Welcome to the Q3 2020 MicroVision, Inc. Financial and Operating Results Conference Call. (Operator Instructions) Please note, today’s event is being recorded. I will now turn the call over to Lindsey Stibbard. Please go ahead.

Lindsey Stibbard

Thank you. Good afternoon and welcome everyone to MicroVision's Third Quarter 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; potential value of the Company; managing costs; completing a strategic transaction; maximizing shareholder value; 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; 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 size and market opportunities and future demand; as well as statements containing words like opportunity, potential, possibly, intend, confident, believe, goals, focus, paths, expects, plans, will, could, would, likely, resulting, 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, Form 10-Q filed on August 6, 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 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. It has certainly been a busy time for us all and I am glad to be here. I hope and wish everyone listening is staying safe through the pandemic and multiple resurgent waves that communities are experiencing. I want to thank all our employees who are working incredibly hard and continuing to deliver to key development milestones for our 1st generation MEMS scanning long range lidar.

MicroVision is focused on finding strategic alternatives that provide the right value for our shareholders. Today we have 41 talented people focused and working hard towards accomplishing this goal which could include a sale of the Company in a transaction that would recognizes both the short and long-term value of our technology. We continue to explore all
options while maintaining strict control of our expenses. With the support of our shareholders and continued dedication and health of our employees we are prepared for the work ahead.

I would like to start by sincerely thanking all of our shareholders for your support in approving the authorization of 60 million additional shares of common stock at our special shareholder meeting a few weeks ago. Approximately 115 million shares voted in this special election, with greater than 95% of these votes in favor of the Company proposal to increase the number of shares. I believe your strong support removes ambiguity about our capability to explore and complete any strategic alternative including a sale of the Company. I firmly believe the additional share availability will help provide the operational flexibility to continue to pursue a strategic transaction that reflects the impact our verticals would have on these market segments.

The COVID-19 Pandemic continues its grip on our lives. Global markets are experiencing macroeconomic pressures which by some estimates could run well into 2021. I believe this has created an environment for consolidation of technology companies. We also believe the importance and expected future scaling in augmented reality and automotive lidar will continue. We believe that we have a solid IP and technology portfolio in both verticals which represents value for our shareholders. Let me be more specific about this point.

MicroVision has a long track record of delivering advanced products in augmented reality with our Laser Beam Scanning or LBS technology. Our full intellectual property body of work has been invested in and created by MicroVision over a long period. Our IP includes in-house developed custom MEMS, custom optics, proprietary digital and analog silicon chips, embedded real-time firmware and software, manufacturing processes, custom automation and strategic partnerships that allow us to operate in a fabless model. MicroVision modules function as the micro-display engine which is a key enabling technology required for augmented reality headsets.

OEM controlled pupil expanding waveguides, coupled with our micro-display engines, are required to create the wide field of view, high definition, and see through user experience
required in the augmented reality segment. We have been focused on miniaturizing and optimizing all aspects of our LBS technology and hardware. OEM de-coupling of the waveguide development from our MEMS micro-display engine, affected MicroVision’s ability to invest in any specific waveguide platform. However, I believe that we still have the most advanced and competitive technology with our micro-display engine for the augmented reality headset market.

We believe the process of exploring strategic alternatives has allowed potentially interested companies the benefit of reviewing our technology and allowing us to showcase current and future possibilities. I believe we have the IP, talent and partnerships in place to develop the next generation, custom, high volume display engine to meet OEM requirements.

With respect to our IP MicroVision has granted very few limited licenses for use of our technology in LBS products. We believe our approach of having very few limited licenses for use of our technology coupled with the depth of our IP and state of technology development represents a strong value proposition in a potential acquisition or other strategic alternative. We believe this approach provides an opportunity for future cost avoidance by an acquiring party, faster time to market for potential high unit volumes and supports their multi-generational products roadmaps.

To elaborate a bit on our strategic advantage in this vertical, I would characterize all inquiries we have received in this vertical as looking at multi-generation product roadmaps our technology could support and are not limited to a single product. We have worked very hard to show interested parties the expanse of what could be possible with our technology. I am happy and proud to say that we showcased our technology as potentially being able to deliver multiple products that would be significantly more advanced than what these parties required or expected.

I believe that we are in an excellent position to realize value from our technology as OEM AR products come to market. With the positive outcome of our October 8th special shareholder meeting, we look forward to continuing our exploration of strategic alternatives with parties that
are potentially interested in the augmented reality vertical. Our objective remains to establish the appropriate value for this vertical which reflects the continued expected growth in AR market using LBS technology.

The second area I would like to update you on is our automotive lidar vertical. Let me first start with some context on expected market size, importance of MicroVision automotive lidar technology and the substantial strategic advantage we believe we would provide to an interested party.

Companies adopting automotive lidar sensors are trying to address a market which includes traditional OEMs focused on active safety systems and new companies focused on Mobility as a Service. OEMs are preparing to transform their future business with fleets including a larger portion of fully electric vehicles that offer enhanced safety features as well as expanding safety features in their traditional fleet. This is analogous to the introduction of airbags which eventually arrived in every car, with the help of regulation, by showing the benefits to safety. There is also a new emerging segment being driven by privately held AI software technology companies focused on autonomous driving to deliver Mobility as a Service. Using autonomous vehicles, Mobility as a Service companies are endeavoring to change ride sharing, long-haul transportation, and last mile delivery services and their impact on consumer and business to business transactions. Both these market segments will need a suite of sensors ranging from lidar, radar, camera modules and ultra-sonic sensors to achieve these goals.

According to industry reports, the automotive sensor market is expected to grow from $8.7 billion in 2020 to $22.4 billion in 2025. Within these numbers automotive lidar by itself, is expected to grow at 113% compound annual growth rate going from a projected $400 million in revenue in 2020 to $1.7 billion in 2025. This revenue in 2025 would represent only 2.3% of all vehicle classes sold globally and according to some industry reports is expected to reach approximately 10.3% by 2032. Some industry projections estimate that up to 5 lidar sensors
would be required per vehicle to achieve expected safety standards. We believe automotive lidar is an important market opportunity for our technology.

Another important validation of this opportunity appears as we start to see stand-alone lidar companies go public through Special Purpose Acquisition Company deals. These lidar companies have invested in development and are expanding with large talented teams as stated in their public filings. These new companies are addressing multiple market segments with revenues greater than $100 million annually with expectation of significant growth in the future. They have also publicly stated that they expect to invest in developing their technology for years to come at high levels of expenses in their foreseeable futures. Even with the high required investment ahead and associated risks, these new lidar companies are valued at market capitalization in the multiple billion-dollar range.

We believe MicroVision is well positioned to impact this segment with our automotive lidar technology and IP. Current lidar sensors in the market have limitations in meeting specifications required by targeted OEM and Mobility companies. These companies expect lidar sensors to deliver 200 meter detection range, low angular resolution which requires high density point cloud, wide fields of view, capable of operating in full sunlight, small size that can blend into car styling, meet automotive reliability for 15 year of operational lifetime, provide velocity data of objects within the field of view and be price competitive at scale. Most sensors on the market today are primarily mechanical scanners with a small handful using other techniques. The cost structure, size and performance of the products on the market do not meet current or future trajectory of requirements.

MicroVision expects to be able to offer a solid state lidar sensor that is based on highly scalable silicon wafer processing and our LBS technologies. Throughout our history we have demonstrated the miniaturization, reliability and scalability of our LBS technology. Our team is working to complete sensor hardware capable of meeting all required OEM and Mobility company specifications. This product represents our 1st generation MEMS scanning long range
lidar. We believe this hardware could allow automotive OEMs, Tier 1 and pure play lidar companies to secure high volume OEM business as well as provide direct sale opportunities to Mobility, Industrial and Topography market segments. I believe the work to complete our long range lidar hardware, represents significant value to our shareholders.

As many of you know, MicroVision has invested in R&D and product development in lidar technologies since as far back as 2011. I believe that our automotive lidar sensor implemented with our LBS technology will have a sustainable strategic advantage with features, performance, price and reliability for several generations. We have been developing our 1st generation MEMS scanning long range lidar product for a 2021 introduction prior to the changes to our strategy in 2020. Our long range lidar sensor is expected to have a 200 meter detection range of 10% reflectance objects, dense point cloud output, new proprietary scanning technology that allows operation in full sunlight, and be first in market with outputting velocity data in a scanned MEMS lidar using a 905 nm laser in Class 1 safe systems. We believe this would be a groundbreaking product. Our first sensor is expected to be slightly larger than a VHS cassette in size and with future implementation of our custom silicon, this size would reduce significantly. I expect that hardware for demonstration and benchmarking could be available in the April 2021 timeframe. I also expect that a version of this 1st generation lidar sensor could be available for sale in Q3 2021. I believe this dual opportunity for both long-term and short-term revenue from the 1st generation product would represent significant value to parties interested in strategic alternatives.

In closing, we believe the market is starting to plan for growth in both AR and automotive lidar segments. Our LBS technology could potentially provide a sustainable strategic advantage to an acquiring party and allow that acquirer to potentially avoid significant future expenses and product development risk. Our team remains committed to maximizing value for our shareholders. We remain focused on pursuing strategic alternatives and working through the process while maintaining our required expenses appropriate for such effort. I would like to
thank our dedicated employees on effectiveness in their work and our shareholders for their continued support.

With that I would like to turn over the call to our Steve.

Steve Holt

Thank you, Sumit. Good afternoon, everyone.

For the third quarter, revenue was $639 thousand, with $539 thousand of royalty revenue and $100 thousand in product revenue. All of the third quarter royalty revenue was attributable to our April 2017 customer. The product revenue is related to projection engines we made for RagenTek back in 2017. In the third quarter, MicroVision and our distributor concluded legal action with RagenTek. As a result of the settlement we were able to recognize an additional $100,000 of revenue.

In comparison, in the second quarter we recognized $587 thousand of revenue, with $572 in royalty revenue.

Third quarter cost of revenue was zero. The resulting gross profit was $639 thousand. In comparison, second quarter gross profit was $588 thousand, which included a warranty credit of $1,000.

The royalties associated with the April 2017 customer that are due to MicroVision will be credited against the prepayment made by the customer. When the prepayment is exhausted, the April 2017 customer will begin making cash payments for royalties due. At the end of Q3, the balance of the prepayment stood at $8.2 million dollars.
This $8.2 million is on the balance sheet as a contract liability. ASC 606, the applicable revenue standard, requires that companies estimate and disclose the timing of when those liabilities are expected to be recognized. This information will be found in the revenue recognition footnote in our Form 10-Q which we will be filing shortly. Our current estimate is that approximately $400 thousand of the $8.2 million will be recognized in Q4, for a total of about $1.7 million being recognized in 2020.

Operating expenses were $3.5 million in the third quarter, in line with the $3.0 to $3.5 million range we provided on our last call. In comparison, operating expenses were $2.9 million in the prior quarter. The increase of about $500 thousand is mostly due to non-cash compensation and engineering materials to produce our automotive lidar proofs of concept and prototypes. The non-cash compensation is related to an employee retention program we put in place to help retain employees while the company explores strategic alternatives. This retention program was for employees and excluded section 16 officers. Our headcount at the end of September was 35, comprised of 25 in Engineering and 10 in SG&A.

For the third quarter, our net loss was $2.8 million or 2 cents per share. This compares to a net loss of $2.3 million or 2 cents per share in the prior quarter.

For the third quarter, cash used in operations was $3.5 million, which compares to cash used in the prior quarter of $3 million.

In the fourth quarter I expect our cash used in operations and capital equipment purchases to increase. We are procuring components, tools and equipment necessary to build automotive lidar hardware that we are targeting to be ready in the April timeframe. Additionally, we paid a $625,000 invoice in Q4 related to parts we shipped earlier this year in Q1. There was a dispute with the supplier that had delayed the payment.

Additionally, you may recall that during the second quarter we secured $1.6 million of funding under the Payroll Protection Plan. We expect a portion of the $1.6 million loan will be forgiven
based on the rules of the PPP program. Our estimates show that we expect about $690,000 to be forgiven, and that we will need to repay about $900,000 thousand. The monthly payment to repay the unforgiven portion of the loan should be around $50,000 per month beginning in Q4. As it is possible that the rules of the PPP program could change, the amount to be forgiven could also change.

All these items give us an expected Q4 cash usage in operations plus capital expenditures of around $5 million, plus or minus $300,000. The timing of much of this will be late in the quarter, and it is possible some will fall into Q1, but I want to let you know we do expect an increase in Q4. We are trying to keep expenses down and minimizing negative cash flow, but as Sumit said, we believe completing our lidar hardware development is important because it could drive a significant increase in valuation for the Company. The value increase comes from the elimination of development risk and that a potential acquirer would be acquiring a product ready for shipment in the second half of 2021.

We ended the third quarter with total cash and cash equivalents of $5 million. Thus far in the fourth quarter we raised $5.8 million dollars from our Lincoln Park Capital facility. Our goal is to maintain a sufficient cash position to give potential acquirers confidence that we have the necessary capital and resources to have a successful transaction, and balance that against dilution that would come with raising cash through the sale of stock. Adding the $5.8 million to the $5 million we had at September 30th, we believe we have sufficient cash to fund operations through the first quarter of 2021. There currently remains about $200,000 available to the company on the Lincoln Park facility.

Finally, I’d like to turn our attention to intellectual property and licensing. We’ve had some investor questions about licenses for our technology. At this time we are party to three licenses for our technology. Our April 2017 customer has a limited license to produce specific components for use in a specific product. Second, in May 2018 we granted a 5-year limited license to a technology company to produce display-only products that incorporate our
components. That license does not include the right to use our technology in augmented reality or near-eye micro-display engine products. Third, in 2016 we granted a royalty bearing, limited license to a Taiwanese manufacturer to make scan beam display products. We have received immaterial royalties under this license agreement. As we have not received nor expect to receive material royalties from this licensee, we do not expect to extend this license beyond its current expiration date in 2022.

With that we will now open the call to questions.

Q&A

Thank you, operator.

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