



**Crown Electrokinetics Corp.**

**First Quarter 2022 Earnings Conference Call**

**May 13, 2022**

## CORPORATE PARTICIPANTS

**Henryk Dabrowski**, *Investor Relations*

**Doug Croxall**, *Chairman and Chief Executive Officer*

**Joel Krutz**, *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Jeffrey Campbell**, *Alliance Global Partners*

**Shawn Severson**, *Water Tower Research*

**James McIlree**, *Dawson James Securities*

## PRESENTATION

### Operator

Good day everyone, and welcome to Crown ElectroKinetics Corporation's earnings call for the first quarter 2022.

A question-and-answer session will follow the Managers' remarks. This conference call is being recorded. A replay of today's call will be available on the Investor Relations section of Crown's website and will remain posted there for the next 30 days.

I'll now hand the call over to Henryk Dabrowski for introductions and the reading of the Safe Harbor statement. Please go ahead.

### Henryk Dabrowski

Thank you, Operator. Good morning everyone and welcome to Crown's earnings call for the first quarter 2022.

On today's call are Doug Croxall, Crown's Chief Executive Officer and Chairman, and Joel Krutz, Chief Financial Officer.

Before we begin, I would like to remind you that today's call contains certain forward-looking statements from our Management made with the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities and Exchange Act of 1934 as amended. Words such as may, should, projects, expects, intends, plans, believes, anticipates, hopes, estimates, and variations of such words and similar expressions are intended to identify forward-looking statements.

These statements are subject to numerous conditions, many of which are beyond the control of the Company, including those set forth in the Risk Factors section of the Company's quarterly report on Form 10-Q for the first quarter 2022 filed with the SEC. Copies of these documents are available on the SEC's website at [www.sec.gov](http://www.sec.gov). Actual results may differ materially from those expressed or implied by such forward-looking statements. The Company undertakes no obligation to update these statements for revisions or changes after the date of this call, except as required by law.

Now at this time, it is my pleasure to introduce Doug Croxall, CEO and Chairman of Crown. Mr. Croxall, please go ahead.

### **Doug Croxall**

Thank you, Henryk.

I'd like to thank everyone for joining us this morning for our Q1 '22 earnings conference call.

We were informed the other day by our auditors that our 10-Q will be filed on Monday, 16 May, as opposed to today but we wanted to go ahead with our earnings call anyway. The delay in the Q is purely a function of resource allocation and constraints with our auditor and has nothing to do with Crown or its financials.

We will begin by providing a business update of Crown. After, Joel, our CFO, will review the highlights of our financial results. We expect to take your questions after the presentation.

Crown's mission is to provide affordable smart glass solution to the commercial real estate market that will enable its customers to reduce energy expenses and in turn, lower carbon emissions. Our first product is called the Smart Window Insert, powered by DynamicTint, an affordable solar-powered insert which does not require hard wiring and can be easily installed into the interior side of existing windows in commercial office buildings. Crown's DynamicTint, a pigment-based thin film initially developed by HP, is based on our proprietary and patent-protected electrokinetic technology.

At Crown, we recognize that windows in commercial buildings are inefficient insulators causing HVAC systems to use unnecessary amounts of energy, leading to increased energy spend and excessive carbon emissions. Crown's Smart Window Insert easily installs into a building's existing window frame, leaving the existing window intact. This transforms a building's single-pane window into an energy-efficient dual-pane smart window.

Once installed, the insert is powered by a solar strip, eliminating the need to have each Smart Window Insert hardwired into the existing electrical system of the building. Crown's Smart Window Insert absorbs sunlight, thereby reducing the amount of HVAC usage, leading to lower electricity costs and a smaller carbon footprint. Crown's insert also provides insulative benefit by effectively adding a second pane to the building's existing single pane, allowing heat and air conditioning to stay in the building more efficiently.

The commercial building sector is under increasing pressure from shareholders, tenants, and regulators to reduce the HVAC energy consumption and reduce carbon emissions. As the only smart glass retrofit product in the marketplace, Crown's Smart Window Insert is priced comparatively to high-end window blinds. The Company constantly invests in research and development and has contributed to important research and energy conservation through improved efficiency of windows, including recent collaborations with the Lawrence Berkeley National Lab. Crown owns and operates a manufacturing facility and expect to deliver its first production in summer '22.

On previous earnings calls, we announced that we had commenced a capital raise focused on raising sufficient debt capital to fund the purchase of two purpose-built lines to manufacture our electrokinetic film and to fund our growth. Those efforts are continuing, and I am very happy to announce today that we have received terms for debt funding that satisfies our capital requirements. We are expecting additional

term sheets soon, and we'll likely decide on which term sheet we will execute in the coming days. While I want to remain transparent with our investors, I'm sure that you understand why, at this stage, I cannot disclose any additional information. We remain confident in our approach and outcome of this process. Additionally, the Company has secured a term sheet for equity funding at an above-market price that, when coupled with our debt funding, we believe will provide working capital until approximately the end of Calendar Year 2023.

I shared in our last earnings call an update on our current product delivery status. I'll provide a brief update for the benefit of our shareholders. This summer, we will be manufacturing and delivering our first-generation Smart Window Insert. That insert will be comprised of 12-inch strips of our DynamicTint film.

Crown's insert will have the following capabilities. Our insert will have a solar strip that is facing the exterior of the building, capturing sunlight to charge a lithium-ion battery. The lithium-ion battery will be the power source that allows the user to transition the film from clear to dark on demand. Each office that has our inserts will have a handheld controller that allows the occupants of the office to easily control the insert. Each insert will be gathering performance and usage data which will be communicated to Crown to monitor the performance of our inserts.

Our inserts are easily installed and will not require fasteners for installation. Each insert is powered by the solar strip attached to the exterior side of the insert, making our product highly sustainable and does not require hardwiring to the building's electrical system.

We will have a limited run of the first-generation insert to be sold and distributed to our three existing customers: MetroSpaces, Hudson Pacific Properties, and recently announced Brandywine Realty Trust. Those three customers have a combined total of approximately 280 buildings. We will strategically place those inserts in a handful of buildings owned by our customers to get feedback on performance, design, and usage so that we can continue to iterate and develop our second-generation window insert.

Our second-generation product will incorporate a single piece of DynamicTint, replacing the 12-inch strips. We expect that new features will be incorporated into the second generation of our Smart Window Insert, potentially including the following upgrades: increased data gathering, including but not limited to, external weather information, the amount of sunlight, internal temperatures, placement of the sun during the day, and product use patterns. The second-generation insert will have an accompanying app that will allow the user to control the inserts via a smart device in addition to the existing handheld controller. We expect that we will be able to produce significantly more second-generation inserts as compared to the limited run of the first-generation insert.

A year ago, we expected that one of our manufacturing partners would be producing our film as a contract manufacturer. However, due to business disruption from COVID, those plans changed for our partners, and we started down a path to vertically integrate all previously planned outsourced manufacturing. Today, Crown can manufacture its own film and will do so in Corvallis and Salem, Oregon facilities.

I have, in all my communications with shareholders and potential investors, stressed the importance of what we have achieved in less than a year. This single, and at that time difficult, decision will increase our market, our time to market, should increase our margins, and protect our intellectual property by manufacturing our own film.

We are currently producing our film at a 6-inch width and defect-free in our Corvallis R&D lab. We are working towards producing our film at 12-inch width, which will be the basis of our first-gen Smart Window Insert. We've also developed a technique that we believe will allow us to produce film up to a 72-inch width, which is sufficiently wide enough to satisfy the U.S. building market. We call this technique stitching and have filed and will continue to file the proper protections on our inventions.

Our team of engineers, and one in particular, have given Crown the opportunity to significantly advance our time to market with wide-web film. This breakthrough allows us to approach the commercial real estate market with a product that can have an immediate impact on a building's cost savings and carbon footprint.

Last summer, we embarked upon a process to design a purpose-built line that can, in a single line, perform all the necessary steps in making our electrokinetic film. The conclusion of that process has provided us with a partner that will build our first roll-to-roll line capable of manufacturing our film at any width from 12 up to 72 inches. This new production line, once up and running, at capacity, we believe will produce annualized revenue of between \$110 million and \$120 million and has the potential to generate EBITDA of approximately \$20 million. As stated earlier, our intent is to use any debt capital to purchase two purpose-built lines, effectively doubling our output in both revenue and EBITDA.

On May 2, we announced the appointment of Eddie Gordon as Vice President of Operations. Mr. Gordon has been supporting the Company since July of 2021 as our Senior Manufacturing Manager. He brings extensive knowledge and experience in scaling manufacturing operations. For over 30 years, he has gained broad engineering experience, quality control, materials, maintenance, human resources, and employee health and safety.

As we transition from research and development to production, our operations has been more focused on manufacturing. Mr. Gordon's strong background in manufacturing and operations make him the perfect executive to lead Crown's operations. All efforts are currently directed towards our Generation 1.0 Smart Window Insert launched this summer. As Vice President of Operations, Eddie will create an operational and manufacturing environment that will allow Crown to scale in the future to meet expected product demand.

This first quarter, we announced the addition of a new customer to our growing list. Brandywine is our largest customer to date with over 170 buildings in its portfolio, primarily in Philadelphia, Washington D.C., and Austin, Texas. We will be delivering our first-generation insert to all three current customers this summer to specific locations as determined by Crown and our customers. It should be noted that we're experiencing interest not only from U.S.-based building owners but also from commercial property owners in Europe, the Middle East, and Asia. We will continue to work together with our prospective customers in our sales pipeline and hope to have further announcements in the coming quarters.

Additionally, other markets, such as residential and transportation, continue to show interest. At the right time, we will address those market opportunities, but for the near term, we're focused on providing superior products to our current target customer: the U.S. commercial office building market.

We're incredibly pleased with the results of the third-party IP valuation report received this quarter. On April 4, we released a summary of this report to our shareholders and the market. The valuation conclusions in the private report are based on accepted practices using factual analysis, IP analysis, fair market value, and investment value standards. The third-party valuation firm utilized data provided by Crown along with public information and industry knowledge of intellectual property licensing. In addition, the IP professional reviewed the historic costs as well as the expected future revenue as it relates to our assets. Crown's IP valuation indicated combined patent and trade secret fair market value of \$94.4 million.

It is necessary to point out that our electrokinetic film technology can be applied to multiple product categories, including applications within the commercial building, residential home, and transportation industry. This IP valuation, however, specifically analyzed Crown's technology as deployed only in the U.S. office building market. The third-party IP valuation report reaffirms to our shareholders the substantial value of the Company's underlying assets and intellectual property rights not reflected in our current market value.

Now I'll pass the call on to Joel, who will review our financial results. Joel?

**Joel Krutz**

Thank you Doug. Good morning everybody.

Today, I'll be discussing Crown's financial results for the first quarter of 2022. As Doug mentioned at the top of the call, our final 10-Q won't be filed until Monday. While we don't anticipate any updates at this stage, I just want to caveat that the Q1 financials I'm presenting today are still drafts, and changes are possible.

Now to the Q1 results. Company's net loss for the first quarter of 2022 was \$4.6 million, which included \$1.1 million of noncash stock-based compensation expense. This net loss was \$16.1 million lower than the \$20.7 million recorded during the first quarter of 2021, which included \$18.9 million of noncash compensation and financing expenses.

Total operating expenses for the first quarter of 2022 were \$4.6 million, comprising \$1.1 million of noncash stock comp, \$1.9 million of payroll expenses, \$0.8 million in consulting and professional fees, and \$0.8 million of operating overhead. Included in the first quarter's operating costs were a number of exceptional items, most notably consultancy and professional services associated with our manufacturing process, IP evaluation, and financing efforts.

Additionally, Crown's headcount had reached its peak during Q1 as we finalized the design for our vertically integrated processes and then have begun to scale back on resources. To that end, and as we indicated in the last call, we have now undertaken a series of restructurings which, while optimizing our organization for the future, have also materially reduced our operating burn and will yield annualized operating savings of approximately \$2.5 million for the go-forward.

Other income was nominal for the quarter as compared to \$15.4 million for the same quarter last year, which was primarily due to the full conversion of Crown's debt notes. Net cash for the first quarter 2022 was \$3.6 million with \$3.5 million deployed for operations and \$0.1 million for investment. As of March 31, our cash and cash equivalents were \$2.5 million. Additionally, we have a \$10 million standing letter of credit which we've not yet drawn against but which will provide access to operational financing if required through March '24. Furthermore, we filed a prospectus supplement in April for a \$5 million at-the-market offering to provide additional funding optionality.

Looking ahead, we will continue to seek further operating efficiencies, and in addition to the debt fundings, we'll continue to pursue the optimal, least dilutive financing solutions with which to continue strengthening our balance sheet.

That concludes our prepared remarks. Now we'd like to open the call for questions. Operator, if you could please go ahead.

**Operator**

Our first question comes from the line of Jeffrey Campbell with Alliance Global Partners. Please proceed with your question.

**Jeffrey Campbell**

Good morning, Doug.

**Doug Croxall**

Hi, Jeff.

**Jeffrey Campbell**

Can you remind us of the timeline for shifting from the current film-stitching process that you talked about this morning to the single-line production machinery being built by your production partner?

**Doug Croxall**

Yes. So, first-gen product will go out this summer. Once the order is placed for the purpose-built line, it's going to be about 10 months for the line to be completely built. They actually build it in their facility and they run the line in their facility to our spec. We actually are there with them and we do quality control on the film that they're producing on our line. Once it's acceptable, then they de-assemble and ship the line and re-assemble in our facility and go through that same process again. So the entire process is about 10 months.

**Jeffrey Campbell**

So when you say the entire process is 10 months, that's from—that includes being built, doing all the confirmation work, and then moving it out to Oregon and repeating the process. Is that correct?

**Doug Croxall**

Yes. From order placed until producing film in our facility, it's about 10 months.

**Jeffrey Campbell**

Okay. Great. Thanks.

A kind of higher level question. As the U.S. Smart Window Insert demand grows, do you think it's more likely you'll continue to expand the Salem footprint or perhaps develop a manufacturing capability elsewhere in the U.S.?

**Doug Croxall**

Yes. It's a great question.

We'll be at capacity in our Salem facility with these two lines that we intend to have built. Where we go from there will likely be driven by customer location. We've kicked around expanding in Oregon. We've also talked about potentially just dedicating one area to film production and then shipping film to different locations for assembly of the inserts. It's pretty costly to ship large pieces of glass that have frames around them. So we're looking at both solutions, but we haven't put anything in stone at this point.

**Jeffrey Campbell**

Okay.

Then thinking even further out, what do you think is a reasonable timeline to begin thinking seriously about foreign markets, servicing them, and would you build dedicated production facilities overseas someplace when that time comes?

**Doug Croxall**

Yes. Definitely when the time comes. Some of the prospective customers that we're in discussions with have properties that are not just in the U.S., so we may find ourselves overseas just with some of the U.S. customers that have properties overseas. When and where we would build a dedicated facility is going to be largely driven by customer adoption.

**Jeffrey Campbell**

Okay. Great. That makes sense. Thank you.

**Doug Croxall**

Sure.

**Operator**

Our next question comes from the line of Shawn Severson with Water Tower Research. Please proceed with your question.

**Shawn Severson**

Great. Thank you. Good morning gentlemen.

**Doug Croxall**

Good morning.

**Shawn Severson**

Could you clarify, you said you have a \$10 million line in hand, but I thought you said you were exploring other term sheets as well. Is that correct? So you still—you have one, but you're looking, obviously, for the best terms. Are you looking at others? Did I understand that correctly?

**Doug Croxall**

Yes. We have terms that we've negotiated and received that meet all of our capital requirements, but the process isn't complete because we still have a few others that are working through the diligence process. We expect to be completed with the diligence process, at least to select which term sheet we go with, some time next week. And that process, Shawn, is considerably more funding than what's available on the current LC.

**Shawn Severson**

Understood. Okay. So a little more flexibility potential with these additional term sheets.

**Doug Croxall**

Yes.

**Shawn Severson**

My next question is, when you talk about installing these, let's call them pilot programs, what is the size of those? Should we think of those in terms of revenue or windows? I'm just trying to understand the scope and scale of the install that will be coming this summer.

Then secondly, to that question, how long does that feedback period go? Are there very specific timelines that you have for making adjustments or feedback? Is it months, obviously not years, but just understanding the length?

**Doug Croxall**



Yes. So Generation 1, the first-gen product, we'll start delivering that this summer. We'll probably do somewhere around 1,000 or so inserts. It's kind of hard to predict, but roughly around 1,000, and we'll have those installed, and we'll start getting feedback immediately on the look and the feel, performance, etc. That iterative process will take roughly six months, and towards the end of that six-month, nine-month process, we'll start integrating feedback into the Gen 2 product, which again, after we place the order for the purpose-built lines, is about a 10-month period.

I would expect we get the order in some time this summer, and we receive the two purpose-built lines some time next spring. Then we have Gen 2 product coming off that.

**Shawn Severson**

To the customers, when they see these Gen 1 products, there's not going to be a huge difference. Obviously, you're using the stitching, right, with the 12-inch width, but to them, when it shows up and you do the install, this is more or less going to look and feel the same as the Gen 2 products will as well, correct?

**Doug Croxall**

We think so, but it's hard to say because we haven't built the Gen 2 product. But yes, my assumption is that—and by the way, we don't know. A lot of people may say, "We like the 12-inch strips." You don't know until you get the product in front of the customer, but even if they do, our ability to produce 12 inches on our current proto-production tool is minimal compared to what we will be able to produce off of the purpose-built line. It's a significant increase in production capacity off of our new line versus our existing.

So even if the customer is like, "You know what? We like the 12-inch strips." Great. We can make a lot more of it a lot faster off of our new lines.

**Shawn Severson**

I know it's kind of a hard question to answer, but in looking at these three installs, obviously, they're serious customers. They're looking at it. They're going to run through this. Have they committed to anything else? I assume this has given a green light to more orders if it works and it performs like they expect. Otherwise, they wouldn't be running these programs.

**Doug Croxall**

Yes. We're limited with what we can build. Their expectation is that, as soon as we can build more, they'll put more in their buildings. And to some extent, they've already publicly announced that, so we've just got to get it built.

**Shawn Severson**

I assume this will help your data set, right? Obviously, from the feedback. So when you get feedback and you have these installs and they're actually in place, your ability to go out and pitch additional reach, you're going to have, I would think, a much heavier data set to work with, is that correct, in terms of performance and actual real-life data?

**Doug Croxall**

Most definitely.

**Shawn Severson**

Okay. I'll step back in the queue.

**Operator**

Our next question comes from the line of Jim McIlree with Dawson James. Please proceed with your question.

**James McIlree**

Thank you. Good morning.

**Doug Croxall**

Hey, Jim.

**James McIlree**

Hey, guys.

As far as the restructuring or the cost-cutting goes, did we see any impact of that in the Q1 results, or is that all going forward?

**Joel Krutz**

It was all prospective, Jim. Yes, you'll see that coming through in the Q2.

**James McIlree**

Great. Thanks.

Then I just want to make sure I understand this first-gen versus second-gen product. So the first-gen product goes out this summer, and you get feedback on it, but I'm trying to understand, so what changes in the second-gen product? Is it more of the framing? Is it more of the controllers? When you're thinking about first- versus second-gen, what's the diff?

**Doug Croxall**

Yes. There's a couple of differences right off the bat, but we won't know until we get the feedback. Our expectation is that the first-gen product will have 12-inch strips. The second-gen product does not have to have 12-inch strips. If someone says, "Hey, I want a single piece of film," then they'll have that option.

The first-gen product has a handheld controller that controls the insert from clear to dark. It's literally something you hit a button and it changes versus the second-gen product that will have a controller or an ability to download like an app on your phone and control the insert that way.

Then the first-gen will have limited data in performance gathering. The second-gen will have a much more robust data gathering and performance measurement. So in the first-gen product as well as the second-gen, but in the first-gen product, we're measuring our own performance every 120 milliseconds. So we're getting data back on, is the battery holding the charge? Is the film transitioning the way it's supposed to? We're getting that data quickly. In the second-gen, we're going to expand the data set that we're gathering because we think it'll actually help the building owner manage their building more efficiently, specifically as it relates to the HVAC usage.

**James McIlree**

Got it. That's helpful.

Then I think in your commentary, you talked about pricing comparable to high-end blinds. Does that apply to the first-gen product or the second-gen product?

**Doug Croxall**

Both. To both products, both first and second.

**James McIlree**

It seems that you would have significantly lower costs on the second-gen product. Are you contemplating lowering the prices and still keeping a healthy margin?

**Doug Croxall**

We haven't contemplated lowering the prices. We think the pricing is pretty acceptable. Obviously, we build our bill of materials pretty conservatively. We are not factoring into our bill of materials for our current pricing any reduction based on volume, etc., but we know where that likely will go in the future. If we need to, we would have the ability to potentially soften on the pricing, but it's not our expectation to do that unless we have to.

**James McIlree**

Got it. Okay. Great. That's it for me. Thanks a lot.

**Doug Croxall**

Thanks, Jim.

**Operator**

Our next question comes from the line of Jeffrey Campbell with Alliance Global Partners. Please proceed with your question.

**Jeffrey Campbell**

Hi Doug, just a quick follow-up based on the conversation that we've had today.

I just wonder, what's the likely approach to potential-horizon customers near term, meaning, is there any point in booking future delivery commitments now, since you've outlined a limited production cycle until the big production lines come online next spring?

**Doug Croxall**

Yes. We'll book. Gen 2 purchase orders and bookings will likely occur, fall/winter timeframe, based on feedback we get out of Gen 1. But definitely—I mean, look, even when we have our two purpose-built lines up and running, if you just look at the existing 280-ish buildings that we have, we're going to be running at full capacity just servicing those. So even though we're building two additional lines, we'll be at capacity with those lines pretty quickly. There's going to be limited products based on the demand.

**Jeffrey Campbell**

Right. Yes. That was why I asked, but that's a good point. By the fall, it sounds like you should have a significant amount of data collected that could begin to enrich those conversations about Gen 2.

**Doug Croxall**

Very much.

**Jeffrey Campbell**

Okay. Great. Thank you.

**Doug Croxall**

Yes.

**Operator**

I see no further questions in the queue. At this time I'd like to turn the call back over to Mr. Doug Croxall, CEO and Chairman, for closing remarks.

**Doug Croxall**

Thank you.

So just a few closing remarks before I let everyone go on with their day. I just want to reiterate that the process we've been through on the debt capital, it's been ongoing. We're very excited where it's taken us. I know the market's tough. It's tough for everybody. Some companies are not—they're not trading at their real value. We're clearly one of them. We're very excited about what we've accomplished, we're very excited about where we're going to go, and we're very excited about how we're going to get there and with our potential funding.

I also wanted to share an e-mail with you that was sent by one of our employees Company-wide on May 6. And so I'm going to read the e-mail:

"Hey, all. Six years ago today, I walked into our building for the first time as a Crown employee. It was just Tim and I until a week later when Palesa (phon) joined. Sitting in a tiny office, sharing a single hood with another tenant and building cells in a cleanroom so small I could almost but not quite stretch out and touch opposing walls. Humble beginnings indeed. We've come a long way since then, both in size and development of the technology, but at root, we're a group of people passionate about an idea with the potential to change the world for the better, and we are so close to making this a reality. Thank you for your part in making this the best job I've ever had by far. I'm excited about our future. Here's to the next six years."

That e-mail summarizes the team that works at Crown. We're very fortunate to have such strong, dedicated employees towards our goal. I look forward to talking to all of you over the course of the next quarter, and I look forward to giving you our results in mid-August. Thank you for your time.

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Have a good day.