NASDAQ:GSIT Q3 2026 Earnings Call Transcript

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Operator | Conference Operator:

Welcome to GSI Technologies' third quarter fiscal 2026 results conference call. At this time, all participants are in 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 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, January 29, 2026. at the request of GSI Technology. Leland Hsu, the company's chairman, president, and chief executive officer will be hosting the call today. With him are Douglas Shirley, chief financial officer, and Didier Lassere, vice president of sales. I would now like to turn the conference over to Mr. Hsu. Please go ahead, sir.

Leland Hsu | Chairman, President, and Chief Executive Officer:

Good afternoon, and thank you for joining us to review our third quarter physical 2026 results. I am encouraged by our overall progress this quarter. Revenue in the third quarter increased by 12% year-over-year and 28.5% on a physical year-to-day basis. Demand for our excellent products remains solid, and we expect strong sales from our largest customers in the first half of calendar 2026. After completing our financing in fall 2025, we will defend our APU roadmap. We began Plato hardware development after purchasing the required IP. We have also added contract engineers to support our hardware design team, keeping us on track to take out Plato in early 2027. We finalized an agreement with G2 Tech, an Israel-based AI company, for our recently announced proof of concept. We are partnering with G2 Tech on Sentinel, a program for autonomous perimeter security using drones and cameras. The project is backed by the U.S. Department of War and a foreign government agency. This government funding will offset all costs to build the software stack and the libraries needed for this project. Delia will share more details shortly. Another recent milestone is Gemini 2's time-to-first token benchmark, announced in the press release earlier today. For those who have not reviewed it, please see today's release for the full detail on the benchmark results. and the methodology. Accordingly, we reported three-second time-to-first token, or TTFT, performance for AOLN with text and video input, consuming approximately 30 watts of system power. Compared to third-party testing of competitive platforms, Gemini 2's TTFT delivered up to three times faster first token at a lower power than the competitive chip on the same workload. We believe these test results validate Gemini 2's fast response for age use cases that need low power and a low latency. In his comments, EDL will depend on the benchmark results. We are making steady progress for the benchmark threshold continue to improve Gemini 2 performance, and completing the Sentinel project. We are also pursuing early proof-of-concept and prototyping opportunities for Gemini 2 in systems in the defense programs, including drones and unmanned systems, and in selected commercial light deployments. In parallel, we continue to pursue long-diluted R&D funding through government defense programs and strategic partners. With that, I send the call over to Li-Ling.

Didier Lassere | Vice President of Sales:

Thank you, Li-Ling. I'll start by expanding on some of Li-Ling's comments. On the Sentinel POC, we expect to receive more than $1 million in government funding. We will record this as an offset to R&D expenses. We plan to use it to complete key software milestones for the project, including software development for Gemma 3-12B on our Gemini 2, ahead of the planned demonstration to the government agencies later this year. Our POC partner, G2 Tech, is receiving additional funds to develop the drone platform for this demo. I'm pleased to share that G2 Tech conducted a competitive evaluation, and GSI was selected based on Gemini 2's performance. delivering the lowest TTFT at 30 watts. If the government evaluation later this year is successful, it could lead to a potential Gemini 2 design win with G2 Tech, and we would move to pursue additional opportunities to other drone and unmanned system customers beyond the POC sponsors. Turning to today's press release, our Gemini 2 TTFT benchmarks we discussed preliminary results showing a three-second time-to-first token for a multimodal model at the edge using video and text inputs at approximately 30 watts of system power. TTFT is how long it takes the system to produce the first response, which is critical for drones and unmanned systems. The threshold for a useful TTFT in video surveillance to ensure nothing is missed is three seconds. That means we are sampling the video image every three seconds. If the TTFT is 10 seconds, it takes too long so the surveillance video could miss something. In preparation for the Sentinel demo, we will continue improving TTFT over the next five months to further reduce Gemini 2's first time to response. What's exciting for GSI about these Gemini 2 preliminary benchmark results is that they demonstrate what computer memory can provide for physical AI. faster time to first token, and materially lower chip power. This will help enable a broader set of viable cost-effective deployments. For added color, at CES 2026, there was a clear shift towards edge AI and physical AI systems that must make real-time decisions under tight power constraints. In that context, Intel noted that TOPS, the number of operations per second, doesn't tell the whole story. What matters more in edge AI and physical AI is real-world workload performance and efficiency. That is the takeaway for us as well. For edge inference, performance per watt and responsiveness matter more than peak training metrics. We are confident that our computer memory APU architecture designed to reduce data movement is well-suited for power-constrained edge inference. Our near focus is to continue validating this with additional benchmarks and customer proof of concepts and convert that progress into design wins for Gemini 2. And to be clear, we are not trying to compete with folks at training and data centers. Our goal is to be a strong option for fast, low-power edge AI applications. Switching to the customer and product sales breakdown in the third quarter of fiscal 2026, sales to KYEC were 1.1 million, or 17.9% of net revenues compared to $1.2 million or 22.7% of net revenues in the same period a year ago and $802,000 or 12.5% of net revenues in the prior quarter. Sales to Nokia were $675,000 or 11.1% of net revenues compared to $239,000 or 4.4% of net revenues in the same period a year ago and 200,000 or 3.1% of net revenues in the prior quarter. Sales to Cadence Design Systems were 233,000 or 3.8% of net revenues compared to 971,000 or 17.9% of net revenues in the same period a year ago and 1.4 million or 21.6% of net revenues in the prior quarter. Military defense sales were 28.5% of third quarter shipments compared to 30% of shipments in the comparable quarter a year ago and 28.9% of shipments in the prior quarter. Sigma quad sales were 41.7% of third quarter shipments in fiscal 2026 compared to 39.1% in the third quarter of fiscal 2025 and 50.1% in the prior quarter. I'd now like to hand the call over to Doug. Go ahead, please.

Douglas Shirley | Chief Financial Officer:

We reported net revenues of $6.1 million for the third quarter of fiscal 2026 compared to $5.4 million for the third quarter of fiscal 2025 and $6.4 million for the second quarter of fiscal 2026. Gross margin was 52.7% in the third quarter of fiscal 2026 compared to 54% in the third quarter of fiscal 2025 and 54.8% in the preceding second quarter of fiscal 2026. The decrease in gross margin in the third quarter of 2026 was primarily due to product mix. Total operating expenses in the third quarter of fiscal 2026 were $10.1 million, compared to $7 million in the third quarter of fiscal 2025, and $6.7 million in the prior quarter. Research and development expenses were $7.5 million compared to $4 million in the prior year period and $3.8 million in the prior quarter. The increase in research and development spending compared to the prior quarter is primarily due to

the purchase of IP for the development of PLATO and associated consulting expenses. Selling general and administrative expenses were $2.6 million in the quarter ended December 31, 2025, compared to $3 million in the prior year quarter and $3 million in the previous quarter. Third quarter fiscal 2026 operating loss was $6.9 million compared to an operating loss of $4.1 million in the prior year period and an operating loss of $3.2 million in the prior quarter. Third quarter fiscal 2026 net loss included interest and other income of $3.6 million reflecting a non-cash accounting adjustment of $6.2 million for the change in fair value of the pre-funded warrants and issuance costs of $2.8 million for the recent Registered Direct Offering and a tax benefit of $251,000 compared to $70,000 in interest and other income and a tax provision of $44,000 for the same period a year ago. In the preceding second quarter, net loss included interest and other income of $43,000 and a tax provision of $41,000. Net loss in the third quarter of fiscal 2026 was $3 million or $0.09 per diluted share compared to net loss of $3.2 million, or 11 cents per diluted share, for the second quarter of fiscal 2026. For the prior year third fiscal quarter of 2025, net loss was $4 million, or 16 cents per diluted share. Total third quarter pre-tax stock-based compensation expense was $783,000, compared to $429,000 in the comparable quarter a year ago, and $856,000 in the prior quarter. Beginning this quarter, GSI is expanding the cash disclosures in its quarterly earnings release process to help investors understand the company's cash consumption and cash generation. Going forward, we will disclose the beginning cash balance, net cash used by operating activities, net cash used by investing activities, and net cash provided by financing activities. This will complement the condensed and consolidated statement of cash flows included in our Forms 10-K and 10-Q. Cash flows for the quarter ended December 31, 2025 in thousands of dollars. Cash and cash flow equivalents as of September 30, 2025 were $25.3 million. Net cash used in operating activities was $7.9 million. Net cash used in investing activities was $296,000. and net cash provided by financing activities were $53.5 million. Cash and cash equivalents as of December 31st, 2025 were $70.7 million. The increase in cash and cash equivalents as of December 31st, 2025 primarily reflects 46.9 million in net proceeds from the company's October 22nd, 2025 registered direct offering. Cash use and operation activities include spending for the development and commercialization of Gemini 2 in Plato. December 31st, 2025, we had $70.7 million in cash, cash equivalents compared to $13.4 million at March 31st, 2025. Working capital was $71.7 million as of December 31st, 2025 versus $16.4 million at March 31st, 2025. Blockholders' equity as of December 31, 2025 was $83.6 million, compared to $28.2 million as of the fiscal year ended March 31, 2025. Before I hand the call over to the operator for Q&A, I'd like to provide the fourth quarter fiscal 2026 outlook. Current expectations for the upcoming fiscal fourth quarter are net revenues in the range of $5.7 million to $6.5 million. with gross margin of approximately 54% to 56%. Operator, at this point, we'll open the call to Q&A.

Operator | Conference Operator:

Thank you.

Operator | Conference Operator:

Ladies and gentlemen, if you would like to ask a question, please press star 1 on your telephone keypad, and a confirmation tone will indicate that your line is in the question queue. You may press star 2 to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. And in the interest of time, we ask that you limit yourselves to one question and one follow-up, and then return to the queue for any other follow-ups.

Operator | Conference Operator:

Thank you.

Operator | Conference Operator:

And our first question comes from one of Quinn Bolton with Needham & Company. Please proceed.

Robert Iguano | Analyst, Needham & Company:

Hi, guys. This is Robert Iguano on for Quinn here. Congrats on all of the progress on Gemini 2. I just wanted to ask, you also announced during the quarter partnership with G2 Tech as well, you know, and, you know, that application for defense. Maybe how important is kind of the defense applications for Gemini 2? You know, how does that establish the capabilities of Gemini in sort of real world applications? And can you speak to potential commercial uses beyond kind of drones and defense and how this may impact the business going forward?

Didier Lassere | Vice President of Sales:

Sure. So certainly the middle and defense area have been the sectors that we've had our early successes in. We've talked about it in the past. We've had some of the SBIR wins with entities under the DOD or DOW as it's called today, specifically with the Air Force, Space Development Agency, and U.S. Army. So we certainly have had some successes there in in getting the message out. We've also talked about a SAR application, a board that we sent out to an offshore defense contractor for LEO satellite for SAR, which they're doing their evaluation now. So certainly this is the area that has adopted our technology most quickly. And as you mentioned, with G2 Tech, it's a nice partnership because you know, they're able to actually bring a product using our subsystem APU to create a true product. In this case, like you said, a drone and camera surveillance system. Can you repeat the last part of the question, though? Yeah, I guess. Yeah, so good point. So the effort we're doing right now with this POC, you know, this time to first token and the whole GEMMA 312B, you know, lends itself to other applications outside of drones and unmanned vehicles, things like smart cities, things like robotics. And so, certainly, we will be able to leverage all the work we're doing now for this current POC with G2 Tech for these other markets as well.

Robert Iguano | Analyst, Needham & Company:

For sure. Thanks for that. And just one more on... You mentioned the government funding as a... you know, a catalyst for 2026. Can you talk through maybe potential timelines, you know, when you expect this funding to come in and any other details that you have on that front would be great.

Didier Lassere | Vice President of Sales:

So for SBIRs, we have a continuous pipeline of submittals. So we have, you know, a handful right now that have already been submitted and we're waiting for word on whether we've been awarded or not. And we have others that we are putting together. This is an ongoing process, and they're different levels. They fall under the classic SBIRs. There's also other areas like BAA, which stands for Broad Agency Announcement, I believe. It's TRAPFI. There are other programs where other fundings are involved, and we're active in all those areas. Again, the benefit of this funding is it's non-dilutive. First, and secondly, it allows us to get more exposure within the DoD elements for future business.

Robert Iguano | Analyst, Needham & Company:

Great. Thanks.

spk02:

That's all from me for now. Thank you.

Operator | Conference Operator:

As a reminder, if you would like to ask a question, please press star 1, and a confirmation tone will indicate your line is in question queue.

Leland Hsu | Chairman, President, and Chief Executive Officer:

Seems like a list of no or no more questions from the investor. So thank you all for joining us. We look forward to speaking with you again for our fourth quarter and the full year physical 2026 results.

spk02:

Thank you.

Operator | Conference Operator:

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