INVZ Q1 2023 Earnings Call Script

Omer Keilaf – CEO and Co-Founder of Innoviz Technologies
Thank you Rob, and good morning everyone and thank you for joining us.

I'm excited to provide an update on the progress we've been making at Innoviz. This has been another fast-moving quarter with new programs, new partnerships, new product opportunities, and our steady march towards 2023 production with BMW and the shuttle program.

Let's start off with what I believe is the biggest development – our new light commercial vehicle program.

Last quarter we told you that we were in late-stage discussions with one of our major existing customers for a new program, and today we are announcing that we have delivered on that promise.

This program is for a Level-4 light commercial vehicle, and more specifically a commercial van, that will include 3 to 4 LiDARs per vehicle. And perhaps what is most exciting here is that the expected program is on a very accelerated timeline. Due to the speed at which this program is moving, we are beginning our activities based on an agreed framework while working on the final requirements and commercial terms. This program is moving quickly targeting a mid-decade SOP, with test vehicles on the road already this year, which you will be able to see. This means that this program can contribute nicely to revenues in the back half of 2023, with sample shipments ramping and attractive levels of NRE expected to come on sooner than they typically do.

The reason this program is moving so quickly is because we are displacing a development-stage competitor. This is a new milestone for Innoviz as a company, and I believe it is a very important indicator of the quality of our technology and the benefits of 905nm solutions, where we believe we are the leader.

Another aspect of this deal that is very important is the autonomous compute platform provider that we will be working with. This is our second program with this OEM, and it is the second compute platform partner that we are integrating with for this automaker. This helps to expand our compute platform exposure and shows our flexibility to integrate with all of the major leading platform players.

Ultimately, we believe that working with the top autonomy platform partner should enable a faster time to market, accelerate the customer evaluation process, and ease the overall customer decision process, and I believe it could help open doors to additional wins as we continue to work together going forward.

And while we are on the topic of compute platforms, we have an update on another major compute platform partner, and that involves our work with NVIDIA.

Investors often hear us speak about the top three autonomy platform players and why we think it is important to not only work with all three of them, but to eventually have vehicles on the road with each of them.

Based on developments this quarter, we think we are one step closer to making that happen.

We are in discussions with NVIDIA about being integrated into series production programs leveraging the Hyperion platform. These conversations span multiple major OEMs and could introduce RFI and RFQ activity that ultimately would be incremental to the NVIDIA-based programs that are already in our pipeline.

In order to help investors understand why this is such an important development, let me explain how OEMs typically make their decisions around autonomy platform vendors.

Conversations with OEMs historically have progressed in one of two ways. Sometimes they run their compute platform and LiDAR supplier sourcing in parallel, making each of the decisions independently, and sometimes they will start by picking the compute platform first and then build the sensor suite around it.

In scenarios like the second situation, already being integrated with the compute platform on another program can significantly reduce the time and cost that it takes for additional automakers to deploy the same system. You essentially become an off-the-shelf solution, significantly reducing the risk for a new OEM to choose you as their LIDAR supplier.

Our goal here is to become embedded on all the major compute platforms as quickly as possible. We view this as a potentially meaningful structural advantage and we are making excellent progress on this front every quarter.

And while we are discussing software, I am excited to share some details on a new product that we are quoting in conjunction with an advanced discussion with a leading global OEM.

During our evaluation process with this OEM, they were highly impressed with the capabilities that our LiDAR and perception software brings to the table, and as a result, they expanded the scope of the RFQ to include what could be the industry's first-ever LiDAR-based minimum risk maneuver, or MRM, system.

First, let me give a little color on what an MRM does.

The MRM system is software that sits on a dedicated compute box within a vehicle and operates as a backup system. In the event of a complication with the primary system, the MRM could take over control of the vehicle, offering a transition period for the driver to re-take control of the vehicle and offer the ability to safely pull the vehicle to the side of the road if the driver does not re-take control within a specific time frame.

MRM systems are not new, they have been around for several years, but historically they have been camera-based. We believe that operating a LiDAR-based system offers key structural advantages over camera systems, including a true 3-D image along with reduced risk in low-light and extreme-sun situations as well as environmental considerations like rain or snow.

Successfully building out this product category would be a natural extension of the success we have already demonstrated in perception software and would help us move further up the stack, potentially offering additional incremental opportunities down the road.

The benefits of having a larger software offering are clear. First, they can build upon and further expand the value that our LIDAR hardware technology brings to the table. And second, the gross margin profile on software is much higher than hardware. And in an end market like automotive where you have more than 90 million units of volume per year, you can generate meaningful leverage and strong returns on invested capital.

As part of this program, we are quoting a bundle that includes the LIDAR, the perception software, the compute box, and the MRM software, and we are starting to explore this product with additional OEMs. This could offer us incremental revenue that we believe would be positive to the gross margin profile.

Next, I wanted to give a quick update on our largest customer, Volkswagen.

There have been several industry headlines lately regarding changes in their internal software company, CARIAD, and we are happy to say that we continue to work towards a mid-decade SOP for our existing series production.

I am also happy to announce that we continue to explore new ways to grow our relationship with the company, and we are working with both Volkswagen and CARIAD on additional programs, including several that are in advanced stages of discussion.

We are also working with other compute platform partners to build a wide array of LiDAR integration options that would give the OEM an almost modular approach to LiDAR deployment that could allow integration into multiple platforms and sub-variants.

The key point here is that we are making good progress with Volkswagen, and because of that progress we believe we have additional opportunities for growth with them.

As a reminder, the long-term strategy of our business is to gain an initial foothold with major OEM's with one platform, and then over time earn the right to be their LiDAR vendor for every additional future program they decide to deploy LiDAR on in the coming years.

Given the amount of ongoing momentum we are seeing with our existing customers like Volkswagen, we believe we are well along the path of proving this important milestone for our business, and we look forward to continued growth with all of our existing customers.

Our goal here is to further build upon our industry-leading $6.9 billion forward-looking order book, which will be updated on our fourth quarter 2023 earnings call.

Coming into the quarter we had four series production awards – BMW, VW, the shuttle program and the Asian EV-focused OEM.

Two of those awards – BMW and the shuttle program – are on target to SOP in the back half of this year. The Asian EV-focused OEM is targeting a late-2024 to 2025 SOP and our current VW award is targeting a mid-decade SOP. The new light vehicle program we announced today is targeting a similar mid-decade timeline.

While we have delivered on several major milestones this quarter, the progress we've seen in our pipeline during the last quarter is at least equally exciting, if not more so.

We've had a record number of programs move from an RFI to the RFQ process in the quarter, with roughly half of the pipeline now at the RFQ stage – which is a first in the company's history – we are now working on more than five RFQs in parallel.

Between the programs we've already announced and the 10-15 in the RFI and RFQ pipeline, we either have already won business or are actively quoting new awards with eight out of the top 10 global automakers. Let that sink in for a minute – 8 of the top 10 largest car makers in the world are in our pipeline and are actively making a sourcing decision for our LIDAR.

We ultimately believe that this is likely going to be a winner takes most market. The technology is safety critical, there are very high levels of tech differentiation, and the player that wins the most business is ultimately going to have a scale and cost leadership advantage that is likely going to be difficult to match.

Given the fact that most of these programs will be on the road for 8-10 years, we believe that a major portion of the industry's market share is going to be determined in the next 12 to 18 months.

Looking at our customer programs, you can already see some solid evidence that the pace of program activity is accelerating.

After winning BMW in 2018, it took us over three years to win our next production award. From there, it took us a full year to announce the next one. In the past year, we have already announced two production awards along with today's new program. And looking forward, we think there are 3 to 5 programs that have the potential to make a decision before the end of the year.

I believe this timeline shows some solid evidence that the pace of LIDAR decision making is likely accelerating.

We feel very confident about how we are positioned in this process, and we hope that we will have much more to share in the coming quarters, and this outlook is embedded in our 2023 targets.

As you can see, we are now targeting 1 to 3 additional programs with existing customers.

Since we have announced a new program today and we have line of sight into potentially 2 to 3 more decisions with existing customers before the end of the year, we are raising our guidance from 1 to 2 programs, to 1 to 3.

And on the new customer front, we are still targeting two series production awards with new customers. We have a few RFQs that we believe can advance into the final commercial negotiations in mid-summer, and I am hoping we will have something to share by late-summer to early-fall.

And in terms of financial targets, we are introducing a very important new metric – cash collection from customers, which we target to be $20-30M this year. This is a metric we consider to be even more important than reported revenue, because we target to collect large amounts of NRE that are not always counted as revenues. $20-30M this year.

The purpose of this new metric is to more accurately communicate the powerful contribution of NREs to our financial picture and to encourage investors to take NREs into consideration along with revenue. Let's pause for a moment and make sure everyone understands what an NRE is, because it is critical to our cash flow and the funding strategy of the business.

Most investors we speak with understand our income profile once a vehicle is in production, but they often don't understand the drivers of revenue in the 2 to 3 years before production starts. During that period of time, we have three sources of income and cash – sample unit shipments, non-automotive shipments, and NREs.

Sample unit shipments are important because they carry much higher gross margins than production pricing. For instance, sample units typically sell in the $5,000 to $15,000 dollar range compared to automotive production ASPs under $1,000 and can eventually approach $500 per unit at extreme volumes. These sample units are not priced on gross margins, they are priced to recover fixed costs like R&D investments.

And for each customer program we can bring in from our pipeline we could typically sell several hundred units per year during the pre-production phase of their program. This could potentially translate into millions of dollars per year for each award, and potentially tens of millions of dollars per year across multiple awards.

Here, we are also starting to ship units into the non-automotive market. This effort began in late 2022 and is starting to ramp up as we go through 2023. As you can see, ASPs for non-automotive sales are basically in-line with sample unit sales, ranging from $5,000 to $15,000 dollars. So here too you have the potential for a very high gross margin that can help absorb your fixed costs.

While our efforts in non-automotive are still in the early stages, we think this is a market that could be in the tens of thousands of units per year for us in the next few years, and the addition of the Innoviz 360 is expected to be a meaningful catalyst here.

And then you have NREs.

NRE stands for Non-recurring Engineering. Basically, it is a phrase for a wide range of services that we provide to customers that center mostly around the engineering of the product as it works towards SOP. At a very high level, I would encourage you to think of NREs essentially as services revenues.

The communication challenge that we have, however, is that they cannot always be recognized as revenues, depending on their accounting treatment. Sometimes they can be recognized as revenue, and sometimes they have to be recognized as a contra-item to an expense, such as R&D, and you don't always know up front how you will be able to classify them, since it can often depend on terms and milestones that require input from the customer.

I won't go into all of the factors that play into the accounting details. What's important here is that whether it's classified as revenue or a contra-expense, it doesn't really matter. Either way it is a cash payment made by the customer and received by us, and it's a critical part of our funding strategy.

Last quarter, we looked across the 10 to 15 programs that are in our pipeline and we calculated the total amount of NRE that we are quoting to those customers, and that number is in the range of $150 to $250

million dollars, with most programs falling into the $10 to $50 million dollar range depending on their size. Yes, there are programs that could contribute as much as $40 to $50 million dollars each.

So, here too, we have the potential to bring in tens of millions of dollars per year if we can convert several of the programs from our pipeline.

One last important point here is that NREs are usually only available to Tier 1s. Typically the total pool of NRE is allocated to the Tier 1, and if anything is allocated to the Tier 2, it is a tiny amount at best.

This was a key part of our decision to invest the time and effort to become a Tier 1 – so we could collect NREs as part of our funding strategy in a meaningful way.

We have been getting an increasing number of questions lately on our funding strategy, and my response to it is this… the most important step in funding our business is growth!

We have a tremendous amount of opportunity in our pipeline and each deal we win has the potential to bring in tens of millions of dollars of NREs and sample shipments. Both of these items offer high gross profit flow-through and we are specifically intended to help absorb fixed costs.

We don't assume that we can win every single program, but if we can continue to show the momentum that we have demonstrated lately and continue to bring in several programs per year, then these things will start to build up upon themselves, with the potential for each of these – automotive sample units, non-automotive sales, and NRE's – offering the potential to contribute tens of millions of dollars each to structurally lower our burn rate, extend our cash runway, and bring us one step closer to breakeven.

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

Thank you, Omer, and good morning, everybody.

Starting with cash - We ended Q1 2023 with approximately $156.5M in cash, short term restricted cash and marketable securities on the balance sheet.

Our largely mature cost structure and our operating cash outlays remained mostly stable during the quarter and were in-line with our 2023 budget.

Moving to the income statement, revenues in Q1 2023 came in at $1.0M, compared to Q1 2022 revenues of $1.8M.

Revenues were impacted by our pivot towards SOP with BMW and the shuttle program, which will weigh on the first half of the year before revenues begin to grow in the back half of the year.

The biggest factor involved here is the lower sales price as we transition from selling LIDAR sample units to selling just the components to Magna, who is the Tier 1 for the BMW program.

As we think about the revenues cadence for the year, we expect the second quarter to look largely similar to the first quarter and for the same reasons. Looking to the back half of the year, we expect revenues to step up modestly in the third quarter and then step up to a larger extent in the fourth

quarter, with tailwinds from improving production volumes, growing InnovizTwo volumes, revenue-based NRE's and increased sample shipments to new programs.

Moving forward down the income statement.

On the cost side, operating expenses for Q1 2023 were $33.3M, an increase from $31.1M in Q1 2022.

Q1 2023 operating expenses included $5.2M of share-based compensation compared to $4.7 in Q1 2022.

The increase in the quarterly operating expense compared to last year Q1 operating expense was primarily due to higher R&D expenses mainly on InnovizTwo costs, a general increase in head count associated share-based compensation expense & facilities costs.

Research and development expenses for Q1 2023 were $26.1M, an increase from $22.8M in Q1 2022.

The quarter included $3.5 attributable to share-based compensation compared to $2.7M in Q1 2022.

In conclusion, 2023 is an important year of growth for Innoviz – we are launching our first series production vehicles, ramping our InnovizTwo volumes, expanding in the non-automotive market, and diligently going after all of the programs in our robust pipeline. We expect to finish the year on a very strong note, with lots of momentum heading into 2024.

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

Thanks Eldar.

You've heard us talk a lot about existing customers today, including Volkswagen. So I wanted to take the opportunity to offer a reminder for my upcoming fireside chat with Gero Kempf, the head of ADAS over at Audi.

Usually it's Gero asking me all the questions, but this time I will get to turn the table around and ask him about Audi's autonomy strategy and some of the lessons he learned along the way during his years of experience in the field. I'll probably also fit in one or two questions on what led Audi to choose Innoviz as its Tier 1 LIDAR supplier.

Investors should be able to stream along at the website on this slide.

Before turning the call over to Q&A I wanted to offer a few final remarks. We covered a lot of ground today and shared a lot of positive news, so I just wanted to offer a quick recap of everything that was said.

We announced a new light commercial vehicle program that is on an advanced timeline and is expected to already begin contributing financially in 2023.

As a part of that process, we are displacing a development stage competitor and we believe we can do it again in the future.

We also talked about being integrated into a second compute platform with this OEM customer and we said that working with this compute platform player can lead to additional opportunities for growth going forward, including with other OEMs.

And we also talked about our discussions with another top 3 compute platform player which is NVIDIA, exploring a deeper integration with the Hyperion platform that could bring further programs into our pipeline in addition to the ones that are already working on an NVIDIA base.

On the RFQ front, our pipeline is the biggest it has ever been and even more importantly we have a record number of programs in the RFQ stage with more than 5 programs running in parallel, and we believe that there could be as many as 3 to 5 decisions by the end of the year.

And for one of those programs in the RFQ process, we disclosed that we are actively quoting a new MRM product that can increase our revenue and profit per vehicle through a bundled system, while allowing us to move further up the software stack. And we are starting to explore offering this bundle to additional OEMs.

And after updating our 2023 targets to include a solid outlook for cash collection from customers, we outlined how strong growth could serve as the primary building block of our long-term funding strategy.

I am incredibly proud of the progress the team has made this quarter. I know it can be exhausting working at a company where things are moving this fast. And we know that things are only going to get busier with more than 5 RFQs running in parallel with customers all around the world. There is a lot of travel and time away from the family, a lot of late nights and early mornings. So, I just wanted to finish by saying thank you for everyone on the team for your contribution this quarter and going forward. We have a lot to be proud of, with more to come soon. Let’s keep up the momentum going.

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