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VLN.N - Q2 2024 Valens Semiconductor Ltd Earnings Call

EVENT DATE/TIME: AUGUST 07, 2024 / 12:30PM GMT

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PRESENTATION

Operator

Good morning. My name is Maya. And I will be your conference operator today. At this time, I would like to welcome everyone to Valens Semiconductor's second-quarter 2024 earnings conference call. (Operator Instructions)

I will now turn the call over to Lisa Fortuna, Investor Relations for Valens Semiconductor. Please go ahead.

Lisa Fortuna - *Valens Semiconductor Ltd - Investor Relations*

Thank you. And welcome, everyone, to the Valens Semiconductor's second-quarter 2024 earnings conference call. With me today are Gideon Ben-Zvi, Chief Executive Officer; and Guy Nathanzon, Chief Financial Officer.

Earlier today, we issued a press release that is available on the Investor Relations section of our website under investors.valens.com. As a reminder, today's earnings call may include forward-looking statements and projections, which do not guarantee future events or performance. These statements are subject to the Safe Harbor language in today's press release. Please refer to our Annual Report on Form 20-F filed with the SEC on February 28, 2024, for a discussion of the factors that could cause actual results to differ materially from those expressed or implied. We do not undertake any duty to revise or update such statements to reflect new information, subsequent events, or changes in strategy.

We will be discussing certain non-GAAP measures on this call, which we believe are relevant in assessing the financial performance of the business and you can find reconciliations of these metrics within our earnings release.

With that, I'll now turn the call over to Gideon.

Gideon Ben-Zvi - *Valens Semiconductor Ltd - Chief Executive Officer, Director*

Hello, everyone. And thank you for joining Valens Semiconductor's second-quarter 2024 earnings call.

This quarter, our team made solid progress executing against our long-term strategy and capitalizing on growing market demand for our high-performance connectivity solutions. This resulted in revenue exceeding our guidance, increasing our confidence in the positive trends we are seeing across the diverse verticals we serve. In the audio video market, we continued to see growing interest in the adopting of our related USB3 extension technology, the VS6320 chipset.

Reflecting this momentum, we entered exciting new partnerships and collaborations in recent months, strengthening our go-to-market strategy. We believe we are poised to capitalize on the \$1 billion annual total addressable market in audio video connectivity for video conferencing, machine vision, industrial, medical, and other verticals. In addition, our recent acquisitions of Acroname – the first M&A transaction of Valens Semiconductor

elevates our presence in these verticals. All of these developments occurred despite continued challenges, including slow inventory digestion in the audio video segment. Despite these short-term challenges, our mid and long-term opportunities remain promising.

Moving on to a quick overview to our second quarter financial performance. We are pleased to report that organic revenues exceeded the top end of our guidance at \$13.2 million. Acroname contributed an additional \$0.4 million, which increased total revenue to \$13.6 million. As Acroname was consolidated from May 31, its contribution this quarter represent just one month of revenue.

GAAP gross margin of the second quarter came in at 61.4% and adjusted EBITDA loss was \$(5.2) million, both beating our guided ranges. We have a very strong balance sheet with \$130.6 million of cash and cash equivalents that allows us to continue investing in innovation and pursuing long-term growth opportunities.

Moving to Acroname acquisition. I would like to give you more details about why we are excited about the recent acquisitions of Acroname, which we closed on May 31, 2024. Based in Boulder, Colorado, Acroname has around 20 employees, most of whom are talented engineers. Acroname is a pioneer in advanced automation and control technologies for applications in industrial, robotic control systems and audio video conference rooms. Acroname's products and solutions will enable us to expand our position in the industrial and audio video markets as they are a leading supplier of high-end programmable USB hubs switches, and test automation systems for industrial applications.

This first M&A transaction, although modest in size marks a significant milestone in our strategy to support non-organic growth through synergistic acquisitions that will enhance value for our customers and shareholders. Importantly, our strong balance sheet provides us with the flexibility to move quickly when opportunities arise. Going forward, we expect this highly selective acquisition strategy to complement our organic growth initiatives.

Now, let me turn to our performance and the trends we are seeing in the markets we serve. Starting with professional audio video, which includes applications such as entertainment, video conferencing, education, and digital signage. Since its introduction late last year, we are proud to have over 50 customers developing products based on the VS6320 with a wide variety of products already launched. The public excitement for this chipset validates the VS6320's groundbreaking technology demonstrates the high demand for reliable, streamlined, and affordable connectivity.

The industry's eagerness for this chipset was most apparent at InfoComm International, the largest professional audio video trade show in North America, which took place in mid-June. At the show, many leading manufacturers announced launching products while other demonstrated the VS6320 embedded into their products, which include USB extenders, PTZ cameras, video bars, wall plates, docking stations, room appliance controllers, and USB hub switches. All across the show floor, people were praising the new capabilities of the VS6320 chipset.

We are pleased to report that we reached mass production for the VS6320 chipset in July, and expect to start generating revenues in the second half of 2024 before ramping up further in 2025. There is growing adoption of video conferencing systems driven by hybrid work and education environments as well as necessary improvements to the user experience despite current market conditions. These positive trends are expected to support mid and long-term demand for our chipsets.

In addition, during the second quarter, we continued to expand our partnerships with leading providers to accelerate new product introductions. One example is the partnership with Taiwan-based Good Way Technology, one of the world's leading PC peripheral design and manufacturing companies. Good Way Technology has leveraged our VS6320 in combination with Synaptics' DisplayLink technology to offer the video conferencing market a simplified, flexible, and cost-effective solution, opening the door for the integration of docking stations into reasonably priced meeting rooms.

As you can see, video conferencing continues to be a major focus for us, and we expect it will be a driving factor in the recovery of the entire Pro A/V market. We are encouraged by investments that leading tech companies like Microsoft and Zoom are making. These innovative solutions will improve the user experience through certification processes for video conferencing systems and for a seamless and unified experience in hybrid meetings. We expect that these certifications will drive adoption of better technologies, which is where we have a significant advantage.

Moving on to the machine vision and industrial verticals. To date, Valens has engaged the industrial market in applications connecting industrial PCs and remote touch displays, extending the HDMI and USB enabled remote operation of industrial machines. With the launch of our VS6320 and the VA7000 chipsets, we are now entering a much larger market- machine vision. These new chipsets are targeting the two main segments in the machine vision world, the IPC based and the embedded vision segments, respectively. The IPC-based segment is dominated by two standard technologies: GigE Vision and USB3Vision. Until recently, USB3Vision offered significantly higher bandwidth but had limited cable length. Now, with the ValensUSB3 extension solution, USB3 Vision can support the same 100-meter distance as GigE alongside the much needed higher bandwidth.

Our new solution enables higher-resolution machine vision systems such as visual inspection and automated warehouse operations. The Embedded-Vision segment typically leverages proprietary camera extension technologies. Valens' VA7000-CSI2 extension solution brings significant benefits: It is based on a MIPI Alliance standard. It enables higher bandwidth extension over longer and simpler cables and most importantly, it is 20 times more robust to electromagnetic interference than competing technologies. Valens is increasing its investment in the industrial machine vision vertical, expanding our partnerships across this ecosystem to enable faster introduction of our technology. We believe that the fruits of this effort will be on this stage during the "Vision" show in Stuttgart, Germany on October the 8th.

Before we discuss automotive, I would like to briefly address the current challenges in the audio-video markets. We are still experiencing a significant reduction in our audio-video revenue compared to last year. We believe this is related to general weakness in the macro economy and to customers continuing to hold high levels of inventory, which dampens new order replacement and upgrade activity. We remain bullish on the audio-video market in the medium and longer term. We believe we're in a cycle and that our legacy products will get back to the levels of revenue we used to see in the past. In addition, the VS6320 based products are set to become significant new revenue growth drivers as well as in the new industrial machine vision vertical.

Moving to Automotive. Overall, our automotive business is stable. As a reminder, our first-generation VA6000 chipsets are used in Mercedes-Benz infotainment and telematics systems. A big part of our focus remains on our second-generation chipsets, the VA7000, which complies with the MIPI A-PHY standard. We are progressing in several evaluation processes with global automotive OEMs on this chipset and customer feedback has been encouraging. And of course, we continue to work with companies across the ecosystem to design and develop products based around this technology.

One example of the growth in the A-PHY ecosystem came last month when Continental, one of the largest Tier 1 automotive suppliers in the world introduced the A-PHY standard into their ADAS camera belt. They announced that they have upgraded their FSC300 cameras, which now feature a link speed of up to 8 gigabits enabling resolutions beyond 8 megapixel. They said and I quote, "the MIPI A-PHY standard ensures the lowest error rates and enhanced EMC robustness making our cameras resistant to external interference and reliable in various conditions." Continental is the latest in a long list of companies joining the A-PHY ecosystem and recognizing the many technological benefits this standard offers the automotive industry.

We are confident that our innovative technology will position us to take advantage of an enormous opportunity in this automotive segment, which we estimate will have a total addressable market of \$4.5 million per annum by 2029. We're optimistic about our technology's potential to lead the way for vehicle connectivity solutions.

Before I turn the call over to Guy, I'd like to briefly discuss a trend that crosses the traditional bounds of the industries and that is the growth of AI. Much of the AI architecture we know and used today is cloud-based including popular large language models like ChatGPT. However, there is another kind of AI system architecture called Edge AI, and it's finding new avenues for deployment in applications that require real-time operations where the AI processor is separated from the data sensor input. The AI processor must leverage a high-performance connectivity solution specifically, one that is uncompressed and error-free in order to make accurate decisions. Valens' cost-effective and high-performance distribution technology is playing an instrumental role in enabling this breakthrough technology in the automotive, machine vision, and video conferencing industries.

With that, I will turn the call to Guy to discuss our financial performance in more detail.

Guy Nathanson - *Valens Semiconductor Ltd - Chief Financial Officer*

Thank you, Gideon. I'll start with our second quarter 2024 results and then, provide our outlook for the third quarter.

We achieved quarterly revenues of \$13.6 million, exceeding our guidance of between \$12.5 million to \$13 million. Our revenue, excluding Acroname, was \$13.2 million, above the high range of our guidance. This compares to revenues of \$24.2 million in the second quarter of 2023. The reduction is related to the inventory digestion cycle of our customers, as explained by Gideon earlier.

Audio-video contributed \$8.1 million or approximately 60% of total revenues, and automotive contributed \$5.5 million or approximately 40% of total revenues this quarter. This compares to audio-video revenues of \$15.5 million and automotive revenues of \$8.7 million representing 64% and 36% of total revenues, respectively, in the second quarter of 2023.

Second quarter 2024 gross profit was \$8.3 million compared to \$14.9 million in the second quarter of 2023. Second quarter 2024 gross margin was 61.4% compared to 61.8% in the second quarter of 2023. On a segment basis, our audio-video gross margin was 75.4% and the automotive gross margin was 40.9% compared to 75.3% and 37.8%, respectively, in the second quarter of 2023. The increase in automotive gross margin was related to chip cost improvements.

Non-GAAP gross margin was 64.5% compared to 63.1% in the second quarter of 2023. Operating expenses in the second quarter of 2024 totaled \$17.8 million compared to \$20.1 million in the second quarter of 2023, mainly due to a reduced headcount as part of the efficiency plan that was implemented in the second half of 2023.

Research and development expenses accounted for approximately 56% of the second quarter of 2024. Operating expenses coming in at \$10 million compared to approximately 61% of the second quarter of 2023 operating expenses or \$12.2 million in the second quarter of 2023. SG&A expenses were \$7.8 million compared to \$8 million in the second quarter of 2023.

The second quarter of 2024, GAAP net loss was \$8.9 million versus a net loss of \$4.6 million recorded in the second quarter of 2023, and adjusted EBITDA in the second quarter of 2024 was a loss of \$5.2 million compared to a loss of \$0.8 million in the second quarter of 2023.

GAAP Loss per share for the second quarter of 2024 was \$8 cents compared to GAAP loss per share of \$5 cents for the second quarter of 2023. Non-GAAP loss per share in the second quarter of 2024 was \$4 cents compared to \$0 cents in the second quarter of 2023. The main difference between GAAP and Non-GAAP loss per share was due to a stock-based compensation, depreciation, and amortization.

We ended the second quarter of 2024 with a strong balance sheet with cash, cash equivalents, and short-term deposits totaling \$130.6 million and no debt. This compares to \$139.8 million at the end of the first quarter of 2024. The reduction is related to ongoing operational expenses and one time expenses of \$7.8 million associated with the acquisition.

Our working capital at the end of the quarter was \$142.3 million compared to \$153.3 million at the end of the first quarter of 2024. Our inventory as of June 30, 2024, was \$14.1 million, of which \$2.5 million was from Acroname. Excluding this amount, inventories were \$11.6 million, down versus \$12.5 million at the end of the first quarter of 2024. We continue to carefully manage our inventories and have effectively reduced them over the last five quarters.

Now, I would like to provide our guidance for the third quarter. We expect third quarter revenues to be in the range of \$14.7 million to \$15.4 million of which \$1.2 million to \$1.4 million are expected to come from Acroname. We expect gross margins to be in the range of 52% to 53%, and we expect adjusted EBITDA loss in the third quarter to be in the range of negative \$(6.8) million to \$(6.3) million.

Turning to the acquisition of Acroname. As Gideon mentioned, this was our first acquisition. The purchase price was \$7.8 million in cash. An additional \$1.3 million was transferred to Acroname in consideration for the amount Acroname held in cash at closing. Further, the company will be obligated to pay the sellers earn-out payments of up to \$7.2 million depending on the achievement of certain revenues, EBITDA, and cashflow targets in 2024 and 2025 and the development of a certain product by June 2026.

Based on financials provided to the company, Acroname's revenue for the first six months of 2024 was \$3.3 million. However, since the closing was on May 31, 2024, we consolidated revenue of \$0.4 million in our financial results during the second quarter.

I'll now turn the call back to Gideon for his closing remarks before opening the call for Q&A.

Gideon Ben-Zvi - *Valens Semiconductor Ltd - Chief Executive Officer, Director*

Thank you, Guy. Today, we demonstrated how Valens' new offerings not only expand our presence in existing markets but also enable us to enter AI-driven markets, addressing the critical connectivity needs in machine vision. The synergies of our solutions across the various markets we serve continue to prove their value.

As we look to the second half of 2024, Valens Semiconductor remains committed to executing our long-term growth strategy and capitalizing on the promising opportunities within our target markets. Our innovative standard setting, high-speed connectivity solutions and highly sophisticated chipsets position us to achieve our goals and deliver value for our stakeholders. Our strong balance sheet provides us with flexibility to continue to invest, acquire, and innovate, and importantly, to navigate dynamic market conditions.

We are also excited to announce that we are planning to host an Investor Day in New York this November. Stay tuned for details.

Before opening the call for questions, I want to express my gratitude to our exceptional team whose hard work, talent, and dedication are the driving force behind Valens Semiconductor.

With that, I will now open the call for your questions, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Rick Schafer, Oppenheimer.

Wei Mok - *Oppenheimer & Co., Inc. - Analyst*

Hi. This is Wei Mok on the line for Rick. Congrats on the results. It looks like you guys delivered upside results to 2Q. And from the guide, it looks like 11% for the third quarter. So you mentioned that you guys started clearing inventory for the last five quarters. So how far are you guys from being inventory bottoming? And considering the macro, what are you considering in terms of the shape of recovery for the second half of the year, particularly in this 4Q?

Gideon Ben-Zvi - *Valens Semiconductor Ltd - Chief Executive Officer, Director*

Hi. And thank you very much for the question. Before I answer, I want to apologize for the technical problems we all experienced today with the provider of the conference call. I apologize sincerely. And then, I just wanted to mention it. And Guy will take the answer for this question. So please, Guy.

Guy Nathanson - *Valens Semiconductor Ltd - Chief Financial Officer*

So in terms of the inventory, we definitely -- in the recent results in our balance sheet, we don't see on the trend of reducing the inventory and in consumption, in line with our long-term goals, achieving a reasonable number of inventory days.

Wei Mok - *Oppenheimer & Co., Inc. - Analyst*

Okay. Thank you. As for my second question is on Acroname. It looks like part of the deal requires reaching certain key milestones and metrics and also the development of a new product. How confident are you on reaching those milestones? And to the extent that you can. Any color you could provide on this new development product?

Gideon Ben-Zvi - *Valens Semiconductor Ltd - Chief Executive Officer, Director*

Well, in our world, being confident is not an easy thing to do. We live in a world of a lot of uncertainty. But that it seems that a lot of the good signs are here. And you know that we'll not provide a very long-term forecast. But it seems like that we have the positive signs but other than that, I feel irresponsible to give projections.

Wei Mok - *Oppenheimer & Co., Inc. - Analyst*

Thank you. Maybe if I could squeeze in one last one on the new VS6320 audio-video product. It seems like there's a lot of engagement, a lot of partnerships. You guys mentioned 50-or so products. What type of applications do you see first adoption? Are they in traditional conference rooms, huddle rooms? Or are you seeing more interest in industrial applications? And when do you start to see these revenues start to contribute? I believe they ramp in the second half of this year. Is that correct?

Gideon Ben-Zvi - *Valens Semiconductor Ltd - Chief Executive Officer, Director*

Yeah. Thank you for the question. And actually, I have a bit longer answer for this. And I'm happy you asked it because I think my answer can put light on this product.

You know Valens for a long time, and we were playing in the pro-AV world and the 6320 opens for us first in the world of audio-video, more markets, which are more lower end markets such as the huddle room and small and medium-sized conference room where people simply want to have a camera that covers more people, and they want to use the full USB3 extension and not to compromise a USB2 extension, which will reduce the resolution, reduce the bandwidth and the frame rate or any other things. So this is the first application. It's the huddle room.

Hanneke, the Logitech CEO, who said there are 100 million rooms in the world that it's clear that in 10 years, all of them will have a solution. And the question is what's the speed to get there. So this is when looking about the same vertical where we are in, which is the audio-video moving from the very high end to medium end, not to the low end. We are not a consumer company, but definitely for the medium and the less high end than we are, which is far, far larger markets.

The second market, which you asked about the industrial, it's a very, very big market today. We are aware of quite many millions, actually just a little bit below 7 million cameras produced every year in this world and a lot of them need extension. And the reason they are very sensitive to high resolution. It's a world where you need the bandwidth because of several reasons. You need the resolution to inspect. You need the frame rate in order to stop being machine or to act when something happens. And you need the high depth of the -- or many bits per pixel because you need a sensitivity because sometimes you need to inspect the color or a change in color all these on the three components that creates a bandwidth. And this is why industrial market is very demanding for high bandwidth, and this is where we are. And the USB3 extension is a solution for that.

And if I may even say -- speak a little bit more, I would say that the same is about medical market, which we are now looking at, I don't -- I can't elaborate too much, but also in medical, you can imagine that those three parameters are very sensitive, the bandwidth of -- which comes from frame rate, from resolution, and from the number of pixels.

And the last question you asked was about when -- we already have orders and deliveries in the second half. It looks ramped up nicely. Yes, we are in the semiconductor market, which we always say in Valens that compared to software, the speed is geological, but this is, yet we see the ramp-up,

and we are very happy about it. And it reminds us the ramp-up when the company started. We never had such a fast ramp-up in the product before as one such as we have now with the VS6320.

Rick, this answers your question.

Operator

(Operator Instructions) There are no further questions at this time. Mr. Ben-Zvi, would you like to make your concluding statements?

Gideon Ben-Zvi - Valens Semiconductor Ltd - Chief Executive Officer, Director

Sure. First, I want to thank everyone for the time and for being with us. I want to thank our devoted employees, the talents and their contribution to be where we are. And we'll see you next time in our next earnings call.

Thank you very much for your attention, for your support, and we should continue. And that's it. All the best. And have a good day.

Operator

Thank you. This concludes the Valens Semiconductor second-quarter 2024 results conference call. Thank you for your participation. You may go ahead and disconnect.

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