

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.

Analyst Certification and Additional Disclosures Appear on Page 5.

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Price Target \$ 4.00

Price	1.74
Shares outstanding	2.7
Market cap	4.7
Cash and investments	5.0
Debt	--
Enterprise value	(0.3)
Fiscal Year End	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
EV/Sales	(0.0x)	(0.0x)	(0.0x)
EV/EBITDA	0.0x	0.1x	0.0x
P/E	NM	NM	NM

In \$MMs expect per share data

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		Current Year		Next Year	
	Old Estimate	New Estimate	Old Estimate	New Estimate	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)							
	Q4 '23(E)	Q4 '23(A)	Variance	Q4 '22(A)	Y/Y Growth	Q3 '23(A)	Q/Q 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	--	--		(5)	-100.0%	--	
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	--	--		--		--	
Net income	(4,750)	(8,938)	88.2%	(14,593)	-38.8%	(623)	1334.7%
Tax rate	0.0%	0.0%		0.0%		0.0%	
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	--	--		9,946		--	
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		(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	--	--		--		--	
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%		0.0%		0.0%	
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	--	--		--		--	
Stockholders' equity	8,333	4,083	-51.0%	15,257	-73.2%	11,755	-65.3%

Analyst Certification

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