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MVIS Financial and Operating Results Q4 and Full Year 2020

Company Participants

Lindsey Stibbard

Sumit Sharma - Chief Executive Officer

Steve Holt - Chief Financial Officer

Conference Call Participants

Glenn Mattson - Ladenburg Thalmann

Kevin Dede - H.C. Wainwright

Operator

Good afternoon, and welcome to the MicroVision Fourth Quarter and Full Year 2020 Financial and Operating Results Call. All participants will be in listen-only mode [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Lindsey Stibbard. Please go ahead.

Lindsey Stibbard

Thank you. Good afternoon, and welcome everyone to MicroVision's fourth quarter and full year 2020 financial and operating results conference call. Joining me on today's call are Sumit Sharma, Chief Executive Officer, and Steve Holt, Chief Financial Officer.

The information in today's conference call includes forward-looking statements, including statements regarding exploration of strategic alternatives, sale of our product verticals or technology; sale or merger of the Company; or completing any such strategic transaction; maximizing shareholder value; managing costs; expected customer orders; future royalties; progress under and benefits of existing contracts and license agreements and the negotiation of future agreements; customer product launches; advantages of our technology; litigation; business execution; projections of future operations and financial results; availability of funds; product development applications and benefits; availability and supply of products and key components; commercialization of our technology; market opportunities and future demand; as well as statements containing words like opportunity, potential, possibly, intend, believe, goals, paths, expects, plans, will, could, would, likely, and other similar expressions. These statements are not

guarantees of future performance. Actual results could differ materially from the future results implied or expressed in the forward-looking statements.

We encourage you to review our various SEC filings, including our Annual Report on Form 10-K filed on March 12, 2020 and Form 10-Q filed on October 30, 2020 as well as various other SEC filings made from time to time in which we discuss risk factors associated with investing in MicroVision. These risk factors could cause results to differ materially from those implied or expressed in our forward-looking statements. All forward-looking statements are made as of the date of this call and except as required by law, we undertake no obligation to update this information. The financial numbers presented on the call today are included in our press release and in the 8-K filed today. Both are available from the Investor Relations section of our Website. This conference call will also be available for audio replay in the Investor Relations section of MicroVision's Website at www.microvision.com.

And now I'd like to turn the call over to Sumit Sharma. Sumit?

Sumit Sharma

Thank you, Lindsey. Good afternoon, everyone.

As we look back at 2020, I see it as a defining year for us. A year ago, we faced a very challenging business environment and global outlook. Despite this we made important progress that allowed us to stabilize the Company for 2021 and position us to advance our technology while pursuing strategic alternatives. I would like to start by thanking our employees for their dedication, creativity, innovation and execution. The potential value of this work is just starting to come into focus as the market segment in advanced driver safety and autonomous driving sees established multinational technology companies, software companies focused on delivering mobility as a service and traditional automotive OEMs and Tier 1 companies start to invest in and engage in preparation for this emerging market.

I would also like to thank our shareholders for their support that allows us to focus on obtaining the right value while exploring strategic alternatives, including a possible sale of the Company. This support has enabled us to have a stronger balance sheet as we continue evaluating our options while we work to complete our long-range LiDAR sample, which we expect to be best-in-class. I will expand on this a bit later in this call. Stronger balance sheet allows us to add staff that we believe increases the value of our Company for potential strategic partners as well as reduces risk to our 2021 development goals. I expect us to continue adding key staff through 2021 to enhance our ability to demonstrate to the market and potential strategic partners two sustainable strategic advantages of our technology: first, the ability to deliver a high-performance long-range LiDAR sensor that is designed to meet or exceed current OEM requirements; and second, scalability of our sensor to support future price targets.

Over the last 12 months, we also welcomed three new members to our Board of Directors with considerable expertise in automotive and augmented reality market segments. I believe adding these new expertise and insight to our current board to augment existing expertise in business, including expertise in mergers and acquisitions, strengthens our ability to create value for our

shareholders. Over the past two decades, we have leveraged our strengths to solve some of the toughest technical problems anticipated by multinational OEMs as they looked to new market opportunities using laser beam scanning technology. In our Augmented Reality, Interactive Display, and Consumer LiDAR product verticals, we pioneered scalable solutions that we believe were far ahead of global competitors. The impact and value of what we achieved was hard to measure since there were no competitive solutions for these verticals. Our Automotive LiDAR product addresses an emerging market segment that has the potential to impact millions of lives in mobility and safety, with potentially billions of dollars of sensor and vehicle sales for OEMs and multinational technology companies over coming decades. I believe this market demand represents a great opportunity for MicroVision to showcase our competitive advantage of high performance and scalability. We expect our long-range LiDAR sensor to demonstrate what we believe will be the high performance required for advanced driver assistance systems and autonomous driving. This performance is calibrated to meet current OEM requirements and would include range of up to 250 meters and beyond, a high-resolution point cloud with up to 10.8 million points per second from a single return, object velocities relative to ego vehicle from a time-of-flight LiDAR, low latency, intensity, inertial output and interference immunity from sunlight and other LiDARs. With such capabilities in our first potential product, we believe a future product could then include a LiDAR and the camera module combined in a single sensor. We expect such a product could reduce the number of sensors required per vehicle to achieve features for advanced safety in autonomous driving. This improvement in cost could support faster adoption. We believe our capability to demonstrate scale is important in this segment. We have successfully demonstrated our solid-state technology to achieve scale over more than a decade. Our custom MEMS and ASICs scale from 200 millimeter wafer technology where we have successfully delivered products for OEM programs. Our LiDAR is based on 905 nanometer laser diode technology that is currently available and is the plan of record for anchor technology companies. Additional innovations in injection molded free form plastic optics and multi-axis active alignment automation, automated testing and closed loop control algorithms, among others, have prepared us to show scalability from our pilot line.

As I mentioned in our call last October regarding our A-sample timing, we expect the hardware for demonstration along with select benchmark data from our development platform will be available to interested parties in the April time frame, followed by continued benchmarking and testing. I also expect that a version of our solid-state long-range LiDAR sensor could be available for sale in small quantities in Q3 or Q4 this year. Our solid-state long-range LiDAR sensor could enable any interested party to perform testing with our sensor on their moving platforms, such as cars and longhaul trucks. This is important because we believe scalability being a key strategic advantage of our technology needs to be demonstrated to help realize value for our shareholders. Also, we expect to establish a pilot line with appropriate capacity to demonstrate scalability as we have done over the last decade for multinational technology partners. Let me be specific on this. Our capabilities include delivering process maps, control plans, supply chain partnerships, automation and product integrity qualification for high-yield designs that can ramp. We have confidence in our ability to scale our sensor from our pilot line.

In addition to our automotive LiDAR vertical, we believe we remain well positioned in Augmented Reality, Interactive Display and Consumer LiDAR product verticals for strategic

alternatives. The impact of the global pandemic on consumer devices in these segments is evolving as is clarity about opportunities from OEMs focused in these markets.

In conclusion, we remain committed to exploring synergic alternatives, including a potential sale of the Company, in part or whole, to maximize value for our shareholders. I believe with our advanced technology and continued dedication of our employees, our vision on products and markets and strength of our balance sheet, we can deliver a scalable, best-in-class long range LiDAR sensor. I am profoundly optimistic about our path forward.

Finally, today the Company announced that David Westgor will retire from my MicroVision. David has been a key contributor for over 15 years. He is stepping down from his current role but will be available to support the transition to a new General Counsel. As he approaches his 68th birthday he feels it is time to look to his planned retirement and enjoy the time with family with the Company on a solid path forward. On behalf of our employees and shareholders, I would like to thank David for his dedication and service to MicroVision. I will miss our time together and his counsel, and I wish him a wonderful retirement.

Now let me turn over the call to Steve to discuss the fourth quarter and full year results. Steve?

Steve Holt

Thank you, Sumit. Good afternoon, everyone. Before I move on with my prepared remarks, let me just echo Sumit's sentiments about David's retirement. I too will miss the daily interaction and wish him the best in retirement.

For the fourth quarter, revenue was \$395,000. All the fourth quarter's revenue was royalty revenue and was attributable to our April 2017 customer. In comparison, in the third quarter, we recognized \$639 thousand, \$539 thousand in royalty revenue and about \$100 thousand in product revenue.

Revenue for the full year was \$3.1 million, \$1.7 million from royalty revenue and \$1.3 million in product revenue. The product revenue was mainly from shipments to our April 2017 customer in Q1 before we move to a royalty model starting on March 1, 2020.

As a reminder, I want to point out that royalties that are due to MicroVision related to our April 2017 customer will be credited against the prepayment made by the customer in 2017. When the prepayment is exhausted, the customer will begin making cash payments for royalties due. At the end of Q4, the balance of the prepayment stood at \$7.8 million. As I previously reported, the \$7.8 million prepayment is not refundable to the customer and the \$7.8 million is on the balance sheet as a contract liability.

During the year ended December 31, 2020, we applied a total of \$2.0 million against the prepayment. Royalties have no cost of revenue. So fourth quarter cost of revenue was zero, resulting in a gross profit of \$395 thousand. In comparison, gross profit was \$639 thousand in the prior quarter. Operating expenses were \$4.0 million in the fourth quarter, up from \$3.5 million in

the prior quarter. The increase is due to additional expenses related to our development work on our first-generation LiDAR sensor and personnel additions we've made to our engineering staff.

Let me talk a minute for about headcount. A year ago, in February 2020, we reduced our headcount approximately 60% because we were not sure what the future held. While lowering headcount was essential at that time, we've concluded that we need more people to advance our LiDAR product to a point where it would be easy or ready to scale. Additionally, we believe having a more rounded out or complete team makes us more attractive to those who may consider strategic transactions. Fortunately, we've been able to rehire some of the employees that we forced to lay off in February 2020, and we've added some new personnel. Today, our headcount stands at 53.

For the fourth quarter, our net loss was \$3.6 million or \$0.02 per share and this compares to a loss of \$2.8 million or \$0.02 per share in the prior quarter.

In the fourth quarter, cash used in operations was \$4.2 million, which compares to cash used in the prior quarter of \$3.5 million. We expect that our cash use in operations for Q1 2021 will be in the range of \$5.0 million to \$5.5 million. The expected increase will be due to continued spending on parts, tooling and contractors to develop the first-generation long-range LiDAR and the increase in headcount.

I'm very pleased to announce that we ended the fourth quarter with total cash and cash equivalents of \$16.9 million, up from \$5.0 million in the prior quarter. In addition to the \$16.9 million cash balance, we raised net proceeds of \$61.4 million from two ATMs we completed in January and February of 2021. This puts our balance sheet in the strongest position it has been in for many years. And based on the December 31st cash balance and the 2021 proceeds from our ATMs, we anticipate the financial statements that we will be releasing shortly will no longer have a going concern opinion. We are very pleased where the Company is today.

We will now open the call for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question will come from Glenn Mattson with Ladenburg Thalmann.

Glenn Mattson

Hi, thank you for taking my questions. I have a few, so just bear with me. So, on the interactive display as we're trying to kind of think about what that could be worth as far as to a third party or strategic buyer or something; you know it was about a year ago, thinking back that this time that large customer that you were potentially working with kind of step back from that project. So, perhaps could you give us an update on like has there been any further discussions on new products? Has that customer come back? I mean there's a lot of applications where that could be

useful, obviously. There's a lot of home speaker companies who would maybe be interested in differentiating themselves. And that product has been available now for a few years, more or less. I know it's been improved over time. But maybe you can give us some color, Sumit, on how much interest there is right now in that part of the business?

Sumit Sharma

Good question. As I mentioned in my remarks, the impacts of global pandemics and what's that done to consumer device demand, that gets stabilized based on what OEM outlook would be. But at this point, we are well positioned in the three verticals I mentioned on the consumer side. And beyond that, we're not giving any more clarity. But you're right, there's as a consumer myself and yourself, we can recognize in our lives, especially in the last year, there's multiple opportunities to have a technology like that, especially when it's a Class 1, and it could a bet in a lot of different places for a lot of different applications.

Glenn Mattson

On the April '17 customer on that display piece, that's been out for a while now. So maybe can you talk about, are they seeing an uptake in usage or anything? There's a lot more AR/VR stuff going on these days. So, can you just give us -- do you have any sense or are you completely separated now that you've more of a license partner rather than a solutions provider for them?

Steve Holt

Yes, on the April 2017 customer, we are expecting that royalties in 2021 will increase over 2020 and we're rooting for that product to do well and for it to really be successful. So, we do think there will be some increase.

Glenn Mattson

And then moving on to the LiDAR stuff. So, congrats on the progress. Nice to know. I think you said the April time frame, which I assume being that you think you'll have product for shipment late in the back half is like just plus or minus a few weeks, I guess. So, I guess, it's clearly a big market. And Sumit, you talked a lot about all the ways that your product differentiates from the numerous other LiDAR makers out there. But the biggest one I think I heard about was kind of the ability to reduce the number of sensors on a vehicle. So, I just like some clarity on that, I think, because it is important, I think. And then are you suggesting that there would not be a need for any redundancies or that instead of three or four sensors, you can get down to one or two, or just sensor systems. So, maybe you can just kind of clarify or maybe expand on that. I think that's an interesting point.

Sumit Sharma

It's a great question, and it's from my favorite topic, so I'll try to keep it concise instead of talking too much about it. So, I think if you think about these sensors, a lot of them, redundancy is going to be dictated by regulation. A sensor's capability, what will happen over a long period

of time with actual miles driven on enough cars for consumers or testing, regulatory bodies like NHTSA, Euro NCAP, they will decide what's required. But as you can imagine, for every -- the big business is OEM. Obviously, a single OEM, let's say, shipping 10 plus million vehicles compared to like some shipping only 0.5 million. Things are going to change, as we know, but they will decide, which is the most scalable product, long term, accommodate for the regulation requirements, but anybody would want a solution, regardless the regulation requirement, solution that's the most concise, that gives us the best opportunity possible to ship a product at a competitive price. Adoption price of increases the lower the number of sensor counts. So, I think everybody knows this. If you're just watching the news, cars have radars and ultrasonics and LiDARs, and multiple camera modules, but then there's another bigger proportion of it that is not talked about often, which is called ECU, where all of this is fused together, and that's where the decisions are made based on planning and maneuvering.

So, if you think about some of the choices we've made, some of the hard problems that we chose to solve for multiple years before launching our product, obviously, range is important. That's a basic. You have to have a range, so certainly have that. But this high-resolution where something at 250 meters as tall as me probably even shorter than me, significantly shorter than me, you could identify that is a very compelling thing. So, resolution is a very important one. On top of that, cluster velocity, so you can predict how things are moving in relation to the car you're driving, the ego vehicle, that's very important, again, in the same sensor. This whole point of like 30 hertz are low latency, this is very important because camera modules that are in the cars right now, they operate there. So, sensor fusion becomes a lot simpler. Unlike if a sensor was at, let's say, 5 hertz, 10 hertz, 15 hertz, some people would say, oh, it's all the way to 120 hertz. Well, we can be there as well. But what we do know is sensor fusion requires a very, very simple computing to merge them, simple, relative speaking. But then you can start seeing pieces come together that make the entire system, including the computing and substitute required to deliver true L3, L4 features as regulations are written for them.

So, in general, having a sensor LiDAR with such high-resolution at the latency, which is about the same as a camera module and a computer system that can actually fuse the sensor and perform all the analysis on the fly, that's the path to a scalable product in general. Now what else stay in there? What are the features out of there? It's regulation, of course, what OEMs want to offer, what their differentiation would be. So, this is the data all the way back from my time at Google and other places. This is the problem that everybody has been looking to solve is how do you take the number of sensors required to achieve autonomous driving and advanced safety features, and this is the path. So again, this is what I believe, is what we believe, and you can see in the market right now, you see different people feeling different moving platform testing. And we're excited about having this product available for them to put it on their moving platform and explore this.

Glenn Mattson

That's great color. So just two questions kind of about the balance sheet. Number one, I guess, now that you have this big pile of cash, which probably equates to somewhere to the tune of like three to four years at the current burn rate, assuming there are like no revenue coming in the door. Is there some part of -- some element of the thought process to maybe go alone at this

point? Like there's less urgency necessarily to find a partner for sure. So just curious about if you're thinking about maintaining yourself as an independent entity with now that you have this cash?

Sumit Sharma

So, I think consolidation is actually happening in the market, as you know. There's more than 100 LiDAR companies. So that's part of it. So we have to keep that in mind. And consolidations are horizontal, vertical, depending on the market by itself is settling. The best solution, the best scalable solution, was most likely going to win. So that's a premise that we just have to sort of remember. So, the concept of strategic alternatives is the most pragmatic way I can describe how one would have to approach this as we think about going forward. So, this concept of as a stand-alone company, I think for us, we've mentioned on the call, we continued the advanced development and expect to have the best-in-class LiDAR, as we said that. So that positions us for that one key part of the conversation about why is this such a differentiated product. The second piece is also extremely important, which is scalability. So, if you think about all the consolidation, it's going to whittle down to a small group of companies that have the most gravity around their solution. And it's not the one that's got the flash in the pan kind of like what conversation they can have. This has to be the protein and the fiber part of it, where you have actually thought about what problem you want to solve and you're way ahead of everybody. That's the conversation. So that's how I look at it.

So there's question about standalone Company. I think it's a good one. But I think the way to really think about it, consolidation is a point that is happening. Strategic alternatives are there. We certainly have a pilot line that I think we can ramp to anything that is required on our A-sample. B- and C-sample, I can give a little bit more color on that later, but those are done when they're specifically something a OEM that they want to customize and that goes towards their product. So right now, that's not there. So the stand-alone company. I mean, of course, we can go there but strategic alternatives is how you could think about it, because where the market is in the LiDAR space? How is anybody can justify all these valuations with the kind of revenue that would have to be a reasonable multiple to that in the future, right, Glenn? So, I'm saying that strategic alternatives is the right way to think about it. And we are a stand-alone company right now, but we're up for sale. So I think that's the best way I can answer it.

Glenn Mattson

So, the last one for me, so for the third ATM that you did, I've never seen one that was announced and then completed inside of like six days. So, I understand the first two like we're done, they were a little longer than that, obviously, but they were had to be done and it was kind of a that you got them done quickly to get enough balance sheet power to hold out long enough to do negotiations for sale and everything. But the third one, you weren't necessarily under extreme balance sheet pressure now the stock had run-up a lot. So, I guess I'm just trying to think about how you feel -- in other words, if you thought the stock had a lot of room to run, you might have taken a longer time because you weren't on any time crunched balance sheet wise to get that done. So just kind of think about if you can just discuss the thoughts about how you executed so quickly?

Steve Holt

Yes. I think the volumes, the time -- after that, we're very high in the share trades. And so we were able to really quite -- be quite patient it didn't take very long to sell through that amount of shares. But the price was high and the volume was quite high. So, we were able to just take advantage of that. I guess I'd also say that on some of the earlier ATMs, we were able to clear those in relatively short amount of time too, largely because the volume and the share trading was high and the prices were also good at those times as well, though not as high as on the third one.

Operator

Our next question comes from Kevin Dede with H.C. Wainwright.

Kevin Dede

Thank you gentlemen for taking my call and hosting the conference call. I realize that there's a lot of background noise, so I apologize. I'm not sure if you can even hear me at this level. So, let me know that first before I continue.

Sumit Sharma

We can hear you, Kevin.

Kevin Dede

So Sumit, you mentioned the compatibility with cameras. So, can you talk about that? And I mean, I get the whole 30 hertz thing, but I'm wondering how much further you're going to go? Are you going to try to continue to work on your module and integrate it with a camera on your own, or do you think you're just going to be able to pass off the LiDAR technology separately and go with that?

Sumit Sharma

If you reviewed the comments I made today, we're focused on our LiDAR product, but what I was trying to draw a future vision of part of the road map for anybody reasonable would be to accommodate that and what is that benefit to that. So, by making this LiDAR to the level we've done, what is the real benefit. That LiDAR by itself is extremely valuable. I mean, I'm always optimistic about the Company. A year ago, where we were, people ask, what do you think MicroVision where it is, I think back even back then, I said it's worth billions so took a year. So that's what the market valuation is. So, if you think about the value of the LiDAR is where I'm trying to say that what problem has it solved? How is just LiDAR another widget that another company, the source company has with a widget and how do you differentiate? So, I'm trying to draw that bigger picture of how important it is to actually solve these problems in these segments, that's point number one. So, that's how you think about it.

So, we're not developing that product. Is it part of the current plan? No, absolutely not. I'm just saying that, that would be the next one. If a partner comes along and then they want to do something with that, that's perfectly fine. But I wanted just to provide the color to people understand what's the benefit. When everybody hears about this company x, says makes 0.5 million units and their CEO doesn't believe in LiDAR. So, I get all sorts of questions all the time. So, I've never really brought a point about that. But it's about that LiDAR will become an integrated item in L3 and L4 safety as you go forward. But the ultimate solution is the number of sensors that are required to make a car to that level of safety is too big. So therefore, adoption rates will be low. So therefore, over a longer period of time, if you want to go to higher volume in whatever time frame, I think there's other competitors that have financials out that project years into the future, that's the point I'm trying to bring out is what's all that. A LiDAR by itself will not solve it. It will completely go to the level that's required. It's a very important piece. But you still have a more expensive part, a holistic part of that entire system is also the computing. If you have a 5- or 8-kilowatt water cooled computer, trunk is the only way you can do this autonomous driving, that's not scalable. People use their trunk for other things. So again, that's where it puts in context where that technology is. So I'm just saying it's a future road map that how to visualize why the problems you solve are extremely important.

Kevin Dede

Yes. No, understood. I think you did a great job making those points clear. Sumit, I guess, I was just sort of thinking of the next step in terms of convenience for your potential future partners or customers.

Sumit Sharma

I just want to be very crisp about that, right? We're focused on our LiDAR, A-sample, it's exactly what I said. Over strategic alternatives, we know what we will have to do, but just because we know ultimate solutions years out because we have experiences, and we have -- fortunate to have some really great board members, that does not mean that we're embarking on that. I think being very crisp about what we're working on and our commitment strategic alternatives, because that just kind of makes sense where the game is right now.

Kevin Dede

Fair enough. I didn't -- I apologize if you thought I read too much into it. It just seemed like the logical next step.

Sumit Sharma

Kevin, no that's -- my direct was not, I guess, it's a great question. It's a valid question, right? It's just I want to make sure that lots of people listen in to these calls. So it's kind of important that people have clarity of thought of exactly what we're working on. And as we said concept is to say why we would be winning. So if you think about this consolidation happening in the market, if anything else, my comments ask why would we be one of the final companies? If you solve a key problem and you're extremely valuable, of course, I'm optimistic about this Company.

Hugely optimistic what it could actually enable. So that's why I was just trying to be crisp, like, I don't want my optimism to somehow mix in with what our plan. Our plan is exactly what I said. So that's I wanted to be pretty crisp about that.

Kevin Dede

I appreciate the candor. So, I know, Glenn got a couple of words in on cash burn, but I was on was hoping maybe Steve could go back to that topic. What's your expectations for headcount, Steve? I think you mentioned 53 total now. Where do you think that goes year end and how does that change your cash burn?

Steve Holt

Well, we haven't given a forecast on where it's going to go. We see that we'll be adding some throughout the year. But just to sort of kind of book end it, I think, it'd be in the realm of 80-ish would be as high as I would think it would be potentially lower, but just it's not ramping tremendously. About a year ago and we were in February of 2020, I think we were at like 70, 80 people around that time frame. And you got to remember that cut we made in February was pretty deep. So as far as the cash burn, as far as I'm projecting out right now, we're giving guidance on is this \$5.0 million, \$5.5 million next quarter. And as you can imagine, there's a fair amount of materials and stuff going into building this product. And then those expenses would come down and then -- so I don't have a long-term forecast, but it shouldn't go up too much more.

Kevin Dede

Last question for me. I know Sumit spent a lot of time on this, too. But can you just kind of go over exactly what will be tangible within the April time frame?

Steve Holt

So, in the April time frame, we'll have the A-sample hardware that can be demonstrated and shown and also, we would have some benchmark data from the A-sample device as well as from our development platforms that we can share that data as well. So, the folks understand what the A-sample is capturing and seeing.

Kevin Dede

And then on 4Q...

Sumit Sharma

[Multiple Speakers] benchmark testing and further testing just continues, including any other requests that may come back for custom testing, so the work continues after that.

Kevin Dede

Of course, and then 3Q, 4Q, is that your B sample?

Sumit Sharma

No, that's A sample. That's where it's up for sale. So as I said, potentially, if somebody wants to work the hardware on a moving platform test because obviously, we're not investing in moving platform testing on cars or long-haul trucking, however that could be utilized, we would have the capability to build that. But it's a pilot line in the sense that it can be ramped. Obviously, that's always been our wheelhouse. But we're just being reasonable about what the future would be and beyond that, I think we're not giving any more guidance.

Kevin Dede

Yes, fair enough. Appreciate the time, gentlemen. I'm sorry, Steve, go ahead.

Steve Holt

Yes, let me make clear. The demonstration we're doing would be to potential customers or other interested parties. It's not a public demonstration per se but it's to folks that we're in conversation with.

Kevin Dede

Understood, Thank you for entertaining questions and hosting the call. Very much appreciated. I think Summit, most everybody that's listening in feels the same way that you do, right? There's a lot of technology, and it has a lot of value.

Sumit Sharma

Yes, yes. I think this is like a fight for the feature. The last time I remember feeling this kind of excitement was what we call Internet age, right, in the late 90s or the mid-90s, you knew that there was a big revolution that would impact everybody's life. So, I'm excited. All of us are. Thanks Kevin.

Steve Holt

So, we're going to go on to some of the questions. We received over 70 questions from investors. Many of the questions are variations of the same topic, and most of the questions were addressed in our prepared remarks. As we did last quarter, we tried to consolidate the questions on the same topic to address the basic issues. We won't be able to answer every question that was submitted, but we will go through several. And so the first question is, Sumit, can you provide any more color about your automotive LiDAR A-sample, the outdoor testing and customer validation and also, will there be B- or C-sample?

Sumit Sharma

So, as I mentioned, a sample, I think it was back in October, also we give color on this. A-sample is a specific thing that is a general part that everybody can utilize, evaluate the impact the technology will have on the path they have. So therefore, it's funded by MicroVision, obviously, and it enables us to address it to every potential interested party. It's got advanced features in our sensor. They must go through appropriate verification, as you can imagine. So, when you say 250 meters, all resolution, you have to demonstrate that. And of course, all the other custom requests that may or may not be there to evaluate for a specific part of it for somebody confidentially, specifically for them. So, the great platform is how you think about it, A-sample. It allows us to -- that's why we say like we have A-sample hardware, but we also have a development platform. So depending on what's happening, we address that. And that's why that data is, I think a lot of the retail investors ask for, is that data going to be made public. The answer is no, because it would be confidential stuff in there. So no, this is benchmarking data that we provide to interested third party.

So outdoor testing is a very important one. Obviously, one of the big features here is with our active scan locking that allows us to have a time-of-flight LiDAR in a 9 to 5-nanometer laser, which is pretty unbelievable. In outdoor testing, you have to verify these features. So that is something that is the most basic verification you have to do. Today, it's a very beautiful day in Seattle, Redmond area. It's bright up to like, what's called 70,000 lux. It's pretty bright day. Some of the brightest days that are in all of US is about 100,000 unless you're in Death Valley, it's about 127,000 lux. So it's a very bright day. So you have to verify the performance over a wide range of conditions. That's very important. So you have to produce, as you can imagine, a broad body of data with all sorts of things. All sorts of modifications that somebody may or may not ask for. That's one important thing to remember. So A-sample, again, like we said, there's a time line for the hardware but then the work starts of getting all this data to get everybody's questions answered and interested parties.

And we would probably most likely are going to get asked by interested parties further along to explore capabilities customized to them, so this is not something that all of the standard data sheets up. This is specifically for something of interest to an interested party. That testing has to continue as well. So that's why the period just we embark on a big verification testing and everybody's thirst for data would be done, who's working with us under NDA. This will be done on the A-sample and the development platform, I've said. So that's important to remember. And our current focus is the development of A sample. So there is no B- or C-sample. B and C-sample, the best way to think about them, these are the -- like let's say you go through an RFQ with an interested party, like an OEM, then that enables somebody to customize their base solution for that interested party. And that customization design, it could be a full redesign, a partial design, in most cases, a partial redesign and qualification to their standards, whatever they require for their customization. And those are the B- and C-samples and then goes towards the OEM launch cycle, and it's got its own cadence.

So at this moment, I think I want to be pretty clear. Our focus is A-sample, but it is an actually pretty valuable because you have the precursor to every potential derivative of that that people could consider. So we have a platform, which they can actually we will be more than happy to accommodate their requests for custom data, and they could, without any investment or waiting, they could actually see how we would have aligned to their plan, or how we do align to their

plan. So that's pretty important. Now we expect this to launch this pilot line and that's actually a pretty important step because regardless of what customization happens when a B-sample, the ingredients I mentioned, those are very important. If you can demonstrate them at A-sample, you're significantly more mature and you probably get success for B- and C-sample increase, of course. So again, this is something that we have to show, something that we to show benchmark data. We have to have built confidence. We're fortunate that we have a decade long history doing that and then you would embark. So B- and C-sample, they're on the spectrum but they are not part of our day to day planning right now.

Steve Holt

Second question is it's related to the \$50 million ATM that we did in February. What are you spending \$50 million on? Why do you need so much money? I'll take that question. We're trying to become an important player in the automotive LiDAR market and in the automotive LiDAR market, the staying power of a business is important. Also, we need a balance sheet that gives confidence to others and our ability to execute our plans. We need to be able to give confidence to customers, people perhaps in a strategic transaction as well as to employees and future employees. And so that's another reason to have a strong balance sheet to show that confidence. And then it just seemed out of sync to be \$2 billion to \$3 billion market cap company, having such a low cash balance, particularly when you compare it to some of the other public LiDAR companies.

Third question. Why are you hiring employees if you're working on a strategic transaction? I'll take this one again. So first, let me just remind you of the significant reduction we had in 2020, that really brought us down to a very low level of staff. And so why we need some employee -- hire more employees? Well, first, we're working on aggressive timelines to complete the development, prove scalability. And for that work, we need more people and some additional skill sets. Second, we want to make sure that we have backups in critical skills and positions. We don't want to be in a place where one person, if they got ill, for example, that one person being out could seriously affect our ability to execute our plan. And then thirdly, we need to have an infrastructure in place to support the work that's going on. So we need IT, we need people operations, and we need accounting and finance at the appropriate levels to support the business. So those are all the reasons that we're bringing out some folks.

Number fourth question, can you provide an update on the April 2017 customer? I think Glenn asked that question as well. Not much more to add in terms of what I mentioned when Glenn asked the question, which the customer continues to ship product with our components. They continue to report their shipments and their quarterly royalties. We expect 2021 royalties are going to increase over 2020. And we're just hopeful and wish that customer a lot of success building out the volumes, the sales of their product.

The fifth question, we talked about scalability today. Why is being able to scale in your product so important? Sumit, do you want to take that one?

Sumit Sharma

Yes. So I think I mentioned this also in the Q3 earnings call. Scalability is important to demonstrate that the gravity of business and the product that they have, they would have future capability of generating revenue and profits. So I think it's important to think about now that for the first time in the 20 year history or even the 20 year history of this Company, finally, we are in a market, in market segment where there's other public examples of stand-alone companies that can benchmarking against. There you can see, like you finally have a race, we're not the only ones. There's no competition, we're there. So keep that in mind. Now everybody will talk about scaling, but it is pretty clear OEMs have a very specific idea of how the long-term market would be if they cannot win for a sensor that can go multiple years of deployment. They're not going to redesign a sensor every year, that's not what automotive is. It is slow and steady and reliable.

So therefore, it is very important to understand the long-term commercialization and scaling of the choices that we make. So anybody can have the best possible sensor solution. While I believe that solid-state MEMS scanning is powerful is because our scanner starts from a 200-millimeter wafer, turning to module, controls, electronics, optics and it is able to do that wide scanning. Now put that versus a mechanical scanner, you can't negotiate your way down when you have a lot more components and you have mechanical parts. So right off the bat when you talk about scalability, it's not just the fact that you can go from a small volume and ramp up to a high one, that is very important. Of course, that's one of the biggest things why you would leverage a MEMS based scanner and a 905-nanometer laser system integrated together with a lot of the features that we have, it's the fact that that is much more competitive. So regardless of where the entire conversation in the market with the folks that we're competing against. That's one of a very big conversation that kind of gets lost and muddled. People are so focused on, you have 251-meter single return, right, yes, that's check, check, check, what the better question is, how are you going to win this? If you know that the customer always looks at commercialization, even harder than consumer. Let me repeat that. Whatever people have an understanding of the consumer market, automotive is significantly more conservative because they need to understand any sensor sales that they would make that OEM would make in a car is supportive about 15 to 20 years behind. So this supports my premise, of course, the consolidation is something we have to keep in mind. It is the way the level of investment that's involved. It's probably the path forward for the Company, obviously. But also that scaling part of it, if it's demonstrated, you have a high probability of potentially being successful. Otherwise, you can build a story and sell a story, but for me, personally, it will not jive because if you can't really prove what the scalability. So it's very important to think about scalability. And we just talked about what is the ASP and what the margin would be. That's a good conversation. But the conversation for any interested party in the world goes beyond that because they had to understand multiple years. We said, millions of lives and billions of dollars over decades, so you can understand. That's why scale is very important. So if you combine all that together, right, you have to really give long term confidence to hit target price points and margins that they would experience, and that's important. That's the step. So actually, I think, Steven, I had a great conversation about this Steve, do you want to add a couple more things to this?

Steve Holt

Yes. Well, I think one of the things when it's on scalability, we are putting together a pilot line, but just want you to be aware that we're not going to hog wild with some big factory. We're

building a pilot line to prove our capabilities and the fact that this product can be made to scale and can go. And the line could ramp up if it was needed, but that's the secondary. Right now, we're focused on the appropriate level to be able to prove and show scalability in the product.

Okay. I think this is -- the last question we have is, this question is regarding where we are in the process of seeking strategic alternatives? Anything you want to add on that, Sumit, in addition to the comments we've already made?

Sumit Sharma

Yes. So I think the point I would start with is just I want people to understand it's not a philosophical one. It's just common sense and so you get too pragmatic about it, with so many companies vying for the rollout volumes that are going to be there in OEM, and they're still the biggest game in town. Consolidation is going to be part of the conversation always. And in any reasonable businessperson would say that has to be on the table at all times. So that's what we stay committed to it. So there's no ambiguity or reading between the lines, there's nothing to read between the lines. This is as straight as I can say. So I think it is actually strategic alternatives, seeking that. That's number one.

I think to realize the right value for the Company, advancing our hardware, demonstrating scalability, again, I've hit on that quite a few minutes here. It's key given the current competitive landscape. So as you get more people in there, the conversations going in different places, but I tend to want to just stay down like it is one thing that everybody can tell the story, their company, their products saying, hey, I'm going to win. We're going to win, we're going to win. But there's another thing that you can see a company and senior group of people and a see product when you can see the move yourself from the outside of investor and say, I think they're going to win because this is how it would piece all together. Any reasonable person would see this is how it would be, there's nothing exotic about it and that's very important. So I think I can just come out and be pragmatic about it, which is this is where we are and all the variations of the chess game, it's reasonable. So therefore, strategic alternatives still stays in the forefront of our thinking. So it's very important.

And again, the current key landscape associated with the market capitalization for potential parties, you can see where everything is still and very important to focus on the right thing. We continue to advance development of our automotive LiDAR. And again, as you noticed, is to A-sample, again, be pragmatic about what you have to enable so you can think through -- you're not promising the moon and under delivering, to just be reasonable about where everything is headed and spend accordingly. I mean, that's pretty good. And for me, personally, like the process continues, process is all continuing, but we will not be commenting more on it. I think the question that Steve has created here is like a softer version from the questions, and I appreciate everybody's enthusiasm for the company and trying to understand. But as we've said before, I assure you the process continues, but we will not be commenting on any specifics.

Steve Holt

Okay. With that, that's the last question. Sumit, do you want to make any final comments?

Sumit Sharma

Yes. In closing, I want to once again thank our employees, business partners and our shareholders for their continued support. I look forward to reporting on our progress in the future. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.