4.00

Tuesday, March 19, 2024

Peraso Inc. (PRSO) – Sponsored Research

Reports Q4 '23 Results In Line with Pre-Announcement

Peraso's (PRSO) Q4 '23 results were largely consistent with the company's late January pre-announcement. Revenue was near the high-end of the preannounced range and a tick above our estimate with memory IC sales comprising the bulk of sales. The lone surprise was a \$3.0 million inventory write-down, which negatively affected comparisons with our gross margin, adjusted EBITDA and non-GAAP EPS estimates as management did not exclude the charge from its non-GAAP reconciliations. Excluding the non-cash item, these metrics would have been just shy of our estimates. More importantly, much of the inventory remains sellable and could result in significantly higher gross margin later this year if mmWave sales rebound as anticipated.

Looking forward, management guided for sequential growth in Q1 and FY '24, which in turn should yield double digit growth for the year. Per management, the inventory correction headwinds experienced over the past year have begun to abate, and Peraso has received new orders for its mmWave products, including from its largest customer. Additionally, the company has over \$12.0 million in backlog related to its end-of-life memory IC products, much of which will be shipped in FY '24. Although revenue in Q1 starts off lower than we previously projected, we still expect run-rate sales at year-end to match our prior expectations. Thus, we reduce our revenue estimate slightly for this year, while maintaining our sales projection for next year. Our adjusted EBITDA estimates decline for this year and next due to a modest uptick in our operating expense assumptions, while our non-GAAP EPS estimates increase as the losses are spread over a higher outstanding share count following the company's capital raise last month. As noted earlier, the sale of inventory previously written-down is likely to produce upside relative to our estimates for FY '24.

Recall that we previously derived our price target for Peraso based on a FY '23 EV/Sales multiple of 1x, which included an assumption that the company would raise at least \$4.0 million through the issuance of approximately 848 thousand shares as contemplated in its amended S-1 filed in January. Although the company did indeed raise gross proceeds of \$4.2 million in February, the dilution was far greater than we originally anticipated. Ultimately, Peraso issued nearly 2.0 million common shares and pre-funded warrants along with Series A and Series B warrants, each of which allow for the purchase of up to 3,974,520 shares of common stock at an exercise price of \$2.25 per share. After including the impact of the capital raise and applying the same 1x EV/Sales multiple to our revised FY '24 estimates, our price target declines from \$12.00 to \$4.00.

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Price			1.74						
Shares outsta	2.7								
Market cap		4.7							
Cash and inve	estments		5.0						
Debt									
Enterprise val	ue	(0.3)							
Fiscal Year E	nd	December							
Estimates	2023A	2024E	2025E						
Sales	13.7	16.9	16.0						
Adj. EBITDA	(11.3)	(3.5)	(6.0)						
NG EPS	(18.90)	(1.81)	(2.39)						
Valuation	2023A	2024E	2025E						

Price Target

In \$MMs expect per share data

(0.0x)

0.0x

NM

(0.0x)

0.1x

NM

(0.0x)

0.0x

NM

EV/Sales

P/E

EV/EBITDA

Analyst Certification and Additional Disclosures Appear on Page 5.

K. Liu & Company LLC conducts or pursues business with companies covered in its research reports. Investors should therefore be aware potential conflicts of interest may exist. Our reports do not constitute investment advice as we have not considered any individual client's financial situation, risk tolerance and other factors relevant to recommending a particular security or other action. Before making any investment decision, you should consult an investment advisor and other appropriate professionals.

Exhibit I: Reported Results and Guidance Versus Expectations

		Q4 '23			Q1 '24		FY '24				
_	Actual	K. Liu & Co.	Consensus	Guidance	K. Liu & Co.	Consensus	Guidance	K. Liu & Co.	Consensus		
Revenues (\$MMs)	1.8	1.7	1.7	2.6-2.9	3.3	3.7	>15.1	19.0	19.8		
Adjusted EBITDA (\$MMs)	(5.9)	(2.4)	(2.5)	NA	(1.2)	(1.2)	NA	(1.4)	(1.6)		
EPS	(8.52)	(3.41)	(3.76)	NA	(1.78)	(1.84)	NA	(2.68)	(3.34)		

Sources: Peraso; K. Liu & Company LLC; FactSet Estimates

Q4 net revenue of \$1.8 million (-52.9% Y/Y) was in line with management's January pre-announcement of \$1.6-\$1.9 million and ahead of our \$1.7 million estimate. Memory IC sales of \$1.2 million comprised the majority of revenue, while mmWave sales remained under pressure due to the inventory correction headwinds seen through FY '23.

Non-GAAP gross margin of -116.6% was well below our 61.2% assumption, but the variance was primarily due to an inventory write-down of \$3.0 million. Excluding this non-cash item, non-GAAP gross margin would have been 47.2%. Total operating expenses were consistent with our estimate. As management opted not to exclude the inventory charge from adjusted EBITDA and non-GAAP EPS, both metrics were well below our estimate. On an apples-to-apples basis, however, adjusted EBITDA would have been \$2.9 million versus our \$2.4 million projection.

Cash and investments at quarter-end totaled \$1.6 million. Subsequently, the company raised \$3.4 million in net proceeds from the issuance of 562,200 shares of common stock, pre-funded warrants to purchase up to 1,424,760 shares of common stock, Series A warrants to purchase up to 3,974,520 shares of common stock and Series B warrants to purchase up to 3,974,520 shares of common stock.

For Q1, management's guidance calls for revenue of \$2.6-\$2.9 million. Additionally, management expects revenue in FY '24 to grow double-digits, implying at least \$15.1 million in revenue. Prior to revisions, we were projecting \$3.3 million in revenue for Q1 and \$19.0 million in revenue for FY '24. Management's guidance reflects expectations for mmWave sales to rebound as the year progresses and for much of the remaining \$12.0 million in end-of-life memory IC backlog to be shipped over the next 12 to 15 months.

Exhibit II: Estimate Revisions

	Current	Quarter	Currer	nt Year	Next Year			
	Old Estimate	New Estimate	Old Estimate New Estima		Old Estimate	New Estimate		
Revenues (\$MMs)	3.3	2.6	19.0	16.9	16.0	16.0		
Adjusted EBITDA (\$MMs)	(1.2)	(1.9)	(1.4)	(3.5)	(4.6)	(6.0)		
EPS	(1.78)	(1.26)	(2.68)	(1.81)	(5.13)	(2.39)		

Source: K. Liu & Company LLC

We lower our revenue estimates for Q1 and FY '24 to reflect a more gradual rebound in mmWave sales than we previously assumed. We note, however, that our revenue projection exiting the year is essentially unchanged as is our prior FY '25 estimate. Reflecting a slight haircut to our gross margin assumptions and a modest increase in our operating expense estimates, our adjusted EBITDA estimates decline for this year and next. That said, we surmise that there is considerable upside to our gross margin expectations for this year as much of the projected mmWave sales may be associated with inventory that has already been written down.

Peraso Inc. (PRSO)							
Q4 '23 Variance Analysis							
(\$000s)					Y/Y		Q/Q
(49000)	Q4 '23(E)	Q4 '23(A)	Variance	Q4 '22(A)	<u>Growth</u>	Q3 '23(A)	Growth
Product	1,500	1,468	-2.1%	3,815	-61.5%	4,262	-65.6%
License and other	200	364	82.0%	72	405.6%	219	66.2%
Total net revenue	1,700	1,832	7.8%	3,887	-52.9%	4,481	-59.1%
Cost of net revenue	1,224	4,531	270.2%	2,168	109.0%	2,445	85.3%
Gross profit	476	(2,699)	-667.0%	1,719	-257.0%	2,036	-232.6%
Research and development	3,025	3,359	11.0%	4,130	-18.7%	3,484	-3.6%
Selling, general and administrative	2,201	2,174	-1.2%	2,172	0.1%	2,112	2.9%
Impairment and other non-recurring items		, 		9,946	-100.0%	,	
Income from operations	(4,750)	(8,232)	73.3%	(14,529)	-43.3%	(3,560)	131.2%
Interest expense	(.,,		70.070	(5)	-100.0%		1011270
Other income (expense), net		(706)		(59)	1096.6%	2,937	-124.0%
Income before provision for income taxes	(4,750)	(8,938)	88.2%	(14,593)	-38.8%	(623)	1334.7%
Provision for income taxes	(-1,7.50)		35.270	(=-1,555) 	30.070	(020)	100 11770
Net income	(4,750)	(8,938)	88.2%	(14,593)	-38.8%	(623)	1334.7%
Tax rate	0.0%	0.0%	00.270	0.0%	30.070	0.0%	1334.770
TOX TOLE	0.070	0.070		0.070		0.070	
Non-GAAP Reconciliation:							
Operating income (loss)	(4,750)	(8,232)	73.3%	(14,529)	-43.3%	(3,560)	131.2%
Add: amortization of intangible assets	815	815	0.0%	518	57.3%	815	0.0%
Add: non-recurring items			0.070	9,946	07.1070		0.070
Add: stock-based compensation	1,325	1,279	-3.5%	1,373	-6.8%	1,308	-2.2%
Non-GAAP operating income	(2,610)	(6,138)	135.2%	(2,692)	128.0%	(1,437)	327.1%
Interest and other income, net		40	100.1270	(64)	-162.5%	322	-87.6%
Add: loss (gain) on unusual item				(19)			
Non-GAAP income before taxes	(2,610)	(6,098)	133.6%	(2,775)	119.7%	(1,115)	446.9%
Provision for income taxes	(2,010)		133.070	(2,775)	113.770		110.570
Non-GAAP net income (loss)	(2,610)	(6,098)	133.6%	(2,775)	119.7%	(1,115)	446.9%
Non-GAAP tax rate	0.0%	0.0%	133.070	0.0%	113.770	0.0%	110.570
	0.070	0.070		0.075		0.075	
Non-GAAP operating income	(2,610)	(6,138)	135.2%	(2,692)	128.0%	(1,437)	327.1%
Add: D&A of property and equipment	236	232	-1.7%	250	-7.2%	236	-1.7%
Add: other income		44		(78)	-156.4%	327	-86.5%
Adjusted EBITDA	(2,374)	(5,862)	146.9%	(2,520)	132.6%	(874)	570.7%
EPS	(6.21)	(12.48)	101.0%	(28.43)	-56.1%	(0.87)	1332.1%
Non-GAAP EPS	(3.41)	(8.52)	149.5%	(5.41)	57.6%	(1.56)	445.9%
Basic shares outstanding	765	716	-6.4%	513	39.5%	715	0.2%
Diluted shares outstanding	765	716	-6.4%	513	39.5%	715	0.2%
Selected Balance Sheet Data:							
Cash and investments	1,576	1,583	0.4%	2,906	-45.5%	689	129.8%
Accounts receivable	1,211	731	-39.7%	3,244	-77.5%	3,064	-76.1%
Inventories	5,872	2,606	-55.6%	5,348	-51.3%	5,696	-54.2%
Property and equipment	1,488	1,156	-22.3%	2,225	-48.0%	1,624	-28.8%
Goodwill and intangibles	3,394	3,280	-3.4%	6,278	-47.8%	4,209	-22.1%
Accounts payable and other accrued expenses	3,768	3,059	-18.8%	3,661	-16.4%	3,272	-6.5%
Lease liabilities	727	719	-1.1%	1,157	-37.9%	727	-1.1%
Debt Stackholders' equity	0 222	4.002	E1 00/	15 257	72 20/	 11 7FF	CE 20/
Stockholders' equity	8,333	4,083	-51.0%	15,257	-73.2%	11,755	-65.3%

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Peraso Inc. (PRSO)																			
K. Liu & Company LLC													r						
(\$000s)	FY '19(A)	FY '20(A)	FY '21(A)	FY '22(A)	<u>Q1 - Mar</u>	<u>Q2 - Jun</u>	Q3 - Sep	<u>Q4 - Dec</u>	FY '23(A)	Q1 - Mar	Q2 - Jun		<u>Q4 - Dec</u>	FY '24(E)	Q1 - Mar	<u>Q2 - Jun</u>	Q3 - Sep	<u>Q4 - Dec</u>	FY '25(E)
Product	506	1,540	4,906	14,199	4,888	2,235	4,262	1,468	12,853	2,350	3,250	5,250	5,000	15,850	3,750	3,250	3,750	4,250	15,000
License and other		7,550	773	669	145	168	219	364	896	250	250	250	250	1,000	250	250	250	250	1,000
Total net revenue	506	9,090	5,679	14,868	5,033	2,403	4,481	1,832	13,749	2,600	3,500	5,500	5,250	16,850	4,000	3,500	4,000	4,500	16,000
Cost of net revenue	477	1,748	3,270	8,915	3,106	1,795	2,445	4,531	11,877	1,543	1,869	2,651	2,813	8,876	2,676	2,351	2,532	2,688	10,246
Gross profit	29	7,342	2,409	5,953	1,927	608	2,036	(2,699)	1,872	1,057	1,631	2,850	2,437	7,974	1,325	1,150	1,468	1,812	5,754
Research and development	10,318	8,289	11,471	19,768	3,887	3,668	3,484	3,359	14,398	3,125	3,000	3,000	3,000	12,125	3,050	3,050	3,050	3,050	12,200
Selling, general and administrative	7,412	7,198	7,016	11,108	2,242	1,977	2,112	2,174	8,505	2,202	2,202	2,202	2,202	8,808	2,352	2,352	2,352	2,352	9,408
Impairment and other non-recurring items				7,389	(406)				(406)										
Income from operations	(17,702)	(8,145)	(16,078)	(32,312)	(3,796)	(5,037)	(3,560)	(8,232)	(20,625)	(4,270)	(3,571)	(2,353)	(2,765)	(12,959)	(4,078)	(4,253)	(3,934)	(3,590)	(15,854)
Interest expense	(17)	(2,101)	(2,979)	(16)															
Other income (expense), net	(251)	19	8,146	(70)	648	951	2,937	(706)	3,830										
Income before provision for income taxes	(17,970)	(10,227)	(10,911)	(32,398)	(3,148)	(4,086)	(623)	(8,938)	(16,795)	(4,270)	(3,571)	(2,353)	(2,765)	(12,959)	(4,078)	(4,253)	(3,934)	(3,590)	(15,854)
Provision for income taxes							`					-							
Net income	(17,970)	(10,227)	(10,911)	(32,398)	(3,148)	(4,086)	(623)	(8,938)	(16,795)	(4,270)	(3,571)	(2,353)	(2,765)	(12,959)	(4,078)	(4,253)	(3,934)	(3,590)	(15,854)
Deemed dividend on Class C Preferred Shares		(11,134)																	
Accretion of preferred shares presented as dividends	(4,862)	(1,666)																	
Effect of foreign exchange on preferred shares	(5,257)	7,756																	
Net income attributable to common stockholders	(28,088)	(15,271)	(10,911)	(32,398)	(3,148)	(4,086)	(623)	(8,938)	(16,795)	(4,270)	(3,571)	(2,353)	(2,765)	(12,959)	(4,078)	(4,253)	(3,934)	(3,590)	(15,854)
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	*****	*****		*****		*****	*****			0.0,1		*****					*****	*****	0.07.5
Non-GAAP Reconciliation:																			
Operating income (loss)	(17,702)	(8,145)	(16,078)	(32,312)	(3,796)	(5,037)	(3.560)	(8.232)	(20,625)	(4.270)	(3,571)	(2,353)	(2,765)	(12,959)	(4,078)	(4,253)	(3.934)	(3,590)	(15,854)
Add: amortization of intangible assets	(17,702)	(0,143)	86	2,071	518	716	815	815	2,864	815	815	815	815	3,260	815	815	815	815	3,260
Add: non-recurring items			1,628	9,946	510	710			2,004					3,200					3,200
Add: stock-based compensation	1,900	1,711	4,473	5,730	1,307	1,319	1,308	1,279	5,213	1,300	1,300	1,300	1,300	5,200	1,400	1,400	1,400	1,400	5,600
Non-GAAP operating income	(15,802)	(6,434)	(9,891)	(14,565)	(1,971)	(3,002)	(1,437)	(6,138)	(12,548)	(2,155)	(1,456)	(238)	(650)	(4,499)	(1,863)	(2,038)	(1,719)	(1,375)	(6,994)
Interest and other income, net	(268)	(2,082)	5,167	(86)	(10)	(15)	322	40	337	(2,133)	(1,430)	(230)	(030)	(4,433)	(1,803)	(2,030)	(1,713)	(1,3/3)	(0,554)
Add: loss (gain) on unusual item	244	(96)	(8,102)	(19)	(10)	(13)	322												
Non-GAAP income before taxes	(15,826)	(8,612)	(12,826)	(14,670)	(1,981)	(3,017)	(1,115)	(6,098)	(12,211)	(2,155)	(1,456)	(238)	(650)	(4,499)	(1,863)	(2,038)	(1,719)	(1,375)	(6,994)
Provision for income taxes	(13,620)	(0,012)	(12,020)	(14,070)	(1,301)	(3,017)	(1,113)	(0,036)	(12,211)	(2,133)	(1,430)	(230)	(030)	(4,433)	(1,003)	(2,036)	(1,/13)	(1,3/3)	(0,554)
Non-GAAP net income (loss)	(15,826)	(8,612)	(12,826)	(14,670)	(1,981)	(3,017)	(1,115)	(6,098)	(12,211)	(2,155)	(1,456)	(238)	(650)	(4,499)	(1,863)	(2,038)	(1,719)	(1,375)	(6,994)
Non-GAAP het income (loss)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-GAAF tax rate	0.076	0.076	0.076	0.0%	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.0%
Non-GAAP operating income	(15,802)	(6,434)	(9,891)	(14,565)	(1,971)	(3,002)	(1,437)	(6,138)	(12,548)	(2,155)	(1,456)	(238)	(650)	(4,499)	(1,863)	(2,038)	(1,719)	(1,375)	(6,994)
Add: D&A of property and equipment	1,650	1,436	1,030	986	176	242	236	232	886	250	250	250	250	1,000	250	250	250	250	1,000
Add: other income	(7)	(77)	44	(89)	(4)	(9)	327	44	358		230	230	230	1,000	230	230	250	230	1,000
Adjusted EBITDA	(14,159)	(5,075)	(8,817)	(13,668)	(1,799)	(2,769)	(874)	(5,862)	(11,304)	(1,905)	(1,206)	13	(400)	(3,499)	(1,613)	(1,788)	(1,469)	(1,125)	(5,994)
Aujusteu LiiTDA	(14,139)	(3,073)	(0,017)	(13,008)	(1,733)	(2,709)	(0/4)	(3,002)	(11,304)	(1,505)	(1,200)	13	(400)	(3,433)	(1,013)	(1,700)	(1,403)	(1,123)	(3,334)
EPS	(315.90)	(144.00)	(74.36)	(64.47)	(5.84)	(6.72)	(0.87)	(12.48)	(26.00)	(2.50)	(1.32)	(0.85)	(0.99)	(5.20)	(1.43)	(1.46)	(1.33)	(1.20)	(5.41)
Non-GAAP EPS	(177.99)	(81.21)	(87.42)	(29.19)	(3.68)	(4.96)	(1.56)	(8.52)	(18.90)	(1.26)	(0.54)	(0.09)	(0.23)	(1.81)	(0.65)	(0.70)	(0.58)	(0.46)	(2.39)
Basic shares outstanding	89	106	147	503	539	608	715	716	646	1,710	2,703	2,753	2,803	2,492	2,853	2,903	2,953	3,003	2,928
Diluted shares outstanding	89	106	147	503	539	608	715	716	646	1,710	2,703	2,753	2,803	2,492	2,853	2,903	2,953	3,003	2,928
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Selected Balance Sheet Data:																			
Cash and investments	1,904	1,712	18,088	2,906	1,392	2,740	689	1,583	1,583	3,549	1,019	248	(443)	(443)	(2,526)	(4,751)	(6,491)	(8,362)	(8,362)
Accounts receivable	394	922	2,436	3,244	2,881	1,497	3,064	731	731	652	897	1,323	1,580	1,580	1,360	1,103	1,103	1,250	1,250
Inventories	1,108	1,274	3,824	5,348	4,853	5,160	5,696	2,606	2,606	1,994	2,440	2,700	2,688	2,688	3,238	2,625	2,625	2,975	2,975
Property and equipment	3,333	2,621	2,349	2,225	2,078	1,850	1,624	1,156	1,156	1,006	856	706	556	556	556	556	556	556	556
Goodwill and intangibles	154	·	18,301	6,278	5,754	5,031	4,209	3,280	3,280	2,465	1,650	835	20	20	(795)	(1,610)	(2,425)	(3,240)	(3,240)
Accounts payable and other accrued expenses	1,459	1,542	4,840	3,661	2,730	2,303	3,272	3,059	3,059	2,540	2,091	2,239	2,380	2,380	2,414	2,375	2,353	2,404	2,404
Lease liabilities	998	757	667	1,157	983	813	727	719	719	719	719	719	719	719	719	719	719	719	719
Debt	1,633	4,903																	
Stockholders' equity	(113,504)	(3,921)	42,069	15,257	13,430	11,042	11,755	4,083	4,083	4,456	2,210	1,201	(238)	(238)	(2,938)	(5,816)	(8,350)	(10,525)	(10,525)
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Analyst Certification

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