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MVIS Financial and Operating Results Q2 2021 Conference Call Prepared Remarks

Operator

Welcome to the Q2 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 Second 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 roadmaps, potential product sales, potential impact of products in the market, ongoing development of technology, 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 execution; product development applications and benefits; availability and supply of products and key components; 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 opportunity, potential, possibly, intend, believe, goals, paths, expects, plans, will, could, would, 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-Q filed on April 30, 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.

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, *Chief Executive Officer*

Thank you, Lindsey. Good afternoon everyone.

It's great to have the chance to update you on our progress. Later in the call, I will also update you on our strategy for initial direct sales of lidar sensors while we work on developing opportunities for sales to OEMs and Tier 1 partners. We refer to these sales opportunities to OEMs and Tier 1 partners as strategic sales. We remain profoundly confident in our ability to successfully execute this strategy that I believe will drive long term value creation for our shareholders.

Let me start off by thanking our shareholders for their enormous support and confidence in the Company. The continued support of our shareholders has allowed the Company to fund development and maintain all ownership rights to our technology. We are purposefully driving towards a future inflection point where I believe our cash flow from these investments will lead to significantly greater value creation.

I will also provide some additional perspective on how we plan to position our technology and products towards the expected automotive lidar market. I believe this should give you greater insight into our bullish view of the future.

I would like to sincerely thank our employees for their continued hard work and dedication. We began transitioning back to the office in July and it is great to see some normalcy return. I would also like to warmly welcome potential business partners to this call who are starting to join and follow our public updates.

I'm happy to report that we have made great progress since our last call, building on our work from the past year. Since last year, we have been submitting responses to RFIs, or requests for information, initiated by OEM, Tier 1 and Mobility-as-a-Service companies. With the completion of our A-sample, we were able to share our data from outdoor testing with OEM and Tier 1 companies that demonstrated our sensor operating at ranges greater than 200 meters, high resolution and velocity output among other features. Our team has been actively conducting outdoor testing on various development platforms since December 2020. This has allowed us to share performance data and support various deep dives into our technology, to highlight the advantages of our hardware and software as part of these RFIs. We have been building bridges to these potential partners throughout our development.

With Covid-related international travel restrictions and constraints placed by companies in Europe and North America limiting onsite visits, we were required to share tremendous amounts

of data for RFI inquiries. With travel restrictions lifting, we are now beginning to plan in-person trips and public demonstration of our lidar technology starting with the IAA Mobility show in Munich this September.

The feedback we've received from potential customers so far has been very positive. With our proprietary active scan locking architecture, which is based on proven technologies, we believe our lidar meets or exceeds their product expectations and will be the most cost effective lidar product on the market. Our features and cost are two key sustainable strategic advantages of our technology that we expect to maintain well into the future. While we still have work ahead of us in completing partnerships, we believe our technology can clearly meet our customers' short- and long-term needs.

We often get questions from our investors about publishing a comparison of our specifications vs. our competitors. On our last call I went into detail on our specifications and the advantages of our technology and roadmap. Unfortunately, such clarity on relevant specifications is not available from our competitors. Since providing incomplete comparison charts would not be constructive and could be misleading, we will instead periodically release updates from our track testing program and other validation efforts. We remain confident that our lidar sensor is best-in-class.

I am pleased to report that this month we will start conducting moving platform testing at a third-party track. We will test our lidar with the test vehicle at speeds typical for highway driving. The track will have various test protocols set up which are specified by the National Highway Traffic Safety Administration, or NHTSA, and Euro NCAP to achieve ADAS safety rating for OEM vehicles.

With the interest we have received so far, we expect to continue expanding our funnel for target partnerships with the addition of a business development team in Germany. We also expect to add business development teams to address the North America and Asia Pacific markets at some point in the future.

Automotive lidar represents the biggest opportunity in the history of our Company. To successfully engage potential partners, it is important for our customers to understand our commitment and our pedigree.

To appreciate the important reason why we receive such interest from OEMs and Tier 1s we need to look back at where we've been and what we've accomplished over our Company's long history.

Early applications of our technology included heads up displays for the U.S. military and automotive systems. In the market today, our technology can be found in Microsoft's HoloLens2 product. In the past, we've worked with other global brands to incorporate our core technology into their consumer products. Our hardware and software teams know what it takes to develop technology that meets or exceeds extremely high expectations. Our core technology has proven

its ability to successfully perform and scale to mission critical standards. Our team is very experienced and has a pedigree of delivering products that have the potential to open large markets with our laser beam scanning technology.

With our strong history of reliability, predictability, and precision, we feel confident that our automotive lidar sensor will perform to the standards expected by the industry. I am honored to say with confidence to our potential customers that we are well established, well-funded and committed to deliver.

We see great long-term value in our lidar strategy to address the immediate market with direct sales, and in parallel engaging OEMs and Tier 1s for potential long-term partnership for our hardware, custom ASICs, and proprietary software as part of strategic sales.

Let me first elaborate on the importance of our direct sales strategy. We expect to introduce our lidar family of products which will include four new product models. This will include our premium product with dynamic field of view with near, mid, and far fields of view in a single product. We believe this product could someday be considered a standard for ADAS safety. We will also introduce three additional models with fixed field of view in near, mid or far fields. All four models would be built on the current hardware with their appropriate software. Because all four products will be built on the same hardware, it will limit our inventory exposure while allowing our business development team to have flexibility in converting our sales funnel.

We believe our product with dynamic field of view will ultimately be our flagship product. By supporting our customers with fixed focus sensors and plugging gaps that may exist in their current sensor suite, we expect the opportunity of providing them a softer transition to our hardware platform. We are looking at every opportunity to accelerate sales and adoption of our hardware while targeting a blended margin in the range of 50% for the direct sales opportunities.

Our capability to potentially enable ADAS safety features directly from our sensor will allow us to demonstrate to OEMs and Tier 1s how ADAS features currently in the market can be improved. Current ADAS systems utilize low-cost camera module technologies that are limited to daytime use. With our track testing program, we expect to show potential partners the capability of our lidar to perform day or night and still be cost competitive. We are excited at this prospect.

I would now like to discuss strategic sales. Our strategic sales will focus on the biggest volume opportunity in the lidar market we see coming from automotive, OEMs and Tier 1 partnerships. About 24 million passenger vehicles are projected in 2024 to have advanced safety features ranging from Level 2 and higher, with an expected increase to about 37 million vehicles by 2030. The current industry leader selling Level 2 camera module-based safety systems has publicly announced its push into lidar. We believe we are ahead of this and other companies with our current sensor specifications, long-term competitive cost and proven maturity of our technology.



With a large market and significant growth ahead of us, we see a great opportunity for further value creation with our focus on strategic sales.

I am excited about our dual path strategy to drive to revenue and profitability.

Now let me turn the call over to Steve to discuss the second 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 second quarter, revenue was \$746 thousand, a 56% increase over last quarter's revenue of \$479 thousand. All of the second quarter's revenue was royalty revenue and attributable to Microsoft Corporation, who've previously referred to as our April 2017 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 Q2, the balance of the prepayment stood at \$6.5 million. The \$6.5 million is on the balance sheet as a contract liability.

Our second quarter cost of revenue included a \$31 thousand credit related to the reversal of a warranty accrual. The result is a second quarter gross profit of \$777 thousand. In comparison, gross profit was \$484 thousand in the prior quarter.

Operating expenses were \$15.7 million in the second quarter, which was higher than our guidance of \$13 to \$14 million discussed on April 29th, and up from \$6.7 million in the prior quarter. The increase in OpEx was primarily due to non-cash compensation of \$7.9 million, recruiting and payroll expenses associated with an increase in headcount came to about \$800 thousand, and the write-off of unused production equipment related to our Interactive Display product of \$660 thousand. Our headcount at the end of June was 74, up from 57 at the end of March. We are really very pleased that we were able to attract 17 new employees in the quarter given the tight labor market. 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 could be up to 110 to 125 people. Much of the increase in the projected headcount is for our software and hardware teams. As Sumit mentioned, we plan to add features and reduce cost to enable strategic sales in the Level 2 and higher categories. These people will be needed to make that happen.

Given the higher OpEx in the second quarter, our net loss of was \$15 million or 0.09 cents per share and cash used in operations of \$6.7 million. The first quarter loss was \$6.2 million or 0.04 cents per share, and cash used in operations of \$4.5 million.

The increase in cash used in operations during the second quarter was primarily attributable to salaries and recruiting expenses in connection to the increased headcount, development materials and suppliers as continued development on our long-range lidar, prepayments to vendors for materials and software tools, and inventory that we expect will be used to build product in the fourth quarter.

Cash and cash equivalents at the end of the second quarter was \$135.3 million, up from \$75.3 million at the end of the prior quarter. The increase was the result of the Company raising funds on the \$140 million ATM we put in place in June. In the second quarter we issued 4 million shares and raised \$67.8 million in net proceeds. We have not raised any additional funds on the ATM thus far in the third quarter.

We were pleased to be able to put the ATM in place and raise the cash we did, as it gives confidence to prospective customers and partners, as well as employees and prospective employees that MicroVision will be a strong long-term partner in the automotive lidar market.

I'd like to now turn to the third quarter and give some thoughts on our spending and cash usage as we move forward through this year. Q3 will also have a significant amount of non-cash compensation. Additionally, as we continue to hire and get ready for production and begin promoting our lidar sensor direct sales, I expect to see Q3 operating expenses in the range of \$14 to \$16 million. As for cash used in operations, in addition to the increased expenses I just mentioned, we will begin adding inventory in advance of starting production of the long-range lidar in Q4, so I expect to see cash used in operations in the \$9 to \$11 million range in Q3.

Finally, let me echo Sumit's excitement about our competitive position and the progress we have made so far in 2021. We are focused on the successful start of direct sales of our lidar sensor, and we're also focused on building a company that can succeed with longer-term strategic sales that Sumit discussed earlier.

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:



Today, our focus remains on establishing ourselves as a trusted partner for automotive OEM, Tier 1 and Mobility-as-a-Service companies. We expect our closely integrated hardware and software to enable the ADAS safety market while also supporting potential partners in the autonomous driving market. We expect to start validating our ADAS safety capabilities through our track testing program by second quarter 2022.

Nothing is more important to us than getting this right with our products and partnerships. Our technology and Company have demonstrated our pedigree and enabled large global brands. I expect us to establish ourselves and lead the ADAS and autonomous driving space with our hardware and software into the future.

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

Let's open the call for questions.