NASDAQ:GSIT Q1 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Ladies and gentlemen, thank you for standing by. Welcome to GSI Technologies' first quarter fiscal 2026 results conference call. At this time, all participants are in 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 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, July 31, 2025, at the request of GSI Technology. Hosting the call today is Li-Lin Xu, the company's chairman, president, and chief executive officer. With him are Douglas Shirley, chief financial officer, and Didier Lacerre, 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, everyone, and thank you for joining us today. Let me begin with a few key highlights from this quarter's financial results. Fiscal 2026 is off to a strong start. In the first quarter, we achieved net revenue of $6.3 million, up 7% sequentially, and 35% year-over-year. This growth was fueled by rising demand for our S-RAN chips. driven by strong market momentum for leading AI processors. Our profitability nature also improved this quarter with a 200 basis points sequential increase in growth margin and over 1100 basis points compared to the prior year. We have also made meaningful progress on cost control over the last year with operating expenses declining by 15% year-over-year, including the gain from the sale of our recorder in Q1 2025. Now I would like to provide an update on our product roadmap and customer milestones. We have completed the evaluation of the second spring of our Gemini 2 chip. I am pleased to report that all loan bugs have been resolved, the silicon is fully functional, and ready for production. This week, the LiDAR 2 board and associated algorithms were delivered to a key offshore defense contractor for proof of contract work with Gemini 2 for satellites and drones. This delivery keeps us firmly on track with our roadmap and customer commitment. And while this is a major milestone, we also believe it represents an opportunity to play in both markets with Gemini 2. Didier will provide more details on this subject in a few minutes. CSI is at a pivotal point in its development. We plan to target high growth opportunities for Gemini 2 in the satellite, zone, and edge computing sectors. These are markets that are increasingly defined by AI-driven capabilities. We are evaluating options to access funds to expand our software and application teams to then develop the platform necessary for future customer fulfillment and support. Management is actively working with the board and our advisor to evaluate strategic options that will enable us to scale efficiently. Our real-time priorities include include funding the extension of our software and application teams, and advancing the development of the platform required to support future customer development deployment of Gemini 2. Accelerating the launch of Gemini 2 is key to laying the groundwork for our next generation APU, platform, and advancing companies' long-term product romance. In the meantime, the ATN has provided variable flexibility, allowing us to raise $11 million today, let alone fee. As a result, we ended the first quarter with a spending cash partition of $22.7 million. Now I hand the call over to Didier, who will discuss our business development and sales activities. Please go ahead, Didier.

Didier Lacerre | Vice President of Sales:

Thank you, Lillian. Starting with our SRAM business, we had another strong quarter of sales to KYEC and Canis Design Systems, a leading provider of AI chip emulation systems. We have experienced our third consecutive quarter of rising SRAM sales, driven by the growth with the enterprise adoption of AI and also in the generative AI by hyperscalers who are training ever larger models. Despite continued strong demand for high-performance SRAM chips, Extended lead times are impacting our second quarter of fiscal 26 sales. While customers have maintained typical ordering patterns, a portion of our backlog is not shippable this quarter due to these supply constraints. We've proactively informed all of our distributors and sales representatives of the situation. It may take some time for customers to adjust to the increased lead time accordingly. In the interim, we anticipate instances where orders cannot be fulfilled within the request timeframe. Although forecasts from our largest customers remain solid, we expect SRAM revenue for the remainder of the fiscal 2026 to be stable compared to first quarter as we navigate these supply chain challenges. Switching to deliverables for our SBIRs, as Leland mentioned, we also have completed the development of our SAR and YOLO3 and YOLO5 algorithms optimized for Edge AI applications. In parallel, we also shipped a LIDA2 board with a low power version of our Gemini 2 chip to an offshore defense contractor with whom we have been working with for over a year. Both of these are now available for POC opportunities with other partners. Our defense work with the low power version of Gemini 2 has highlighted the chip's capability to address large models at the edge in varying capacity versions, depending on the latency and power sensitivity of the application. This makes Gemini 2, in conjunction with the SAR and YOLO 3 and YOLO 5 algorithms, very well positioned for the broader market potential of applications moving to the edge, and particularly for high demand, high volume, and high mixed processing needs of drones operating in GPS-denied environments, as well as next-generation satellite applications. Gemini 2 is also well-suited for large language models, or LLMs for short, for edge applications. LLMs require a high density, high performance memory path from external DRAM to the internal SRAM next to the processor. Gemini 2's compute and memory architecture provides high density, high performance internal SRAM to allow a high efficiency memory path for high speed and lower power, I'm sorry, low power operations required by LLMs. Gemini 2 is also a bit processor that is flexible to do one bit to 32 bit or larger operations in the same circuit efficiently, which further enhances the capability for LLM processing. We are developing a multimodal LLM charting edge applications and will have benchmark results available next quarter. To ease the adoption of the technology, we will continue to improve the AI compiler for Gemini 2, which is currently in its initial release phase. In parallel, we continue to develop ready-to-use vision, multimodal, and recognition apps and libraries. Our software team is also developing dynamic, low-precision software libraries that support larger models, enabling high accuracy at low powers in edge devices. This is a major enabler for efficient edge AI. As a bit engine, we are uniquely capable of addressing these edge needs where compute, memory, and power resources are far limited. As Leline mentioned, we are eager to advance our software development team to pursue drone and satellite AI chip applications with Gemini 2. Let me switch now to our first quarter customer and product breakdown. In the first quarter of fiscal 2026, sales to KYEC were $267,000 or 4.3% of net revenues compared to $1 million or 21.9% of net revenues in the same period a year ago and $1.7 million or 29.5% of net revenues in its prior quarter. Sales to Nokia were $536,000 or 8.5% of revenues compared to $998,000 or 21.4% of net revenues in the same period a year ago and $444,000 or 7.5% of net revenues in the prior quarter. Sales to cadence design systems were 1.5 million or 23.9% of net revenues compared to zero in the same period a year ago and 642,000 or 10.9% of net revenues in the prior quarter. Defense and military sales were 19.1% of first quarter shipments compared to 31.9% of shipments in the comparable quarter a year ago and 30.7% of shipments in the prior quarter. SigmaQuad sales were 62.5% of first quarter shipments compared to 36.3% in the first quarter of fiscal 2025 and 39.3% in the prior quarter. Regarding our SRAM business outlook, our largest customer is currently navigating supply chain constraints. However, we expect their order volume to remain stable for the rest of this fiscal year. Meanwhile, other SRAM customers have largely normalized their inventory levels, and we anticipate continued order activity from them as well. I'd like to hand the call over to Doug. Go ahead, Doug.

Douglas Shirley | Chief Financial Officer:

Thank you, DDA. We reported net revenues of $6.3 million for the first quarter fiscal 2026, compared to $4.7 million for the first quarter fiscal 2025, and $5.9 million for the fourth quarter fiscal 2025. Gross margin was 58.1% in the first quarter fiscal 2026, compared to 46.3% in the first quarter fiscal 2025, and 56.1% in the preceding fourth quarter of fiscal 2025. The increase in gross margin in the first quarter of 2026 was primarily due to product mix and benefits of scale from higher revenue on the fixed cost of revenues. Total operating expenses in the first quarter of fiscal 2026 were $5.8 million compared to $6.8 million in the year-ago quarter, excluding a one-time gain of $5.7 million on the sale and lease back to the company's corporate headquarters and $5.6 million in the prior quarter. Research and development expenses were $3.1 million compared to $4.2 million in the prior year period and $3 million in the prior quarter. Selling, general, and administrative expenses were $2.7 million compared to $2.6 million in both the prior year and previous quarter. First quarter fiscal 2026 operating loss was $2.2 million compared to an operating loss of $4.7 million in the year-ago quarter, excluding the $5.7 million one-time gain previously mentioned related to the company's corporate headquarters and an operating loss of $2.3 million in the prior quarter. The first quarter fiscal 2026 net loss included interest and other income of $13,000 and a tax provision of $54,000. compared to $55,000 in interest and other income and a tax provision of $57,000 for the same period a year ago. In the preceding fourth quarter, net loss included interest and other income of $52,000 and a tax provision of $6,000. Net loss in the first quarter of fiscal 2026 was $2.1 million or $0.08 per diluted share compared to net income of $1.1 million or $0.04 per diluted share for the first quarter fiscal 2025. Net income for the year-ago period reflects the $5.7 million one-time gain on the sale and leaseback transaction at the company's headquarters. For the prior fourth fiscal quarter of 2025, net loss was $2.2 million compared to a $0.09 loss per share. Total first quarter pre-tax stock-based compensation expense was $341,000, compared to $658,000 in the comparable quarter a year ago, and $512,000 in the prior quarter. At June 30, 2025, the company had $22.7 million in cash and cash equivalents, compared to $13.4 million at March 31, 2025. Working capital was $25.7 million at June 30, 2025, compared to $16.4 million at March 31, 2025. Stockholders' equity as of June 30, 2025 was $37.4 million, compared to $28.2 million as of the fiscal year ended March 31, 2025. On an earnings conference call in May 2024, we announced that the company had initiated a comprehensive strategic view, established a special committee of the board to evaluate strategic alternatives, and engaged Needham & Company as our strategic and financial advisor to assist in the process. As Leland mentioned, we are actively evaluating potential strategic opportunities to secure the necessary capital to advance the development of our APU products. In the interim, we may choose to draw on the remaining balance of the ATM during upcoming trading windows to support near-term funding needs related to Gemini II development, depending on market conditions and other factors. Finishing with the outlook for the second quarter of fiscal 2026, we expect net revenues the second fiscal quarter to range between $5.9 million and $6.7 million, with gross margin in the range of 56% to 58%. We remain focused on disciplined execution to bring Gemini 2 to market, advancing our roadmap for PLATO while developing long-term shareholder value. Operator, at this point, we will open the call to Q&A.

Operator | Conference Call Operator:

Thank you. We will now be conducting a question and answer session. If you would 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 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.

Operator | Conference Call Operator:

One moment, please, while we poll for questions. The first question is from Tony Reno from a private investor. Please go ahead.

Unidentified Participant:

Hi, how are you guys? Good. Thank you.

Tony Reno | Private Investor:

So, um, can you provide a little more color on the supply chain issues?

Didier Lacerre | Vice President of Sales:

Sure. Yeah. So I'm sure you're aware of all the tariffs that are being thrown around by the U S government. And a lot of these are directed at China. And so a lot of the folks who have been doing, assembly in China are moving some of their assembly to Taiwan. And so it's really affecting the capacity in Taiwan. And as you know, we do all of our back end in Taiwan. So it's thrown out the lead times pretty much overnight to us because of that transition.

Tony Reno | Private Investor:

Will that end up making the customers possibly order earlier?

Didier Lacerre | Vice President of Sales:

Correct. Yeah. So that's something I mentioned a little earlier, which is, you know, this came about very quickly, and then customers have been used to their ordering patterns based off of lead times we've quoted. So we have gone back to them via our reps and our distributors to make sure they understand they need to get more backlog coverage in place so that their future orders will not be late or delayed. And so in the future, we anticipate this won't be a problem, but for the current quarter end and possibly into next, there will be some backlog that would have been shippable that will be delayed a bit just because of these lead times.

Tony Reno | Private Investor:

Yes, and it'll just make the further quarters probably even stronger then once we get out of that. Possibly. Yes. So sales to KYEC seem a little weak this quarter. Can you comment on that a little bit?

Didier Lacerre | Vice President of Sales:

Sure. Yeah. So part of that was the inventory levels that I mentioned in mind, which have seemed to stabilize along with the with the lead time as well. Yeah, they unfortunately those orders come in within lead time and we've been able to react in the past and we weren't able to this past quarter.

Tony Reno | Private Investor:

And like with cadence, those orders are pretty, pretty strong this quarter. What type of product are you shipping to them?

Didier Lacerre | Vice President of Sales:

Yeah, so there are emulation systems. This is kind of what we've talked about. Even though we don't sell our SRAMs directly into AI applications, we do a lot of support. KYC is supporting the manufacturing of AI chips. The cadence systems are emulations to emulate the design of some of these GPUs and other devices. So it's It's emulation systems in the front end design.

Tony Reno | Private Investor:

Okay, thank you. And last question, as far as the ATM is concerned, what are the trading windows for the company for that?

Douglas Shirley | Chief Financial Officer:

Well, typically our trading window starts two days after our earnings call. So in the case of this quarter, the trading window will open on Tuesday and it closes on the 15th of the last month of the quarter. So that would mean... In this case, September 15th for the last trading day up to the 15th of the month. Okay.

Tony Reno | Private Investor:

All right. Well, thank you very much, guys, and good luck in the future.

Unidentified Participant:

Thank you. Thank you. Thank you, Tony.

Operator | Conference Call Operator:

There are no further questions at this time. I would like to turn the floor back over to Li-Lin Xu for closing comments.

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

Thank you all for joining us. Please join us on August 20th. at upcoming need in virtual semiconductor comfort.

Didier Lacerre | Vice President of Sales:

Actually, operator, there is one more question that just popped up.

Operator | Conference Call Operator:

I see that now. Yep. Okay. We have a question now from Anna Chapman from 2 Chron 5 Productions. Please go ahead.

Anna Chapman | 2 Chron 5 Productions:

Yes. My background has always been in sales and capital equipment. I want to know how you're incentivizing your sales force because, to me, you make one of the best products out there. It has an excellent portfolio. How are you incentivizing these people?

Unidentified Participant:

It seems like your sales should be more in the pipeline. That's my question.

Didier Lacerre | Vice President of Sales:

I'm sorry, was that an advertising or was that a question? I'm not sure I got the question.

Anna Chapman | 2 Chron 5 Productions:

I'm asking how to the distributors, to your sales force, are they incentivizing? Is your product one of their number one things in their bag? Or is it like number 12 or maybe an afterthought?

Unidentified Participant:

How are you incentivizing these people to go out there and tell your story? And get sales.

Unidentified Participant:

Yeah.

Didier Lacerre | Vice President of Sales:

So our independent sales reps are paid on commission. So they're paid on shipment of product. And distributors are paid on margin. And so... With our independent sales reps, there's no competing lines, and they understand that our products are door openers, and so certainly they're important lines for them. And, again, with distributors, we do have large distributors. As you know, we have Avnet, which carries most of the lines. And so with them, the incentivization is in the margin, and GSI generally pays them above corporate average for the margins.

Unidentified Participant:

Okay. All right. I think they need to do better, quite frankly. Just my opinion. All right. Operator?

Operator | Conference Call Operator:

Great. There are no further questions at this time.

Operator | Conference Call Operator:

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