INVZ Q3 2022 Earnings Call Script

Omer Keilaf – CEO and Co-Founder of Innoviz Technologies
Thank you Rob and welcome to the team.

Good morning everyone and thank you for joining us.

I'm excited to provide another update on the meaningful progress we've been making at Innoviz. This has been another fast-moving quarter with new designs wins, new technology partnerships, significant upgrades to our manufacturing throughput, and a big step forward in our move into the non-automotive market.

Let's start things off with a look at our most recent new customer win. After our Volkswagen announcement last quarter, we said that we had 2-3 additional OEM's that could make a decision in the next six months. Proving true to our word, we announced in September that we secured yet another production award with a new Asia-based customer.

Not only is this our fourth production win, and our second win as a Tier 1, it also signals an exciting acceleration in our momentum, delivering back to back production wins just one quarter apart. We will dig a little deeper into our pipeline later in the call, but let's first take a look at this most recent deal.

This new contract is with an Asian OEM, who we cannot name yet, but is on a fast path to becoming an emerging global EV leader. There are some very important parts of the deal that I want to touch on.

First and foremost, this is an extremely tech-forward OEM. They took a close look at our technology and the platform partners that we can integrate with, and they decisively chose our solution over any of our competition, and in that process they also concluded that we are well positioned as a tier 1 direct supplier.

Additionally, they are currently targeting a fast ramp up of LIDAR installation on two models, with a quick turn-around to SOP, with production revenues expected already to begin in 2024.

And this deal articulates our long-term strategy extremely well – very large deals, like the Volkswagen deal we announced last quarter, are going to bring the volumes that will rapidly drive our unit cost economics lower – - - and lower-volume deals will bring us higher contribution margins.

And with each new deal we win, we are growing our pre-production NRE revenues and securing increased funding of production machinery and tooling. Over time, each deal will move us closer and closer to our long-term margin targets.

From a global standpoint, this is our first automotive win in Asia, expanding Innoviz's geographic reach and production footprint. This is an important step in our platform expansion efforts and highlights the incredible progress we've been making on this front.

Combined with recent progress on the non-automotive side, Asia is evolving into an increasingly important geography for Innoviz, and we hope to have additional news to share in the coming quarters as this market is rapidly developing for us.

Last but not least, there is one more very important part of this deal, and it has to do with the technology partner that we are working with for this customer. As many of you know, there are three leading autonomous driving platforms in the auto industry that operate the hardware and software stack that integrates the sensing and perception inputs from the various ADAS components, such as LIDAR, radar and cameras. With this deal announcement, we are excited to share that we now have production awards – not demos or partnerships, but actual production awards with two out of the three main platforms in the industry.

Integrating with these platforms can be an important barrier to entry. We believe that once you are on the platform and you have a working relationship with the partner, you can gain deep domain experience together and it could accelerate future business wins for both parties.

I want to encourage investors to not underestimate this aspect of the deal. Several of the RFQ's that we are currently competing on have already decided to use this platform partner. We believe that having this working relationship can increase our odds of winning additional business in the near-term.

Needless to say, we are very excited about this development.

So let's spend a little time on why we are winning in the automotive market.

I've picked up from some of my conversations with investors that there's a belief that success in the LIDAR industry is going to come down to one thing – like range or resolution. But that is obviously not enough.

In our experience with customers, you cannot simply win by checking one or two boxes, you have to check all of them. You have to be strong on each of these categories – price, performance, automotive grade, manufacturing, and company maturity.

And the feedback that we have gotten from customers is that we aren't winning these deals by one or two points, we are winning across the board, on multiple fronts.

But don't just take it from us. We wanted to share a quick video from the event we hosted in September, celebrating the opening of our new headquarters with a large group of investors and customers from all over the world.

Nothing is better than hearing it from our customers and partners themselves.

One of the other points that I want to make about our strategy is that we are deeply focused on the L2+ to L3 sweet spot of the automotive industry.

There has been an increase in headlines recently highlighting that progress with Level 5 full autonomous driving is moving slower than hoped and is increasingly looking more like 2035 or even later.

We wanted to take the opportunity to remind investors that it has long been our view that full Level-5 autonomy was going to take many years, and this is why from day one we built the company's strategy around focusing on the Level 2+ to Level 4 categories in the autonomy spectrum.

The recent developments of OEM's either de-emphasizing or even fully cancelling their Level 5 efforts is happening at the same time as they are realizing that many customers have grown frustrated with Level 1 and Level 2 active safety solutions like Forward Collision Warning and Lane Keeping Assist, with some drivers turning the features off entirely.

Looking at both of these trends together, OEM's are quickly realizing that L2+ and L3 autonomy systems are likely going to be the biggest differentiating factor in the automotive industry over the next decade. And you can see this in our pipeline, on the next slide.

One of the major milestones that we track for our business is our OEM share, since we believe that once you are on the shelf and validated with an OEM and integrated into their software stack, it becomes easier for them to pull you into more and more product lines.

Once you are embedded, you should be able to grow with that OEM as LIDAR-based L2+ and L3 systems are rapidly democratized and move up the S-curve over the next decade.

On that basis, our OEM share as it stands today is roughly 15% of the global automotive market.

And if you look at our pipeline, to the right, we have 11 OEM's that are in either the RFI or RFQ process. Collectively, these 11 OEM's produce approximately 40 million vehicles per year, representing an additional 42% of the global market.

When combined with the 15% OEM share currently in Innoviz's order book, it means that the Company either has business or is actively competing for new business with OEM's that hold roughly 57% of the global automotive market.

This pipeline includes many of the world's largest OEM's and is full of names that you are familiar with. In fact, six of the OEM's have annual production levels of 4 million units or more, and the average production within the pipeline is about 4.2 million per year.

What's even more important here is that we believe that nearly all of our pipeline decisions will be made by the end of 2024, with most of these decisions likely to close in 2023. When I meet with investors, I am often asked "why should I care now, let's talk again when production starts

What that question is missing is that there is a sizeable land grab taking place right now, and the bulk of the early market share is going to be awarded in the next 6 to 12 months. Ultimately, we think this is going to be a winner takes most market, with us in the lead, and that this market share will be very sticky for the next decade or more.

Now, let's transition from the long-term to the past quarter. We had some very exciting developments in the third quarter that I want to spend some time on.

First, I am excited to share that during the quarter we began shipping D-sample units originating from the Holly, Michigan production line.

As a reminder, the D-sample is the version that ultimately is going to go to full production and needs to be produced by the final production tools and processes. Its design is already automotive grade, and this last stage of the process is used by the OEM for the final manufacturing validation before moving to series production. You can see in the photos how excited we are to be this close to the start of production of our customers.

One of the other exciting developments this quarter relates to the upgrades we made to our production processes, which were required as part of reaching the D-sample milestone.

The production process upgrades were made in parallel with our planned downtime from our headquarters move, which included the movement of the calibration and testing lines within our building.

I don't want to understate the scope of this effort. I personally spent many, many late nights with our engineers implementing and re-engineering the process so we could maximize the yields and minimize the downtime for our lines.

This was a crucial step in our plans for the next stage of our strategy, as it removed a key bottleneck in our production.

This development achieves two important things – number 1, it helps prepare us for mass production, with our BMW and shuttle programs launching next year, and number 2, it will unlock more units for sale into the non-automotive market beginning this quarter and ramping into 2023.

In the past, the majority of our production needed to be prioritized for larger volume automotive customers, but now with this upgrade, we will be increasingly able to pursue both markets simultaneously and in more equal measure.

While we haven't been as vocal about our progress in the non-automotive market as we have been in automotive, it has the potential to become an important part of our business and we have made some early success, including the deals and partnerships from the third quarter, listed on this slide.

One important takeaway here for investors is that every time a customer chooses to work with our LIDAR solution, it's a validation of both our hardware and our software.

Of course, not every deal will be the size of a Volkswagen or BMW, but each announcement we make here is a situation where a customer takes a close look at our technology, compares it to the competitive environment, and chooses to go with Innoviz.

This validation and early momentum in non-automotive markets, coupled with our increased ability to ship units, is an important development.

When you combine all of the various TAM's from the non-automotive market, it can approximate the TAM on the automotive side. And the product design cycles are shorter, so the revenues can come on faster, and they tend to be at higher gross margins.

It's the perfect complement to the automotive market, where volumes can be in the millions of units, allowing you to reach market-leading unit cost economics once those volumes come on.

If you take a step back, these are both $30 billion dollar TAM's that we are showing great progress in.

And to accelerate our success in the non-automotive market, we are planning to increasingly work with distribution partners. In fact, next week we are launching our first-ever, three day long, Global Distributors Summit here at headquarters in Israel.

We will be hosting nine industrial and technology distributors from across Asia, Europe and North America to educate them on our technology, arm them with our marketing tools, and introduce them to our ordering and logistics platform.

Engaging distributors is an important evolution in our go-to-market strategy. It's a lower-cost way to amplify the efforts of our sales, expanding our reach in non-automotive quickly and without meaningful increases to our headcount and fixed costs.

As we've said before, 2023 will be an important year for our growth in the non-automotive market, and we are making progress in building the partnerships and the overall foundation for success in the coming years.

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

Eldar Cegla – CFO

Thank you, Omer, and good morning, everyone.

Starting with cash - We continue to maintain a high liquidity level with approximately two hundred eighteen million dollars ($218M) in cash, short term deposits, restricted cash and marketable securities on the balance sheet as of quarter-end.

And as we have said in the past, our cost structure has already largely matured, so our operating cash outlays remained mostly stable during the quarter and were in-line with our 2022 budget.

Moving to the income statement, revenues in the quarter came in at zero point nine million dollars ($0.9M), compared to Q3 2021 revenues of two point one million dollars ($2.1M).

Sales in the quarter were impacted by the upgrades we made to our calibration and test lines during the move of our company headquarters, as Omer previously discussed.

While the timing for the upgrades took slightly longer than expected, the investment was well worth it given the meaningful improvement in throughput.

With these changes behind us, we expect our revenue cadence to normalize going forward, with an uplift to InnovizOne unit deliveries in the coming quarters. In fact our current unit deliveries in Q4 2022 have already surpassed Q3 2022 deliveries.

On the cost side, operating expenses for the third quarter of 2022 were Thirty-One point Three million dollars ($31.3M), an increase from Thirty million dollars ($30.0M) in the third quarter of 2021.

This included four point nine million dollars ($4.9M) of share-based compensation compared to eight point two million dollars ($8.2) in Q3 2021.

The year-over-year increase in operating expense was primarily due to an increase in head count during the quarter, partially offset by the lower level of share-based compensation.

Research and development expenses for Q3 2022 were twenty-four point two million dollars ($24.2M), an increase from twenty point six million dollars ($20.6M) in Q3 2021.

The quarter included three point two million dollars ($3.2) attributable to share-based compensation compared to three point seven million dollars ($3.7M) in Q3 2021.

In conclusion, while the setback in our unit delivery this quarter was slightly larger than expected, the volumes should be recovered in the following quarters and the long-term benefits that we expect it to unlock are meaningful and a step in the right direction for the company as we move to full series production of the BMW and Shuttle programs next year.

This progress further strengthens our position in the marketplace and improves our ability to gain additional market share going forward in both the automotive and non-automotive segments.

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

Omer Keilaf – CEO and Co-Founder of Innoviz Technologies

Thank you, Eldar. Before turning it over to Q&A, I wanted to wrap up our prepared remarks with a quick review of where we stand today versus our original 2022 goals.

On the right-hand side of this slide, you can see the goals that we set for ourselves at the beginning of the year and where we stand now.

In terms of pre-production programs, we came into the year targeting 10, and today we are at 14.

We targeted one design win, and we have already delivered two – with two more months left in the year.

And in terms of the order book, we originally targeted a 30% increase, and thanks in particular to the Volkswagen deal and now our most recent win, we’ve blown through that goal with a 165% gain, moving to $6.9 billion dollars - and again, the year is not over yet.

In terms of our pipeline, we had previously disclosed 12 programs in the RFI or RFQ process with 2-3 expected to make a decision in the next 6 months.

With the announcement of our new Asian OEM deal, the 12 goes to 11, and we now have 1-3 customers who could make a decision in the upcoming 6 months.

When I talk about the momentum that we have at Innoviz, you can see it on this slide. We have already delivered on the things we promised to deliver on for 2022, and we believe there is a lot more to come in 2023 and 2024.

Ok, with that said, I will turn the call over to the operator to take us into Q&A.

-------------------- Q&A --------------------

CLOSING REMARKS – AT END OF CALL

Thank you everybody for joining us today. I just wanted to take a minute to give you a quick advertisement for CES.

We are excited to meet with both customers and investors in January at the conference. Without saying too much before the event, we plan to highlight not just our technology, but some of the actual products that we are integrated on.

And we will showcase some of the capabilities of our new *innoviz360* LIDAR, which is going to be an exciting new addition to our product suite and an important part of our continued growth in both the automotive and non-automotive market.

For investors looking to connect at the event, please feel free to reach out to our IR department directly through the email address on the slide or in the press release and we will help you find a time to visit the booth and meet the team.

Ok, with that said, I am excited with where Innoviz stands today and the progress we have made over the quarter.

Thank you for joining us today. And with that we'll end the call.