VIAVID
communications simplified.

Sequans Communications S.A.

Third Quarter 2022 Financial Results Conference Call

November 2, 2022

CORPORATE PARTICIPANTS

Kim Rogers, *Investor Relations*

Dr. Georges Karam, *Chairman, President and Chief Executive Officer*

Deborah Choate, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Scott Searle, *ROTH Capital*

Craig Ellis, *B. Riley Securities*

Nicholas Doyle, *Needham & Co.*

PRESENTATION

Operator

Greetings and welcome to the Sequans Communications Third Quarter 2022 Financial Results Conference Call.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Kim Rogers of Investor Relations. Please go ahead.

Kim Rogers

Thank you, Vikram, and thank you to everyone participating in today's call.

Joining me on the call today from Sequans Communications are Georges Karam, Chairman and Chief Executive Officer, and Deborah Choate, Chief Financial Officer.

Before turning the call over to Georges, I'd like to remind our participants of the following important information on behalf of Sequans. Sequans issued the earnings press release this morning, which was posted to the Company's website at www.sequans.com, under the Newsroom section.

Before we start, I would like to remind everyone that this conference call contains projections and other forward-looking statements regarding future events or our future financial performance and potential financing sources. All statements, other than present and historical facts, and conditions contained in this call, including any statements regarding future results of operations and financial position, business strategy and plans, expectations for future sales, the impact of COVID-19 on our supply chain and on our customer demand, the impact of component shortages and manufacturing capacity, our ability to convert our pipeline to revenue, and our objectives for future operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are only predictions and reflect our current beliefs and expectations with respect to future events and are based on assumptions, subject to risks and uncertainties, and subject to change at any time.

We operate in a competitive and rapidly changing environment. New risks emerge from time to time. Given these risks and uncertainties, you should not rely on or place undue reliance on these forward-looking statements. Actual events or results may differ materially from those contained in the projections or forward-looking statements. More information on factors that could affect our business and financial results are included in our public filings made with the Securities and Exchange Commission.

Now, I'd like to hand the call over to Georges Karam.

Please go ahead, Georges.

Dr. Georges Karam

Thank you, Kim. Good morning, everybody. Welcome to our Third Quarter 2022 Financial Results Conference Call.

Before we jump into my comments, there are several highlights I want to emphasize:

1. We had a great quarter from a consolidated revenue and profitability perspective,
2. The new 5G strategic deal is going very well,
3. Our pipeline for Massive IoT products continues to grow, and we are landing design wins with new and existing customers,
4. Cat 1 Calliope 2 is off to a great start, and its future looks bright, and
5. Our MCU partnerships are doing well, particularly Renesas, who is introducing Sequans to the largest brands in the space.

Let's start with a quick look at the third quarter results

Third quarter revenue rose by 39% year-over-year and 16% sequentially, reflecting the significant increase in our licensing and services revenue, which included revenue from our new 5G strategic partner for the IP delivered in the quarter. The growth from licensing revenue in the quarter lifted our gross margin to 77.6% and turned the company to non-IFRS profitability of $0.01 per ADS on a fully diluted basis.

The higher licensing revenue offsets the lower product revenue in the quarter. But as we said last quarter, we expected our product revenue to be impacted by ongoing macroeconomic factors. Specifically, the lockdowns related to China's 'zero-COVID' policy and other supply chain challenges have hampered our customers' ability to ship or launch products on time. In a moment, I will discuss why the delay in our product shipment ramp will not impact our growth potential.

Turning to an update on our new 5G strategic partnership

As expected, we received the first payment of $13.5 million in October, net of withholding tax. In the third quarter revenue, we recognized a significant portion of this first payment milestone as revenue for the IP we delivered in September. This caused our licensing and services revenue this quarter to be higher than normal. In the following two quarters, revenue recognition from this deal will be lower but remains significant. In the future, the licensing revenue will continue at a ratable rate for the remainder of the agreement. Our team and I are closely engaged with our partner, and I am happy to say that the relationship is very solid, with the potential for further engagement.

There has been a lot of press recently regarding the expansion of US restrictions on chip exports to China. As it stands today, based on discussions with our advisors and the scope of our deal, we do not anticipate our future revenue stream from this partnership being impacted by the new export control rules.

Now, let's discuss our Massive IoT business
Almost all of our products shipped in the third quarter were related to the Massive IoT business, which was impacted by the macro factors I mentioned earlier. The Cat M product family was particularly affected as it represents most of our design win projects ramping to mass production. Obviously, we would like things to be happening faster, but most of the elements regarding the timing of product shipments are beyond our control. In the metering segment, for example, where we have over a dozen design win projects, most of the launch dates have shifted to 2023. In other applications, we had several big projects that moved to production and started shipping in the first half of 2022, only to decelerate because of the manufacturing disruptions. We anticipate that once the roadblocks are removed, we will see the ramp resume in 2023, with expected growth over the next 3-5 years, at least.
Looking at the trend year-to-date, we can see that Cat M remains our strongest product category, driven by the success of second-generation Monarch products. And, year-to-date, Cat M has grown 62% despite the delays.

Largely, the Cat 1 business category is performing in line with our expectations as we are shipping to a variety of established projects in the US and Japan, one of which is for a metering product. The corresponding revenue was down this quarter, but this was related to the timing of some shipments and is expected to return to normal in the fourth quarter. We anticipate this product family returning to growth in the second half of 2023 once we start shipping Calliope 2, our next generation of Cat 1, enabling a significant product cost reduction with lower power and many other advanced features.
Sequans is uniquely positioned in the Cat 1 category as the only non-Chinese company that has invested in a next generation product. With the many Massive IoT applications requiring Cat 1 speed and performance, we believe our Cat 1 addressable market (i.e., which **excludes** China) will be well above $400 million by 2025. Based on the size and scope of the design wins I will discuss in a moment, we anticipate strong performance from Cat 1 in 2024 and beyond, where we expect to capture a significant market share.

Let me update you on the growth potential of our pipeline and why we are so optimistic about our future.
Our pipeline, representing an expected product revenue contribution over the first three years of each design life, continues to grow, and this has accelerated with the sampling of Calliope 2. We now have a pipeline of design wins, and advanced design-ins close to $700M, almost half of it in secured design wins. I remind you that our pipeline does not include services and licensing revenue.

The expansion of design wins reinforces our confidence in our outlook. The vast majority of the design wins are for Massive IoT applications with the Cat M Monarch 2 platform, and we added more this quarter. The strong reception of the new generation Cat 1 Calliope 2 allowed us to secure our first two significant design wins representing over $30M of three-year aggregate revenue. Currently, we are working on about seven additional big Calliope 2 opportunities that could add over $100 million aggregate to our Cat1 revenue pipeline. That means in the upcoming two quarters, we could see an acceleration in Calliope 2 design wins, adding a new growth lever to our Massive IoT business.

Of our key Massive IoT vertical markets, metering remains our strongest segment for design wins, followed by asset tracking, smart home, eHealth, and a few other industrial applications. We are confident we will increase our market share in these growing markets.

We are successfully leveraging our technology leadership in the Cat M and Cat 1 categories in large metering applications - Electrical, Gas, or Water. Given our engagement with the most prominent brands and the expected growth in these markets, we expect to significantly expand our market share in **metering**, the largest vertical, from around 10% today to close to 50% market share in the next three years.

To conclude on this topic, let me give you some more color on our design win pipeline. The top 10 customers in terms of revenue potential at full ramp represent only about $20 million in 2022, as most are still designing their products. However, they could generate over $80 million in annual revenue at full ramp. In addition, this business is highly sticky, with product life cycles of up to 10 years for most of the design wins, even longer in some cases. This level of growth potential from only ten secured customers gives us tremendous optimism about our future.

Shifting to the Broadband category
Broadband revenue grew significantly in the quarter, thanks to the increase in licensing revenue, primarily driven by the new 5G strategic deal. Looking ahead, the broadband product category remains promising, with the Cat 4/Cat 6 CBRS business expected to grow in 2023, followed by the Taurus 5G launch in 2024.

CBRS has yet to meet our expectations this year, partially because our two largest projects did not ship as planned due to the lockdowns in China. In addition to these two big projects, we are pursuing private network CBRS applications with utilities. Last quarter I discussed a new CBRS module we are designing that offers private networks connectivity with fallback to public carrier networks. This new Cat 4/Cat 6 CBRS solution, combined with our Cat 1 and Cat M/NB product categories, positions us with a comprehensive, differentiated offering that reinforces our leadership in the metering segment.

The future of Sequans' Broadband segment is our first generation 5G platform, Taurus, which is in development, and our new strategic deal has strengthened our execution capability. This development is progressing as expected, and we are on track to sample the full solution in 2023. Our new 5G licensing deal covers the remaining investment needed to launch Taurus.

The Taurus platform will target fixed wireless access, mobile computing, private networks, and high-end IoT markets. It is designed and optimized to deliver a cost-effective 5G solution with the performance required for these applications. The tremendous growth we see in connected devices is expected to rise dramatically with 5G IoT, an exciting opportunity for Sequans' Taurus platform. We believe Taurus will be the only 5G chip optimized for IoT, giving us a significant competitive advantage in a market that could potentially exceed $2 billion by 2025.

In addition to the Taurus regular product business, the new 5G strategic deal will expand the 5G SAM to China with licensing and royalty revenue. Beyond this deal, there are other potential strategic partners for our 5G platform in new market segments that make sense to address via such partners. Discussions are happening, but it is too early to define the longer-term outcomes of these talks at this time. What's important is that there is active interest, and we are following up with interested parties.

Our partnerships continue to play a key role in our growth
We are pleased with our MCU partners and the enhanced market access they provide for Sequans. Microchip released its Monarch 2 product platform, and this has received very good traction in the market. We see this generating more design win opportunities that will further support growth next year.

Our relationship with Renesas continues to deepen, and they now have a roadmap with all our products. They have launched their first LTE M module using our first generation of Monarch, and they will be launching new module platforms with Monarch 2 and Calliope 2 in the near future. Also, Renesas is promoting all our 4G/5G broadband portfolio to address a broad range of cellular IoT opportunities.

We are engaged with Renesas in ongoing projects worldwide, and they are contributing to our pipeline and design wins. They have strong relationships with the biggest brands in the electronics and industrial space in Japan, the US, Europe, and India. We are successfully leveraging those relationships to secure new design wins. This is a big funnel we can continuously access through our partnership to build a line of business that otherwise would be much more difficult for us alone. We are confident that Renesas' contribution will be another pillar of product growth in our Massive IoT ramp starting in 2023.

In summary, Q3 was a strong quarter, despite the headwinds on product revenue. Our licensing and service revenue was very strong, helped by the first revenue recognition from our new 5G strategic partner. In addition, this deal has helped us reduce our cash burn and profitability gap this year. I am pleased with the growth in our pipeline and particularly happy with the reception to Calliope 2. We will enter 2023 with a strong Massive IoT business primed for growth over many years and a 5G licensing deal that funds our 5G development that will generate future royalty revenue. As a result of our work on this deal, Sequans could develop a 5G licensing and royalty business for similar deals, another potential growth lever.

Sequans is leveraging its comprehensive product line, optimized for IoT, our strong brand, and our valuable channel partners to increase market share, grow revenue, and improve profitability. I'd like to thank our global team for their loyalty and hard work and our shareholders for their ongoing commitment to Sequans.

I will now turn the call over to Deborah.

Deborah Choate

Thank you, Georges, and good morning, everyone.

Our revenue for the third quarter was $16.5 million, an increase of 39% versus Q3 2021 and up 16.2% sequentially. As Georges mentioned, our product sales were impeded by shipment and fulfillment delays related to lockdowns in China and other supply chain issues, as well as the impact of our customers continuing to work through their inventory from prior shipments.

- Revenue from Massive IoT product sales in Q3 2022 continued to account for nearly all of total product revenue.
- Revenue from Broadband IoT increased from Q2 2022 and from Q3 2021 due to the revenue recognized from the new strategic 5G licensing deal. As Georges mentioned, this deal is expected to continue to contribute significantly, if somewhat less in Q4 and again somewhat less in Q1, and then contribute around $3-4M per quarter for the remainder of the term of the agreement.

For the quarter, we had one customer and one channel partner that each represented 10% or more of our revenue. As Massive IoT design wins and end-customers move into production, we still expect to see some concentration of our revenues with our channel partners.

Gross margin in Q3 2022 was 77.6%, up from 49.2% in Q3 2021 and 60.7% in the second quarter 2022. The year-over-year and sequential improvements were due to higher contribution from licensing revenue. We have quarter-to-quarter fluctuations in our gross margin due to shifts in our revenue mix, but we are confident the overall gross margin for 2022 will be above 65%.

IFRS operating expenses were $11.6 million in the quarter, up 8.2% from $10.7 million in Q2 2022. Year-over-year IFRS operating expenses increased 6.2% compared to $10.9 million in Q3 2021.

Non-IFRS operating expenses, which excludes stock-based compensation expense, were $10.5 million in Q3 2022, up sequentially from $9.6 million in Q2.

Our third-quarter operating income was $1.2 million, compared to an operating loss of $2.1 million in the second quarter of 2022, and a $5.1 million operating loss in the third quarter of 2021.

Our net loss in Q3 was $2.9 million, or ($0.06) per diluted ADS, and included a net non-cash loss of $700,000 from the revaluation of the embedded derivatives related to our convertible debt, partially offset by the non-cash gain on the extension of one convertible note. In the third quarter of 2022 we also recognized income tax expense of $1.6 million which included $1.5 million related to withholding tax on licensing revenue. In Q2 we had a net loss of $3.2 million, or ($0.07) per diluted ADS, which included a non-cash gain on the revaluation of the embedded derivatives totaling $663,000 and income tax expense of $120,000. The net income in the third quarter of last year was $192,000 or $0.01 per ADS, which included a non-cash gain on the revaluation of the embedded derivatives of $7.7 million.

On a non-IFRS basis, our net income for Q3 was $424,000, or $0.01 per diluted ADS compared to a non-IFRS net loss of $1.2 million, or ($0.02) per diluted ADS in the second quarter, and a net loss of $5.3 million or ($0.15) per diluted ADS in the third quarter of 2021.

In Q3 we had a gain on foreign exchange of $1 million, or $0.02 per ADS, primarily related to the revaluation of Euro-denominated net liabilities on the balance sheet. This compares to foreign exchange gains of $1.2 million in Q2 2022 and $400,000 in Q3 2021.

Investors should be aware that possible changes in foreign exchange rates related to balance sheet items and the marking to market of the embedded derivative related to the convertible debt can cause significant differences in net income or loss from quarter to quarter. While the impact of swings in the value of the embedded derivative is <u>excluded</u> from our non-IFRS presentation, foreign exchange gains and losses, whether realized or unrealized, are <u>not</u>.

Cash and short-term deposits totaled $5.8 million at the end of Q3 compared to $16.8 million at the end of Q2. In October we received $13.5 million, net of withholding taxes, from our strategic partner as a first payment related under our three-year agreement.

Cash flow used by operations for the third quarter of 2022 was $2.9 million, of which $3.1 million came from the build-up of inventories in the quarter, primarily due to purchases of wafers.
In addition, short-term debt from financing receivables decreased to $9.9 million from $12.1 million at the end of Q2.

Turning to the outlook for Q4, we expect revenue to be flat to slightly down compared to Q3, reflecting an increase in product revenues offset by a decrease in licensing revenues. However, as the revenue mix should still be weighted towards licensing and service revenue, we expect gross margin to be above 65%. We expect non-IFRS operating expenses to be at least $500,000 higher than in the third quarter, assuming a stable euro/dollar exchange rate, meaning we should be close to or at break-even at the operating level.

We expect IFRS interest expense in Q3 2022 to be approximately $2.8 million but non-IFRS interest expense to be around $1.3 million, meaning that we expect our non-IFRS net result to reflect lower interest expense by $1.5 million. We are not providing guidance on any impact of revaluing the embedded derivative nor possible foreign exchange gains or losses given this is largely determined by market conditions.

Finally, for modeling purposes, the number of ADSs outstanding today is 48 million.

At the conclusion of this call, we will post a written version of our formal remarks in the Investor Relations section of our website on the “Webcasts and Presentations” page . . . the same location where you will find the audio replay.

Now I’ll turn the call back to Georges.

Dr. Georges Karam

Thank you, Deborah.

Operator, we are now ready to open the call for Q&A, please.

Operator

Thank you very much.

We have our first question from the line of Scott Searle with ROTH Capital. Please go ahead.

Scott Searle

Hi, good morning, good afternoon. Thanks for taking the questions. Nice job on the results, the strategic and the pipeline that’s building.

Georges, maybe to start, just in terms of the supply chain, certainly impacted the near term, but it sounds like it’s starting to get better, as well as you’re building some inventories from a wafer level. I’m wondering if you could kind of walk us through how you see that normalizing over the next couple of quarters, and in particular on the wafer level as we start to look out to 2023. Can you kind of update us on your early thoughts in terms of how that wafer availability is looking?

Dr. Georges Karam

Hi, Scott.

Yes, I mean, on the supply, on the macro and all that you are hearing, and I believe you got told this news and obviously discussing with TSMC, we are on the other side of the cycle, I tend to say. There is some relief in terms of supply.

But it’s not normalized; you still see some tension here and there, some component missing here and there. On the other side, you see some extra inventory in some situations. It’s a kind of—still, I believe, not really normalizing back to normal, but it’s in the right direction.

Now, if I look to Sequans, for us it was very important to secure, because we have a lot of demand for next year and we didn’t want really to miss, and rely just only on some projection for next year. We are building inventory a little bit more than usual. Also, you have some price increase which is happening at the beginning of next year, and obviously this inventory is cheaper, if you want, for us buying things in Q4 to sell it in Q1. You will make some better margin, I will say, for the Company.

The two combined force us a little bit to take our capacity this year and not neglect it. If I look to 2023, I believe we are in good shape. I'm not nervous on the supply as we are speaking today, for us at least.

Scott Searle

Great, very helpful. Maybe looking out then to the pipeline in 2023, it sounds like a lot of good things are ongoing. I think last quarter, you talked about a full ramp in 2023, there would be $70 million in product opportunity, but that's going to ramp over the course of 2023. It sounds like you're continuing to add to that, particularly with some Cat 1 design wins. I'm wondering if there's an updated number on that front.

Then as well, the pipeline of opportunities as it relates to Cat 1, I believe you said $700 million. I wanted to confirm that again, and kind of how you're defining that. I think historically when you talked about the $300 million design win pipeline, it was about three years. Are you using the same metrics on that front, because I know some of the Cat 1 deals run over a longer time period, but still big numbers?

Lastly, the $400 million TAM that you're talking about for Cat 1 in 2025, I'm wondering if the share figure we should be thinking about for you is 50%, kind of given how the design win ramp activity is going.

Dr. Georges Karam

Yes, I mean, same one about (inaudible). First of all, just to go on the basic number, we're still using the same metric, which is—by the way, when you compare to other company, some other company in the IoT space or industrial, they use a metric which is five years revenue. Sequans uses three years. We didn't change this, and we don't want to change the reference, I will say. We're still counting only three years, and those projects are typically for seven years, I would say, and often more than 10. Because when you talk about metering, definitely, it's 10 years.

The pipeline here is $700 million. Indeed, it counts they have design win secured, which is, we said almost half of it, so about $350 million in design win, or three-year's ramp in design win, and the remaining $350 million are really advanced projects that we believe we have very high likelihood, I will say, to turn them from design-in to design win. This is really when I speak about the term.

Now, I try to give you as well a picture, which is an interesting way of looking to the pipe, which is, I put this in my script really to give you more color. Because I know that many of the investors can say, "Okay, Georges, you have $350 million potential product line, so over three years, divide this by three, so on average, you have more than $100 million, why you don't have $100 million product revenue now or next year? Why this is not happening now?"

The reality, I wanted to share with you, I picked 10 customers, just only customers that they have—I consider them the highest potential in terms of three-year's revenue. Some of them, they are doing $0 with us this year, just to be clear on this. If you look how much all those guys, they do this year, they do around $20 million. If I say how much they do at full ramp, in other words when I consider the pipe, it is $80 million.

You see $20 million multiplied by four at full ramp. The question is, when does full ramp happen? For me, definitely it's happening. I mean, there is no doubt about it. I have zero doubt about any projects in the pipe in terms of design win, doubt in terms of the potential or if it's happening or not, because many of those customers, they give us more projects and we win more projects with them because they selected Sequans as a key platform for IoT.

The point which is—I called it, but I don't like, but this is unfortunately the reality of the IoT in general, that thinks the projects take longer to go from design win to mass production and generate revenue. You add to this the headwinds we have in China and other supply chain challenges adding more complexity for us in terms of that. But when you think of those $80 million, sooner or later they will be on full-year revenue, in other words, part of this pipe. This is very important to give you the color on this.

Specifically, I mentioned the Cat 1 success. This is, indeed, I'm very excited, and this is one of the key messages of this quarter. I was positive already in the previous quarter. Things were looking well. But I can say today, clearly, that I have secured two big guys. I can say, one in the U.S., one in Europe, all on this new product. In other words, they appreciate a lot the value of this product, positioning, pricing, and so on. It's really, each one of them—I mean, the two—they will do more than $30 million, the two, in terms of by design—in the pipe, in terms of design win.

When I look to the pipe of Cat 1, I have, as I said, seven other big deals. All of them are big, so we are very positive on Cat 1. Today, Cat 1 didn't catch up in the pipe when you compare—I mean, Cat 1 is still lagging in terms of size, if you want, versus Cat M. Because you need to keep in mind that Cat 1 is smaller in quantity than Cat M, but higher ASP. Over time, maybe we could end by having 50% of the design win in Cat 1, in dollar amount, and 50% are Cat M, so this is what—my target, I'll say, (inaudible).

There we see ourselves in a very good position. I spoke about $400 million addressable market for us in 2025. This is almost counting—somewhere, chips, a little bit more than chips. If we sell a module, the number would be bigger; you can double it. The number could be around half a billion dollars, if you make it a mix—assuming that we'll be doing half of our business chips, half of our business module. We could be above half a billion dollars.

The we are targeting, on the new deals, to be honest, to be well above 50% on the new deals. Now, if you project this in 2025, are we going to be at 50% market share? Maybe not, if there is all the projects still shipping. But the trend will be to be above 50% in Cat 1, and we are in good shape on this, as I said.

Scott Searle

Great, thank you. Really appreciate the color and the detail, very exciting what's going on.

Just lastly if I could, on the 5G strategic front, you got the China deal done. It sounds like there was other activity going on in the pipeline. Could you just give us some more thoughts and details on that front? Are these similar types of deals that we could see, or are you thinking about 2023, or is it something on the longer-term horizon? Thanks so much, nice job on the quarter.

Dr. Georges Karam

Yes, I mean, first of all on the strategic deal, as I said, it's moving very well. I know that maybe some people, they have some doubts or whatever. I mean, the deal has really happened very well, great relationship and the parties are respecting the terms and we are moving very well. There is maybe more things to do together on this partnership. I mean, I don't want to comment more on this, but we feel very positive on it.

Obviously, this really strengthens our position with a model where we can get licensing and royalty to address some segments in the market where Sequans is not playing today, and maybe other potential partners, most of them, I should say, are missing cellular, because if you need cellular, it is very hard for you to get 5G technology, and Sequans really will be the ideal partner there.

Yes, we have discussions with more than three guys I've said, and progressing very positive. I'm very optimistic about this. I'm optimistic, if you say that I will land maybe a deal next year, but I don't want to comment more if you want, because I believe with the number of engagements we have there, the great position we have, the fact that we are moving to have product in hand, fully working, all this is converging to reinforce our position for those partnerships. Many people are missing this 5G technology and they have no other option, if I say, other than partnering with Sequans. I'm very optimistic on this.

Scott Searle

Great, thanks so much.

Dr. Georges Karam

Thank you, Scott.

Operator

Thank you.

We have the next question from the line of Craig Ellis with B. Riley Securities. Please go ahead.

Craig Ellis

Yes, thanks for taking the question, and echoing the congratulations on getting the new strategic deal in the income statement and in your color for the outlook.

Deborah, I wanted to follow up on that point. It was real helpful to get your view that the new deal could be $3 million to $4 million in quarterly revenues beginning next year. But the question is, can you help us with the specific number that was recognized as revenue in the third quarter, and what is the specific expectation for the fourth quarter?

Deborah Choate

We haven't been giving the specific number. I really just wanted to give the color once we're through these initial three quarters. It was clearly a large contribution to the third quarter; we're expecting it to be slightly less in the fourth quarter, and then slightly less again in the first quarter. But in all quarters, in excess of the then run rate, we're expecting to be $3 million to $4 million.

Craig Ellis

Okay, got it. Then—

Dr. Georges Karam

Obviously, Craig, when you look—Craig, when you look to the licensing component, I mean, you have, obviously, the licensing, and it's separated as the business versus product. Obviously, it's not the only deal; you should remember that we have other deals there. In this quarter, it's a big portion of the revenue recognized was coming from this. When I say, let's say about 70% from what you see there is coming from this deal. It is a bit lower in Q4, as Deborah said, than Q1, and then it will go down to $3 million, $4 million per quarter.

Craig Ellis

Got it, okay, that's helpful. Then Georges, following up on the supply dynamics as we look to 2023, so clearly, yes, we're on the favorable side of the cycle, and I think that shapes all of our views for what's possible with TSMC—and cognizant that there's still supply chain issues out there. My question is more on what we might expect with Renesas' contribution to the company's supply and revenue capability next year. Can you just provide some color on how that might trend through the year and what's possible as you look at the funnel that's developing, based on your collaboration with that team?

Dr. Georges Karam

Yes. I mean, to be honest, our relationship with Renesas is really great. I don't want to stress this more than this, but, I mean, it's clear this partnership was very, very successful for Sequans because it developed from many projects and it moved in the go-to-market, as well into the manufacturing.

Today, by the way, I can tell you that Renesas is able to produce Monarch 2 completely. They already produced, I will say, what we call is the kind of pre-production unit just to test a dozen of wafers and see that all the processes are under control. So far, all this is positive, and we should end the year with Renesas capable of producing Monarch 2. That's given us, obviously, by definition—because this is where the demand will be coming, is on these kind of wafers, to leverage, I will say, some of the capacity of Renesas if there is the need for this next year. This is really going well, and I'm happy about it. Honestly, I don't see today—it's not my… If you asked me last year at the same time, my first priority was really the supply. Today it's not my first priority, even. It doesn't mean it's not an issue anymore, but I feel more comfortable on this. It's coming not number one, number two that worry me, but obviously I keep an eye on it, and we are watching this. It's under control.

But the other angle as well with Renesas that you mention is really the success, their contribution to the funnel. To be honest, you don't need to comment that going to Japan and selling to a Tier 1 customer in Japan is very complicated if you are not Japanese with good relationship and established network. No doubt that Renesas has all this easy, I should say, so this is developing very, very well, the partner. But really, beyond Japan, we have big deal with them closed in the U.S., very big one. We have, in the pipe, a couple of them that are big in the U.S. and Europe.

It's developing very well. The relationship with their Sales team, Marketing team is very smooth, so it's not a relationship only at the top level of the company. When you go down in the field, you don't see the people talking, so it's working very well, and it's really a great partnership. We believe that will represent nice revenue for us next year; but even in the pipe over time, this will keep building up and adding more potential to us through Renesas.

Craig Ellis

Got it. Then, on longer-term revenue dynamics, I think in the past we've talked about the potential for around 50% year-on-year Calendar '23 through '25 revenue growth, and Massive IoT share expanding from where we are, 12%, up towards 30%, and a 40% TAM CAGR there. Are those still the right macro numbers to look at for the bigger opportunities that the company has?

Then, Deborah, I think in the past, with the new deal, we thought that cash self-funding could be possible in the second half of 2023. Can you just update us on the prospects for that, especially given the level of revenues that we can expect from the new strategic deal? Thank you.

Dr. Georges Karam

I mean, in terms of the CAGR, the growth potential, we are on average still in the same numbers. Nothing has changed in terms of CAGR on average, whether the market or market share keeps building. Just again, if you go back to this example, what I consider 20 customer—the 10 customers, sorry, doing $20 million, and their potential and for ramp is $80 million, so you could argue that we'd not reach this next year, but would reach it the following year. Or let's say they'll reach it at 80% the following year, whatever it is. This gives you that we are really in the Cat M, earning growth potential more than 50%, if you take the Cat M alone. Obviously, when you combine it, for the existing business and so on, we are targeting an average of 50%, which remains our target.

The challenge we have is really the timing of those projects, moving them from design phase to, really, full production. This is really where we have the challenge when you compare year-over-year, and we have already—we suffered already with this, this year. Hopefully, all those roadblocks will move away and we start going back to normal. But the trend, it's (inaudible).

Deborah Choate

Yes, so we're still expecting that the new 5G deal fully funds our 5G development. Really, if the revenue trend for next year is as we expect, then we can really target for that operating cash flow breakeven in 2023.

Craig Ellis

Great, thanks, team.

Dr. Georges Karam

Thanks, Craig.

Operator

Thank you.

We have our next question from the line of Nicholas Doyle with Needham & Co. Please go ahead.

Nicholas Doyle

Hi, thanks, this is Nick on for Raji Gill. Thanks for taking my question.

I know you guys talked about, regarding the China export rules, that you don't anticipate the future revenue stream will be impacted. But could you be more specific on why Taurus, as a sub-60 nanometer product, won't need a license or won't be impacted?

Then just more broadly, why do you think that your 5G technology will be allowed to move forward in China?

Dr. Georges Karam

Yes, I mean, Nick, hi.

As you know, the subject is very complicated and sometimes confusing. If you look to the rules, first of all, when you talk about the geometry, how small it is, this is going for manufacturing tools. Sequans is not playing in manufacturing; our partner is a fab-less company, so it's completely clean. All the chapters where they talk about the (inaudible), the restriction to China and so on, we are not playing there.

By the way, our partner will be buying from TSMC from outside China. Somehow, Taurus, if it's sold by our partner, and it's (audio interference), they'll be buying wafer from TSMC outside of China, and all this is clean like any other Chinese buying from TSMC.

Now, obviously, it's very hard for me to project what will happen in the future. I mean, you could maybe, in two years, or in one year, whatever, restrict the Chinese to buy anything from TSMC. Then they will be stuck, or my partner will be stuck. But today, there is nothing related to this or conflicting with Sequans.

The 5G as such, as a technology, is not touched. I mean, we are talking about military application and if you can use this for military. Whether the manufacturing, or smaller geometric manufacturing, this is out of the scope completely; Sequans is not playing there and our partner is not playing there. If you talk about the technology 5G, we're not there. I mean, again, as we are speaking today.

If tomorrow we have rules saying you cannot sell 5G to China anymore and no one can touch anything and so on, then obviously we will be impacted. But Qualcomm would be impacted, and I can tell you the whole world would be impacted largely, and I don't know what will be the situation. But honestly, today I feel good on this.

You have also other angle, just to give you more feedback, the fact that Sequans is not developing the R&D is not in the U.S., and the R&D is really in Europe and nothing's in the U.S., so this gives us another safety. It doesn't mean that we will not be impacted, because the French or the European, they can follow the rule and so on. But at least from a technology point of view, it's not built in the U.S., and this gives us another safeguard, if you want, another level to build there.

There is the third one which is very important, it's the IP. This means, if you sell something and deliver the IP, it's not retroactive. In other words, whatever I am doing today, even if tomorrow there is a deal, my partner has this technology, so if you build the chip, you build the chip with this and he can use it. Because it's not retroactive, obviously the money will remain due for me, because he's using our IP and we'll not be shipping any more royalty in the future.

These are some angles. I know that the subject is very complicated; it is never 100% sure about anything. But at least, where we are today, we are in the green. I feel like we have many elements that let me feel we are not the first guy risking for this. Now, obviously, if tomorrow there is a huge problem between China and the U.S. and this is taking over everything and every component and most of the things, then we'll be treated like others and we'll be suffering like others, and this will be a new story.

Nicholas Doyle

Thank you, sir. That was very helpful. Could you just talk a little bit more about the product declines in the quarter and the guide? I understand that supply chains from inventory burning and the macros impacting, but do you kind of expect—and I understand we have some new products ramping next year. But do you expect a kind of bottom in product revenue growth to be next quarter, or we could see that moving onto 1Q and 2Q? Thanks.

Dr. Georges Karam

Nick, I mean, we see the product getting up next quarter, so we expect in Q4 to have better product than Q3, if I have to give another guidance, I will say, in our number, even if they are not specific in (inaudible). But indeed, Q3 was a bottom. As I said, the issues that we have, mainly really for Sequans is really, we have many product, all are nascent, if you want. Customers, whether they start—they bought the first few hundred thousands unit and they moved them to production, and somehow the production didn't move on time, impacted by what's happening in China, or some projects in design phase and the guys were planning to launch them now, or launch them in September, and finally they are launching them in January.

Again, I can assure you, none of those projects has an impact in the sense of cancelled or disappearing. Everything is—by the way, I'm talking about delays, simple delays. Sometimes a couple of months or three months, and sometimes maybe six months, but all are delays, and that's why they remain on our pipe and that's why we remain optimistic about renewing with the growth of the product.

Okay?

Operator

Nick, do you have any further questions?

Nicholas Doyle

No, that's all, thank you.

Dr. Georges Karam

Thanks, Nick.

Operator

Thank you.

Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the call back over to Dr. Georges Karam, President and CEO, for closing remarks.

Over to you, Dr. Karam.

Dr. Georges Karam

Thank you, Operator.

Thank you again for joining the call, all of you.

Please note that we are participating in the Needham Growth Conference in New York City on January 10. We also plan to attend the ROTH Capital Conference in Orange County, California, in mid-March. We hope to speak with you soon, or meet at one of these upcoming events.

Thank you very much for all of you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.