

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **October 28, 2023**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-41249**

**Credo Technology Group Holding Ltd**

(Exact name of registrant as specified in its charter)

**Cayman Islands**

N/A

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**c/o Maples Corporate Services, Limited,**

**PO Box 309, Ugland House**

**Grand Cayman, KY1-1104, Cayman Islands**

(Address of principal executive offices)

N/A

(Zip Code)

**(408) 664-9329**

Registrant's telephone number, including area code

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Ordinary shares, par value \$0.00005 per share</b>	<b>CRDO</b>	<b>The Nasdaq Stock Market LLC</b>

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The registrant had 150,659,346 ordinary shares outstanding as of November 21, 2023.

## Table of Contents

	<u>Page</u>
<a href="#"><u>Special Note Regarding Forward-looking Statements</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>PART 1—FINANCIAL INFORMATION</u></a>	<a href="#"><u>5</u></a>
Item 1. <a href="#"><u>Financial Statements</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Condensed Consolidated Balance Sheets</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Condensed Consolidated Statements of Operations</u></a>	<a href="#"><u>6</u></a>
<a href="#"><u>Condensed Consolidated Statements of Comprehensive Loss</u></a>	<a href="#"><u>7</u></a>
<a href="#"><u>Condensed Consolidated Statements of Shareholders' Equity</u></a>	<a href="#"><u>8</u></a>
<a href="#"><u>Condensed Consolidated Statements of Cash Flows</u></a>	<a href="#"><u>9</u></a>
<a href="#"><u>Notes to Unaudited Condensed Consolidated Financial Statements</u></a>	<a href="#"><u>10</u></a>
Item 2. <a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>20</u></a>
Item 3. <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>28</u></a>
Item 4. <a href="#"><u>Controls and Procedures</u></a>	<a href="#"><u>28</u></a>
<a href="#"><u>PART II—OTHER INFORMATION</u></a>	<a href="#"><u>30</u></a>
Item 1. <a href="#"><u>Legal Proceedings</u></a>	<a href="#"><u>30</u></a>
Item 1A. <a href="#"><u>Risk Factors</u></a>	<a href="#"><u>30</u></a>
Item 5. <a href="#"><u>Other Information</u></a>	<a href="#"><u>30</u></a>
Item 6. <a href="#"><u>Exhibits</u></a>	<a href="#"><u>31</u></a>
<a href="#"><u>Signatures</u></a>	<a href="#"><u>32</u></a>

### Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements relating to our expectations, projections, beliefs, and prospects, which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as “believe,” “will,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “might,” “plan,” “expect,” “predict,” “could,” “potentially” or the negative of these terms or similar expressions. You should read these statements carefully because they may relate to future expectations around growth, strategy and anticipated trends in our business, contain projections of future results of operations or financial condition or state other “forward-looking” information. These statements are only predictions based on our current expectations, estimates, assumptions, and projections about future events and are applicable only as of the dates of such statements. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled “Risk Factors” of our Forms 10-K and 10-Q and other reports we file with the U.S. Securities and Exchange Commission (SEC), including in our Annual Report on Form 10-K for the fiscal year ended April 29, 2023. Factors that could cause actual results to differ materially from those predicted include, but are not limited to:

- risks related to customer demand and product life cycles;
- risks related to the receipt, reduction or cancellation of, or changes in the forecasts or timing of, orders by customers;
- risks related to the gain or loss of one or more significant customers;
- risks related to changes in orders or purchasing patterns from one or more of our major customers;
- risks related to delays in completing sales due to our lengthy sales cycle, which often includes a substantial customer evaluation and approval process;
- risks related to market acceptance of our products and our customers’ products;
- risks related to our ability to develop, introduce and market new products and technologies on a timely basis;
- risks related to the timing and extent of product development costs;
- risks related to new product announcements and introductions by us or our competitors;
- risks related to our research and development costs and related new product expenditures and our ability to achieve cost reductions in a timely or predictable manner;
- risks related to seasonality and fluctuations in sales by product manufacturers that incorporate our technology into their products;
- risks related to changes in end-market demand, including cyclical, seasonality and the competitive landscape;
- risks related to cyclical fluctuations in the semiconductor market, and the markets of our end customers;
- risks related to fluctuations in our manufacturing yields and costs;
- risks related to significant warranty claims, including those not covered by our suppliers;
- risks related to changes in our pricing, product cost and product mix;
- risks related to supply chain disruptions, delays, shortages and capacity limitations; and
  - risks related to the impact of the COVID-19 pandemic and armed conflict, war, terrorism and other geopolitical conflicts in our business, suppliers and customers.

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. Except as may be required by law, we assume no obligation to update these forward-

looking statements or the reasons that results could differ from these forward-looking statements. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or will occur.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Credo Technology Group Holding Ltd  
Condensed Consolidated Balance Sheets**

*(unaudited, in thousands, except per share amounts)*

	October 28, 2023	April 29, 2023
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 128,986	\$ 108,583
Short-term investments	111,526	109,228
Accounts receivable	32,723	49,541
Inventories	35,761	46,023
Contract assets	12,042	9,445
Prepaid expenses and other current assets	7,278	5,412
Total current assets	328,316	328,232
Property and equipment, net	44,971	40,222
Right of use assets	13,544	14,860
Other non-current assets	18,974	13,975
Total assets	<u>\$ 405,805</u>	<u>\$ 397,289</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 10,926	\$ 6,067
Accrued compensation and benefits	4,898	6,471
Accrued expenses and other current liabilities	16,579	14,454
Deferred revenue	4,832	4,040
Total current liabilities	37,235	31,032
Non-current operating lease liabilities	11,610	12,869
Other non-current liabilities	7,412	5,753
Total liabilities	56,257	49,654
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Ordinary shares, \$0.00005 par value; 1,000,000 shares authorized; 150,546 and 148,651 shares issued and outstanding at October 28, 2023 and April 29, 2023, respectively	8	7
Additional paid in capital	475,412	454,795
Accumulated other comprehensive loss	(576)	(191)
Accumulated deficit	(125,296)	(106,976)
Total shareholders' equity	349,548	347,635
Total liabilities and shareholders' equity	<u>\$ 405,805</u>	<u>\$ 397,289</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Credo Technology Group Holding Ltd**  
**Condensed Consolidated Statements of Operations**  
*(unaudited, in thousands, except per share amounts)*

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
<b>Revenue:</b>				
Product sales	\$ 34,247	\$ 44,349	\$ 64,275	\$ 79,612
Product engineering services	2,434	3,750	4,727	4,574
IP license	7,354	3,270	10,128	13,650
<b>Total revenue</b>	<b>44,035</b>	<b>51,369</b>	<b>79,130</b>	<b>97,836</b>
<b>Cost of revenue:</b>				
Cost of product sales revenue	17,346	22,658	31,214	40,183
Cost of product engineering services revenue	171	418	464	518
Cost of IP license revenue	401	334	545	1,513
<b>Total cost of revenue</b>	<b>17,918</b>	<b>23,410</b>	<b>32,223</b>	<b>42,214</b>
<b>Gross profit</b>	<b>26,117</b>	<b>27,959</b>	<b>46,907</b>	<b>55,622</b>
<b>Operating expenses:</b>				
Research and development	21,736	18,158	44,374	34,841
Selling, general and administrative	13,256	11,540	25,799	22,738
<b>Total operating expenses</b>	<b>34,992</b>	<b>29,698</b>	<b>70,173</b>	<b>57,579</b>
<b>Operating loss</b>	<b>(8,875)</b>	<b>(1,739)</b>	<b>(23,266)</b>	<b>(1,957)</b>
<b>Other income (expense), net</b>	<b>2,702</b>	<b>(692)</b>	<b>4,859</b>	<b>(912)</b>
<b>Loss before income taxes</b>	<b>(6,173)</b>	<b>(2,431)</b>	<b>(18,407)</b>	<b>(2,869)</b>
<b>Provision (benefit) for income taxes</b>	<b>450</b>	<b>929</b>	<b>(87)</b>	<b>564</b>
<b>Net loss</b>	<b>\$ (6,623)</b>	<b>\$ (3,360)</b>	<b>\$ (18,320)</b>	<b>\$ (3,433)</b>
<b>Net loss per share:</b>				
Basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.12)	\$ (0.02)
<b>Weighted-average shares:</b>				
Basic and diluted	150,232	146,012	149,755	145,545

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Credo Technology Group Holding Ltd**  
**Condensed Consolidated Statements of Comprehensive Loss**

*(unaudited, in thousands)*

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Net loss	\$ (6,623)	\$ (3,360)	\$ (18,320)	\$ (3,433)
Other comprehensive loss:				
Foreign currency translation loss	(223)	(320)	(385)	(416)
Total comprehensive loss	<u>\$ (6,846)</u>	<u>\$ (3,680)</u>	<u>\$ (18,705)</u>	<u>\$ (3,849)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Credo Technology Group Holding Ltd**  
**Condensed Consolidated Statements of Shareholders' Equity**

*(unaudited, in thousands)*

	Ordinary Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
	Number of Shares	Amount				
<b>Balances at April 29, 2023</b>	<b>148,651</b>	<b>\$ 7</b>	<b>\$ 454,795</b>	<b>\$ (191)</b>	<b>\$ (106,976)</b>	<b>\$ 347,635</b>
Ordinary shares issued under equity incentive plans, net of tax withholding related to vesting of RSUs	1,203	—	3,260	—	—	3,260
Share-based compensation	—	—	7,968	—	—	7,968
Warrant contra revenue	—	—	436	—	—	436
Total comprehensive loss	—	—	—	(162)	(11,697)	(11,859)
<b>Balances at July 29, 2023</b>	<b>149,854</b>	<b>\$ 7</b>	<b>\$ 466,459</b>	<b>\$ (353)</b>	<b>\$ (118,673)</b>	<b>\$ 347,440</b>
Ordinary shares issued under equity incentive plans, net of tax withholding related to vesting of RSUs	692	1	455	—	—	456
Share-based compensation	—	—	8,144	—	—	8,144
Warrant contra revenue	—	—	354	—	—	354
Total comprehensive loss	—	—	—	(223)	(6,623)	(6,846)
<b>Balances at October 28, 2023</b>	<b>150,546</b>	<b>\$ 8</b>	<b>\$ 475,412</b>	<b>\$ (576)</b>	<b>\$ (125,296)</b>	<b>\$ 349,548</b>
<b>Balances at April 30, 2022</b>	<b>144,755</b>	<b>\$ 7</b>	<b>\$ 424,562</b>	<b>\$ 23</b>	<b>\$ (90,429)</b>	<b>\$ 334,163</b>
Ordinary shares issued under equity incentive plans	589	—	1,977	—	—	1,977
Share-based compensation	—	—	5,546	—	—	5,546
Warrant contra revenue	—	—	388	—	—	388
Total comprehensive loss	—	—	—	(96)	(73)	(169)
<b>Balances at July 30, 2022</b>	<b>145,344</b>	<b>\$ 7</b>	<b>\$ 432,473</b>	<b>\$ (73)</b>	<b>\$ (90,502)</b>	<b>\$ 341,905</b>
Ordinary shares issued under equity incentive plans	1,142	—	741	—	—	741
Share-based compensation	—	—	4,891	—	—	4,891
Warrant contra revenue	—	—	247	—	—	247
Total comprehensive loss	—	—	—	(320)	(3,360)	(3,680)
<b>Balances at October 29, 2022</b>	<b>146,486</b>	<b>\$ 7</b>	<b>\$ 438,352</b>	<b>\$ (393)</b>	<b>\$ (93,862)</b>	<b>\$ 344,104</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Credo Technology Group Holding Ltd**  
**Condensed Consolidated Statements of Cash Flows**

*(unaudited, in thousands)*

	Six Months Ended	
	October 28, 2023	October 29, 2022
<b>Cash flows from operating activities:</b>		
Net loss	\$ (18,320)	\$ (3,433)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,648	4,260
Share-based compensation	16,112	10,437
Warrant contra revenue	790	635
Write-downs for excess and obsolete inventory	710	1,102
Changes in operating assets and liabilities:		
Accounts receivable	16,818	(22,244)
Inventories	9,552	(21,594)
Contract assets	(2,597)	3,629
Prepaid and other current assets	(1,866)	2,689
Other non-current assets	(4,606)	(998)
Accounts payable	5,561	10,073
Accrued expenses, compensation and other liabilities	110	4,827
Deferred revenue	704	155
Net cash provided by (used in) operating activities	29,616	(10,462)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(7,357)	(10,925)
Maturities of short-term investments	109,228	—
Purchases of short-term investments	(111,526)	(50,000)
Net cash used in investing activities	(9,655)	(60,925)
<b>Cash flows from financing activities:</b>		
Payments on technology license obligations	(3,052)	—
Proceeds from employee share incentive plans, net of tax withholding related to vesting of RSUs	3,716	2,723
Net cash provided by financing activities	664	2,723
Effect of exchange rate changes on cash	(222)	(116)
Net increase (decrease) in cash and cash equivalents	20,403	(68,780)
Cash and cash equivalents at beginning of the period	108,583	259,322
Cash and cash equivalents at end of the period	\$ 128,986	\$ 190,542
<b>Supplemental cash flow information:</b>		
Purchases of property and equipment included in accounts payable, accrued expenses and other liabilities	\$ 9,784	\$ 14,513

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## **1. Description of Business and Basis of Presentation**

Credo Technology Group Holding Ltd was formed under the laws of the Cayman Islands in September 2014. Credo Technology Group Holding Ltd directly owns Credo Technology Group Ltd., which owns, directly and indirectly, all of the shares of its subsidiaries in mainland China, Hong Kong, and the United States (“U.S.”). References to the “Company” in these notes refer to Credo Technology Group Holding Ltd and its subsidiaries on a consolidated basis, unless otherwise specified.

The Company is an innovator in providing secure, high-speed connectivity solutions that deliver improved power and cost efficiency as data rates and corresponding bandwidth requirements increase exponentially throughout the data infrastructure market. The Company’s innovations ease system bandwidth bottlenecks while simultaneously improving on power, security and reliability. The Company’s connectivity solutions are optimized for optical and electrical Ethernet applications, including the 100G (or Gigabits per second), 200G, 400G, 800G and emerging 1.6T (or Terabits per second) port markets. The Company’s products are based on its proprietary Serializer/Deserializer (SerDes) and Digital Signal Processor (DSP) technologies. The Company’s product families include integrated circuits (ICs), Active Electrical Cables (AECs) and SerDes Chiplets. Our intellectual property (IP) solutions consist primarily of SerDes IP licensing.

### ***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements are presented in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted as permitted by the SEC. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company’s fiscal year 2023 audited financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 29, 2023. The unaudited condensed consolidated financial statements include all adjustments, including normal recurring adjustments and other adjustments, that are considered necessary for fair presentation of the Company’s financial position and results of operations. All inter-company accounts and transactions have been eliminated. Operating results for the periods presented herein are not necessarily indicative of the results that may be expected for the entire year.

The Company’s fiscal year is a 52- or 53-week period ending on the Saturday closest to April 30. Its fiscal year ending April 27, 2024 (“fiscal year 2024”) is a 52-week fiscal year. The first quarter of fiscal year 2024 ended on July 29, 2023, the second quarter ended on October 28, 2023 and the third quarter ends on January 27, 2024.

## **2. Significant Accounting Policies**

The Company believes that other than the accounting policies as described below, there have been no significant changes to the items disclosed in Note 2, “Significant Accounting Policies,” included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 29, 2023.

### ***Use of Estimates***

The preparation of these condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company’s condensed consolidated financial statements and accompanying notes.

The Company bases its estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future, given the available information. Estimates are used for, but not limited to, write-down for excess and obsolete inventories, the standalone selling price for each distinct performance obligation included in customer contracts with multiple performance obligations, variable consideration from revenue contracts, the realization of tax assets and estimates of tax reserves, impairment of long-lived assets, and incremental borrowing rate used in the Company’s operating lease calculations. Actual results may differ from those estimates and such differences may be material to the financial statements. In the current macroeconomic environment, these estimates require increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, these estimates may change materially in future periods.

### ***Reclassifications***

Certain prior period balances were reclassified to conform to the current period's presentation. None of these reclassifications had an impact on reported net income or cash flows for any of the periods presented.

### **Revenue Recognition**

The Company's revenues consist of sales of its products, licensing of its IP and providing engineering services. Product sales consists of shipment of its ICs and AEC products. IP license revenue includes fees from licensing of the Company's SerDes IP and related engineering services, support and royalties. Product engineering services revenue consists of engineering fees associated with integration of the Company's technology solutions into its customers' products. The Company's customers are primarily original equipment manufacturers who design and manufacture end market devices for the communications and enterprise networks markets. The Company's revenue is driven by various trends in these markets. The Company's revenue is also impacted by changes in the number and average selling prices of its IC products.

The Company recognizes revenue upon transfer of control of promised goods and services in an amount that reflects the consideration it expects to receive in exchange for those goods and services. Where an arrangement includes multiple performance obligations, the transaction price is allocated to these on a relative standalone selling price ("SSP") basis. The Company determines the SSP based on an observable standalone selling price when it is available, as well as other factors, including the price charged to customers and the Company's overall pricing objectives, while maximizing observable inputs. The determination of the SPP for certain of the Company's IPs requires fair value estimate under the income approach, involving the estimation of future cash flow expected to be generated from the IPs. The Company's policy is to record revenue net of any applicable sales, use or excise taxes. Changes in the Company's contract assets and contract liabilities primarily result from the timing difference between the Company's performance and the customer's payment. The Company fulfills its obligations under a contract with a customer by transferring products or services in exchange for consideration from the customer. The Company recognizes a contract asset when it transfers products or services to a customer and the right to consideration is conditional on something other than the passage of time. Accounts receivable are recorded when the customer has been billed or the right to consideration is unconditional. The Company recognizes deferred revenue when it has received consideration or an amount of consideration is due from the customer and it has a future obligation to transfer products or services.

**Product Sales** - The Company transacts with customers primarily pursuant to standard purchase orders for delivery of products and generally allows customers to cancel or change purchase orders within limited notice periods prior to the scheduled shipment date. The Company offers standard performance warranties of twelve months after product delivery and offers limited product return rights to certain distributors. The Company recognizes product sales when it transfers control of promised goods in an amount that reflects the consideration to which it expects to be entitled to in exchange for those goods, net of accruals for estimated sales returns and rebates.

**Product Engineering Services Revenue** - Some product revenue contracts include non-recurring engineering services deliverables. The Company recognizes revenue from these agreements over time as services are provided or at point in time upon completion and acceptance by the customer of contract deliverables, depending on the terms of the arrangement. Revenue is deferred for any amounts billed or received prior to delivery of services. The Company believes the input method, based on time spent by its engineers, best depicts the efforts expended to transfer services to the customers.

**IP License Revenue** - The Company's IP license revenue consists of perpetual licenses, support and maintenance, engineering services and royalties. The Company enters into perpetual semiconductor IP license agreements that have a fixed fee, whereby licensees pay a fixed fee for the right to incorporate the Company's IP technologies into the licensee's products. The IP license agreements do not typically grant the customer the right to terminate for convenience. Where such rights exist, termination is prospective, with no refund of fees already paid by the customer.

IP revenue recognition is dependent on the nature and terms of each agreement. The Company recognizes license revenue at the point of time of the delivery of the IP. In connection with the license arrangements, the Company offers support to assist customers in qualifying their final product. Revenue from customer support is deferred and recognized ratably over the support period, which is typically one year. Some IP license revenue contracts also include non-recurring engineering services deliverables, which were not material for any of the periods presented. The Company recognizes revenue from these agreements similar to the method described under the caption "Product Engineering Services Revenue" above.

**Credo Technology Group Holding Ltd**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

In certain cases, the Company also charges licensees royalties related to the distribution or sale of products that use its technologies. Such royalties are reported to us on a quarterly basis. The Company estimates the sales-based royalties earned each quarter primarily based on its customers' reporting of sales activity incurred in that quarter. The Company recognizes the estimated royalty revenue when it is probable that reversal of such amounts will not occur. Any differences between actual royalties owed by a customer and the quarterly estimates are recognized when updated information becomes available.

Certain contracts may include multiple performance obligations for which the Company allocates revenue to each performance obligation based on relative SSP. The Company determines SSPs based on observable evidence. When SSPs are not directly observable, the Company uses the adjusted market assessment approach or residual approach, if applicable. The Company also considers the constraint on estimates of variable consideration when estimating the total transaction price. The Company records liabilities for amounts that are collected in advance of the satisfaction of performance obligations under deferred revenue.

### 3. Concentrations

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Cash is placed in major financial institutions around the world. The Company's cash deposits exceed insured limits. Short-term investments are subject to counterparty risk up to the amount presented on the balance sheet.

Historically, a relatively small number of customers have accounted for a significant portion of the Company's revenue. The particular customers which account for revenue concentration have varied from period-to-period as a result of the addition of new contracts, completion of existing contracts, and the volumes and prices at which the customers have recently bought the Company's products. These variations are expected to continue in the foreseeable future.

The following tables summarize the accounts receivable and revenue as a percentage of total accounts receivable and total revenue, respectively, for the Company's most significant customers. In the tables below, customers are defined as the contracting entities who place purchase orders or enter into revenue contracts with the Company:

Accounts Receivable	October 28, 2023		April 29, 2023	
Customer A	44 %		54 %	
Customer B	16 %		*	
Customer C	11 %		*	
Customer D	*		22 %	

  

Revenue	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Customer A	29 %	44 %	34 %	43 %
Customer E	15 %	19 %	15 %	13 %
Customer F	*	16 %	*	11 %

\* Less than 10% of total accounts receivable or total revenue.

#### 4. Revenue Recognition

The following table summarizes revenue disaggregated by primary geographical market based on destination of shipment and location of contracting entity, which may differ from the customer's principal offices (in thousands):

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Mainland China	\$ 5,425	\$ 31,423	\$ 21,617	\$ 54,179
United States	7,837	6,422	14,252	18,488
Hong Kong	18,612	2,281	20,491	7,053
Taiwan	4,901	2,934	10,247	3,001
Rest of World	7,260	8,309	12,523	15,115
	<u>\$ 44,035</u>	<u>\$ 51,369</u>	<u>\$ 79,130</u>	<u>\$ 97,836</u>

#### **Contract Balances**

The contract assets are primarily related to the Company's fixed fee IP licensing arrangements and rights to consideration for performance obligations delivered but not billed as of October 28, 2023 and April 29, 2023.

During the six months ended October 28, 2023, the Company recognized \$2.6 million of revenue that was included in the deferred revenue balance as of April 29, 2023. During the six months ended October 29, 2022, the Company recognized \$1.0 million of revenue that was included in the deferred revenue balance as of April 30, 2022.

During the six months ended October 28, 2023, the increase in contract assets of \$2.6 million was primarily driven by an IP licensing arrangement and various product engineering services arrangements where certain billing milestones have not been reached prior to the timing of revenue recognition.

During the six months ended October 28, 2023, the increase in deferred revenue of \$0.7 million was primarily due to certain billing milestones being met prior to the timing of revenue recognition.

#### **Remaining Performance Obligations**

Revenue allocated to remaining performance obligations represents the transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. The contracted but unsatisfied performance obligation was approximately \$26.0 million and the satisfied but unrecognized performance obligations was approximately \$10.1 million as of October 28, 2023, which the Company expects to recognize over the next year. The amounts stated above include amounts relating to an IP licensing and development contract we entered into with a customer in September 2021, for total cash consideration of \$43.5 million, which is receivable over an estimated period of three years upon meeting certain contractual milestones. As of October 28, 2023, we had billed \$33.4 million and recognized revenue amounting to \$33.8 million upon delivery of certain milestones of the contract. We have applied constraints on a remaining milestone due to significant uncertainty relating to the delivery of the milestone as of October 28, 2023 associated with dependency on actions by the customer. The constraint will be re-evaluated at each future reporting period.

#### **Customer Warrant**

During fiscal year 2022, the Company issued a warrant to Amazon.com NV Investment Holdings LLC ("Holder") to purchase an aggregate of up to 4,080,000 of the Company's ordinary shares at an exercise price of \$10.74 per share (the "Customer Warrant"). The exercise period of the Customer Warrant is through the seventh anniversary of the issue date. Upon issuance of the Customer Warrant, 40,000 of the shares issuable upon exercise of the Warrant vested immediately and the remainder of the shares issuable will vest in tranches over the contract term based on the amount of global payments by Holder and its affiliates to us, up to \$201 million in aggregate payments. A total of 80,000 of the shares issuable upon exercise of the Customer Warrant were vested as of October 28, 2023 and April 29, 2023, respectively.

Using a grant date fair value of \$4.65, the Company recognized \$0.4 million and \$0.8 million for the three and six months ended October 28, 2023, respectively, and \$0.2 million and \$0.6 million for the three and six months ended

**Crede Technology Group Holding Ltd**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

October 29, 2022, respectively, as contra revenue within product sales revenue on the condensed consolidated statements of operations.

**5. Fair Value Measurements**

Fair value is an exit price representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

Level 2 - Other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company measures the fair value of money market funds using Level 1 inputs. The Company's certificates of deposit are classified as a held-to-maturity security as the Company intends to hold until their maturity dates. The certificates of deposit are valued using Level 2 inputs. Pricing sources may include industry standard data providers, security master files from large financial institutions, and other third-party sources used to determine a daily market value.

The following tables present the fair value of the financial instruments measured on a recurring basis as of October 28, 2023 and April 29, 2023 (in thousands).

	October 28, 2023			
	Level 1	Level 2	Level 3	Total
<b>Cash equivalents:</b>				
Money market funds	\$ 122,433	\$ —	\$ —	\$ 122,433
Certificate of deposit	—	908	—	908
<b>Short-term investments:</b>				
Certificate of deposit	—	111,526	—	111,526
Total cash equivalents and short-term investments	<u>\$ 122,433</u>	<u>\$ 112,434</u>	<u>\$ —</u>	<u>\$ 234,867</u>
	April 29, 2023			
	Level 1	Level 2	Level 3	Total
<b>Cash equivalents:</b>				
Money market funds	\$ 99,119	\$ —	\$ —	\$ 99,119
<b>Short-term investments:</b>				
Certificate of deposit	—	109,228	—	109,228
Total cash equivalents and short-term investments	<u>\$ 99,119</u>	<u>\$ 109,228</u>	<u>\$ —</u>	<u>\$ 208,347</u>

The carrying amount of the Company's financial instruments, including cash equivalents, short-term investments, accounts receivable and accounts payable, approximate their respective fair values because of their short maturities. As of October 28, 2023 and April 29, 2023, the unrealized loss or gain associated with the Company's financial instruments was not material.

Interest income recognized for the three and six months ended October 28, 2023 was \$2.9 million and \$5.5 million, respectively. Interest income recognized for the three and six months ended October 29, 2022 was not material.

**6. Supplemental Financial Information**

***Inventories***

Inventories consisted of the following (in thousands):

	October 28, 2023	April 29, 2023
Raw materials	\$ 13,826	\$ 17,456
Work in process	9,330	7,200
Finished goods	12,605	21,367
	<u>\$ 35,761</u>	<u>\$ 46,023</u>

***Property and Equipment, Net***

Property and equipment consisted of the following (in thousands):

	October 28, 2023	April 29, 2023
Computer equipment and software	\$ 18,152	\$ 13,942
Laboratory equipment	17,122	15,577
Production equipment	23,716	19,783
Leasehold improvements	1,948	2,005
Others	635	632
Construction in progress	5,822	6,300
	<u>67,395</u>	<u>58,239</u>
Less: accumulated depreciation and amortization	(22,424)	(18,017)
	<u>\$ 44,971</u>	<u>\$ 40,222</u>

Depreciation and amortization expense was \$3.7 million and \$6.6 million for the three and six months ended October 28, 2023, respectively, and \$2.6 million and \$4.3 million for the three and six months ended October 29, 2022, respectively. Computer equipment and software primarily includes technology licenses for computer-aided design tools relating to the Company's R&D design of future products and intellectual properties. Construction in progress and production equipment primarily includes mask set costs capitalized relating to the Company's new products already introduced or to be introduced.

***Accrued Expenses and Other Current Liabilities***

Accrued expenses and other current liabilities consisted of the following (in thousands):

	October 28, 2023	April 29, 2023
Accrued expenses	\$ 8,770	\$ 7,555
Current payables relating to purchases of property and equipment	5,185	4,269
Current portion of operating lease liabilities	2,624	2,630
	<u>\$ 16,579</u>	<u>\$ 14,454</u>

***Other Non-current Liabilities***

Other non-current liabilities consisted of the following (in thousands):

	October 28, 2023	April 29, 2023
Non-current payables relating to purchases of property and equipment	\$ 6,206	\$ 5,049
Non-current deferred revenue	248	380
Other non-current liabilities	958	324
	<u>\$ 7,412</u>	<u>\$ 5,753</u>

## 7. Commitments and Contingencies

### **Non-cancelable Purchase Obligations**

Total future non-cancelable purchase obligations as of October 28, 2023 are as follows (in thousands):

Fiscal Year	Purchase Commitments to Manufacturing Vendors	Technology License Fees
Remainder of 2024	\$ 9,141	\$ 1,319
2025	5,079	3,601
2026	8,627	3,974
2027	7,691	1,805
2028	2,153	350
Thereafter	—	350
<b>Total unconditional purchase commitments</b>	<b>\$ 32,691</b>	<b>\$ 11,399</b>

Technology license fees include the liabilities under agreements for technology licenses between the Company and various vendors.

Under the Company's manufacturing relationships with its foundry partners, cancellation of outstanding purchase orders is allowed but requires payment of all costs and expenses incurred through the date of cancellation.

As of October 28, 2023, the total value of non-cancelable purchase orders payable within the next one year that were committed with the Company's third party subcontractors was approximately \$7.4 million. Such purchase commitments are included in the preceding table.

The Company entered into a manufacturing supply capacity reservation agreement with an assembly subcontractor during the fiscal year ended April 29, 2023. Under this arrangement, the Company agreed to pay refundable deposits to the supplier in exchange for reserved manufacturing production capacity over the term of the agreement, which approximates five years. In addition, the Company committed to certain purchase levels that were in line with the capacity reserved. If the Company does not meet the purchase level commitment, the agreement requires the Company to pay a fee equal to the difference between the actual purchase and the purchase commitment, up to the value of refundable deposits made. During the three months ended October 28, 2023, the Company amended the arrangement to reduce the commitment level for the remainder of fiscal year 2024 and fiscal year 2025. The Company currently estimates that it has made purchase level commitments of at least \$25.3 million for the remainder of fiscal year 2024 through fiscal year 2028 under the capacity reservation agreement. Such purchase commitments are included in the preceding table. In addition, the total refundable deposits of \$8.8 million were paid as of October 28, 2023.

### **Warranty Obligations**

The Company's products generally carry a standard one-year warranty. The Company's warranty expense has not been material in the periods presented.

### **Indemnifications**

In the ordinary course of business, the Company has made certain indemnifications of varying scope and terms to customers, vendors, lessors, investors, directors, officers, employees and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company or from intellectual property infringement claims made by third parties. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnifications. Accordingly, the Company has no liabilities recorded for these agreements as of October 28, 2023 and April 29, 2023.

### **Legal Proceedings**

From time to time, the Company may be a party to various litigation claims in the normal course of business. Legal fees and other costs associated with such actions are expensed as incurred. The Company assesses, in conjunction with legal counsel, the need to record a liability for litigation and contingencies. Accrual estimates are recorded when

and if it is determined that such a liability for litigation and contingencies are both probable and reasonably estimable. As of the date of issuance of these unaudited condensed consolidated financial statements, the Company was not subject to any litigation. No accruals for loss contingencies or recognition of actual losses have been recorded in any of the periods presented.

## 8. Leases

The Company leases office space, domestically and internationally, under operating leases. The Company's leases have remaining lease terms generally between one year and seven years. Operating leases are included in right of use assets, accrued expenses and other current liabilities, and non-current operating lease liabilities on the Company's unaudited condensed consolidated balance sheets. The Company does not have any finance leases.

Lease expense and supplemental cash flow information are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Operating lease expenses	\$ 909	\$ 891	\$ 1,830	\$ 1,780
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 857	\$ 779	\$ 1,693	\$ 1,545
Right-of-use assets obtained in exchange for lease obligation	\$ —	\$ 649	\$ —	\$ 649

The aggregate future lease payments for operating leases as of October 28, 2023 are as follows (in thousands):

Fiscal Year	Operating Leases
Remainder of 2024	\$ 1,858
2025	2,810
2026	2,338
2027	2,210
2028	2,194
Thereafter	5,785
Total lease payments	17,195
Less: Interest	2,961
Present value of lease liabilities	<u>\$ 14,234</u>

As of October 28, 2023, the weighted-average remaining lease term for the Company's operating leases is 6.41 years and the weighted-average discount rate used to determine the present value of the Company's operating leases is 5.79%.

## 9. Share Incentive Plan

### **Share Issuances Subject to Repurchase**

The Company has issued ordinary shares to certain employees that are subject to vesting periods pursuant to the respective share purchase agreements ("Restricted Share Awards" or "RSAs"). In addition, the Company allows early exercise for unvested ordinary share options granted under its 2015 Stock Plan. In regard to the ordinary shares purchased, but not vested, the Company has the right to repurchase shares at the original issue price in the event of termination of services. As of October 28, 2023 and April 29, 2023, 55,594 shares and 98,631 shares, respectively, from share option early exercises remained subject to the Company's repurchase rights. These shares are excluded from ordinary shares outstanding.

### **Restricted Stock Unit ("RSU") Awards**

**Credo Technology Group Holding Ltd**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

A summary of information related to RSU activity during the six months ended October 28, 2023 is as follows:

	RSUs Outstanding			Aggregate Intrinsic Value (in thousands)
	Number of Shares	Weighted- Average Grant Date Fair Value	Weighted- Average Remaining Contractual Term	
Balances as of April 29, 2023	7,798,349	\$11.66		
Granted	860,619	\$13.65		
Vested	(667,853)	\$11.57		
Canceled/ forfeited	(261,313)	\$11.46		
Balances and expected to vest as of October 28, 2023	<u>7,729,802</u>	<u>\$11.90</u>	1.35	\$ 107,522

**Share Option Awards**

A summary of information related to share option activity during the six months ended October 28, 2023 is as follows:

	Options Outstanding			Aggregate Intrinsic Value (in thousands)
	Outstanding Share Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	
Balance as of April 29, 2023	8,869,655	\$2.02		
Options exercised and vested	(978,737)	\$2.25		
Options canceled/ forfeited	(140,244)	\$4.93		
Balance and expected to vest as of October 28, 2023	<u>7,750,674</u>	<u>\$1.94</u>	5.71	\$ 92,768
Exercisable as of October 28, 2023	<u>7,695,080</u>	<u>\$1.94</u>	5.71	\$ 92,102

**Employee Stock Purchase Plan ("ESPP")**

The Company issued 204,761 and 154,053 shares during the six months ended October 28, 2023 and October 29, 2022, under the ESPP, respectively.

**Summary of Share-based Compensation Expense**

The following table summarizes share-based compensation expense included in the unaudited condensed consolidated statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Cost of revenue	\$ 250	\$ 149	\$ 439	\$ 452
Research and development	4,664	2,756	9,396	5,619
Selling, general and administrative	3,230	1,986	6,277	4,366
	<u>\$ 8,144</u>	<u>\$ 4,891</u>	<u>\$ 16,112</u>	<u>\$ 10,437</u>

**10. Income Taxes**

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, excluding zero rate jurisdictions, and adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period. The Company's quarterly tax provision, and estimate of its annual effective tax rate, is subject to variation due to several factors, including variability in accurately predicting its pre-tax income or loss and the mix of jurisdictions to which they relate, intercompany transactions, changes in tax laws, the applicability of special tax regimes, changes in how we do business, and discrete items.

**Crede Technology Group Holding Ltd**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

Provision (benefit) for income taxes for the three and six months ended October 28, 2023 and October 29, 2022 was as follows (in thousands except percentages):

	Three Months Ended			Six Months Ended		
	October 28, 2023	October 29, 2022	% Change	October 28, 2023	October 29, 2022	% Change
Provision (benefit) for income taxes	\$ 450	\$ 929	(51.6)%	\$ (87)	\$ 564	(115.4)%
Effective tax rate	(7)%	(38)%		0 %	(20)%	

The Company's effective tax rate for the three months ended October 28, 2023 differs from the same period in the prior fiscal year primarily due to excluding zero rate jurisdictions from its annual effective tax rate calculation and a decrease in tax benefit of share-based compensation.

The Company's effective tax rate for the six months ended October 28, 2023 differs from the same period in the prior fiscal year primarily due to excluding zero rate jurisdictions from its annual effective tax rate calculation and an increase in tax benefit of share-based compensation.

During the three and six months ended October 28, 2023, there were no material changes to the total amount of unrecognized tax benefits and the Company does not expect any significant changes in the next 12 months.

#### 11. Net Loss Per Share

The Company reports both basic net income (loss) per share, which is based on the weighted-average number of ordinary shares outstanding during the period, and diluted net income (loss) per share, which is based on the weighted-average number of ordinary shares outstanding and potentially dilutive shares outstanding during the period. Net loss per share was determined as follows (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
<b>Numerator:</b>				
Net loss	\$ (6,623)	\$ (3,360)	\$ (18,320)	\$ (3,433)
<b>Denominator:</b>				
Weighted-average shares - basic and diluted	150,232	146,012	149,755	145,545
<b>Net loss per share:</b>				
Basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.12)	\$ (0.02)

Potential dilutive securities include dilutive ordinary shares from share-based awards attributable to the assumed exercise of share options, RSUs and ESPP shares using the treasury stock method. Under the treasury stock method, potential ordinary shares outstanding are not included in the computation of diluted net income per share if their effect is anti-dilutive. The following potentially dilutive securities outstanding (in thousands) have been excluded from the computations of diluted weighted-average shares outstanding for the three and six months ended October 28, 2023 and October 29, 2022:

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Share-based compensation awards	15,538	14,321	15,538	14,732
Customer Warrant	4,080	4,080	4,080	4,080
	<u>19,618</u>	<u>18,401</u>	<u>19,618</u>	<u>18,812</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended April 29, 2023 included in the Company's Annual Report on Form 10-K for the fiscal year ended April 29, 2023. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties as described under the heading "Special Note Regarding Forward-Looking Statements" of this Quarterly Report on Form 10-Q.*

### Overview

Credo is an innovator in providing secure, high-speed connectivity solutions that deliver improved power and cost efficiency as data rates and corresponding bandwidth requirements increase exponentially throughout the data infrastructure market. Our connectivity solutions are optimized for optical and electrical Ethernet applications, including the emerging 100G, 200G, 400G, 800G and emerging 1.6T (or Terabits per second) markets. Our products are based on our proprietary Serializer/Deserializer (SerDes) and Digital Signal Processor (DSP) technology. Our product families include integrated circuits (ICs), Active Electrical Cables (AECs) and SerDes Chiplets. Our IP solutions primarily are comprised of SerDes IP development and licensing.

Data generation has increased dramatically over the past ten years, creating new and complicated challenges in both circuit and system design. Our proprietary SerDes and DSP technologies enable us to achieve similar performance to leading competitors' products but in a lower cost, more highly available legacy node (n-1 advantage). Beyond power and performance, Credo continues to innovate to solve customers' system level requirements. We partner with Microsoft on our HiWire Switch AEC and open-source implementation that helps realize Microsoft's vision for a highly reliable network-managed dual-Top-of-Rack (ToR) architecture (a network architecture design in which computing equipment located within the same or an adjacent rack are, for redundancy, connected to two in-rack network switches, which are, in turn, connected to aggregation switches via fiber optic cables), overcoming complex and slow legacy enterprise approaches, simplifying deployment and improving connection reliability in the data center.

The multi-billion dollar data infrastructure market that we serve is driven largely by hyperscale data centers (hyperscalers), as well as general compute, Artificial Intelligence and Machine Learning (AI/ML) infrastructure, multi-service operators (MSOs) and mobile network operators (MNOs). The demands for increased bandwidth, improved power and cost efficiency and heightened security have simultaneously and dramatically expanded as work, education and entertainment have rapidly digitized across myriad end-point users.

Since our founding in 2008, we have achieved several significant milestones:

- From 2008 to 2012, we developed our proprietary, low-power, mixed-signal SerDes architecture which could scale from 25Gbps/lane to 50Gbps/lane and ultimately to 100Gbps/lane.
- In 2013, we began commercializing our core SerDes technology by providing connectivity solutions for the electrical and optical links in data centers.
- In 2014, we signed our first product contract with Non-Recurring Engineering (NRE) services as well as our first IP licensing contract.
- In 2016, we commenced production shipments of our Line Card PHY products.
- In 2017, we developed a 3.2Tbps chiplet for high bandwidth 12.8Tbps switches. This chiplet included 64 lanes of 50Gbps SerDes and was built in 28nm using Chip-on-Wafer-on-Substrate (CoWoS) packaging technology from TSMC.
- In 2018, we created AECs, a new category of data center system products, beginning with developing 400G DDC solutions up to seven meters in length.
- In 2019, we developed new DSP SerDes architectures optimizing the performance and power trade-offs for 400G and 800G solutions targeting Line Card PHYs, Optical PAM4 DSPs and AECs.

- In 2020, we demonstrated the industry’s first 40Gbs PAM3 SerDes in silicon. In addition, we engineered breakthrough Line Card PHYs and Optical PAM4 DSPs with leading performance and power for 50G/lane and 100G/lane solutions.
- In 2021, we launched new AEC solutions targeting ToR-to-Network Interface Card (NIC) connections. Our solutions enabled dual-ToR server racks to seamlessly “switch” data traffic to the redundant ToR if a ToR port failed.
- In 2022, we released our 112G/lane AEC products including 400G, 800G and 1.6T varieties and expanded our AEC engagement to a second major hyperscaler, who awarded us with its next generation NIC-TOR AEC program and completed qualification.
- In 2023, we expanded our AEC engagements to include all seven of the leading hyperscalers in the world, with additional program awards and qualifications.

We design, market and sell both product and IP solutions. We help define industry conventions and standards within the markets we target by collaborating with technology leaders and standards bodies. We contract with a variety of manufacturing partners to build our products based on our proprietary SerDes and DSP technologies. We develop standard solutions we can sell broadly to our end markets and also develop tailored solutions designed to address specific customer needs. Once developed, these tailored solutions can generally be broadly leveraged across our portfolio and we are able to sell the product or license the IP into the broader market.

We generated \$44.0 million and \$79.1 million in total revenue in the three and six months ended October 28, 2023, respectively, and \$51.4 million and \$97.8 million in total revenue in the three and six months ended October 29, 2022, respectively. Product sales and product engineering services revenue comprised 83.3% and 87.2% of our total revenue in the three and six months ended October 28, 2023, respectively, and 93.6% and 86.0% of our total revenue in the three and six months ended October 29, 2022, respectively. IP license revenue represented 16.7% and 12.8% of our total revenue in the three and six months ended October 28, 2023, respectively, and 6.4% and 14.0% of our total revenue in the three and six months ended October 29, 2022, respectively. We generated net loss of \$6.6 million and \$18.3 million, during the three and six months ended October 28, 2023, respectively, and \$3.4 million during each of the three and six months ended October 29, 2022.

We derive the substantial majority of our revenue from a limited number of customers. We anticipate we will continue to derive a significant portion of our revenue from a limited number of customers for the foreseeable future. We expect that as our products are more widely adopted and as our number of customers increase, customer concentration will decrease.

We sell our products to hyperscalers, original equipment manufacturers (OEMs), original design manufacturers (ODMs) and optical module manufacturers, as well as to companies in the enterprise and high performance computing (HPC) markets. We work closely and have engagements with industry-leading companies across these segments. Historically, a relatively small number customers have accounted for a significant portion of our revenue. We report revenue by customer in our financial statement disclosure based on the contracting parties who place purchase orders or sign revenue contracts with us. See Note 3 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. However, certain of our end customers have their contract manufacturing partners place orders with us. As a result, the contract manufacturers, rather than the end customers, are reported as our customers for financial reporting purposes. As a supplement to our financial statement footnote disclosure, and to provide further insight into our end customer concentration, the following table summarizes our revenue by customer as a percentage of total revenue based on end customer profile, rather than based on the contracting parties who place purchase orders or sign revenue contracts with us:

Revenue	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Customer E	15 %	19 %	15 %	13 %
Customer X	29 %	63 %	34 %	57 %
Customer Y	11 %	*	*	*
Customer Z	*	*	*	10 %

\* Less than 10% of total revenue.

## Our Business Model

We are a product-focused business with a strong foundation in IP, pioneering comprehensive connectivity solutions that deliver bandwidth, scalability and end-to-end signal integrity for next-generation platforms. We also develop IP solutions to address the specific and complex needs of our customers. We earn revenue from these IP solutions primarily through licensing fees and royalties. In addition to product sales and IP license revenue, we also generate revenue from providing engineering services as part of our product and license arrangements with certain customers. Over time, we expect to generate an increased proportion of our revenue from sales of our products. We expect to see a long-term benefit from improvements in our operating leverage as our business continues to gain scale.

We utilize a fabless business model, working with a network of third parties to manufacture, assemble and test our connectivity products. This approach allows us to focus our engineering and design resources on our core competencies and to control our fixed costs and capital expenditures.

We employ a two-pronged sales strategy targeting both the end users of our products, as well as the suppliers of our end users. By engaging directly with the end user, we are able to better understand the needs of our customers and cater our solutions to their most pressing connectivity requirements.

This strategy has enabled us to become the preferred vendor to a number of our customers who, in turn, in some cases, require their suppliers, OEMs, ODMs and optical module manufacturers to utilize our solutions.

## Revenue Mix and Associated Gross Margins

A summary of our revenue and associated gross margin by revenue sources for the three and six months ended October 28, 2023 and October 29, 2022 is presented below (in thousands, except percentages):

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
<b>Revenue:</b>				
Product sales	\$ 34,247	\$ 44,349	\$ 64,275	\$ 79,612
Product engineering services	2,434	3,750	4,727	4,574
Total product sales and product engineering services	36,681	48,099	69,002	84,186
IP license	7,354	3,270	10,128	13,650
Total revenue	\$ 44,035	\$ 51,369	\$ 79,130	\$ 97,836
<b>Gross margin:</b>				
Product sales	49.4 %	48.9 %	51.4 %	49.5 %
Product engineering services	93.0 %	88.9 %	90.2 %	88.7 %
Total product sales and product engineering services	52.2 %	52.0 %	54.1 %	51.7 %
IP license	94.5 %	89.8 %	94.6 %	88.9 %
Total gross margin	59.3 %	54.4 %	59.3 %	56.9 %

## Factors Affecting Our Performance

Our results of operations and financial condition have been, and will continue to be, affected by a number of factors, including the following:

### *Design Wins With New and Existing Customers*

Our solutions enable our end customers to differentiate their product offerings and position themselves to meet the demands of increasingly advanced networks. We work closely with our end customers to understand their product roadmaps and strategies and help them develop new products. Our goal is to develop solutions that support their product roadmap and development. If an end customer has tested our product, verified that it meets their requirements and the customer has informed us that the end customer intends to have our customer build it into their product, we consider it a design win. We consider design wins important to our future success. The selection process is typically lengthy and may require us to incur significant design and development expenditures in pursuit of a design win with no

assurance that our solutions will be selected. In addition, some design wins result in significant revenue and some do not, and the timing of such revenue is difficult to predict as it depends on the success of the end customer's product that uses our solutions. Thus, some design wins result in orders and significant revenue shortly after the design win is awarded and other design wins do not result in significant orders and revenue for several months or longer after the initial design win (if at all). As a result, the degree to which we are successful in achieving design wins and the speed and level at which end customers ramp volume production of the products into which our product is designed will impact our success and financial results in future periods.

### ***Customer Demand and Pipeline***

Demand for our products is dependent on conditions in the markets in which our customers operate, which are subject to cyclical and competitive conditions, among other factors. We believe our relationships with the end customers of our products and the long-term implications of decisions to adopt our solutions provide us with valuable visibility into customer demand. Furthermore, our customers generally provide us with periodic forecasts of their requirements. This provides an opportunity for us to monitor and refine our business operations and plans. The majority of our product sales are made pursuant to standard purchase orders. Changes in customer forecasts or the timing of orders from customers expose us to the risks of inventory shortages or excess inventory, as well as fluctuations in our results of operations. For example, on February 14, 2023, we announced that our largest customer reduced its demand forecast for certain Credo products for reasons we understand were unrelated to our performance. Although we do not expect our market share with the customer will be affected, the customer's reduced demand forecast will have a substantial negative impact on our revenue and results of operations for our fiscal year ending April 27, 2024. Cancellations of orders could result in the loss of anticipated sales without allowing us sufficient time to reduce and manage our operating expenses.

### ***Pricing and Product Gross Margins***

Our revenue is also impacted by changes in the number and average selling prices of our products. Our products are typically characterized by a life cycle that begins with higher average selling prices and lower volumes, followed by broader market adoption, leading to higher volumes, and average selling prices lower than initial levels. Our product gross margins will be affected by the extent to which these declines are paired with improvements in manufacturing yields and lower wafer, assembly and test costs that offset some of the margin reduction that results from lower average selling prices as well as the extent to which we introduce new products with higher initial average selling prices and achieve market acceptance. Our gross margins may also be affected by changes in the price of silicon wafers, copper cables, printed circuit boards (PCBs), testing costs and commodities, and the extent to which we are able to offset any increases in our costs through increases prices to our customers, productivity actions or other means. Our product gross margins may also fluctuate from period to period as a result of changes in average selling prices due to new product introductions or existing product transitions into larger scale commercial volumes and manufacturing costs as well as our product and customer mix.

### ***Product Adoption***

We develop and sell leading-edge connectivity solutions for digital infrastructure which are intended to replace existing legacy solutions and support our customers' future applications and needs. Our success is dependent on customers adopting our new technology and preferring our solutions over competing offerings or other current or future technologies.

### ***Technology Development***

We operate in industries characterized by rapidly changing technologies, industry standards and technological obsolescence. We work closely with our customers to understand their product roadmaps and strategies to forecast their future needs. This helps inform our technology roadmap and development priorities. We also monitor forecasts by industry analysts and the adoption curve of technology as well as potential competing forces which could hinder adoption of our solutions. Our revenue growth is dependent on our ability to continually develop and introduce new products to meet the changing technology and performance requirements of our customers, diversify our revenue base and generate new revenue to replace, or build upon, the success of previously introduced products which may be rapidly maturing. As a result, our revenue is impacted, to a more significant extent, by product life cycles for a variety of products and to a much lesser extent, if any, by any single product. In order to remain competitive, we have made, and expect to continue to make, significant expenses in research and development, and our research and development expenses in a particular period may be significantly impacted by specific product or engineering initiatives that we undertake to maintain our competitiveness and expand our product portfolio. If we fail to anticipate or

respond appropriately to new developments in technology, or to timely develop competitive new or enhanced products or technologies, our revenue could decrease and we could lose design wins to our competitors.

### **Industry Trends and Cyclicity**

We continue to evaluate trends within the industry that affect our business performance. We design and develop high-speed connectivity solutions that deliver improved power and cost efficiency for the data infrastructure market. This market is driven by hyperscalers, HPC and 5G infrastructure. Accordingly, our revenue and business performance are influenced by the deployment and timing of broader market adoption of next generation technologies in data centers, particularly by hyperscalers, and in the HPC and 5G markets. The semiconductor industry is cyclical and is characterized by rapid technological change, evolving standards, product obsolescence, price erosion, and fluctuations in product supply and demand. Any prolonged or significant downturn in our industry generally could adversely affect our business and reduce demand for our products and otherwise harm our financial condition and results of operations.

### **Macroeconomic Environment**

Our industry is subject to uncertainty as a result of the recent macroeconomic environment, which has been characterized by rising interest rates and inflation, geopolitical instability, continuing risk from the COVID-19 pandemic and public health measures related to it, and supply chain uncertainty. These factors are causing companies across the semiconductor industry to reduce spending and tighten inventory controls, which could negatively impact our business, financial condition, and results of operations.

### **Results of Operations**

#### **Three and Six Months Ended October 28, 2023 and October 29, 2022**

The following table sets forth information derived from our unaudited condensed consolidated statements of operations expressed as a percentage of total revenue:

	Three Months Ended		Six Months Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
<b>Revenue:</b>				
Product sales	77.8 %	86.3 %	81.2 %	81.4 %
Product engineering services	5.5 %	7.3 %	6.0 %	4.7 %
IP license	16.7 %	6.4 %	12.8 %	13.9 %
<b>Total revenue</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Cost of revenue:</b>				
Cost of product sales revenue	39.4 %	44.1 %	39.4 %	41.1 %
Cost of product engineering services revenue	0.4 %	0.8 %	0.6 %	0.5 %
Cost of IP license revenue	0.9 %	0.7 %	0.7 %	1.5 %
<b>Total cost of revenue</b>	<b>40.7 %</b>	<b>45.6 %</b>	<b>40.7 %</b>	<b>43.1 %</b>
<b>Gross margin</b>	<b>59.3 %</b>	<b>54.4 %</b>	<b>59.3 %</b>	<b>56.9 %</b>
<b>Operating expenses:</b>				
Research and development	49.4 %	35.3 %	56.1 %	35.6 %
Selling, general and administrative	30.1 %	22.5 %	32.6 %	23.2 %
<b>Total operating expenses</b>	<b>79.5 %</b>	<b>57.8 %</b>	<b>88.7 %</b>	<b>58.8 %</b>
<b>Operating loss</b>	<b>(20.2)%</b>	<b>(3.4)%</b>	<b>(29.4)%</b>	<b>(2.0)%</b>
<b>Other income (expense), net</b>	<b>6.1 %</b>	<b>(1.3)%</b>	<b>6.1 %</b>	<b>(0.9)%</b>
<b>Loss before income taxes</b>	<b>(14.1)%</b>	<b>(4.7)%</b>	<b>(23.3)%</b>	<b>(2.9)%</b>
<b>Provision (benefit) for income taxes</b>	<b>1.0 %</b>	<b>1.8 %</b>	<b>(0.1)%</b>	<b>0.6 %</b>
<b>Net loss</b>	<b>(15.0)%</b>	<b>(6.5)%</b>	<b>(23.2)%</b>	<b>(3.5)%</b>

## Comparison of Three and Six Months Ended October 28, 2023 and October 29, 2022

### Revenue

	Three Months Ended			Six Months Ended		
	October 28, 2023	October 29, 2022	% Change	October 28, 2023	October 29, 2022	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Product sales	\$ 34,247	\$ 44,349	(22.8)%	\$ 64,275	\$ 79,612	(19.3)%
Product engineering services	2,434	3,750	(35.1)%	4,727	4,574	3.3 %
IP license	7,354	3,270	124.9 %	10,128	13,650	(25.8)%
Total revenue	<u>\$ 44,035</u>	<u>\$ 51,369</u>	(14.3)%	<u>\$ 79,130</u>	<u>\$ 97,836</u>	(19.1)%

Total revenue for the three months ended October 28, 2023 decreased by \$7.3 million, compared to the same period in fiscal year 2023, primarily due to a decrease in product sales revenue of \$10.1 million, offset by an increase in IP license revenue of \$4.1 million. Total revenue for the six months ended October 28, 2023 decreased by \$18.7 million, compared to the same period in fiscal year 2023, primarily due to a decrease in product sales revenue of \$15.3 million and a decrease in IP license revenue of \$3.5 million.

The decrease in product sales revenue for the three and six months ended October 28, 2023, compared to the same periods in fiscal year 2023, was primarily due to a decrease in the volume of unit shipments of AEC cables. The reduction of AEC cable shipments was primarily due to reduced demand by one of our largest customers.

The increase in IP license revenue for the three months ended October 28, 2023, compared to the same period in fiscal year 2023, was driven by an IP license delivered to a customer that resulted in revenue recognition of \$2.8 million during the three months ended October 28, 2023.

The decrease in IP license revenue for the six months ended October 28, 2023, compared to the same period in fiscal year 2023, was primarily due to a high-dollar IP license delivered to a customer that resulted in revenue recognition of \$9.7 million in the six months ended October 29, 2022, offset by multiple IP licenses with relatively lower pricing delivered during the six months ended October 28, 2023.

### Cost of Revenue

	Three Months Ended			Six Months Ended		
	October 28, 2023	October 29, 2022	% Change	October 28, 2023	October 29, 2022	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Cost of product sales revenue	\$ 17,346	\$ 22,658	(23.4)%	\$ 31,214	\$ 40,183	(22.3)%
Cost of product engineering services revenue	171	418	(59.1)%	464	518	(10.4)%
Cost of IP license revenue	401	334	20.1 %	545	1,513	(64.0)%
Total cost of revenue	<u>\$ 17,918</u>	<u>\$ 23,410</u>	(23.5)%	<u>\$ 32,223</u>	<u>\$ 42,214</u>	(23.7)%

Cost of product sales revenue decreased by \$5.3 million in the three months ended October 28, 2023 and decreased by \$9.0 million in the six months ended October 28, 2023, compared to the same periods in fiscal year 2023, primarily due to decreased product sales during the same periods as discussed above.

Cost of IP license revenue remained consistent for the three months ended October 28, 2023 and decreased by \$1.0 million in the six months ended October 28, 2023, compared to the same period in fiscal year 2023. The decrease in the six months ended October 28, 2023 was primarily due to costs incurred for delivery of a milestone during the six months ended October 29, 2022 on an IP licensing and development contract entered into with a customer in September 2021. See Note 4 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details.

### Gross Profit and Gross Margin

	Three Months Ended			Six Months Ended		
	October 28, 2023	October 29, 2022	% Change	October 28, 2023	October 29, 2022	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Gross profit	\$ 26,117	\$ 27,959	(6.6)%	\$ 46,907	\$ 55,622	(15.7)%
Gross margin	59.3 %	54.4 %		59.3 %	56.9 %	

Gross margin in the three months ended October 28, 2023 increased by 4.9%, compared to the same period in fiscal year 2023, primarily driven by the increase in our IP license revenue in our revenue mix as our IP business has higher gross margin compared to our product sales business.

Gross margin in the six months ended October 28, 2023 increased by 2.4%, compared to the same period in fiscal year 2023, primarily driven by the increase in certain high margin product revenue, such as Optical product.

### **Research and Development**

	Three Months Ended			Six Months Ended		
	October 28, 2023	October 29, 2022	% Change	October 28, 2023	October 29, 2022	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Research and development	\$ 21,736	\$ 18,158	19.7 %	\$ 44,374	\$ 34,841	27.4 %
% of total revenue	49.4 %	35.3 %		56.1 %	35.6 %	

Research and development expense for the three months ended October 28, 2023 increased by \$3.6 million compared to the same period in fiscal year 2023. The increase was due primarily to a \$1.0 million increase in personnel costs as a result of new hires for product development and a \$1.9 million increase in share-based compensation expense driven by increased amortization expense from new equity awards granted to employees.

Research and development expense for the six months ended October 28, 2023 increased by \$9.5 million compared to the same period in fiscal year 2023. The increase was due primarily to a \$2.6 million increase in personnel costs as a result of new hires for product development, a \$3.8 million increase in share-based compensation expense driven by increased amortization expense from new equity awards granted to employees, a \$1.7 million increase in design activities and higher engineering activities relating to testing and laboratory supplies for new product development and a \$1.4 million increase in depreciation expense driven by increased computer equipment and software, and laboratory equipment utilized in research and development activities.

### **Selling, General and Administrative**

	Three Months Ended			Six Months Ended		
	October 28, 2023	October 29, 2022	% Change	October 28, 2023	October 29, 2022	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Selling, general and administrative	\$ 13,256	\$ 11,540	14.9 %	\$ 25,799	\$ 22,738	13.5 %
% of total revenue	30.1 %	22.5 %		32.6 %	23.2 %	

Selling, general and administrative expense for the three months ended October 28, 2023 increased by \$1.7 million compared to the same period in fiscal year 2023. The increase was primarily due to a \$1.2 million increase in share-based compensation expense driven by increased amortization expense from new equity awards granted to employees.

Selling, general and administrative expense for the six months ended October 28, 2023 increased by \$3.1 million compared to the same period in fiscal year 2023. The increase was primarily due to a \$1.9 million increase in share-based compensation expense driven by increased amortization expense from new equity awards granted to employees and \$0.7 million increase in personnel expenses from new hires.

### Provision (Benefit) for Income Taxes

	Three Months Ended			Six Months Ended		
	October 28, 2023	October 29, 2022	% Change	October 28, 2023	October 29, 2022	% Change
	(in thousands, except percentages)			(in thousands, except percentages)		
Provision (benefit) for income taxes	\$ 450	\$ 929	(51.6)%	\$ (87)	\$ 564	(115.4)%
% of total revenue	1.0 %	1.8 %		(0.1)%	0.6 %	

Provision for income taxes for the three months ended October 28, 2023 decreased by \$0.5 million, compared to the same period in fiscal year 2023. The fluctuation was primarily due to excluding zero rate jurisdictions from our annual effective tax rate calculation and a decrease in tax benefit of share-based compensation.

Benefit for income taxes for the six months ended October 28, 2023 increased by \$0.7 million, compared to the same period in fiscal year 2023. The fluctuation was primarily due to excluding zero rate jurisdictions from our annual effective tax rate calculation and an increase in tax benefit of share-based compensation.

### Liquidity and Capital Resources

Our activities consist primarily of selling our products, licensing our IP, providing IP customization services and conducting research and development of our products and technology. Since our inception through October 28, 2023, our operations have been financed primarily by net proceeds from our initial public offering, the sale of convertible preferred shares and ordinary shares prior to our initial public offering and cash generated from our customers. As of October 28, 2023 and April 29, 2023, we had \$129.0 million and \$108.6 million in cash and cash equivalents, respectively, and working capital of \$291.1 million and \$297.2 million, respectively. Our principal use of cash is to fund our operations and invest in research and development to support our growth. See Note 7 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a further discussion of our cash requirements under non-cancelable purchase obligations.

We believe our existing cash and cash equivalents and other components of working capital will be sufficient to meet our needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of our sales and marketing and research and development expenditures and the continuing market acceptance of our solutions. In the event that we need to borrow funds or issue additional equity, we cannot assure you that any such additional financing will be available on terms acceptable to us, if at all. If we are unable to raise additional capital when we need it, our business, results of operations and financial condition would be adversely affected.

The following table summarizes our cash flows for the periods indicated.

	Six Months Ended	
	October 28, 2023	October 29, 2022
	(in thousands)	
Net cash provided by (used in) operating activities	\$ 29,616	\$ (10,462)
Net cash used in investing activities	\$ (9,655)	\$ (60,925)
Net cash provided by financing activities	\$ 664	\$ 2,723

### Cash Flows Provided by (Used in) Operating Activities

Net cash provided by operating activities was \$29.6 million for the six months ended October 28, 2023. The cash inflows from operating activities for the six months ended October 28, 2023 were primarily due to \$23.7 million of cash inflows for working capital purposes and \$24.3 million of non-cash items, partially offset by \$18.3 million in net loss. The cash inflows from working capital for the six months ended October 28, 2023 were primarily driven by (a) a decrease in accounts receivable of \$16.8 million primarily due to collection of large customer invoices in the six months ended October 28, 2023; (b) a decrease in inventory of \$9.6 million primarily driven by tightened production management and increased product sales compared to the fiscal quarter ended April 29, 2023; and (c) an increase in accounts payable of \$5.6 million due to amounts payable relating to increased research and development spending. These cash inflows were offset by cash outflows relating to an increase in other non-current assets of \$4.6 million primarily relating to payments of refundable deposits for a manufacturing supply capacity reservation agreement.

Net cash used in operating activities was \$10.5 million for the six months ended October 29, 2022. The cash outflows from operating activities for the six months ended October 29, 2022 were primarily due to \$3.4 million of net loss and \$23.5 million of cash outflows for working capital purposes, partially offset by \$16.4 million of non-cash items. The cash outflows from working capital for the six months ended October 29, 2022 were primarily driven by (a) an increase in accounts receivable of \$22.2 million due to increased sales in the fiscal quarter ended October 29, 2022 compared to the fiscal quarter ended April 30, 2022, and timing of collection; and (b) an increase in inventory of \$21.6 million to better support unfulfilled backlog and related new product ramps. This was offset by (c) an increase in accounts payable of \$10.1 million due to amounts payable relating to increased purchases of inventory to support growing demand for our products; and (d) an increase in contract assets of \$3.6 million primarily driven by certain IP licensing and engineering services arrangements where certain billing milestones had not yet been reached, but the criteria for revenue had been met.

#### ***Cash Flows Used in Investing Activities***

Net cash used in investing activities of \$9.7 million in the six months ended October 28, 2023 was attributable to purchases of property and equipment of \$7.4 million and net outflow from certificates of deposit of \$2.3 million from maturities of certificates of deposit for \$109.2 million and purchases of the same for \$111.5 million. Purchases of property and equipment primarily related to mask sets purchases for new products introduced or in process of being introduced, and computer equipment and software used for research and development purposes.

Net cash used in investing activities of \$60.9 million in the six months ended October 29, 2022 was attributable to purchases of property and equipment of \$10.9 million and investment in a certificate of deposit of \$50.0 million. Purchases of property and equipment primarily related to mask sets purchases for new products introduced or in process of being introduced, and computer equipment and software used for research and development purposes.

#### ***Cash Flows Provided by Financing Activities***

Net cash provided by financing activities of \$0.7 million for the six months ended October 28, 2023 was primarily attributable to \$3.7 million in proceeds from exercises of employee share options and the issuance of shares under the ESPP, offset by \$3.1 million in payments for long-term technology license obligations.

Net cash provided by financing activities of \$2.7 million for the six months ended October 29, 2022 was solely attributable to \$2.7 million in proceeds from exercises of employee share options and issuances of shares under the ESPP.

#### **Critical Accounting Estimates**

There have been no material changes to our critical accounting estimates during the three and six months ended October 28, 2023, as compared to those disclosed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the fiscal year ended April 29, 2023. In the current macroeconomic environment affected by COVID-19, our estimates could require increased judgment and carry a higher degree of variability and volatility. We continue to monitor and assess our estimates in light of developments, and as events continue to evolve and additional information becomes available, our estimates may change materially in future periods.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

For a discussion of market risks, refer to Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" in our Annual Report on Form 10-K for the fiscal year ended April 29, 2023. During the three and six months ended October 28, 2023, there were no material changes or developments that would materially alter the market risk assessment performed as of April 29, 2023.

#### **Item 4. Controls and Procedures.**

##### ***Disclosure Controls and Procedures***

We maintain "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

***Changes in Internal Control Over Financial Reporting***

There was no change in our “internal control over financial reporting,” as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the quarter ended October 28, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

***Inherent Limitations on Effectiveness of Controls***

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Credo have been detected.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we are involved in various legal proceedings arising in the ordinary course of our business. We are not presently a party to any litigation the outcome of which, we believe, if determined adversely to us, would individually or taken together have a material adverse effect on us. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 29, 2023, which could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our ordinary shares. As of the date of this Quarterly Report on Form 10-Q there have been no material changes from the risk factors previously disclosed in our in the Annual Report on Form 10-K for the fiscal year ended April 29, 2023.

### Item 5. Other Information.

#### ***Rule 10b5-1 Trading Plans***

On June 26, 2023, Daniel Fleming, our Chief Financial Officer, adopted a Rule 10b5-1 Trading Plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act, pursuant to which a maximum amount of 90,000 of our ordinary shares held directly by Mr. Fleming may be sold between September 25, 2023 and September 20, 2024. The plan terminates on the earlier of: (i) September 20, 2024, (ii) the first date on which all trades set forth in the plan have been executed or (iii) such date as the plan is otherwise terminated according to its terms.

On September 7, 2023, Chi Fung (Lawrence) Cheng, our Chief Technology Officer and a member of our board of directors, adopted a Rule 10b5-1 Trading Plan, intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act, pursuant to which a maximum amount of 2,000,000 of our ordinary shares held by the Cheng Huang Family Trust may be sold between January 2, 2024 and December 31, 2024. The plan terminates on the earlier of: (i) December 31, 2024, (ii) the first date on which all trades set forth in the plan have been executed or (iii) such date as the plan is otherwise terminated according to its terms. Mr. Cheng is a joint trustee with shared voting and investment power over the shares held by the Cheng Huang Family Trust.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference				Provided Herewith
		Form	File No.	Exhibit No.	Filing Date	
31.1	* <a href="#">Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
31.2	* <a href="#">Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
32.1	** <a href="#">Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
32.2	** <a href="#">Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
101.INS	* Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document)					
101.SCH	* Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	* Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	* Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	* Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	* Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					X

\*Filed herewith

\*\*Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CREDO TECHNOLOGY GROUP HOLDING LTD

Date: November 30, 2023

By: /s/ William Brennan  
Name: William Brennan  
Title: President and Chief Executive Officer

Date: November 30, 2023

By: /s/ Daniel Fleming  
Name: Daniel Fleming  
Title: Chief Financial Officer





**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Credo Technology Group Holding Ltd (the "Company") on Form 10-Q for the period ended October 28, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, I, William Brennan, President and Chief Executive Officer of the Company, certify that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 30, 2023

By: \_\_\_\_\_  
/s/ William Brennan  
William Brennan  
President and Chief Executive Officer  
(Principal Executive Officer)

