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 January 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	**N/A**
(Address of principal executive offices)	(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
Ordinary shares, par value $0.00005 per share	**CRDO**	**The Nasdaq Stock Market LLC**

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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

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 147,988,038 ordinary shares outstanding as of February 21, 2023.

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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 30, 2022. Factors that could cause actual results to differ materially from those predicted include, but are not limited to:

- risks related to the impact of the COVID-19 pandemic and armed conflict, war, terrorism and other geopolitical conflicts on our business, suppliers and customers;
- 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; and
- risks related to seasonality and fluctuations in sales by product manufacturers that incorporate our technology into their products.

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)

	January 28, 2023	April 30, 2022
Assets		
Current Assets:		
Cash and cash equivalents	$ 123,783	$ 259,322
Short-term investments	109,228	—
Accounts receivable	43,168	29,524
Inventories	50,315	27,337
Contract assets	19,245	10,071
Prepaid expenses and other current assets	4,282	5,923
Total current assets	350,021	332,177
Property and equipment, net	39,087	21,844
Right of use assets	15,552	16,954
Other non-current assets	12,591	4,714
Total assets	$ 417,251	$ 375,689
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 21,335	$ 8,487
Accrued compensation and benefits	3,369	4,713
Accrued expenses and other current liabilities	15,141	12,063
Deferred revenue	3,537	1,234
Total current liabilities	43,382	26,497
Non-current operating lease liabilities	13,514	14,809
Other non-current liabilities	5,802	220
Total liabilities	62,698	41,526
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Ordinary shares, $0.00005 par value; 1,000,000 shares authorized; 147,430 shares issued and outstanding at January 28, 2023; and 1,000,000 shares authorized; 144,755 shares issued and outstanding at April 30, 2022	7	7
Additional paid in capital	445,654	424,562
Accumulated other comprehensive income (loss)	(69)	23
Accumulated deficit	(91,039)	(90,429)
Total shareholders' equity	354,553	334,163
Total liabilities and shareholders' equity	$ 417,251	$ 375,689

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		Nine Months Ended	
	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Revenue:				
Product sales	$ 38,033	$ 22,706	$ 117,645	$ 48,423
Product engineering services	3,635	3,954	8,209	6,628
IP license	11,715	5,022	24,179	12,194
IP license engineering services	887	118	2,073	1,706
Total revenue	54,270	31,800	152,106	68,951
Cost of revenue:				
Cost of product sales revenue	21,833	12,230	62,016	26,436
Cost of product engineering services revenue	228	410	746	1,807
Cost of IP license revenue	—	—	1,179	
Cost of IP license engineering services revenue	222	48	556	462
Total cost of revenue	22,283	12,688	64,497	28,705
Gross profit	31,987	19,112	87,609	40,246
Operating expenses:				
Research and development	20,530	10,995	55,371	32,488
Selling, general and administrative	11,936	8,568	34,674	23,393
Impairment charges	2,407	—	2,407	—
Total operating expenses	34,873	19,563	92,452	55,881
Operating loss	(2,886)	(451)	(4,843)	(15,635)
Other income (expense), net	2,530	(80)	1,618	(70)
Loss before income taxes	(356)	(531)	(3,225)	(15,705)
Provision (benefit) for income taxes	(3,179)	(387)	(2,615)	1,116
Net income (loss)	$ 2,823	$ (144)	$ (610)	$ (16,821)
Net income (loss) per share:				
Basic	$ 0.02	$ —	$ —	$ (0.24)
Diluted	$ 0.02	$ —	$ —	$ (0.24)
Weighted-average shares:				
Basic	146,908	73,815	146,000	70,439
Diluted	156,519	73,815	146,000	70,439

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

Credo Technology Group Holding Ltd
Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited, in thousands)

	Three Months Ended		Nine Months Ended	
	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Net income (loss)	$ 2,823	$ (144)	$ (610)	$ (16,821)
Other comprehensive gain (loss):				
Foreign currency translation gain (loss)	324	(232)	(92)	(205)
Total comprehensive income (loss)	$ 3,147	$ (376)	$ (702)	$ (17,026)

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

Credo Technology Group Holding Ltd
Condensed Consolidated Statements of Convertible Preferred Shares and Shareholders' Equity (Deficit)

(unaudited, in thousands)

	Convertible Preferred Shares		Ordinary Shares					
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balances at April 30, 2022	—	$ —	144,755	$ 7	$ 424,562	$ 23	$ (90,429)	$ 334,163
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)
Balances at July 30, 2022	—	$ —	145,344	$ 7	$ 432,473	$ (73)	$ (90,502)	$ 341,905
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)
Balances at October 29, 2022	—	$ —	146,486	$ 7	$ 438,352	$ (393)	$ (93,862)	$ 344,104
Ordinary shares issued under equity incentive plans	—	—	944	—	1,873	—	—	1,873
Share-based compensation	—	—	—	—	5,169	—	—	5,169
Warrant contra revenue	—	—	—	—	260	—	—	260
Total comprehensive income	—	—	—	—	—	324	2,823	3,147
Balances at January 28, 2023	—	$ —	147,430	$ 7	$ 445,654	$ (69)	$ (91,039)	$ 354,553

	Convertible Preferred Shares		Ordinary Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders’ Equity (Deficit)
	Number of Shares	Amount	Number of Shares	Amount				
Balances at April 30, 2021	50,809	$ 197,965	68,282	$ 3	$ 12,592	$ 227	$ (68,253)	$ (55,431)
Issuance of Series D+ convertible preferred shares, net of issuance costs	1,251	7,245	—	—	—	—	—	—
Ordinary shares issued under equity incentive plans	—	—	554	—	461	—	—	461
Share-based compensation	—	—	—	—	1,075	—	—	1,075
Total comprehensive loss	—	—	—	—	—	(5)	(12,577)	(12,582)
Balances at July 31, 2021	52,060	$ 205,210	68,836	$ 3	$ 14,128	$ 222	$ (80,830)	$ (66,477)
Ordinary shares issued under equity incentive plans	—	—	667	—	587	—	—	587
Share-based compensation	—	—	—	—	1,307	—	—	1,307
Total comprehensive loss	—	—	—	—	—	32	(4,100)	(4,068)
Balances at October 29, 2022	52,060	$ 205,210	69,503	$ 3	$ 16,022	$ 254	$ (84,930)	$ (68,651)
Conversion of preferred shares into ordinary shares	(52,060)	(205,210)	52,060	3	205,207	—	—	205,210
Issuance of common stock in connection with initial public offering, net of offering costs, underwriting discounts and commissions	—	—	18,384	1	166,593	—	—	166,594
Ordinary shares issued under employee share plan	—	—	1,073	—	1,067	—	—	1,067
Share-based compensation	—	—	—	—	1,438	—	—	1,438
Warrant contra revenue	—	—	—	—	407	—	—	407
Total comprehensive loss	—	—	—	—	—	(232)	(144)	(376)
Balances at January 31, 2022	—	$ —	141,020	$ 7	$ 390,734	$ 22	$ (85,074)	$ 305,689

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)

	Nine Months Ended	
	January 28, 2023	January 31, 2022
Cash flows from operating activities:		
Net income (loss)	$ (610)	$ (16,821)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	6,533	3,262
Share-based compensation	15,606	3,820
Warrant contra revenue	895	407
Write-downs for excess and obsolete inventory	3,087	1,256
Impairment of assets	2,407	—
Changes in operating assets and liabilities:		
Accounts receivable	(13,644)	(8,049)
Inventories	(26,065)	(20,274)
Contract assets	(9,185)	(5,239)
Prepaid and other current assets	1,642	(585)
Other non-current assets	(5,598)	(2,164)
Accounts payable	11,703	3,245
Accrued expenses, compensation and other liabilities	(1,850)	5,890
Deferred revenue	2,303	2,060
Net cash used in operating activities	(12,776)	(33,192)
Cash flows from investing activities:		
Purchases of property and equipment	(17,815)	(7,932)
Purchases of short-term investments	(109,228)	—
Net cash used in investing activities	(127,043)	(7,932)
Cash flows from financing activities:		
Proceeds from issuance of ordinary share upon initial public offering, net of underwriter discounts	—	171,889
Payments for IPO offering costs	—	(3,056)
Payments on technology license obligations	(308)	—
Proceeds from employee share incentive plans	4,595	1,936
Proceeds from issuance of convertible preferred shares, net of issuance costs	—	7,245
Net cash provided by financing activities	4,287	178,014
Effect of exchange rate changes on cash	(7)	(118)
Net decrease in cash and cash equivalents	(135,539)	136,772
Cash and cash equivalents at beginning of the period	259,322	103,757
Cash and cash equivalents at end of the period	$ 123,783	$ 240,529
Supplemental cash flow information:		
Purchase of property and equipment included in accounts payable, accrued expenses and other liabilities	$ 10,789	$ 200
Conversion of convertible preferred share into ordinary share upon initial public offering	$ —	$ 205,210
Deferred offering costs included in accounts payable and accrued expenses	$ —	$ 2,239

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. The Company's connectivity solutions are optimized for optical and electrical Ethernet applications, including the emerging 100G, 200G, 400G and 800G markets. The Company's products are based on its 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. The Company's 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 2022 audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2022. 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.

Effective May 1, 2022, the Company changed its fiscal year to a 52- or 53-week period ending on the Saturday closest to April 30. Our fiscal year ending April 29, 2023 ("fiscal year 2023") is a 52-week fiscal year. The first quarter of our fiscal year 2023 ended on July 30, 2022, the second quarter ended on October 29, 2022 and the third quarter ended on January 28, 2023.

2. Significant Accounting Policies

The Company believes that other than the adoption of new accounting pronouncements and the accounting policies as described below, there have been no significant changes during the three and nine months ended January 28, 2023 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 30, 2022.

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, determination of the fair value of share-based awards, ordinary shares and a customer warrant, realization of tax assets and estimates of tax reserves, 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 affected by COVID-19, 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 sale of its products, licensing of its IP and providing product and IP license 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 support and royalties. Product and IP license engineering services revenue consists of engineering fees associated with integration of the Company's technology solutions into its customers' products and IP, respectively. 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 our IPs requires fair value estimate under 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.

IP License Revenue - The Company's IP license revenue consists of perpetual licenses, support and maintenance, 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.

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.

Product and IP License Engineering Services Revenue - Some product and IP 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.

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.

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of three months or less at the time of acquisition. Cash and cash equivalents consist primarily of cash balances in the Company's bank checking and savings accounts, and government and institutional money market funds.

Investments not considered cash equivalents and with maturities of one year or less from the consolidated balance sheet date are classified as short-term investments. Short-term investments consist of a certificate of deposit with original maturity date between three and twelve months.

The classification of our investments in marketable debt securities is determined at the time of purchase, and such determination is reevaluated at each balance sheet date. Marketable debt securities are classified as available-for-sale. These investments are considered impaired when a decline in fair value is judged to be other-than-temporary. We consult with our investment managers and consider available quantitative and qualitative evidence in evaluating potential impairment of our investments on a quarterly basis. If the cost of an individual investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and our intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Accounting Pronouncement Recently Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by eliminating some exceptions to the general approach in Topic 740 in order to reduce cost and complexity of its application. This new guidance is effective for the Company for its fiscal year beginning May 1, 2022. The Company adopted this guidance on May 1, 2022 prospectively, and the impact on its consolidated financial statements was not material.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected, with further clarifications made more recently. For trade receivables, loans and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available-for-sale debt securities are required to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. This guidance is effective for the Company for its fiscal year beginning April 30, 2023 and interim periods within its fiscal year beginning April 28, 2024. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

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 table summarizes the significant customers' accounts receivable and revenue as a percentage of total accounts receivable and total revenue, respectively:

Accounts Receivable	January 28, 2023	April 30, 2022
Customer A	69 %	*
Customer B	12 %	*
Customer C	*	52 %
Customer D	*	14 %

	Three months ended		Nine months ended	
Revenue	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Customer A	52 %	*	46 %	*
Customer C	*	40 %	*	33 %
Customer D	*	22 %	11 %	18 %
Customer E	20 %	*	14 %	*
Customer F	*	*	*	13 %

* 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		Nine Months Ended	
	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Mainland China	$ 29,233	$ 14,729	$ 83,412	$ 24,065
United States	16,513	5,924	35,001	18,999
Hong Kong	1,583	3,277	8,636	6,257
Singapore	—	2,380	4,150	7,342
Rest of World	6,941	5,490	20,907	12,288
	$ 54,270	$ 31,800	$ 152,106	$ 68,951

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 January 28, 2023 and April 30, 2022.

During the three months ended January 28, 2023, the Company recognized $1.1 million of revenue that was included in the deferred revenue balance as of October 29, 2022. During the three months ended January 31, 2022, the Company recognized $0.3 million of revenue that was included in the deferred revenue balance as of October 31, 2021.

During the nine months ended January 28, 2023, the Company recognized $1.1 million of revenue that was included in the deferred revenue balance as of April 30, 2022. During the nine months ended January 31, 2022, the Company recognized $4.0 million of revenue that was included in the deferred revenue balance as of April 30, 2021.

During the nine months ended January 28, 2023, the increase in contract assets of $9.2 million was primarily driven by an IP licensing and engineering services arrangement where certain billing milestones had not yet been reached, but the criteria for revenue had been met. During the nine months ended January 28, 2023, the increase in deferred revenue of $2.3 million was primarily driven by a product engineering services arrangement where certain billing milestones had been reached 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 $11.7 million and the satisfied but unrecognized performance obligations was approximately $10.1 million as of January 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 January 28, 2023, we had billed $22.2 million and recognized revenue amounting to $32.7 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 January 28, 2023 associated with dependency on actions by the customer. The constraints will be re-evaluated at each future reporting period.

Customer Warrant

On December 28, 2021, the Company issued a warrant to Amazon.com NV Investment Holdings LLC (“Holder”) to purchase an aggregate of up to 4,080,000 of our ordinary shares at an exercise price of $10.74 per share (the “Warrant”). The exercise period of the Warrant is through the seventh anniversary of the issue date. Upon issuance of the 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 Warrant shares were vested as of January 28, 2023.

The grant date fair value of the Warrant share was determined at $4.65 per share using the Black-Scholes option pricing model. The grant date fair value of the Warrant share was estimated using the following assumptions:

	At Grant Date
Expected volatility	40.00%
Weighted-average expected term (in years)	7.00
Risk-free interest rate	1.41%
Dividend yield	—%
Fair value per ordinary share	$10.74

During the three and nine months ended January 28, 2023, the Company recognized $0.3 million and $0.9 million, respectively, as contra revenue within the 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 table present the fair value of the financial instruments measured on a recurring basis as of January 28, 2023 (in thousands).

	January 28, 2023			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 112,338	$ —	$ —	$ 112,338
Short-term investments:				
Certificate of deposit	—	109,228	—	109,228
Total cash equivalents and short-term investments	$ 112,338	$ 109,228	$ —	$ 221,566

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 January 28, 2023, there were no unrealized loss or gains associated with the Company's financial instruments.

6. Supplemental Financial Information

Inventories

Inventories consisted of the following (in thousands):

	January 28, 2023	April 30, 2022
Raw materials	$ 18,745	$ 11,610
Work in process	10,337	10,352
Finished goods	21,233	5,375
	$ 50,315	$ 27,337

Property and Equipment, Net

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

	January 28, 2023	April 30, 2022
Computer equipment and software	$ 14,106	$ 1,736
Laboratory equipment	12,310	9,521
Production equipment	16,176	15,502
Leasehold improvements	1,681	1,465
Others	633	524
Construction in progress	9,610	2,932
	54,516	31,680
Less: accumulated depreciation and amortization	(15,429)	(9,836)
	$ 39,087	$ 21,844

Depreciation and amortization expense for the three months ended January 28, 2023 and January 31, 2022 was $2.3 million and $1.3 million, respectively. Depreciation and amortization expense for the nine months ended January 28, 2023 and January 31, 2022 was $6.5 million and $3.3 million, respectively. Computer equipment and software primarily includes electronic design automation software 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.

During the three months ended January 28, 2023, the Company recorded $2.4 million impairment charges primarily related to an impairment on property and equipment. The impairment charges were presented under operating expenses in the condensed consolidated statements of operations for equipment and related assets that did not reach production qualification.

Accrued Expenses and Other Current Liabilities

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

	January 28, 2023	April 30, 2022
Accrued expenses	$ 7,851	$ 8,372
Current payables relating to purchases of property and equipment	3,940	—
Current portion of operating lease liabilities	2,676	2,379
Income tax payable	674	1,312
	$ 15,141	$ 12,063

Other non-current Liabilities

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

	January 28, 2023	April 30, 2022
Non-current payables relating to purchases of property and equipment	$ 5,537	$ —
Deferred tax liabilities	265	220
	$ 5,802	$ 220

7. Commitments and Contingencies

Non-cancelable Purchase Obligations

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

Fiscal Year	Purchase Commitments to Manufacturing Vendors	Technology License Fees
Remainder of 2023	$ 863	$ 1,893
2024	5,423	5,177
2025	6,763	5,432
2026	8,131	350
2027	9,282	350
Thereafter	7,319	700
Total unconditional purchase commitments	$ 37,781	$ 13,902

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 January 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 $2.2 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 current fiscal year due to the current global supply shortage environment. 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. The Company currently estimates that it has made purchase level commitments of at least $35.5 million for the fiscal 2024 through fiscal 2028 under the capacity reservation agreement. Such purchase commitments are included in the preceding table. In addition, refundable deposits of $2.0 million were paid as of January 28, 2023, and refundable deposits payable under this arrangement are $3.4 million during the remainder of fiscal 2023 and $3.4 million in fiscal 2024.

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 January 28, 2023 and April 30, 2022.

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. Convertible Preferred Shares

The Company had previously issued Series A convertible preferred shares, Series B convertible preferred shares, Series C convertible preferred shares, Series D convertible preferred shares and Series D+ convertible preferred shares (collectively, the "Preferred Shares").

Immediately prior to the completion of the IPO during the quarter ended January 31, 2022, all of the then outstanding 52,059,826 shares of the Company's convertible Preferred Shares were automatically converted into an aggregate 52,059,826 shares of ordinary shares on a one-for-one basis, and such Preferred Shares were cancelled, retired and eliminated from the shares that the Company is authorized to issue and shall not be reissued by the Company.

A summary of the Preferred Shares prior to the conversion into ordinary shares consisted of the following:

Series	Shares Authorized	Shares Issued and Outstanding	Per Share Liquidation Preference	Aggregate Liquidation Preference (in thousands)
Series A	8,313	8,313	$ 1.00	$ 8,313
Series B	8,593	8,593	2.10	18,000
Series C	5,245	5,245	4.29	22,500
Series D	20,028	20,028	4.99	100,000
Series D+	9,881	9,881	5.81	57,361
	52,060	**52,060**		**$ 206,174**

The rights, privileges, and preferences of each of the Preferred Shares were as follows:

Conversion Rights - Each Preferred Share was convertible, at the option of the holder, at any time, and without the payment of any additional consideration, into such number of fully paid ordinary shares as was determined by dividing the applicable original issue price for each such series of Preferred Shares by the applicable conversion price in effect at the time of the conversion. The conversion price per share for each series of Preferred Share shall initially be equal to the original issue price of such series, which means $1.00 per share for Series A, $2.10 per share for Series B, $4.29 per share for Series C, $4.99 per share for Series D and $5.81 per share for Series D+. The conversion price shall be subject to adjustment in order to adjust the number of ordinary shares into which the Preferred Shares are convertible.

Each share of each series of Preferred Shares automatically converted into the number of ordinary shares at the conversion rate at the time in effect upon the closing of a public offering of ordinary shares which results in at least $25.0 million of proceeds to the Company at a per share price not less than $9.99 or with the vote or written consent of the holders of a majority of the then outstanding Preferred Shares, voting as a separate class, to convert their Preferred Shares at the then effective Conversion Price.

Dividends - The holders of Preferred Shares were entitled to receive noncumulative dividends when and if declared by the Company's board of directors. The holders of Preferred Shares were entitled to receive dividends prior and in preference to any payment of any dividend on ordinary shares in an amount equal to 8% of the original issue price per share of such Preferred Share. After payment of such dividends, any additional dividends shall be distributed among all holders of ordinary shares and Preferred Shares in proportion to the number of ordinary shares that would be held by each such holder if all Preferred Shares were converted to ordinary shares at the then effective conversion rate. No dividends had been declared by the board of directors from inception through the date of conversion into ordinary shares.

Liquidation Rights - In the event of any sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company or the exclusive license of all or substantially all of the Company's intellectual property used in generating all or substantially all of the Company's revenues, reorganization, consolidation, acquisition, merger, liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Preferred Shares shall be entitled to receive in preference to the holders of ordinary shares, an amount per share equal to the liquidation preference, plus any declared but unpaid dividends. After payment of the liquidation preference to holders of Preferred Shares, the remaining assets of the Company were available for distribution on a pro rata basis to the holders of ordinary shares.

Voting Rights - The holders of the Preferred Shares were entitled to the number of votes equal to the number of ordinary shares into which such Preferred Shares could be converted on the record date.

9. 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 eight 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		Nine Months Ended	
	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Operating lease expenses	$ 935	$ 709	$ 2,715	$ 2,064
Cash paid for amounts included in the measurement of operating lease liabilities	$ 767	$ 697	$ 2,312	$ 2,068
Right-of-use assets obtained in exchange for lease obligation	$ —	$ 1,154	$ 649	$ 1,413

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

Fiscal Year	Operating leases
Remainder of 2023	$ 838
2024	3,312
2025	2,903
2026	2,355
2027	2,222
Thereafter	7,796
Total lease payments	19,426
Less: Interest	3,237
Present value of lease liabilities	$ 16,189

As of January 28, 2023, the weighted average remaining lease term for the Company's operating leases is 6.94 years and the weighted average discount rate used to determine the present value of the Company's operating leases is 5.81%.

10. 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 January 28, 2023, 127,780 shares from share option early exercises remained subject to the Company’s repurchase rights. As of April 30, 2022, 442,787 such ordinary shares, consisting of 16,667 shares from RSAs and 426,120 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

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

	RSUs Outstanding			
	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balances as of April 30, 2022	4,133,751	$10.26		
Granted	5,239,480	$12.36		
Vested	(955,153)	$10.05		
Canceled/ forfeited	(313,001)	$10.62		
Balances and expected to vest as of January 28, 2023	8,105,077	$11.63	1.82	$ 140,299

Share Option Awards

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

	Options Outstanding				
	Outstanding Share Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value (in thousands)
Balance as of April 30, 2022	11,360,745	$1.94			
Options exercised and vested	(1,456,539)	$1.70			
Options canceled/ forfeited	(195,670)	$3.20			
Balance and expected to vest as of January 28, 2023	9,708,536	$1.96	6.48	$	149,072
Exercisable as of January 28, 2023	9,580,756	$1.96	6.48	$	147,110

Employee Stock Purchase Plan ("ESPP")

During the three and nine months ended January 28, 2023, 92,607 shares and 246,660 shares, respectively, were issued under the ESPP.

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				Nine Months Ended			
	January 28, 2023		January 31, 2022		January 28, 2023		January 31, 2022	
Cost of revenue	$	98	$	46	$	551	$	180
Research and development		3,046		711		8,664		1,872
Selling, general and administrative		2,025		681		6,391		1,768
	$	5,169	$	1,438	$	15,606	$	3,820

11. Income Taxes

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, 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 our 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.

Provision (benefit) for income taxes for the three and nine months ended January 28, 2023 and January 31, 2022 was as follows (in thousands except percentages):

	Three Months Ended					Nine Months Ended				
	January 28, 2023		January 31, 2022		% Change	January 28, 2023		January 31, 2022		% Change
Provision (benefit) for income taxes	$	(3,179)	$	(387)	721.4 %	$	(2,615)	$	1,116	(334.3)%
Effective tax rate		893 %		73 %			81 %		(7)%	

Our effective tax rate for the three and nine months ended January 28, 2023 differs from the same periods in the prior year primarily due to an increase in tax benefit of share-based compensation.

During the three and nine months ended January 28, 2023, there were no material changes to the total amount of unrecognized tax benefits and we do not expect any significant changes in the next 12 months.

12. Net Income (Loss) Per Share

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

	Three months ended		Nine Months Ended	
	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Numerator:				
Net income (loss)	$ 2,823	$ (144)	$ (610)	$ (16,821)
Denominator:				
Weighted-average shares - basic	146,908	73,815	146,000	70,439
Effect of dilutive shares:				
Options	8,218	—	—	—
RSUs	1,374	—	—	—
ESPP	6	—	—	—
Customer warrants	13	—	—	—
Weighted-average shares - diluted	156,519	73,815	146,000	70,439
Net income (loss) per share:				
Basic	$ 0.02	$ —	$ —	$ (0.24)
Diluted	$ 0.02	$ —	$ —	$ (0.24)

Potential dilutive securities include dilutive ordinary shares from share-based awards attributable to the assumed exercise of stock options, restricted stock units and employee stock purchase plan 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 nine months ended January 28, 2023 and January 31, 2022:

	Three Months Ended		Nine Months Ended	
	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Options and RSAs	1,796	9,081	10,421	8,078
RSUs	3,367	35	4,159	12
ESPP	17	—	23	—
Customer warrants	4,067	2	4,080	1
Underwriters’ option to purchase additional ordinary shares	—	39	—	13
	9,247	9,157	18,683	8,103

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 year ended April 30, 2022 included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2022. 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 and 800G port 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.

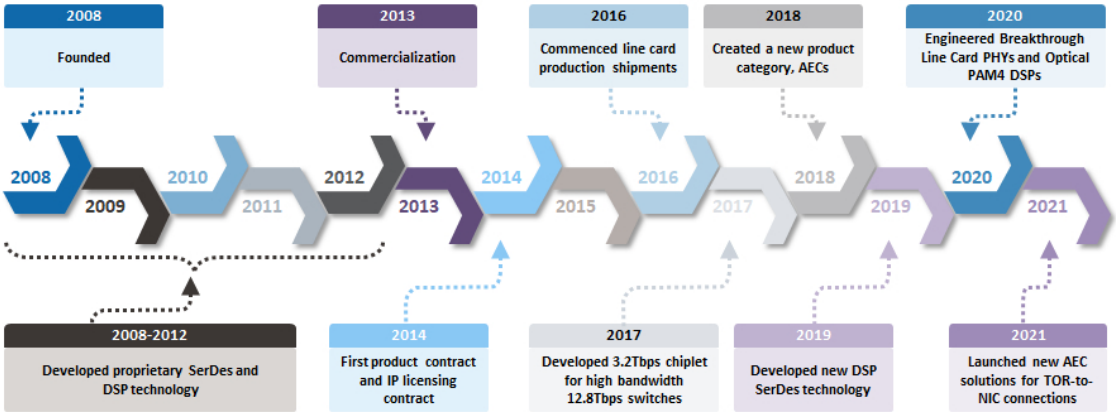
Data generation has increased dramatically over the past ten years, creating new and complicated challenges in both circuit and system design. Our proprietary SerDes and DSP technologies enable us to disrupt competition in existing markets, lead the way into emerging markets and innovate to create new market opportunities. While many others in the data infrastructure industry struggle to meet customers' increasing performance and energy efficiency requirements, we continue to innovate to deliver groundbreaking solutions. A recent example is the announcement of our HiWire Switch cable and open-source implementation with Microsoft that helps realize Microsoft's vision for a network-managed dual-Top-of-Rack (ToR) architecture, 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), high performance computing (HPC) and 5G infrastructure. 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 billions of 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-NIC connections. Our solutions enabled dual-ToR server racks to seamlessly “switch” data traffic to the redundant ToR if a ToR port failed.



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.

During the three months ended January 28, 2023 and January 31, 2022, we generated $54.3 million and $31.8 million in total revenue, respectively. Product sales and product engineering services revenue comprised 77% and 84% of our total revenue in the three months ended January 28, 2023 and January 31, 2022, respectively, and IP license and IP license engineering services revenue represented 23% and 16% of our total revenue in the three months ended January 28, 2023 and January 31, 2022, respectively. During the three months ended January 28, 2023 and January 31, 2022, we generated $2.8 million in net income and $0.1 million in net loss, respectively.

We derive the substantial majority of our revenue from a limited number of customers, and 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.

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, original equipment manufacturers (OEMs), original design manufacturers (ODMs) and optical module manufacturers to utilize our solutions.

Revenue Mix and Associated Gross Margins

We are a product-focused business with a strong foundation in IP and, as such, our customers engage with us through the purchase of our products or the licensing of our IP. In some instances, customers will engage us to develop tailored products or IP licenses to meet their specific application requirements. We charge these customers incremental fees for this tailored development, which are in addition to product sales or IP license revenue, and we recognize these additional fees as product engineering or IP license engineering services revenue.

By providing tailored engineering services to our customers, we believe we strengthen our customer relationships, enable additional sales and establish ourselves for potential long-term revenue opportunities from associated product sales or IP license revenue.

A summary of our revenue and associated gross margin by these revenue sources for the three and nine months ended January 28, 2023 and January 31, 2022, respectively, is presented below (in thousands, except percentages):

	Three Months Ended		Nine Months Ended	
	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Revenue:				
Product sales	$ 38,033	$ 22,706	$ 117,645	$ 48,423
Product engineering services	3,635	3,954	8,209	6,628
Total product sales and product engineering services	41,668	26,660	125,854	55,051
IP license	11,715	5,022	24,179	12,194
IP license engineering services	887	118	2,073	1,706
Total IP license and IP license engineering services	12,602	5,140	26,252	13,900
Total revenue	$ 54,270	$ 31,800	$ 152,106	$ 68,951
Gross margin:				
Product sales	42.6 %	46.1 %	47.3 %	45.4 %
Product engineering services	93.7 %	89.6 %	90.9 %	72.7 %
Total product sales and product engineering services	47.1 %	52.6 %	50.1 %	48.7 %
IP license	100.0 %	100.0 %	95.1 %	100.0 %
IP license engineering services	75.0 %	59.3 %	73.2 %	72.9 %
Total IP license and IP license engineering services	98.2 %	99.1 %	93.4 %	96.7 %
Total gross margin	58.9 %	60.1 %	57.6 %	58.4 %

Over time, we anticipate that our revenues from product sales and IP license will become a larger proportion of total revenue relative to engineering services.

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 cyclicality 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 has reduced its demand forecast for certain Credo products for reasons we understand are unrelated to our performance. Although we do not expect our market share with the customer will be affected, we expect that the customer's reduced demand forecast will have a substantial negative impact on our revenue and results of operations for our fiscal fourth quarter ending April 29, 2023 and 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 Cyclicality

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.

COVID-19

We continue to monitor the impact of COVID-19 on our business. The extent and nature of the impact of the COVID-19 pandemic on our business and financial performance will be influenced by a variety of factors, including the duration and spread of the pandemic, as well as future spikes of COVID-19 infections or the emergence of additional COVID-19 variants that may result in additional preventative and mitigative measures. These factors may affect the timing and magnitude of demand from customers and the availability of portions of the supply chain, logistical services and component supply and may have a material net negative impact on our business and financial results. For additional information regarding the potential impact of the COVID-19 pandemic on our business, see "*Risk Factors—Risks Related to Our Business—The ongoing COVID-19 pandemic has disrupted and will likely continue to disrupt normal business activity and may adversely impact our operations and financial results.*" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2022.

Results of Operations

Three and Nine Months Ended January 28, 2023 and January 31, 2022

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

	Three Months Ended		Nine Months Ended	
	January 28, 2023	January 31, 2022	January 28, 2023	January 31, 2022
Revenue:				
Product sales	70.1 %	71.4 %	77.3 %	70.2 %
Product engineering services	6.7 %	12.4 %	5.4 %	9.7 %
IP license	21.6 %	15.8 %	15.9 %	17.7 %
IP license engineering services	1.6 %	0.4 %	1.4 %	2.5 %
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue:				
Cost of product sales revenue	40.3 %	38.4 %	40.7 %	38.3 %
Cost of product engineering services revenue	0.4 %	1.3 %	0.5 %	2.6 %
Cost of IP license revenue	— %	— %	0.8 %	— %
Cost of IP license engineering services revenue	0.4 %	0.2 %	0.4 %	0.7 %
Total cost of revenue	41.1 %	39.9 %	42.4 %	41.6 %
Gross margin	58.9 %	60.1 %	57.6 %	58.4 %
Operating expenses:				
Research and development	37.8 %	34.6 %	36.4 %	47.2 %
Selling, general and administrative	22.0 %	26.9 %	22.8 %	33.9 %
Impairment charges	4.4 %	— %	1.6 %	— %
Total operating expenses	64.2 %	61.5 %	60.8 %	81.1 %
Operating loss	(5.3)%	(1.4)%	(3.2)%	(22.7)%
Other income (expense), net	4.6 %	(0.3)%	1.1 %	(0.1)%
Loss before income taxes	(0.7)%	(1.7)%	(2.1)%	(22.8)%
Provision (benefit) for income taxes	(5.9)%	(1.2)%	(1.7)%	1.6 %
Net income (loss)	5.2 %	(0.5)%	(0.4)%	(24.4)%

Comparison of Three and Nine Months Ended January 28, 2023 and January 31, 2022

Revenue

	Three Months Ended			Nine Months Ended		
	January 28, 2023	January 31, 2022	% Change	January 28, 2023	January 31, 2022	% Change
	(in thousands, except percentages)					
Product sales	$ 38,033	$ 22,706	67.5 %	$ 117,645	$ 48,423	143.0 %
Product engineering services	3,635	3,954	(8.1)%	8,209	6,628	23.9 %
IP license	11,715	5,022	133.3 %	24,179	12,194	98.3 %
IP license engineering services	887	118	651.7 %	2,073	1,706	21.5 %
Total revenue	$ 54,270	$ 31,800	70.7 %	$ 152,106	$ 68,951	120.6 %

Total revenue for the three months ended January 28, 2023 increased by $22.5 million, compared to the same period in fiscal 2022, primarily due to an increase in product sales revenue of $15.3 million and an increase in IP license revenue of $6.7 million. Total revenue for the nine months ended January 28, 2023 increased by $83.2 million, compared to the same period in fiscal 2022, primarily due to increases in product sales revenue of $69.2 million and IP license revenue of $12.0 million.

The increase in product sales for the three and nine months ended January 28, 2023 was primarily due to an increase in the volume of unit shipments of AEC cables, which contributed more than 90% of the increase in product sales revenue, compared to the same periods in fiscal 2022. The AEC sales increase was primarily driven by the fact that we introduced the AEC product category in fiscal 2021 and we began ramping our AEC solutions at our first hyperscale data center customer this year.

The increase in IP license revenue for the three and nine months ended January 28, 2023 was driven by high-dollar IP licenses delivered to a customer that resulted in revenue recognition of $10.1 million during the three months ended January 28, 2023 and $19.1 million during the nine months ended January 28, 2023.

Cost of Revenue

	Three Months Ended			Nine Months Ended		
	January 28, 2023	January 31, 2022	% Change	January 28, 2023	January 31, 2022	% Change
	(in thousands, except percentages)					
Cost of product sales revenue	$ 21,833	$ 12,230	78.5 %	$ 62,016	$ 26,436	134.6 %
Cost of product engineering services revenue	228	410	(44.4)%	746	1,807	(58.7)%
Cost of IP license revenue	—	—	N/A	1,179	—	N/A
Cost of IP license engineering services revenue	222	48	362.5 %	556	462	20.3 %
Total cost of revenue	$ 22,283	$ 12,688	75.6 %	$ 64,497	$ 28,705	124.7 %

Cost of product sales revenue increased by $9.6 million in the three months ended January 28, 2023 and $35.6 million in the nine months ended January 28, 2023, compared to the same periods in fiscal 2022, primarily due to increased product sales during the same period as discussed above.

Cost of IP license revenue in the nine months ended January 28, 2023 related to costs incurred for delivery of a milestone during the first quarter of fiscal year 2023 on an IP licensing and development contract entered into with a customer in September 2021 (refer to note 4 of our unaudited condensed consolidated financial statements for details).

Gross Profit and Gross Margin

	Three Months Ended			Nine Months Ended		
	January 28, 2023	January 31, 2022	% Change	January 28, 2023	January 31, 2022	% Change
	(in thousands, except percentages)					
Gross profit	$ 31,987	$ 19,112	67.4 %	$ 87,609	$ 40,246	117.7 %
Gross margin	58.9 %	60.1 %		57.6 %	58.4 %	

Gross margin decreased by 1 percentage point in the three months ended January 28, 2023, compared to the same period in fiscal 2022, primarily driven by a $1.4 million increase of write-downs for excess and obsolete inventory. This was partially offset by the revenue mix shift between IP license revenue and product sales revenue between the periods.

Gross margin for the nine months ended January 28, 2023 stayed relatively flat compared to the same period in fiscal 2022.

Research and Development

	Three Months Ended			Nine Months Ended		
	January 28, 2023	January 31, 2022	% Change	January 28, 2023	January 31, 2022	% Change
	(in thousands, except percentages)					
Research and development	$ 20,530	$ 10,995	86.7 %	$ 55,371	$ 32,488	70.4 %
% of total revenue	37.8 %	34.6 %		36.4 %	47.2 %	

Research and development expense for the three months ended January 28, 2023 increased by $9.5 million compared to the same period in fiscal 2022. The increase was due primarily to a $1.8 million increase in personnel costs as a result of new hires for product development, a $2.3 million increase in share-based compensation expense driven by increased amortization expense from new equity awards granted to employees, a $3.2 million increase in design activities and higher engineering activities relating to testing and laboratory supplies for new product development, a $1.1 million increase in depreciation expense driven by increased computer equipment and software, and laboratory equipment utilized in R&D activities, and a $0.5 million increase in IT and facilities costs.

Research and development expense for the nine months ended January 28, 2023 increased by $22.9 million compared to the same period in fiscal 2022. The increase was due primarily to a $7.6 million increase in personnel costs as a result of new hires for product development, a $6.8 million increase in share-based compensation expense driven by increased amortization expense from new equity awards granted to employees, a $2.9 million increase in design activities and higher engineering activities relating to testing and laboratory supplies for new product development, a $2.4 million increase in depreciation expense driven by increased computer equipment and software, and laboratory equipment utilized in R&D activities, a $1.5 million increase in IT and facilities costs, and a $0.8 million decrease in allocation of R&D expense to costs of engineering services due to less engineering hours incurred that was associated to non-recurring engineering service revenue arrangements.

Selling, General and Administrative

	Three Months Ended			Nine Months Ended		
	January 28, 2023	January 31, 2022	% Change	January 28, 2023	January 31, 2022	% Change
	(in thousands, except percentages)					
Selling, general and administrative	$ 11,936	$ 8,568	39.3 %	$ 34,674	$ 23,393	48.2 %
% of total revenue	22.0 %	26.9 %		22.8 %	33.9 %	

Selling, general and administrative expense for the three months ended January 28, 2023 increased by $3.4 million compared to the same period in fiscal 2022. The increase was due primarily to a $0.7 million increase in personnel costs as a result of higher selling, general and administrative headcount, a $0.5 million increase in facility related costs, a $0.7 million increase in director and officer insurance cost as a result of being a public company and a $1.3 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 nine months ended January 28, 2023 increased by $11.3 million compared to the same period in fiscal 2022. The increase was due primarily to a $2.5 million increase in personnel costs as a result of higher selling, general and administrative headcount, a $1.0 million increase in professional services spending, a $1.2 million increase in facility related costs, a $1.9 million increase in director and officer insurance cost as a result of being a public company and a $4.6 million increase in share-based compensation expense driven by increased amortization expense from new equity awards granted to employees.

Impairment Charges

	Three Months Ended			Nine Months Ended		
	January 28, 2023	January 31, 2022	% Change	January 28, 2023	January 31, 2022	% Change
	(in thousands, except percentages)					
Impairment charges	$ 2,407	$ —	N/A	$ 2,407	$ —	N/A
% of total revenue	22.0 %	26.9 %		22.8 %	33.9 %	

Impairment charges incurred in the three and nine months ended January 28, 2023 were primarily related to an impairment on property and equipment that did not reach production qualification.

Provision (Benefit) for Income Taxes

	Three Months Ended			Nine Months Ended		
	January 28, 2023	January 31, 2022	% Change	January 28, 2023	January 31, 2022	% Change
	(in thousands, except percentages)					
Provision (benefit) for income taxes	$ (3,179)	$ (387)	721.4 %	$ (2,615)	$ 1,116	(334.3)%
% of total revenue	(5.9)%	(1.2)%		(1.7)%	1.6 %	

Benefit for income taxes for the three and nine months ended January 28, 2023 increased by $2.8 million and $3.7 million, respectively, compared to the same periods in fiscal 2022. The fluctuation was primarily due to 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 January 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 January 28, 2023 and April 30, 2022, we had $123.8 million and $259.3 million in cash and cash equivalents, respectively, and working capital of $306.6 million and $305.7 million, respectively. Our principal use of cash is to fund our operations and invest in research and development to support our growth. See also Note 7 to our 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.

	Nine Months Ended	
	January 28, 2023	January 31, 2022
	(in thousands)	
Net cash used in operating activities	$ (12,776)	$ (33,192)
Net cash used in investing activities	$ (127,043)	$ (7,932)
Net cash provided by financing activities	$ 4,287	$ 178,014

Cash Flows Used in Operating Activities

Net cash used in operating activities was $12.8 million for the nine months ended January 28, 2023. The cash outflows from operating activities for the nine months ended January 28, 2023 were primarily due to $40.7 million of cash outflows for working capital purposes, partially offset by $28.5 million of non-cash items. The cash outflows from working capital for the nine months ended January 28, 2023 were primarily driven by (a) an increase in accounts receivable of $13.6 million primarily due to increased sales in the fiscal quarter ended January 28, 2023 compared to the fiscal quarter ended April 30, 2022, and timing of collection; (b) an increase in inventory of $26.1 million to support unfulfilled backlog and related new product ramps; (c) an increase in contract assets of $9.2 million primarily driven by an IP licensing and engineering services arrangement where certain billing milestones had not yet been reached, but the criteria for revenue had been met; and (d) an increase in other non-current assets of $5.6 million primarily due to refundable deposit payments for manufacturing commitments and an increase in deferred tax assets position. These cash outflows were offset by cash inflow relating to increase in accounts payable of $11.7 million due to amounts payable relating to increased purchases of inventory.

Net cash used in operating activities was $33.2 million for the nine months ended January 31, 2022. The cash outflows from operating activities for the nine months ended January 31, 2022 were primarily due to $16.8 million of net loss and $25.1 million of cash outflows for working capital purposes, partially offset by $8.7 million of non-cash items. The cash outflows from working capital for the nine months ended January 31, 2022 were primarily driven by (a) an increase in accounts receivable of $8.0 million due to increased sales in the fiscal quarter ended January 31, 2022 compared to the fiscal quarter ended April 30, 2021, and timing of collection; (b) an increase in inventory of $20.3 million to better support unfulfilled backlog and related new product ramps; (c) and an increase in contract assets of $5.2 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. This was offset by increases in accounts payable of $3.2 million and accrued expenses, compensation and other liabilities of $5.9 million due to amounts payable relating to increased purchases of inventory to support growing demand for our products.

Cash Flows Used in Investing Activities

Net cash used in investing activities of $127.0 million in the nine months ended January 28, 2023 was attributable to purchases of property and equipment of $17.8 million and investment in certificates of deposit of $109.2 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 $7.9 million in the nine months ended January 31, 2022 was attributable to purchases of property and equipment, including third-party licenses.

Cash Flows from Financing Activities

Net cash provided by financing activities of $4.3 million for the nine months ended January 28, 2023 was primarily attributable to $4.6 million in proceeds from exercises of employee share options and the issuance of shares under the ESPP.

Net cash provided by financing activities of $178.0 million for the nine months ended January 31, 2022 was primarily attributable to $168.8 million in proceeds from IPO, net of underwriting discounts and commissions, and offering costs, $1.9 million in proceeds from exercises of employee share options and $7.2 million in proceeds from the issuance of convertible preferred shares, net of issuance costs.

Critical Accounting Estimates

There have been no material changes to our critical accounting estimates during the three and nine months ended January 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 30, 2022. 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.

Recent Accounting Pronouncements

For more information, see Note 2 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

JOBS Act Accounting Election

We are an “emerging growth company,” as defined in the JOBS Act. The JOBS Act provides that an “emerging growth company” can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an “emerging growth company” to delay the adoption of some accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act until the earlier of the date we (i) are no longer an “emerging growth company” or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

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 year ended April 30, 2022. During the three and nine months ended January 28, 2023, there were no material changes or developments that would materially alter the market risk assessment performed as of April 30, 2022, other than the updated disclosure regarding interest rate risk below.

Interest Rate Risk

We maintain an investment policy that requires minimum credit ratings and diversification of credit risk. We invest our excess cash primarily in money market mutual funds and time deposits. These investments are recorded on our unaudited condensed consolidated balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income (loss) in the unaudited condensed consolidated statement of stockholders' equity (deficit). Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

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 January 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 30, 2022, which could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our stock. As of the date of this Quarterly Report on Form 10-Q, other than as described below, 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 30, 2022.

Our share price has been and may continue to be volatile and may decline, resulting in a loss of some or all of your investment.

Our share price has been and may continue to be volatile and may decline, resulting in a loss of some or all of your investment. Investors in our ordinary shares may not be able to resell those shares at or above the price at which they purchase such shares, or at all. The trading price and volume of our ordinary shares has been and is likely to continue to be volatile. From January 27, 2022 (the first day of trading of our ordinary shares on Nasdaq) through the date of this Quarterly Report on Form 10-Q, the trading price of our ordinary shares on Nasdaq has ranged from a high of $[18.00] to a low of $[8.61] per share, and in the future could fluctuate significantly in response to numerous factors, some of which are beyond our control, including but not limited to:

- actual or anticipated fluctuations in our results of operations due to, among other things, changes in customer demand, product life cycles, pricing, ordering patterns, and unforeseen operating costs;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections, including due to the foregoing business considerations;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates or ratings by any securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- announcements by our significant customers of changes to their product offerings, business plans, or strategies;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- changes in operating performance and stock market valuations of other technology companies generally, or those in the data infrastructure industry;
- timing and seasonality of the end-market demand;
- cyclical fluctuations in the data infrastructure market;
- price and volume fluctuations in the overall stock market from time to time, including as a result of trends in the economy as a whole;
- actual or anticipated developments in our business or our competitors’ businesses or the competitive landscape generally;
- new laws or regulations or new interpretations of existing laws, or regulations applicable to our business;
- changes in general global economic conditions, including as a result of the reduced growth in the U.S. economy during the first two quarters of 2022, combined with the expected decline in the rate of economic

growth in Europe, China, and globally in 2022 and into 2023, which can have a negative effect on demand for our products;

- the impacts of rising inflation, which can have an impact on the cost of our components and/or decrease demand for our products, and changes in prevailing interest rates;
- the impacts of the COVID-19 pandemic on our operations, including the impacts of our substantial presence in, and reliance upon suppliers based in, China, which has implemented more extreme control measures in response to the pandemic, including a "Zero-COVID" policy that continues to implement lockdowns in response to outbreaks, such as the recent lockdown in Kunshan, China in spring 2022, which impacted certain of our key suppliers on which we depend for our AECs;
- our ability to successfully implement our plans to mitigate the impact of potential future supply chain issues by adding geographic diversity to our supply chain and holding increased levels of AEC inventory, which could be ineffective or insufficient or result in inventory write-downs;
- geopolitical issues, including developments in the People's Republic of China, Taiwan or Hong Kong, including the escalation of tensions between the People's Republic of China and Taiwan, such as recent step up of military exercises around Taiwan by the PRC, all of which could interrupt our supply chain, our operations or our ability to conduct our business;
- changes in our management;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

In addition, the market for technology stocks and the stock markets in general have experienced extreme price and volume fluctuations. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, shareholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business, financial condition and results of operations.

Our failure to timely and effectively implement controls and procedures required by Section 404(a) of the Sarbanes-Oxley Act could have a material adverse effect on our business.

We will be required to provide management's attestation on internal controls. The standards required for a public company under Section 404(a) of the Sarbanes-Oxley Act are significantly more stringent than those required of us as a privately-held company. We may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements. If we are not able to implement the additional requirements of Section 404(a) in a timely manner or with adequate compliance, we may not be able to assess whether our internal controls over financial reporting are effective, which may subject us to adverse regulatory consequences and could harm investor confidence and the market price of our securities.

Item 6. Exhibits.

Exhibit Number		Exhibit Description	Incorporated by Reference				Provided Herewith
			Form	File No.	Exhibit No.	Filing Date	
31.1	*	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					X
31.2	*	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					X
32.1	**	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					X
32.2	**	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					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: March 2, 2023	By:	/s/ William Brennan	
		Name:	William Brennan
		Title:	President and Chief Executive Officer
Date: March 2, 2023	By:	/s/ Daniel Fleming	
		Name:	Daniel Fleming
		Title:	Chief Financial Officer

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William Brennan, certify that:

1. I have reviewed this report on Form 10-Q of Credo Technology Group Holding Ltd;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2023

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

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel Fleming, certify that:

1. I have reviewed this report on Form 10-Q of Credo Technology Group Holding Ltd;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2023	By:	/s/ Daniel Fleming
		Daniel Fleming
		Chief Financial Officer
		(Principal Financial Officer)

Exhibit 32.1

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 January 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:

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: March 2, 2023

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

Exhibit 32.2

**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**

In connection with the Quarterly Report of Credo Technology Group Holding Ltd (the "Company") on Form 10-Q for the period ended January 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, Daniel Fleming, Chief Financial Officer of the Company, certify that:

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: March 2, 2023

By: /s/ Daniel Fleming
Daniel Fleming
Chief Financial Officer
(Principal Financial Officer)