MVIS Financial and Operating Results
Q3 2021 Conference Call Prepared Remarks

Operator

Welcome to the Q3 2021 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 2021 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 product development, potential product sales, scalability of technology and designs, expected performance of products, comparisons with competing products or technology, market opportunities and future demand; advantages of our technology; business and strategy opportunities and execution; expected customer and partner engagement; product development
applications and benefits; commercialization of our technology; strategy for customer sales; maximizing shareholder value; managing costs; future royalties; projections of future operations and financial results; availability of funds; as well as statements containing words like potential, intend, believe, expects, plans, could, 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 15, 2021 and our Form 10-Qs filed on April 30, 2021 and August 12, 2021 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.

In addition, we will present certain financial measures on this call that will be considered non-GAAP under the SEC’s Regulation G. For reconciliations of each non-GAAP financial measure to the most directly comparable GAAP financial
measure, as well as for all of the financial numbers presented on this call, please refer to the information included in our press release and in our Form 8-K dated and submitted to the SEC today, both of which can be found on our corporate website at ir.microvision.com under the SEC Filings tab.

This conference call will 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, Chief Executive Officer**

Thank you, Lindsey. Good afternoon everyone.

I would like to start off by walking you through our progress in the last quarter, including our product introduction at the IAA Munich Mobility show, and our priorities to frame the year ahead of us.

We have made progress since our last call. In September we introduced our lidar sensor at the Munich Mobility show. It was a great opportunity to showcase our technology alongside our competitors. ADAS safety and the need for lidar as a central sensor was part of the story for every OEM and Tier 1 that exhibited at the
show. The largest volume opportunity and recurring revenue resides with OEM programs for automotive lidar sensors which has been our focus for the last several years. I can say with confidence that the race to secure an OEM program for Level 2+ and Level 3 ADAS systems with lidar as the central sensor is still wide open. No lidar company has yet secured an OEM deal that is recorded on its financial statements as meaningful backlog. I believe MicroVision is ahead of all our competitors in several key areas. Based on our work with a leading global consulting firm, we expect OEMs to make partnership decisions after careful and thorough evaluation in the next 16 months for the launch of new EV models with more advanced ADAS features which will start to ship in 2025, with a larger global rollout of battery-operated EV vehicles expected in 2026. This could represent lidar sales volumes in the millions in the future.

I am excited to report that we have received very positive feedback from our recent OEM and Tier 1 meetings. OEMs tell us that our sensor is of interest because it demonstrates best-in-class cost advantages, size, key features and demonstrable scalability for production and quality requirements. We believe our hardware and software solution excels in each of these categories and we have received acknowledgement of this in our meetings with OEMs and Tier 1 companies.
Potential customers and partners have consistently been impressed by the compact size of our sensor and the number of features packed inside. Our capability to provide highest resolution at range with a dynamic field of view and velocity field while running at 30 hertz is a major accomplishment of which we are very proud of. The 30 hertz rate could enable higher speed operation of automatic emergency braking (AEB), forward collision warning (FCW) and automatic emergency steering (AES) ADAS features that are expected to be the centerpiece features for future vehicles.

Our technology would also provide larger system cost savings than competitive solutions, an important factor in an OEMs’ final decision process. An ADAS solution integrated with our lidar would require a lower number of sensors to meet ADAS safety requirements and result in a lower overall system cost compared with a sensor stack utilizing lower resolution and lower frame rate lidar solutions. Working with a leading global management consulting company has allowed us to confirm this and enable us to more widely start introducing our product to OEMs. As previously stated, we expect to demonstrate our integrated software and hardware ADAS solution by June 2022 that will demonstrate higher levels of ADAS safety features that OEMs desire. As I recently discussed, our technology is built on well-
known technologies for lasers, photo detectors, MEMS, and custom silicon components. There are no exotic materials in our sensor, so we can quite easily show our cost scalability to OEMs. The MicroVision know-how in combining these standard materials with our algorithms, software and custom silicon is what creates incredible value through our intellectual property. Additionally, with our history of delivering product for world class customers, like Microsoft, for challenging applications, demonstrates the pedigree of the Company and provides potential customers the confidence in our ability to meet and exceed their expectations.

As I frame our priorities for the next year, working to achieve an OEM or Tier 1 partnership remains our focus. Our team is working around the clock on polishing our sample for OEM evaluations that are expected to continue well into 2022.

The OEMs require a more specialized product for automotive ADAS than a product for the general market. Because of the large and valuable OEM opportunity ahead of us we have decided to focus on the OEM business, what we call strategic sales. We will continue to prepare a product for direct sales but at a slower pace. We expect it will be available in the middle of 2022. I believe we need to maintain our focus on strategic sales given the timeframe for OEM decisions and the value this strategy could represent to our investors.
One of the questions I often get from investors: “Is MicroVision planning to go it alone?” Let me clarify my thoughts on this. The opportunity for an OEM program is tremendous and represents significant value for our shareholders. But no company can go it alone in this space for such a safety critical system. Partnerships will be required with OEMs and Tier 1s, and others in their stack, to be able to deliver a solution. In the near term, industry experts expect a huge amount of consolidation in the ADAS space where recurring significant revenue is not expected until 2025 and beyond. MicroVision is in a strong position with our hardware and software built on decades of relevant development and solid intellectual property rights.

Before I turn the call over to Steve to discuss the Q3 results, let me comment on the CFO announcement we made last week. I would like to start off by thanking Steve for his eight and a half years of dedication to MicroVision and helping the Company navigate through challenging times to the most financially secure level it has been in its history. Steve and I have worked closely through my time at the Company, and I will miss his focus and friendship.

We also announced Anubhav Verma will be joining us on November 15 as our new CFO. I am excited that he brings with him great energy and solid experience from years executing in capital markets and investment banking transactions. I am
looking forward to working with him and the expertise he will bring to our management team.

In other news of interest to our shareholders, Dave Allen, MicroVision’s long-time IR consultant, is retiring at the end of November. I am very appreciative of Dave’s work over the last several years supporting the Company’s communications with shareholders. He will be missed.

I would like to end this update by thanking our shareholders for their enormous support and confidence in the Company. I would also like to sincerely thank our employees for their continued hard work and dedication in getting us here and remaining focused on the important work ahead.

Now let me turn the call over to Steve to discuss the third quarter's results, and then I’ll be back to provide some additional perspective.

Steve?

Steve Holt, Chief Financial Officer

Thank you, Sumit. Good afternoon, everyone.
For the third quarter, revenue was $718 thousand, down slightly compared to last quarter’s revenue of $746 thousand. All of the third quarter’s revenue was royalty revenue and attributable to our augmented reality customer.

As I have pointed out before, royalties related to this customer will be credited against the non-refundable prepayment the customer made in 2017. Once the prepayment is exhausted, the customer will begin making cash payments for royalties due. At the end of Q3, the balance of the prepayment stood at $5.8 million. The $5.8 million is on the balance sheet as a contract liability. I would also like to point out that there is no time limit within which the prepayment must be used. As long as the components we developed for the customer are in production, royalty revenue will continue to be generated.

Our third quarter cost of revenue included a $10.0 thousand credit related to the reversal of a warranty accrual. The result is a third quarter gross profit of $728 thousand. In comparison, gross profit was $777 thousand in the prior quarter.

Operating expenses were $10.8 million in the third quarter, which was considerably lower than our guidance of $14.0 to $16.0 million discussed on August 4th, and lower than the $15.7 million in the prior quarter. The decrease in
Operating Expenses in Q2 was primarily due to a decrease in share-based compensation. Share-based compensation was lower in Q3 because Q2 had a one-time expense of $4.2 million, and some employee awards earned in Q2 were not repeated in Q3.

If we subtract out share-based compensation expense from Operating Expenses from both Q3 and Q2, Operating Expenses would be $8.0 million in Q3 and $7.8 million in Q2.

Our headcount at the end of September was 83, up from 74 at the end of June. We are a little behind in our hiring plans due to the very tight labor market, but we are very pleased that we were able to attract 9 new employees in the quarter. We remain in a hiring mode and plan to hire more people primarily in engineering, but we also expect to fill positions in Sales and other administrative functions. We expect that by the end of the year we will have 100 to 110 people, a little lower than our prior guidance of 110 to 125.

Our net loss in the third quarter was $9.4 million or 6 cents per share. In comparison, the second quarter net loss was $15.0 million or 9 cents per share.
Because of the large swings in share-based compensation we think it would be useful in making comparisons if we provide an Adjusted EBITDA number. Adjusted EBITDA is Earnings Before Interest, Income Taxes, Depreciation, Amortization, and share-based compensation expenses. For the third quarter, Adjusted EBITDA was negative $6.2 million, and for the second quarter it was negative $6.7 million.

Third quarter cash used in operations of $10.0 million, in comparison cash used in operations in the second quarter was $6.7 million. The increase is due to adding $1.0 million in component inventory for our long-range lidar. Also, in the quarter we paid security deposits and prepaid rent for new testing and office space. Those deposits and rents came to about $1.0 million. Additionally, in July we renewed our D&O insurance policy. Our insurance premium increased substantially due to our increased market cap, and general conditions in the D&O market. That accounted for about $900,000 increased cash usage.

Cash and cash equivalents at the end of the third quarter was $125.1 million, down from $135.3 million at the end of the prior quarter. We did not raise any funds on the ATM in the third quarter or thus far in the fourth quarter.
While we have not opted to utilize the ATM since the second quarter, having a strong balance sheet and the ability to raise additional funds has given confidence to prospective customers and partners that we can be a long-term player in the automotive lidar market. The strong balance sheet also helps in retaining and attracting employees.

I’d like to return to the topic of real estate leases. In September we signed a lease for about 17,000 square feet of space that will be used for both lidar testing and office space. We start paying rent on this space in November. Additionally, we have placed a deposit for a lease on a building next door to the testing facility. If we are unable to complete a negotiated exit from our current lease, the deposit will be returned. If we can negotiate that exit, we will likely move our main office to the new facility in late-summer or fall of 2022. The new facility is around 36,000 square feet, the facility we would be leaving is around 31,000 feet.

Now I’d like to give some thoughts on our expectations for the fourth quarter.

First, let’s cover revenue. As Sumit mentioned, we are focusing on the automotive OEM business because of the opportunity for high levels of recurring revenue. In the short term this effort will consume a lot of engineering resources. As a result
of this focus and the timelines that come with it, we have pushed back the start of production of lidar units for direct sales from Q4 of this year to the middle of next year. So, we expect Q4 of this year revenue will continue to be royalty revenue in the range of $500,000 to $600,000.

Now for operating expenses. Q4 will again have a significant amount of share-based compensation, in the range of $3.0 to $3.5 million dollars. Additionally, as we continue to hire and continue spending on materials and services, I expect to see Q4 operating expenses in the range of $11.5 to $13.0 million, including share-based compensation.

Finally, cash used in operations. In addition to the increased expenses I just mentioned, we will continue adding inventory of long lead time components for our long range lidar, so I expect to see cash used in operations in the $10.0 million to $11.5 million range.

Finally, let me echo Sumit’s excitement about our competitive position and the reception we received at the IAA Mobility trade show last month. That show was really the first chance we had to show our hardware and the response was every bit of what we hoped it would be.
I will now turn the call back over to Sumit for some comments before we open the call to questions.

**Sumit Sharma, closing remarks**

Before we open the call up to questions, let me revisit a couple of important themes from this call:

The strategy that I described today, though ambitious, is built on MicroVision’s well-established technological depth and maturity, including our proprietary ASIC, our cost-effective components, and our demonstrated ability to productize at scale. We expect that our engagement with OEMs will continue as we support evaluations of our sensor in Q2 2022 and of our software features in Q3 2022. We believe that MicroVision will be well positioned to support OEMs as they roll out new vehicle programs built on next generation technology.

We remain confident in our ability to successfully execute on our strategy and I am bullish on our future.

Let’s open the call for questions.