

Transcript of Innoviz Q1 2022 Financial Results Call

Date: May 11, 2022

Good morning, and welcome to Innoviz first quarter 2022 earnings conference call.

Joining us today are Omer Keilaf, Chief Executive Officer and Eldar Cegla, Chief Financial Officer. Following their formal remarks, we will open the call for your questions. I would like to remind everyone that this call is being recorded and will be available on the investor relations section of our website at IR.Innoviz.tech.

Before we begin, we would like to remind you that our discussions today will include forward looking statements that are subject to risks and uncertainties relating to future events and the future financial performance of Innoviz. Actual results could differ materially from those anticipated in the forward-looking statements. Forward looking statements made today speak only to our expectations as of today, and we undertake no obligation to publicly update or revise them. For discussion of some of the important risk factors that could cause actual results to differ materially from any forward-looking statements, please see the risk factors section of our form 20-F filed with the SEC on March 30, 2022. I will now turn the call over to Omer. Please go ahead

Omer Keilaf (CEO and Co-Founder of Innoviz Technologies):

Good morning, everyone and thank you for joining us. I want to use this opportunity to thank people that reached out during the last week to congratulate us. Definitely, we went through a very long process to make this happen and we are very excited. Obviously adding another USD 4B to our order book is a major achievement and will allow the company to do many more things, but one of the most meaningful impacts of this recent announcement of our design win and award by one of the largest car makers is not only the fact that we won additional business. It's actually, a big part of it that makes us very happy, is our ability to secure this business as a direct supplier Tier 1. Becoming a Tier 1 in the automotive market is a huge step for us that will help us to run faster and secure many more deals. This is one of the things that we've been working on for a very long time, it's very difficult to become a Tier 1 in this space, but we are sure that it would allow us to run much faster and secure many more deals. With that, I will please go to the presentation and elaborate more.

Following two years of working closely with one of the world's three largest vehicle groups, as part of their extensive RFQ process, we were happy to finally announce last week that we were selected to be their direct and only LiDAR supplier for the L2 to L3 multi-year series production program.

Selection of InnovizTwo out of any other lidar solution is a big vote of confidence to our technology leadership and product superiority.

Both companies have agreed to have a joint announcement following a first delivery expected in the coming months.

This design win is our first automotive production deal for InnovizTwo which follows our two design wins for InnovizOne.

Back in Q3 2021, we updated you about Innoviz's being qualified as a direct Tier 1 supplier by one of the largest car makers in the world. Being recognized as a direct supplier was a critical step to allow this

group to select us for series production, yet we were waiting for their formal nomination. Last week we were finally able to celebrate being awarded for the first time as a direct supplier, by one of the most technical, prestigious, and largest car makers in the world.

This win has a significant impact on our ability to generate future revenues. We are no longer only selling components as a Tier 2, but rather the entire product along with our perception software. This also means that we can leverage our success more easily to win other programs without being dependent on any third party.

This win is a testament to the quality and uniqueness of our technology, industrialization capabilities, and automotive experience. During this process, we demonstrated a variety of Tier 1 capabilities, including our ability to manage mass production manufacturability, automotive-grade quality, hardware validation, and computer vision validation.

Being selected by a technology leader in the industry is an important vote of confidence in Innoviz, which we believe will influence the rest of the industry and create a domino effect bringing us other business opportunities. I would now like to take a minute to explain the recent announcement we made regarding our partnership with LiangDao, a full-stack Tier 1 service provider based in China and Germany. This partnership will help ensure we are poised to deliver on our commitment to our customers who target the Chinese market. We needed a partner to validate our perception software in China and LiangDao positions us to do that exactly.

As a result of winning our third design win, our order book was increased by four billion dollars, resulting in a forward-looking order book of \$6.6 billion, two and half times larger than last quarter.

Allow me to briefly explain how our forward-looking order book was calculated.

In terms of volume production, the OEM we were selected by is one of the three largest vehicle groups in the world, with about 10% market share. The program plan is based on three years of development and validation followed by eight to ten years of sales, with the expectation to see a growing take rate of 1-14% over the course of the program.

We expect to supply our LiDAR sensors for at least eight million cars. And there is a potential to significantly increase this number given the fact that we are in discussions with the group on additional brands and models. Expecting Gross-Margins of between 30 to 40%. These amounts do not include B or C samples, NRE and Production Tools that are also part of the nomination.

These are exciting times for Innoviz, and I am thrilled by what we have already achieved, and what is still to come.

Turning to our sales funnel and targets for the year.

We increased the number of series production deals to three, emphasizing that the last is based on multiple brands, not just one.

We have currently nine pre-production activities with customers that are using our lidars for development stage. Several of them are expected to turn into series production at a later time.

We continue to bring new potential customers into our sales funnel. Currently we have twelve different customers in different stages of RFI/RFQ. Three are at a late stage of their decision process. We expect our conversion rate to increase as we win the confidence of more OEMs.

We see that our new nomination as a direct supplier, to such a high-volume and prestigious program is likely to already removing any friction perceived by other car makers in allowing Innoviz to become their direct supplier for series production programs.

This new design win enables us not only to meet our 2022 targets but even exceed with another, before the first half of the year – namely, signing at least one automotive commercial agreement and increasing our order book (which is now 153% higher).

I would like to explain the difference between a pre-production commercial agreement versus a series production design win. Pre-production deals mostly serve the customer's need in testing, validating and understanding their LiDAR requirements and needs to draft their RFIs/RFQs for later stages.

When it comes to making a sourcing decision for automotive series production, it's a much more rigorous and long process. Many other considerations come into play such as reliability, industrialization, cost sensitivity, automotive grade, cyber security, and endless other aspects that are covered in order to ensure the safe launch of high-volume production line. All elements in which Innoviz is well positioned. Pre-production programs are far more common which is why we are able to secure more of them compared to series production nominations. But, as expected, the committed volume and order book size are significantly different.

Our strategic priorities are what we have grounded our focus on so far and what will continue to propel our success going forward.

So, I'd like to take a moment to remind everyone of our three strategic priorities:

- Solidifying our position as a leading LiDAR supplier for automotive;
- Expanding our market share beyond the automotive industry; and
- Investing in our technology and perception software.

We have a sustainable strategy to deliver against these priorities and position Innoviz for success.

Automotive deals have long sales cycles, high switching cost, enterprise level deals, and a long-term commitment for high volume – but they come only following several years of development and testing period. We believe our automotive applications for LiDARs in passenger vehicles – the Level 2+ and Level 3 applications – will be the main drivers for our revenue growth, which are expected to show significant growth in the 2024-2030 model years. These opportunities are at a critical decision time, decisions that will set the winners for the next ten years.

Non-automotive deals have shorter sales cycles, lower switching costs, and they take place in quite a fragmented market. Non-automotive deals will deliver revenues over the near-term and are much easier to penetrate.

Given these dynamics, we see the importance of keeping 2022 focused on our first strategic priority which is, solidifying our position as a leading supplier for LiDAR for automotive, and leveraging our

momentum during the industry's critical decision window. We will keep perusing many automotive opportunities that are still in play and we believe we can secure more. These automotive wins could guarantee long-term and sustainable growth for the company.

As we enter 2023, with several series production deals in our pocket, with two programs expected to launch, we take the next step of our plan, which is expanding our market share beyond the automotive industry, to boost our revenue generation. To that end, we are building today our production capacity for both InnovizTwo and Innoviz360 products and have confidence in our ability to penetrate this market quickly. With InnovizOne, InnovizTwo, and Innoviz360, we expect an uptake in revenues during 2023, through the non-automotive market while we begin to recognize revenues from the automotive deals we closed earlier.

With that, I'll turn it over to Eldar to go over the financials.

Eldar Cegla (CFO):

Thank you, Omer, and good morning, everyone.

Our confidence in our future growth opportunity is supported by our robust cash position, which gives us both the flexibility to execute our 2022 strategy and additional runway to invest in new and innovative technologies.

These are exciting times for Innoviz, as we are at the starting point of another major project. We maintain a high liquidity level of \$275M in cash, short term deposits, and marketable securities.

Our operating cash flow during the first quarter of 2022 was well within the planned budget and Innoviz's debt-free cash assets enable us to continue to execute our 2022 plans.

Revenues for Q1 2022 were \$1.8M, compared to Q1 2021 revenues of \$0.7M.

All of our revenues in Q1 this year were InnovizOne related. The company expects InnovizOne sales to continue to increase and we are also targeting to sell the first samples of InnovizTwo later this year.

Operating expenses for the first quarter of 2022 were \$31.1M, an increase from \$19.7M in the first quarter of 2021. Operating expenses in Q1 2022 included \$4.7M of share-based compensation compared to \$1.8 of share-based compensation in Q1 2021. The increase in operating expenses in Q1 2022 compared to Q1 2021 was primarily due to the increase in the number of employees and share-based compensation.

Research and development expenses for Q1 2022 were \$22.8M, an increase from \$16.7M in Q1 2021. Research and development expenses in Q1 2022 included \$2.7 attributable to share-based compensation compared to \$1.3M attributable to share-based compensation in Q1 2021.

To conclude, we gained a strong position in the marketplace with the recent win, and we believe that this win strengthens our position to gain additional market share during this year and the years to come. As a direct supplier for the industry, we will continue to leverage our strong cash position to develop groundbreaking technology and products for the automotive market and beyond.

And with that, I will turn the call back to Omer.

Omer Keilaf:

Thanks, Eldar.

I hope you can tell from our call today how excited we are about Innoviz's future. Years of blood, sweat, and tears have gone into achieving the agreement we just announced. I am incredibly proud of what our team has accomplished and know that the best is yet to come.

We are eager to exceed our customers' expectations as we deliver value to our shareholders.

I will now open the call to your questions.

[-session of questions and answers to follow-]