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PRESENTATION

Operator

Good day, and welcome to the MicroVision Second Quarter 2020 Financial and Operating Results Conference Call. (Operator Instructions) Please also note today's event is being recorded.

I would now like to turn the conference over to Lindsey Stibbard. Please go ahead, ma'am. Thank you.

Lindsey L. Stibbard - *MicroVision, Inc.*

Good afternoon, and welcome, everyone, to MicroVision's Second 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; expressions of the interest regarding strategic alternatives; potential value of the company or product vertical; potential competitive advantages; ability to profitably scale modules to large volumes; capacity to generate free cash flow; future demand for consumer electronic products; future monetization opportunities; expected capabilities of augmented reality and automotive LiDAR products and ability to develop and launch such products; potentially disruptive capabilities of our products; potential markets for our products; ability to execute potential strategic transactions, managing costs, cash to fund operations; potential forgiveness of a portion of loan proceeds under the Payroll Protection Program; future use of shares of common stock completing its strategic transaction; maximizing shareholder value, expected customer order; future royalty progress under and benefits of existing contracts and license agreements and the negotiation of future agreements; customer product launches; advantages of our technology; litigation; business execution; projections of future operations and financial results; availability of funds; product development applications and benefits; availability and supply of product and key components; commercialization of our technology; market opportunities and future demand; effect of approvals of proposals contained in our preliminary proxy statement dated August 6, 2020; as well as statements containing words like opportunity, potential, possibly, intend, confident, believe, goals, focus, paths, expects, plans, will, could, would, think, endeavoring, enabling, 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 May 8, 2020, preliminary proxy statement documents and 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 - *MicroVision, Inc. - CEO & Director*

Thank you, Lindsey. Good afternoon, everyone.

For over two decades, MicroVision has been driven by one simple principle: to continuously innovate and been advance MEMS-based laser beam scanning and associated detection technology to solve some tough problems and enable high-performance display and LiDAR products. We believe we have created disruptive technology in multiple product verticals and a strong intellectual property portfolio that we believe provides a competitive advantage.

We also established key strategic partnerships and believe have demonstrated to potential customers the capability to profitably scale our modules in large volumes. As we focus on pursuing a strategic transaction, a potential interested partner could reduce margin dollars, they would otherwise be paying if they were our customer or see potential revenue and margin for module sales. Our innovation, execution and intellectual property are the result of our driving principle and represents the value of the company to our shareholders and all parties that may be interested in pursuing a strategic opportunity.

Facing uncertainty in global demand and capital markets in Q1 2020, we committed ourselves to finding strategic alternatives, including the potential sale or merger of the Company. With the help of our financial advisers, Craig-Hallum, we have since reached out to more than 100 companies across the globe to explore their interest in strategic alternatives. All the companies that have expressed interest are required to maintain strict confidentiality, as is MicroVision. Therefore, we will not provide specific comments on these discussions until an appropriate agreement is completed.

I note that Mergermarket recently published an article about our strategic process. The article referred to strong interest from bidders. I would like to clarify that we are engaged in discussions with certain potential interested parties who are at various stage of diligence. We do not plan to make public statement about any bid or a potential transaction unless and until and appropriate agreement is reached.

I can share the a focus group of top tier OEMs and technology companies are engaged in exploring and potentially pursuing strategic alternatives, which could include a sale or merger of the Company, acquisition of one or more product verticals, strategic investment and acquisition or licensing of our intellectual property. We believe parties will be particularly interested in our augmented reality and automotive LiDAR vertical.

We continue to work closely and responsibly with their technical and corporate development teams as well as our Board to evaluate options that will maximize shareholder value. We believe that our interactive display and consumer LiDAR verticals would also represent significant value to an acquiring company as consumer demand returns for smart speakers and smart home products. These product segments launched by OEMs saw large demand and growth for multiple years prior to the outbreak of the COVID-19 pandemic. However, uncertain expectations of global demand for consumer electronics due to the pandemic may have affected current expectations of value for these verticals.

MicroVision has a long history of engaging with OEMs for custom development funded by NRE or nonrecurring engineering programs. At the outset of our discussions, the full value of the body of work and product MicroVision could bring to market may not be clear to the interested parties or the investment community. It is, therefore, incumbent upon us to clearly identify all these future monetization opportunities as a potential strategic partner.

This week, we posted videos on our YouTube channel that demonstrate what our modules could potentially enable in the near future if an OEM partners with us on a program using our augmented reality or automotive LiDAR modules. In the MicroVision augmented reality video, for example, we share a potential module design using our existing MEMS technology platform that could offer the lightest, smallest in volume, low power



module without the 40-degree field of view packaged into eyewear that resembles frames currently accepted in the market. I believe one could see how our module and this design example will be compelling for a mass market product. Our module illustrated in this video is based on existing design model files that are part of our intellectual property and body of work. MicroVision has been willing, ready and able to develop and launch this module. Even though we were not engaged in the NRE program for development, we expect that the future value it may present should be acknowledged. This potential module has not previously been discussed publicly, but I think you see that it presents a path to a truly mass market product and could represent a very interesting business opportunity to a potential acquirer or strategic partner.

With the interest of our shareholders in mind, we are endeavoring to make a compelling case for the opportunity in each vertical so an acquiring company understands the entire opportunity, which would be reflected in a possible transaction. As I mentioned, I will not discuss specifics about the process and progress with any specific party. However, in light of our filing of a preliminary proxy statement earlier today, I would like to provide some general background and context on the strategic alternative process to our shareholders as they consider the Company's recommendation to authorize additional shares of common stock in a proxy filing.

We are in discussions with certain top tier OEMs and technology companies who may be interested in our augmented reality and automotive LiDAR vertical, in particular. We continue to have discussions and explorations into our technology and how it could provide an advantage to their strategic path with compelling products. Each interested party has its unique objectives and requirements with respect to any potential deal. As we continue to engage with interested parties and actively explore their desired structures, we're endeavoring to make sure that the value of all they would acquire is demonstrated to our design, financial models and examples of other relative transactions in a particular market.

We have received feedback from multiple interested parties, recognizing that they think MicroVision technology is the most sophisticated and potentially disruptive that they have reviewed so far. I believe this feedback is a great compliment to the hard work our employees have performed for more than 2 decades. We continue working diligently to find the right match for each party in an effort to maximize the value of the Company for our shareholders. As you may imagine, this can take time and need to develop at the natural phase common to such agreements. I strongly believe that it is critical we have the timing it will allow all interested parties to determine the right structure and value.

We believe our product verticals include a deep IP moat and body of work that could allow the right of foreign parties' multiple disruptive products in multiple verticals, and acquiring companies will also benefit from our experienced engineers joining their team and continue to mature the technology. We believe we have solved the key challenges of supply chain partnerships and established the capability to scale our margins and production. Combined with large total addressable market size forecast for these verticals, we believe these verticals would represent significant value to them. Our technology could allow them to develop disruptive products under their brand. We are working diligently to make sure that the value of our work, IP, experience, capability and technology are acknowledged.

The entire MicroVision team continues to remain healthy and perform admirably through the COVID-19 pandemic work requirements. In addition to supporting all the technology reviews, I'm happy to share the MicroVision team has made valuable progress in enabling our automotive LiDAR path. One of the disruptive features that enable our automotive LiDAR is its capability to actively reject ambient and light noise while using a 95-nanometer laser. I believe this capability could enable a potential product to support active collision-avoidance systems and potential hardware for channel sales to software companies focused on autonomy.

Our team successfully completed an important development milestone since the last earning call, in which we demonstrated in a working prototype the capability of our future LiDAR to actively reject ambient and light noise. This milestone is one of a few required to demonstrate the disruptive nature of our automotive Lidar that would output more than 20 million points per second at 30 Hz, have a range greater than 200 meters operable in full sunlight, output a velocity field in addition to point cloud, and will include three scanning fields of view in a single Lidar hardware. During this period, we also completed design details on the 40-degree field of view micro-display modules shared in our video. I am very proud of our team for continuing to work hard and making meaningful progress.

I would like to now switch gears and update on some governance items. As you may recall, at the annual shareholder meeting in May, shareholders approved a proposal to authorize the Board of Directors to evaluate and, if necessary, implement a reverse stock split to maintain listing on the NASDAQ global market. First, I want to sincerely thank our shareholders for their support in authorizing a reverse stock split. As you know, the Company has regained compliance with NASDAQ listing standards and remains publicly listed on the NASDAQ global market, which helps maintain



the value of the company and our ability to execute future strategic transactions. Therefore, I'm happy to announce that after serious evaluation of the situation, the Board of Directors has decided not to affect the reverse stock split within the time frame authorized by shareholders.

Also today, we filed a preliminary proxy statement, which includes the request for shareholders to approve an increase in the number of outstanding shares of common stock by an additional 60 million shares. I believe it is in best interest of all shareholders to support this proposal. As I shared earlier in my update, we are engaged with multiple parties in trying to find the right match to maximize value of the Company. I believe having additional shares of common stock available is important to provide the Company with the flexibility it needs to increase its ability to pursue strategic options, to increase shareholder value and is in our best interest as shareholders. We believe we have the cash to fund operations until the end of the year. If closing a transaction takes longer than that, we will need the flexibility that this authorization provides to achieve value for the shareholders. It is very important that everyone votes regardless of how many shares they own.

I would like to conclude my remarks today by thanking our employees, our shareholders for their continued support and commitment while we explore a potential merger or sale of the Company. Despite global economic headwinds that surround us, we continue to make progress in pursuing a potential strategic transaction.

Now let me turn the call over to Steve to discuss the second quarter results. Steve?

Stephen P. Holt - *MicroVision, Inc. - CFO*

Thank you, Sumit. Good afternoon, everyone.

For the second quarter, revenue was \$587,000 with \$572,000 of royalty revenue and the balance from contract revenue.

All of the second quarter's royalty revenue was attributable to our April 2017 customer, which assume production responsibility of our product on March 1. Beginning in the second quarter, the royalty earned is approximately equal to the gross profit we would have earned on each unit if we had not transferred production responsibility to our customer.

The agreement to transfer manufacturing responsibility to our customer provides MicroVision with a lower cost structure and lower working capital requirements. And importantly, it enables MicroVision to enjoy the upside should the customers' unit volume increase in the future. As in the prior arrangement, our customer continues to have a license to produce our components, but we retain ownership of the intellectual property.

In comparison, last quarter, we recognized \$1.5 million of revenue with about \$1.2 million in product revenue and the balance in contract and royalty revenue. Second quarter cost of revenue was effectively \$0 given the transfer of manufacturing responsibility to our April 2017 customer. The resulting gross profit was \$588,000. In comparison, gross profit was \$70,000 in the prior quarter.

The royalties that are due to MicroVision will be credited against the prepayment made by the customer. When 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 \$8.7 million. There is no potential scenario we see where MicroVision would be required to repay any portion of the \$8.7 million prepayment.

This \$8.7 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 \$1.1 million of the \$8.7 million will be recognized over the remainder of the year, and that will result in our royalty revenue being approximately \$1.8 million for all of 2020.

Operating expenses were \$2.9 million in the second quarter, slightly lower than the \$3 million to \$3.5 million second quarter range we provided on our last call. In comparison, operating expenses were \$5 million in the prior quarter, which included approximately \$100,000 in charges related to the reduction in workforce we announced in February and other nonrecurring expenses and credit in the quarter.

For the second quarter, our net loss was \$2.3 million or \$0.02 per share. This compares to a loss of \$4.9 million or \$0.04 per share in the prior quarter. For the second quarter, cash used in operations was \$2.9 million, which compares to cash used in the prior quarter of \$5.4 million. We ended the second quarter with cash and cash equivalents of \$7.8 million. Given our current expense rate, we believe our current cash balance will fund operations through the fourth quarter.

During the second quarter, we raised \$6.8 million from the Lincoln Park capital facility that we established in December 2019. At the end of the second quarter, we had \$6.7 million available under that Lincoln Park capital facility. However, given that we only have a few hundred thousand authorized shares of common stock available to issue, the facility does not currently offer an effective opportunity accessing the remaining \$6.7 million or raised any material amount of cash outside of the facility.

During the second quarter, we also 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. We expect to apply for the appropriate loan forgiveness amount near the end of the third quarter according to the rules of the program.

Now I want to address the proxy statement that was filed earlier today. It is a preliminary proxy and will be reviewed by the SEC for a minimum period of 10 days. If there are no SEC comments, we will begin mailing the proxy to shareholders. If the SEC has any comments, we will resolve those comments and send the proxy to the shareholders after resolution.

It is very important that everyone votes regardless of how many shares you own. The proposal to increase the number of authorized shares requires a majority of all shares outstanding to vote in favor of the proposal. That is a high order to reach and every vote matters.

I know that some shareholders do not like the thought of approving more shares because of the dilution that may occur if those shares are subsequently issued. We understand and appreciate that concern. However, we are in the process of trying to sell the Company, and the possible acquirers will act in their own best interest. It is in their interest to try to acquire the Company at the lowest possible price. We previously indicated that we have cash until the end of the year and that we are essentially out of shares of common stock. The acquirer may attempt to get a lower price by delaying the process until closer to the end of the year. Their thought may be that as we get lower and lower on cash, we might accept a lower price.

Having shares of common stock available allows the Company to be able to raise cash to keep the staff that we have and allow the sale process to proceed without being forced into an unfavorable position due to cash constraints. Without the additional authorized shares, we have very few alternatives to raising funds, none of which we view as appealing, and we could be in a weaker negotiating position.

There's also a second reason to approve the increase in authorized common shares. It is possible that shareholder value may be maximized by accepting a minority investment from another company. For example, a company may want to purchase a percentage of MicroVision now and then purchase the rest of the Company after a milestone or other event takes place. If the buyer was a potential customer or had similar strategic reason for the investment, the shareholders might benefit greatly from that investment. But to be able to do a transaction such as this without the delay of future shareholder approval, MicroVision need to have more shares available, which could be sold to the investing company.

Some of you may ask why 60 million shares. The main reason is that the number of shares could allow for a minority investment, as I just described, and still have a sufficient number of shares that could be available for other purposes. Remember, 60 million shares are not issued if they are approved on the proxy. They would only be issued as needed. It is possible that the Company is sold this year that very few of the shares would need to be issued.

Finally, I want you to know we are not asking for the authorization of more shares lightly. We're working hard so that a sale transaction could close within the time period that our cash will last. However, it takes around 60 days to file a proxy and hold a special shareholder meeting for new shares. So, the result of this will won't be known until early in the fourth quarter.

As Sumit discussed, MicroVision has developed amazing technology that we believe has a place in augmented reality, automotive LiDAR and consumer electronics. Having additional shares available gives us an opportunity to pursue all avenues to get the highest value for our shareholders.



Please look for your proxy in late August, either in the mail or via email if you've opted for electronic delivery and vote in favor of authorizing more shares.

Thank you. We will now open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And today's first audio question comes from Glenn Mattson with Ladenburg Thalmann.

Glenn George Mattson - Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research

So just to hit on that topic of the share issuance that, Steve, you're just talking about. It's an interesting situation. Obviously, time is not on your side with cash balance and the burn rate and everything else. So, there is always that thought process that people can wait you out a little bit. But then there's an issue of like how do you balance that versus how much capital you potentially would raise, leaving aside this strategic investment thing option for a minute. And you if raise, say, \$5 million or \$10 million, you're only kicking the can down the road a little further, and perhaps people could continue to wait you out. Can you just give a sense of how you balance what the capital needs could be with regards to the negotiations?

Stephen P. Holt - MicroVision, Inc. - CFO

Right. I think, Glenn, the way to think about it is there's a pretty finite level of cash to get us through the end of this year. With the shares available, we have the ability to raise more, and so the certainty of when we would start to run out of cash goes away. That becomes uncertain because you can continue to raise more if the \$6.3 million is available, say, in the Lincoln Park facility becomes available. And so you have the ability to continue to go through the sale process, the process that we're in and the certainty that there is a finite point in time where either the cash runs out goes away, and that's the thing we're trying to take away.

Glenn George Mattson - Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research

All right. That's fair. All right. And then just kind of shifting a little bit. I realize you guys can't talk about the sale process much, but just watching the kind of the big handful of tech companies that got drawn in front -- pulled in front of Congress last week for questioning their practices with regards to competitive nature and things. One of the questions that kept coming up was how some of these guys are using the tactics such as kicking tires on investments and then backing away the last minute and wind up doing some sort of workaround and things like that. Now it makes me think of you guys in a couple ways.

Number one, it almost sounds somewhat similar to the process that you guys went through when we thought for a while there that you guys were getting very close on landing a large contract, perhaps for a home speaker type device, and then it also makes me think about this process that you're going through now and just how you protect the investments that you've made over the years and the technology that you've developed as you're negotiating with these kind of giants, which is not an easy task for sure. So maybe some color on that perhaps.

Sumit Sharma - MicroVision, Inc. - CEO & Director

So I think if you take a broader look at it so everything you say I think everybody on the call is probably not in your head. We all heard it. But one thing about MicroVision that I'm very proud of is the grit that's been there. So, we know -- all of us that are in tech, we know this is a rule. This may happen. There will be some change that happens. This is what we have to do.



But ultimately, the IP that has been created, that has to have value. It's not just because you're in tech that you're obligated to be successful. So, I think the valuation point for me is the things that we're talking about, the verticals, those also have a time line for them. They do have a desire to acquire what they need, and they want to be successful themselves. So, if you're able to persevere, so if you think about what we've done this year, once we focused on strategic alternatives we've been actually focused on that. Yes? People will have different rules of how they want to behave. But I think we have, for many years, survived this. And you don't drive several times. It didn't bake true, unfortunately. But it definitely feels like an inflection point now. But the IP by itself is mature. The markets, pick any one of them I think Kavalier expensively bought them. They are present. So even those companies the choice is always about the money. Is it better to actually collaborate or acquire versus a significantly more risky path of potentially doing it on their own. So that's what all been factored.

So, it just -- all of the things like -- those are the rules. We're all knowing it but we're positioned well actually. So we have something of value. We have IP here. And we have not just IP, we have designs, we have people. We have done a lot. We just have to have grit, We start to get through it. That's the only way. That's the best answer I can give you.

Glenn George Mattson - *Ladenburg Thalmann & Co. Inc., Research Division - VP of Equity Research*

Yes. So just the last one. Maybe you can comment on the talent inside the firm. Have you seen any -- it's obviously public that you're going through this process. So, do you see any -- are people looking elsewhere or that kind of thing? Because a big part of the value is probably the talent of the people there if you do go through it, the sale process as well?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

Yes. I think we've been very sensitive to that, and we've done everything possible, all the tools that have been given to us to make sure that all the staff is comfortable and feel secure. At this moment, happy to share that, that we have all the key personnel required to complete a potential transaction.

Operator

And our next audio question comes from Kevin Dede with HCW.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Steve, I think you did a great job highlighting the nuances of the April 17 contract especially with \$50,000 gross profit expanding to, what, [\$1.8 million] (corrected by company after the call) this year -- or this quarter, sequentially. But it's not clear what the unit volume is behind there, and it's not really clear what's happening in the end market. I don't know how much you can speak to that, but if you could give us some color, I think it would be helpful.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Yes. We have not disclosed any per unit information, and we did -- we have said and we said this back in Q1 when we transferred the production responsibility to the customer that one of the things that drove us to that was the low volumes. So, we did the agreement that we did so that -- and one of the things we talked about even today was in the event that the volume of that product takes off, we will benefit from that. But the volumes were so low for us, so it was difficult for us to maintain the production given the low volume.



Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Okay. But you seem to have a little bit of a grasp of what you expect for the second half, and I'm wondering if -- how to read in between the sequential change between March and June and your expectation to realize all of \$1.8 million for the entire year.

Stephen P. Holt - *MicroVision, Inc. - CFO*

We have some indication of what the usage will be. I think we said \$1.1 million is what we expect to be recognized as royalty revenue over the last half of the year. So, that's the indication we have and the knowledge we have from interacting with the customer. Of course, that's an estimate, and that's what's required in the footnote, is for us to estimate that, and that's why I disclosed it because I know people are interested in what we see there. So, given where we are, the first half royalty revenue plus the \$1.1 billion to come in the second half, our estimate would be about \$1.8 million for the whole year.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Okay. Fair enough. Appreciate it. Can you explain how that liability might either benefit or interfere with potential strategic deal?

Stephen P. Holt - *MicroVision, Inc. - CFO*

It's really in a way, it's kind of a noncash liability. The company, we don't have to do anything right now to earn that. So I don't -- I personally don't see it as an impediment to a transaction because there's no liability that somebody is taking over that's going to require them as potentially to pay out any cash, and a company that would acquire us would essentially be able to record that revenue as it comes in over the next period until that entire prepayment balances exhaust it. And then future royalties after that would be cash royalties, cash paid for those. So, I don't see it as really, frankly, a big issue.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Okay. Fair enough. Sumit, thank you for the emphasis on AR and auto LiDAR. But I know that you guys have done a great job on -- and my understanding was the module that was used in tracking in a small field was getting closer to commercial market acceptance. And the demo that you showed at CES, I think, was great evidence of that, and I'm just wondering if you can speak to where you see that and whether or not you think that might factor into potential interest in deal.

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

Yes. I think you're talking about our consumer LiDAR that we presented, and certainly, it was very, very impressive. But as you know, like early on this year, this pivot to trying to sell the Company, so it makes it very difficult to enter any kind of development. Interested parties are concerned about where the development would be. We haven't had any specific inquiries about that. But if you take a step back, there's -- what's really driving a lot of things is not a validation of one versus the other. It's really the global demand for consumer electronic is unknown. Any kind of data that's coming around, you can see across different segments of the consumer market.

Is the body of work valid? Absolutely. Anybody of interest that we have had a chance to describe to? Absolutely, and that's what it was in my prepared remarks. It's our job to make sure they get the full value, that nothing -- all this stuff has value. This was -- this is created. So regardless of what the time line would be for a product those are things that are controllable. These things have value. So it's a great demonstrator. I still get complements for it, by the way. I get questions about it because people look to be impressed by that.



So yes, it's definitely all the things that we've been created. It's all in the mix. I think if you think about our AR, how far back our AR goes. It's such a long history that -- well, before me, even like -- so it's just be proud of and just lots to go through. And AR gets a lot of attention but it's got great foundational pieces. But the consumer LiDAR and the tracking display all the consumer products have in place in a transaction like this.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Right. So, with regard to AR, Sumit, could you talk to that 40-degree field of view? That's not going to be enough to substantiate a VR environment. I'm not exactly clear how it plays into an AR environment.

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

Right. So I got a little bit of history, as you know, in AR, probably more than a decade, so I'm going to speak from that. So, before I answer your VR question, let me just talk about AR. Think about yourself, if you have one AR product, what would you need? If you don't wear glasses, I'll tell you what you need. It has to be light. That's number one thing, which means it has to be low power, small battery, big field of view so you feel that it's not just something tiny. It's something valuable. And -- but not sure if it can be that.

So, if anybody could ever produce their product that's how you get to the mass market consumer product. Shipping any kind of volume that is not going to scale to millions, it's not -- think about cellphones. They shipped quite a lot of cellphones in a single model. To get to that kind of mass market there's many, many steps to go. So, for AR, if ever it was going to be a thing, it's going to need some features. Well, they're not deep R&D a decade out. It's MicroVision's core development for decades. We've already done that and we're demonstrating it. And so that video was specifically that sometimes folks may not have forgotten about our AR capability, but it's always right there. It's not forgotten. So that was the real reason.

So from AR standpoint those are things that are valuable. People have been trying to find a way to get AR into your life, so you have these micro interactions rather than big LCDs and immersive kind of environment. You get what you want. If you want to have a digital personal assistant, you just don't have to pick up your phone anymore. It just appears in your vision.

Now when you think about VR, it's a different market. It is immersive. It is -- you include yourself from the environment, and the experience is different. So if you want to take in -- you want to be transported from your living room, and I think it's a poor example about to give with the pandemic, if you want to go see Mt. Fuji, wouldn't it be great if you could just put on a VR headset and feel like you were transported there. It's a different experience. It's a different use case. It is different kind of -- training modules are different.

So, AR and VR and mixed reality in the middle they all have a place. But it depends on what the use case is. VR can be used for lots of things. That's why there's all those investments. Still all valid. AR is also valid. And mixed reality obviously, that starts to merge things together.

So, I think it has to put in context of the market and what the user -- what problems for the user you're you solving. So, I think in the AR, which obviously -- one of my previous employers was very heavily into it. So, you can tell that people have been trying to find to break this equation, figure out how can you actually get because there's something there. There's a device that everybody believes that's there, but yet it's a tough form factor. And I mean I'm fortunately very proud of our team that, that video -- it's just so hard to show people all these things over the years. We always get questions. How can we don't talk more about it. Just for transparency, that was a great opportunity for us to show what is possible in the context of a strategic transaction. It's probably a longer answer than you're looking for, but I think there are 2 subsets. It's not like one route from the other or one is valid, one's invalid. Both of them are valid.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Yes, yes. No, no, I understand. And I follow, and I appreciate the color. I just -- I guess I was a little taken aback because my thinking was that you've been able to demonstrate a wider field of view, but it's really inconsequential. It's really -- your point, I think, is a stronger one that you've got just this broad capability in multiple technologies.



Sumit Sharma - *MicroVision, Inc. - CEO & Director*

Right. So that one...

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

On that note, could you....

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

I'm sorry, go ahead.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Yes. I'm sorry, go ahead.

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

I'm going to say like...

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

I was just hoping you could...

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

All right. You go ahead, please.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Okay. Yes. No, I was hoping you could talk a little bit about -- I mean I know you mentioned this in your prepared remarks, but you talked specifically to display technology versus the interactive display technology, which I think was further closer to commercialization. And I'm just -- I know Glenn touched on it, too, but I was just hoping you could kind of go back and maybe review where those might differ, I guess, in terms of their final development and in terms of their interest to potential suitors.

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

Yes. So, I think if you think about the micro-display, the AR module, for example that's why I characterize it a display, it's a micro-display but it's a display technology. In some sense, it's actually harder than a display like a bigger display.

Our interactive display, of course, by adding a 0.3 meter LiDAR to it being able to create this experience of touch, especially nowadays you don't need a piece of glass to wipe down. It would be any surface that could be engaged. We would have produced that kind of effect -- that kind of experience. That was the intent of it. So, I think you're right.



If you think about the reason we make the distinction is because when you add the LiDAR too, there's a different kind experience, different value to it. If you were to add some of the people tracking or feature to the micro-display, then again, it would also be still the micro-display for AR, except now you can do people tracking. Could MicroVision do that? Yes. Have we been -- demonstrated a thing? No. But so, I think like it's -- they're all displays. Whenever you have a red, green and blue laser obviously, it's a display. When you add the IR, you can add interaction and other features. We chose to call it interactive display because there's better description of it because it's not just display because it's the next level of interaction.

For example, one is just your TV, the other one is their iPad, perhaps. So yes, but they are subset, I think the interactive display and micro-display are display products, They're subsets of the big core development that's been done.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Okay. Now my understanding was from the difference in the consumer LiDAR and the auto LiDAR was, I don't know, maybe as much as 2 years of development time. And I'm wondering whether or not you think that's still fair to say or if you've moved the auto development forward in light of its interest commercially or how you might compare those 2 now and their relative value.

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

I think the relative value to the company I think it's what product will launch to market, what's the fastest path to revenue when we're operating. So, I'm going to keep the answer in that context. So, when it comes to consumer LiDAR, is it the ultimate of everything we could ever build? I'm pretty sure the ideas that we have that we can go on and even develop further, but it got to a good platform from where we could find out what the market interest is, how big it would be, some of the ideas of home security. You want to have something to explore with. You have a development version of it. But you have something much more stable, mature that people can collaborate with us. That's what we did to the explore version of it.

The automotive LiDAR part of it so I think like this is one of the things that I want to make sure that we understand. The automotive LiDAR is a temporary. I think if you have a Google alert on all the automotive LiDAR itself, you see the activity on the consolidation side and the investment side. You can see there's something happening. That's a big thing, but it's not just something we did as a me-too product. It is a pretty decent business that could be there because there's 2 different things to consider.

First is your, what we call, the active safety ADAS. These are required by regulation. This is like having airbag in your car. It will be mandated. Systems like this, not just LiDAR, whatever system we do that, has to get those cars safer. That's a requirement. And number two, of course, is these amazing companies that we all read about that are taking on this big thing that it's going to be much more in the future, which is full autonomy much further in the future. I don't know the number but much further in the future. But they have to do a lot of heavy lifting right now to develop their products for the future.

So, in one case, of course, you want to -- one -- the autonomy folks think about them as a channel sales. If you had a product, you can address them with channel sales. You will have revenue, you are working towards it, and you are in the conversation, but you're solving the right things, Whereas the big price, of course, is the 80 million cars a year globally, 400 -- I mean 947 million cars on the road, If you could add safety to that and find a way to say what is intent, like we predict somebody else's intent. If you look at the video that one of the subtleties there is the car is driving and somebody cuts you off. This is a common thing that all of us have experienced. But normally, either you are not paying attention, you're going to hit somebody or you're going to slam on your brakes and get rear ended or other permutations of that. What was in that video that shows is that if you had an understanding of your car, the computer had an understanding of intent, when this person was about to start shifting into your lane, it would just notch the brake and slow you down instead of causing some sort of other accident.

So, when you think about LiDAR it is these 2 categories, and there's a business there. So when you think about -- it's 2 years out. Product development, whatever level our customers would want, of course, that takes whatever time it takes. But this is here now. Safety is here now, and autonomy need sensors now. So, if you think about what we are talking about for our sensor, it would build a really good business. You could really -- if we're doing it, there's definitely a path to channel sales, and there will be a path for OEM, and you get one with the other.



Now of course, as we're thinking about a strategic transaction, the final person that would have that product, that name may change. They will have their brand. But certainly, it's valid work because it is the most important conversation and the most active conversation that people are having right now if you think about Silicon Valley. One of the most, let me be honest about it.

So, I think like the 2 years part of it is based on something that somebody specifically wants. But our core technology our understanding of it, of what problems to solve, we have that. So, it totally makes sense to do it because you have short-term path to revenue. You don't have to wait for OEM, which obviously, we have a history of OEM. We wait for them. We make something incredible, and it's lower. They do something different and it jugs our existence. How can a high-tech company get jug so easily. It's because we need that one revenue path, and the automotive LiDAR totally makes sense. You had channel sales. You were, for the first time, separated from OEM's fund. You have these companies that are actually disrupting their business. So, it's actually -- it makes total sense of the business.

So -- but on the consumer LiDAR side, yes, it is, again, going back to the ecosystem of the giants they have to deal with, you certainly want the price because they own a big part of the market. And you can't be afraid of that, but it could take a lot longer in that context of the 2 years, as you said.

So, I think automotive LiDAR, I think I would still argue that it is valid. It would build a good business. A very good business. But consumer LiDAR here is so compelling. It is such high volume. Consumer products are much more high volume.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Okay. Last question for you, Sumit, on the -- you mentioned 100 or so companies that you've interacted with, and I'm wondering sort of what does that number really represent in the total number that you could potentially interact with. Do you think you have more stones to turn over? Or is it just a matter of sifting through the ones that you've been addressing so far?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

We will -- from the 100 companies that we work through I think we -- a smaller -- much smaller subset is where we are, where we focused on right now. I would say the from top tier OEMs to the top technology companies and license companies, they're represented well. So, I'm not really sure that we would say that you had to turn other stones that you were at fifth gear. That's why I use the word top gear. I think probably that's all I want to say on the subject.

Kevin Darryl Dede - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Yes, fair enough. No, I appreciate that. I just wasn't sure if you were still investigating other, I guess, potential opportunities or just in the narrowing down phase. I appreciate your perspectives.

Operator

And ladies and gentlemen, this concludes the audio question-and-answer session. I'd like to turn it over to the company for the webcast questions. Please proceed.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Okay. We received several hundred questions in advance of the call today. Many of them were on the same topic, and many of them have been answered in the prepared remarks. We will not be able to answer all the questions we received, but we'll try to address the questions on a common topic, and we appreciate the questions we have received and hope you understand that we may not be able to respond to some questions on some specific topics.

So, I'll start with some of the questions here. Sumit would the Company sell a particular vertical such as augmented reality? And if so, would that limit your ability to work on other verticals such as automotive LiDAR?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

So, I think as we stated consistently that we're selling the company and looking at all strategic opportunities, but selling the company is the main part of it. When you think about our core technology and our know-how and our IP, obviously, that's common to all verticals. But if you think about each vertical by itself, it has its own version of the hardware. The work stands by itself. So, if any 1 of the 4 verticals, somebody wanted to acquire, and we could essentially move on, it stands by itself. It does not deplete our capability to do any other work.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Second question. You mentioned there is a focused group of companies interested. Can you tell us how many and what their interest is and who they are?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

Right. So, I think I've covered it in my remarks and also the last question that we got. Started with 100 companies. It is a much smaller group, and they are all in various stages of diligence. And beyond that, we're not going to provide any more color.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Next question is, what is the likelihood that you will be able to complete a deal before the end of the year? And what happens if you do not close a transaction?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

So I think like it -- we can't really handicap the probability of a specific time frame. If we get to that scenario, we're going to continue developing our technology like we're today and also even looking for strategic alternatives as in continue to search, but we are focused on selling the Company. I just want to be crystal clear about that.

Stephen P. Holt - *MicroVision, Inc. - CFO*

There are several questions concerning the valuation of the company. What do you see as the valuation of the company and a strategic transaction?

I'll take that one. We're not going to comment on any particular valuation of the Company or comment on other people's opinions regarding valuation. As we mentioned in our prepared remarks, we're working to help companies that may be interested in a strategic transaction to see the value that we see in all the product verticals and in our technology.

What I can say is that in preparing for discussions about valuations, we have prepared analyses of comparable transactions and M&A activity comparisons, discounted cash flow analyses, valuation of intellectual property and other analyses that we've done to be prepared for those kinds of discussions.

Next question is, please elaborate on why you think the Company's technology and intellectual property is best-in-class.

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

We solved some pretty difficult problems for products in augmented reality, automotive LiDAR, consumer devices. But if you think about the fundamental physical things that we solve, the issues that exist, like the physics of it, it goes with the silicon for us, So, it really takes some really complicated problem. Instead of having a much more sophisticated solution, we really are able to bring it down. So the evidence of why it'd be considered best-in-class is if you just look at the products that we make and the competitive product that's next to that, the physical version of it, that's the real way to say it without getting to the lot of the technical details of it.

For example, like I mentioned just recently in AR micro-display, just the common sense is as a user, you will say, well, it's got to be light, I don't want a helmet. I want to wear something that looks like normal glasses. It has to be. So then from there comes the lightwave, provide bigger fields of view. All those attributes come in, and our MicroVision technologies were using super complicated optical systems. It just as the most simplest version representation of it. So that's why you actually arrived. You're in the -- ahead of the class because you solve those problems, and all you have is silicon in front of you. So, this capability to having no optics yet correct, most -- the distortion, mostly in electronics is pretty unbelievably impressive, and I can tell you, as somebody has been in there for a long time, it's very difficult. It's the holy grail. And so -- I mean that's where MicroVision technology is very impressive.

I believe that for product to be successful, we have to enable those kinds of things. If you think about automotive LiDAR, we saw capability to offer like full sunlight. These are the words I'm using are simple, but think about, these are very difficult problems. Nobody has been able to solve them in full sunlight in new to other LiDARs are also like a road signal. I mean these are the kind of things that how do you know that you are arrived, you know because your product is already doing that when people are not even talking about that. So that's why we believe that, yes, we represent something that's best-in-class. And I think the compliment I shared earlier on in my prepared remarks that's evidence of it that even parties are interested are impressed and they compliment. So yes.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Okay. Next question. What is the fully diluted share count? And how many shares are available?

So, the fully diluted share count is 149.5 million shares. So, there are approximately 143.5 million shares outstanding and about 2 million RSUs and 4 million options outstanding, and that comes to 149.5 million.

There was a little bit in this question, too, about how can they find that out. And so, when you look at the cover page of a 10-Q or a 10-K, toward the bottom, it'll -- should list what the shares outstanding are a couple of days before that particular SEC filing was made. So, you can see it there. And then if you go to the earnings per share footnote or the equity compensation footnote, you can find out a number of options and RSUs or warrants and those kinds of things are outstanding. In our case, it's just options in RSUs.

Okay. Next question. Can you tell us more about the videos that were released on the MicroVision YouTube channel?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

Right. Yes. So recently, we put these videos together, MicroVision put this together, by the way, to demonstrate our vision of the modules for augmented reality and automotive LiDAR space. We've heard from investors that they wanted a better idea of what we are working on, and I thought this would be like a very good way to communicate and provide some transparency as to what we're working on. The videos certainly help our investors and, of course, interested parties help visualize a potential value for this module. And as I mentioned earlier, we had early on that we had OEMs and NREs was our primary path. Sometimes, we never got a chance to showcase what our technology could do. So, this was a great medium for transparency. So, I hope that it was successful.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Okay. Can you provide an update on the status of automotive LiDAR development and when you plan to have a demo available?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

I think at some point in the past, we've said that we were targeting November 2020 as a target date, but that was before some of the pandemic related and also things that have happened to us, the strategic transactions happen. At this point, we believe that demonstration in Q1 2021 is more reasonable time line, given the fact that we have to support all those activities and those logic priorities.

But I want to kind of just put this question into just a little bit different context. So it's not just the demo. It's not just something in the past. It's like an early demo that we talked about for a product. I think what we had said was, it's what's called A sample, capital A sample, in the automotive space for OEM was a target of it. So, level of maturity is significantly higher, and the reason why we are moving on it is because a lot of the work over the long history of the Company we have thought about these things for a long time. And now with the source that we have when we're not supporting those activities, we make incremental progress on it. Certainly like the targeted Q1 2021. But to be honest, the global supply chain is not as predictable as normal time. So, I think when something specific we want to talk about, we'll share with that.

But why we want to do this? If you think about it, it's not just -- it was our plan to do this. But anyway, if anybody is looking at the automotive LiDAR space through us, the path to an OEM, the path to how you would solve autonomy, that's very important. So therefore, this is relevant work actually towards the strategic transaction that we're looking into.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Okay. Next question. Several companies have announced LiDAR programs using different LiDAR technologies. How do you see the automotive LiDAR market developing?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

Yes. So, I think I've kind of covered this in the other question of that. Two specific areas that are driving all of this activity, and the safety ADAS is -- the active safety ADAS is actually the big prize. It's the near future one. And the long term, as I mentioned, is the autonomy one. So yes, there's -- I think there's questions about Mobileye is doing this, and all the names get tossed around. Every company, if you think about what problem are they solving and where they're going with it, and you can gauge regardless of what hardware they're showing, how far are they? And the question you have to answer, would you trust yourself and your families like with that safety system? That's a pretty simple question.

So all the solutions, these are incredibly smart and well-funded companies. They're working on it. But something disruptive has to happen because nobody's really solved it. Nobody has actually been showing something that solves all the problems, all the questions that a user would have, a consumer would have answer. So, the way it's going to develop most likely is autonomy is going to continue to drive it because it's most active because that's a longer-term problem before all of us give up control of our cars. It's a much harder problem. So, there's a lot of activity on it right now. But it sounds like a slow burn on the side, but it is an active market that is there, which is where the most revenue is, which is the active safety ADAS system.

So, the development of this is going to go along in parallel. But as soon as somebody has a solution, the ADAS market opens up, I think we know other LiDAR companies that are -- some people on the call may know, they've announced, they've signed agreements with OEMs and there's no product out there. So, everybody is trying to break into that market while they're trying to break into the autonomy market. So, both are developing, but one is in the near future and one is in the much further future. That's the best way I can put it.

Stephen P. Holt - *MicroVision, Inc. - CFO*

Okay. There's a question about the April 2017 customer and royalties. There's a question on even when would we start to get some of those -- recognized some royalty revenue. So, I'll just kind of rehash this, I went over in the prepared remarks, but the customer -- the April 2017 customer made a cash payment in 2017 of \$10 million. As we earn royalties, we deduct the amount of the royalties from that prepayment. When the prepayment is exhausted, when it gets down to \$0, the customer will start making additional cash payments for the royalties we earn.

Now the payment balance right now, that prepayment balance is \$8.7 million. So, royalties that are earned by MicroVision now are recognized as revenue on the income statement. This quarter, Q2, we earned \$572,000 in royalties. And as I said, we expect to earn around about \$1.8 million for the year.

All right. We'll go back -- go to the question on IP. What steps are you taking to protect the company's intellectual property?

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

So similar to most other high-tech companies, we take measures such as establishing security protocols, limiting access to proprietary information. We also have nondisclosure with our employees that seek to protect our IP, if they're employees of the Company. So, we think these are prudent, proper measures in the space we are in. So, we feel confident that we have protected ourselves with this.

Stephen P. Holt - *MicroVision, Inc. - CFO*

And then can you provide a display-only licensee update? I'll take this one. The display-only licensee, this goes back to an agreement, I think, in like May of 2018. They still have a license and the ability to engage with customers, but we're not aware of their current activity. Don't have any other update on that.

And then how many employees are at the Company now? And can you give an idea of what they are working on?

We have 33 people working in the Company today. There's 10 in support and management, and then there's 23 in engineering. And they're really focused on supporting the diligence requests and that work, and they're also working on advancing the automotive LiDAR technology. That's the last question that I have.

Sumit Sharma - *MicroVision, Inc. - CEO & Director*

All right. I think in conclusion, I'd just like to close out and thank everybody, thank our shareholders for continued support. Please take a look at the proxy, and it's very important that we vote, and thank you for joining today.

Operator

Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect.



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