5.8 million from the sales of the company's headquarters building in Sunnyvale, California in a sales and leaseback transaction. The operating loss for fiscal 2025 was $10.8 million compared to an operating loss of $20.4 million in the prior year. The fiscal 2025 net loss included interest and other income of $326,000 and a tax provision of $130,000 compared to $414,000 in interest and other income and a tax provision of $70,000 in the prior year. For the fiscal year ended March 31st, 2025, we reported net loss of $10.6 million or 42 cents per diluted share compared to net loss of $20.1 million or 80 cents per diluted share. in the prior fiscal year. On March 31, 2025, we had $13.4 million in cash and cash equivalents compared to $14.4 million on March 31, 2024. Working capital was $16.4 million as of March 31, 2025 versus $24.7 million at March 31, 2024. Stockholders' equity as of March 31, 2025 was $28.2 million compared to $36 million as of the fiscal year ended March 31, 2024.

Unknown Executive | Management Representative (Unidentified):

Operator, at this point, we'll open the call to Q&A.

Conference Call Operator | Call Moderator:

Thank you. Ladies and gentlemen, we will now be conducting a question and answer session. If you would like to ask a question, please press star and 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star and 2 if you would 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. Ladies and gentlemen, we will wait for a moment while we poll for questions.

Conference Call Moderator | Question Facilitator:

Our first question comes from the line of Michael Cooper, private investor.

Conference Call Operator | Call Moderator:

Please go ahead.

Michael Cooper | Private Investor:

Good evening. Can you talk a little bit about the market for the Plato chip and the Gemini 2 chip? How large are these markets? How do they scale over what time period? Just give us a sense for that.

Robert Christian | Investor, Acoustic Technologies:

the market conditions here?

Michael Cooper | Private Investor:

Thank you.

D.G.L. Assay | Vice President of Sales:

Sure. So we haven't actually put out the TAM numbers yet, but just to talk about the markets. For the Gemini 2, think of it as an extension of Gemini 1, but for the edge. And so Gemini 1 was really to illustrate our capabilities in search and also some high-performance computing applications like SAR. And so what Gemini 2 will do, we'll take that but take it to the edge. Gemini 1 was not built to be a low-power solution with the accompanying FPGA that we've talked about in the past. With the Gemini 2, we can get closer to the edge. So we're looking for, while Gemini 1 would do SAR applications on ground level in a building, we are now looking at Gemini 2 to do a SAR application actually on a drone or on a satellite at the edge. And so we're looking at search and high-performance computing at the edge for Gemini 2. For Plato, this is going to be, it's not going to be for the search market. It's going to be for the LLM market. And so when most folks think about, you know, large language models and Gen AI, they think of it in the data center. We're taking that capability to the edge. And so this, think of Gen AI and LLM models more at the edge.

Conference Call Moderator | Question Facilitator:

Thank you. Thanks, Michael. Michael, does that answer your question?

Michael Cooper | Private Investor:

Yes, it does. Thank you. Yeah, that's it. Thank you very much.

Conference Call Operator | Call Moderator:

Thank you. The next question comes from the line of Robert Christian with Acoustic Technologies. Please go ahead.

Robert Christian | Investor, Acoustic Technologies:

Yeah, thanks for taking my call. I was wondering, is the company experiencing any interest in the Gemini 2 standalone chip from commercial companies other than, say, the military? And is the company still working with the hyperscalers? Thank you.

Conference Call Moderator | Question Facilitator:

So, good question.

D.G.L. Assay | Vice President of Sales:

Honestly, the majority of the early interest have come from more of the middle defense type of applications. and they are looking at it on a component level as well. So we do have what we call the LIDA2 board, which I discussed a little earlier, that we have delivered and will be delivering to some of our partners. And so with the board, we're delivering it with a SOAR algorithm or some kind of a YOLO algorithm that's been developed, which is why they're getting a card. but some of the folks that we have been having discussions with, they are looking for a chip only because they will be mounting it on a drone or in a satellite. One of our other integrating partners that we've discussed in the past, they're actually going to be developing their own miniaturized board, and so they will be procuring just the Gemini 2 chips from us. to put on their proprietary board. So the answer is yes, we are seeing interest on the chip level, but there's also some board level interest as well.

Robert Christian | Investor, Acoustic Technologies:

Okay, how about the hyperscalers?

D.G.L. Assay | Vice President of Sales:

Yeah, the hyperscalers, we're really focusing more on the edge right now, and so we have bad discussions with them. It's just that's a longer process with those folks. We find that with the military folks, it's just a much quicker path to revenue.

Robert Christian | Investor, Acoustic Technologies:

Okay. Can you share with the shareholders a little more detail, if you can, on what Needham is bringing to the table?

Unknown Executive | Management Representative (Unidentified):

Well, you know, really nothing is off the table at this point.

Douglas Shirley | Chief Financial Officer:

You know, it could be sale of assets. It could be, you know, funding into the company, you know, It could be helping us with opportunities for R&D funding, help us with development of products.

Unknown Executive | Management Representative (Unidentified):

It really could be just about anything.

Robert Christian | Investor, Acoustic Technologies:

Okay, but you can't share any specifics at this time, then?

Unknown Executive | Management Representative (Unidentified):

There's nothing specific to talk about at this time yet. Okay, thank you.

Conference Call Operator | Call Moderator:

Thank you. Our next question comes from the line of Michael Cooper, who's an investor. Please go ahead.

Michael Cooper | Private Investor:

Actually, I'm sorry. The last part of that last question answered my question, which was what has Needham actually presented as options or opportunities for you? And it doesn't sound like they've done an awful lot there.

Unknown Executive | Management Representative (Unidentified):

There have been things that we've looked at, but nothing's resulted in anything yet or nothing to talk about.

Conference Call Moderator | Question Facilitator:

Great. Thank you. Thank you.

Conference Call Operator | Call Moderator:

A reminder to all the participants, if you wish to ask a question, please press star and 1 on your telephone keypad. The next question comes from the line of Jeff Bernstein with Silver Bernstein Capital. Please go ahead.

Robert Christian | Investor, Acoustic Technologies:

Yeah, just a quick one. Could you give us what cash flow from operations was in the quarter and what your capex was?

Unknown Executive | Management Representative (Unidentified):

I don't have it for the quarter, but I have cash flow for the year.

Douglas Shirley | Chief Financial Officer:

For the year, cash used in operating operations

Unknown Executive | Management Representative (Unidentified):

Activities would be about $12.9 million. Okay.

Conference Call Moderator | Question Facilitator:

And what was CapEx for the year?

Unknown Executive | Management Representative (Unidentified):

Very little.

Douglas Shirley | Chief Financial Officer:

Fixed asset additions during the year were, you know, like $45,000. Very little. Very minor. We're not looking at fixed asset acquisitions right now.

Conference Call Operator | Call Moderator:

Okay. That's great. Thank you. Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Hsu for closing remarks.

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

Thank you all for joining us. We look forward to speaking with you again when we report our first quarter physical 2026. Thank you.

Conference Call Operator | Call Moderator:

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