



Crown ElectroKinetics Corp.

Second Quarter 2022 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

Henryk Dabrowski, *Investor Relations*

Doug Croxall, *Chairman and Chief Executive Officer*

Joel Krutz, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Shawn Severson, *Water Tower Research*

Gerry Sweeney, *ROTH Capital Partners*

P R E S E N T A T I O N

Operator

Good day everyone and welcome to Crown ElectroKinetics Corporation Earnings Call for the Second Quarter 2022.

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

I will 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 afternoon everyone. Welcome to Crown's earnings call for the second quarter 2022.

With us 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 within 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 second quarter 2022 filed with the SEC. Copies of these documents are available on the SEC's website at 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 with 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 today on our earnings call.

I'm going to start by giving a business and operational update. After that Joel, our CFO, will review the highlights of our financial results, and then if there are any questions, we're happy to take those at the end of the presentation.

Just to review, Crown's mission is to provide an 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 hardwiring and can be easily installed into the interior side of existing windows in commercial office buildings. Crown's DynamicTint is a pigment based thin film that 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, our insert's 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 an 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 HVAC energy consumption and reduce carbon emissions. As the only smart glass retrofit product in the market, Crown's Smart Window Insert is priced comparatively to high-end window blinds. We operate in two manufacturing facilities, in Corvallis and Salem, Oregon and we expect to deliver our first product in the coming months.

Moving to the customer update. I am very pleased to announce that we've received two purchase orders for our Smart Window Inserts from Hudson Pacific Properties. The Smart Window Inserts will be delivered after Crown's first-generation production line comes into operation in the coming months. The Inserts will be deployed in two of Hudson's buildings located in the San Francisco Bay area. The purchase orders

from Hudson for our Smart Window Insert are a confirmation of years of hard work by the entire team at Crown and represents a critical milestone in Crown's evolution.

As part of Crown's commitment to its vision, we're actively working to become a key ESG supplier to the U.S.-based office buildings by helping them retrofit the legacy infrastructure and assets to be environmentally responsible and energy efficient.

This vision continues to be supported by legislative initiatives at both the federal and local levels. The recently announced Inflation Reduction Act will expand the tax incentives for retrofitted energy improvements and has also now made them available to our REIT customers, further enhancing Crown's already significant value proposition. Other legislation such as New York City's Local Law 97, which targets a 40% reduction in building energy use levels by 2030, is compelling REITs to rapidly upgrade their building envelopes or face material annual fines.

In response, REITs are seeking to avoid these penalties and meet this mandate as cost efficiently and with as little disruption to the tenants as possible. Crown's Smart Window Insert solves for both of these conditions highly effectively. To this end, we are assessing a number of new retrofit locations with other prospective REIT customers in our sales pipeline and hope to have further announcements in the coming quarters.

Financing. The last few months have been some of the most difficult and recent memory for our economy and our capital markets. I'm pleased to announce that despite these headwinds, Crown has successfully closed on equity raises, which are required for Crown's access to debt financing and the execution of our manufacturing plans. On July 20, we announced an underwritten public offering of \$1 million of common stock at \$0.80 per share, and I must highlight that this offering did not include any warrants. Additionally, on July 26, we announced a further \$1.1 million funding through a Series D preferred stock round, which was convertible into common stock at an above market price.

As I mentioned, these direct equity investments are necessary for Crown to have access to the debt financing, which we first discussed in our last earnings call. As an update, about a month ago Crown entered into a second term sheet for debt funding and we're now actively pursuing both debt funding opportunities. While we had hoped to have the debt funding closed by this earnings call, we can say that we're making good progress on both paths, ensuring a higher likelihood that Crown will have the best possible terms for its debt capital.

As communicated in previous earnings calls, access to non-dilutive debt financing is especially important as it will enable us to complete the planned production lines, have sufficient working capital through the end of 2023, and allow us to start delivering installation of Smart Window Inserts to our customers. The value of our intellectual property was instrumental to support the debt financing. Crown's independent IP valuation indicated a combined patent and trade secret fair market value of approximately \$94 million.

The proceeds from both future debt financing and recent equity financing will allow us to build our new roll-to-roll lines, enabling Crown to produce film at any length and at widths ranging from 12 inches to 72 inches. Once the new lines are producing at capacity, Crown expects Smart Window Insert annualized revenues of approximately \$220 million and EBITDA of \$40 million.

Moving to product development. In our earnings call, we provided an update on our current product delivery status, I'll provide a brief update for the benefit of our new shareholders. This fall, we will be manufacturing and delivering our first-generation Smart Window Insert. That insert will be comprised of 12 inches strips of our DynamicTint film. Crown's Insert will have the following capabilities. Our Insert will have a solar strip that's 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 occupant of the office to easily control the insert. Each insert will be gathering performance and usage data and will be communicating that to Crown for monitoring the performance of our inserts. Our inserts are easily installed and will not require any fasteners. Each insert is powered by the solar strip attached to the exterior side of the insert, making our product highly sustainable and not requiring any hardwiring to the building's electrical system.

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; 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 insert via a smart device, in addition to the existing handheld controller. We expect that we'll be able to produce significantly more second-generation inserts, as compared to the limited run of the first-generation insert.

Production facility status. I receive requests oftentimes to explain the difference between current production lines and the future production lines. For the benefit of all shareholders today, I'm going to describe the difference between the current and the planned production evolution. Crown currently produces DynamicTint film on our proto production tool in our Corvallis facility. We will be producing our film in this facility in limited quantities. This method has allowed us to test our production processes, as well as develop our generation 1.0 Smart Windows Insert.

Our Corvallis production line will produce 6-inch strips and 12-inch strips of DynamicTint for application on our Gen-1 smart Window Insert. Initially, our Smart Window Inserts are expected to be produced in a limited run to fulfill orders of early customers, like Hudson. With customer feedback on performance, design, usage of our first-gen Smart Window Insert, we will iterate and develop our second-generation Smart Window Insert. We then expect to transition production to our new roll-to-roll production lines capable of manufacturing film with the varying widths that will allow Crown to meet the vast majority of demand from the U.S. office building retrofit market.

To close, I want to reiterate just how excited we are to have crossed another major milestone with the execution of Crown's first purchase orders, and in the coming weeks and months also expect to have closed our debt capital financing, have our first-generation production lines up and running, and start shipping products to our customers.

I'll now hand the call over to Joel who'll take you through the financials. Joel?

Joel Krutz

Thank you, Doug. Good afternoon everyone.

Today, I'll be discussing Crown's second quarter 2022 financial results.

The Company's net loss for the second quarter was \$4.5 million, which included \$1.5 million of non-cash stock-based compensation expense. This net loss was \$0.9 million lower than the \$5.4 million recorded during the quarter ended June 30, 2021. That quarter included \$2.6 million of non-cash compensation.

Total operating expenses for the second quarter were \$4.5 million, comprising \$1.5 million of non-cash compensation, \$1.8 million of payroll and consulting expense, \$0.5 million for professional fees, and \$0.6 million of operating overhead.

As we'd indicated in the Q1 call, we undertook a substantial organizational restructuring earlier this year to optimize Crown's organization. This has materially reduced our operating expenses, and as at the end of June, our employee cost base had been reduced by an annualized \$2.9 million or 31%.

The impact of these actions is also evident in our reduced cash burn, with Q2 cash deployed for operations and investments \$2.6 million. This was \$1 million lower than the \$3.6 million that we outlaid in Q1 of this year.

Our financing activities in Q2 yielded \$1.1 million from our Series D preferred stock raise and also from our at-the-market offerings.

As of June 30, our cash and cash equivalents were \$1.0 million. We have access to a \$10 million standing letter of credit and also our at-the-market offering to provide additional funding optionality.

Subsequent to Q2, we also closed a \$1 million underwritten offering in July. As Doug mentioned, we're hopeful of completing the debt financing necessary for our second-generation production lines shortly.

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

Operator

Thank you. At this time, we'll be conducting a question-and-answer confirmation.

Our first question comes from Shawn Severson with Water Tower Research. Please proceed with your question.

Shawn Severson

Hey, thanks. Hello, Doug. Good progress.

I do have a question on the two—you said there was a second term sheet that was put out, so you have two different lenders that you're working with. Is that correct?

Doug Croxall

Yes. To be clear, we do have two different lenders. Those are competing term sheets. The second term sheet came in just about a month ago, and so, we're working feverishly to get everyone caught up to speed. But competition is good, especially when (inaudible).

Shawn Severson

That's what I wanted to clarify. So it'd still be funded from a single lender, the funding for the Capex if you would need it. So they're just two different proposals you're working on?

Doug Croxall

That's correct. Two separate funding sources, two separate term sheets, and we'll pick the one that we think is the best.

Shawn Severson

Understood. I think last time you mentioned they were performing some—it was a due diligence process, correct, from the lender that was going on? Can you give an update on what they've done and where they are? I know you can't give specifics on the timing, but I know there was a due diligence process and runway that they were working on? Just an update there would be very helpful.

Doug Croxall

Yes. No problem.

It's pretty standard. Management presentation, discussion with the vendor that will manufacture our production line, customer referral calls, lots of diligence in the virtual diligence room. So just kind of going through the standard stuff. At this point, we think we've got everybody at the same stage as far as one's not too far ahead of the other even though one started significantly sooner than the other. We think we've got everyone caught up to the same point.

Shawn Severson

Okay.

Then last question and I'll get back in the queue, is the plant funding, how long do you think it takes to actually get funded, and then how do the expenditures sequence from there to maybe through the remainder of the year and into next year?

Doug Croxall

So funding on the debt side, you mean?

Shawn Severson

Yes. The debt side for the plant.

Doug Croxall

We think we're probably within 30 days of close of the debt, maybe sooner. Then from there, the guidance that we've been giving is anywhere from two months of design phase, six to eight months of manufacturing the line. They actually build the line in their facility. They actually run our film in their facility to our technical specifications and our quality standards. Once we approve that, then the line is disassembled and moved to our facility in Oregon and reassembled. That entire process we're estimating is anywhere from 10 months to a year.

Shawn Severson

Okay. I just wanted to confirm that's unchanged, given some of the supply constraints out there, and then also had to ask a question on inflation and availability as you've been talking with the potential providers?

Doug Croxall

As it relates to the line, the new line that we will have built, we don't see any issues with pricing or inflation or supply chain. This particular vendor was pretty aggressive in building their own inventory, so that they could avoid some of the supply problems that others have experienced. Right now, we don't see any issues with pricing, and through the diligence process with our two different funding partners, we've gone back to the vendor and double and triple checked to make sure the pricing is not changing, because obviously that would have an impact on how much capital we need to raise. So we feel pretty comfortable there.

On our first-generation production line though, we are delayed, as you probably recognize. We were hopeful to get first product out this summer. We are still waiting on a material component of our first-gen production line that's coming out of the United Kingdom that has been delayed from four to eight weeks. I'm assuming it'll be eight weeks because Murphy's Law, and so, the actual delay that we have experienced is not related to our technology, not related to our film, not related to our customers, but related to a specific component that we need in order to produce our Gen 1 film in its entirety.

So, we have some of that in and we're able to use part of what we have, but we need another component that we're still waiting on. Hopefully, we'll have that in the next month or two and then have product out the door.

Shawn Severson

That answered my next question. Thanks, Doug. I'll get back in queue.

Doug Croxall

No worries.

Operator

Our next question is from Gerry Sweeney with ROTH Capital. Please proceed with your question.

Gerry Sweeney

Hey, Doug and Joel. Thanks for taking my call.

Doug Croxall

Thanks, Gerry.

Gerry Sweeney

Just to follow-up with what Shawn was saying. Was that eight weeks from sort of today or on that piece coming in production?

Joel Krutz

Yes. It's Joel. It's 8—we're pretty much still two months out, right?

Doug Croxall

Yes. We're about two months out.

Gerry Sweeney

Got it. Okay, that's fair.

Then obviously we saw the Hudson PO. What about—you've signed some other REITs out there or purchase orders potential for in the near future or are they still working with Gen 1?

Doug Croxall

Yes. Everyone is looking at Gen 1, and we're working to get other purchase orders executed as well. I'd love to be able to tell you exactly when that's going to happen. I'm not very good at predicting the future, but we think we'll have some other purchase orders from some of our MSA customers and new customers that we have yet to announce in the coming months.

Gerry Sweeney

Got it. And then—I see here.

One of the things, novel things you solved was with the width, the stitching technology, but you were also pursuing a master drum that would have been a meter thick. I was curious where that sort of dual path stands. Is that stitching technology the way you're going to go or at least where you're going to go now and you feel comfortable with?

Doug Croxall

Yes. For those who are not familiar, the ability to go wide is not only based on having a production line that can handle wide film, greater than 6 inches and 12 inches, but our ability to emboss a pattern that is wider than 6 inches and 12 inches.

So, we actually have three different paths, Gerry, that we're going down, and we're pursuing all three at the same time for various reasons. One, we're not sure which one will be the best and so we want to be able to compare the different techniques and see which one produces the best results, and so we're looking at all possibilities, including the stitching that we talked about earlier.

Gerry Sweeney

Could you use the stitching technology on the Corvallis line today?

Doug Croxall

No, that line is limited to 12 inches.

Gerry Sweeney

Okay. Got it. Great. All right.

Doug Croxall

Actually, you know what, Gerry? We could. Actually, that's not true. We could, but it would be a very small—we would only be stitching to 12 inches as opposed to what we will likely do which is stitch to 60 some inches or 72 inches.

Gerry Sweeney

Yes, I just wasn't sure... What's the width of the Corvallis line, is that 12 inches?

Doug Croxall

It's up to 12, correct. Six or 12.

Gerry Sweeney

Yes, I wasn't sure if you could take two 12s and put them together. I'm not sure on that.

Doug Croxall

Not on that line, unfortunately.

Gerry Sweeney

Got you. Got it. Okay, great.

Any update, you sort of alluded to some other REITs or potential customers populating out there? Obviously, you can't name names until you can or if you can at all, but how is that process going?

Doug Croxall

It's definitely progressing. I feel pretty comfortable we'll have a couple of new names that we can announce in the coming months, certainly before the next earnings call and hopefully some more purchase orders before that as well.

Look, the demand is real. The tax incentive in the Inflation Reduction Act is real. We're a real benefit even without that. This just makes it even more attractive. One of the prospective customers that we're talking to, they have a lot of property in the New York Metropolitan area. They estimated that Local Law 97, on an annual basis their penalty alone is approximately \$20 million a year, so they're desperate to find something. We have something that works immediately for them.

So we're hitting the market at a very—timing is critical, right? You can't control timing. I don't control the events that lead up to the passage of bills that happen to benefit our customers and us, but we're hitting the market at what I think is a really opportune time. We know that there's real pain, we know that there's real value that our technology and our product can deliver, and we know we can do it at a price point that's very attractive, without the incentives that are coming from the Inflation Reduction Act or anything else.

Gerry Sweeney

Got it. Okay. It's a great spot to be in right now, so I do recognize that, but thanks for the time.

Doug Croxall

Yes.

Operator

There are no further questions 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, Rob, and thank you everyone for dialing in.

If I could snap my fingers and fix our share price, I would. We can't. We control the inputs in our Company. We control how hard we work in developing our technology and our product. We control how hard we work in developing customers and our marketing materials, and just ask for your continued patience. A lot of great things are happening behind the scenes that may not be evident to you.

Getting someone like a Hudson Pacific to sign a purchase order is not a simple task, right? They're not going to do something unless they know it's going to benefit them, and we're very excited to have them as a partner, and we look forward in the coming months to announce some of the other partners that we're going to have, getting our debt financing closed so we can move to building the second production line, and really starting to scale this business. Look forward to talking to everybody in November and we're around if anyone wants to talk before so. Thank you.

Operator

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