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**MVIS Financial and Operating Results Q2 2019  
Conference Call Prepared Remarks**

**Operator**

Welcome to the Q2 2019 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 2019 Financial and Operating Results Conference Call. Joining me on today's call are Perry Mulligan, Chief Executive Officer, Steve Holt, Chief Financial Officer and Sumit Sharma, Chief Operating Officer.

The information in today's conference call includes forward-looking statements, including statements regarding expected customer orders; progress under and benefits of existing contracts and license agreements and the negotiation of future agreements; customer product launches; advantages of our technology; litigation; progress with prospective customers; business execution; projections of future operations and financial results; product development, applications and benefits; availability and supply of products and key components; commercialization of our technology; market opportunities and growth in demand; as well as statements containing words like opportunity, positioned, target, confident, believe, goals, focus, paths, expects, plans, will, could, would, likely, resulting, optimistic 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 6, 2019, our Form 10-Q filed on April 26, 2019, 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](http://www.microvision.com). We have also posted a slide deck that provides an overview of MicroVision on the Investor Relations section of our website.

And now I'd like to turn the call over to Perry Mulligan. Perry?

**Perry Mulligan**

Thank you, Lindsey. Good afternoon, everyone.

In the second quarter we made significant progress in landing Tier-1 customers for the Interactive Display and Display-only products, and moved to the next stage of the agreements with our April 2017 contract customer.

First, let's take a look at the IoT products, our Interactive Display and Display-only solutions. As we reported on our last call in April, we expected to receive notice of a design win for our Display-only product from our licensee in the second quarter. We also indicated that we anticipated that a design win for our Interactive Display modules could follow shortly

thereafter. Positive customer feedback during Q2 led to further discussions for potentially larger product launches and increased sales over time. Because different countries have different laser product requirements, we were asked if we could support a Class 1 laser product. While both Class 1 and Class 3R are safe for consumers, providing a Class 1 product makes it much easier to sell the product globally and enable larger volumes.

Fortunately, because of our engineering activity last year, we believed we could provide a module to support Class 1 laser products in a short amount of time, without any decrease in brightness. During the quarter we were able to demonstrate a module that can support a Class 1 laser product for our customers. We believe the likelihood of a larger scale roll-out is now higher and we are very excited at the prospects we are facing. It is our belief that enabling Class 1 laser products for our customers could provide MicroVision an opportunity to sell well in excess 10 million units to multiple customers, with perhaps 1 to 3 million units shipping during the first 12 to 24 months of production.

The move to Class 1 products resulted in decision delays of about a quarter. Consequently, we now expect Display-only and Interactive Display products could launch in mid-2020, with first revenue to us likely starting in Q2 2020 and the potential for profitability, depending on volumes and product mix considerations, one quarter later.

Let me now discuss our April 2017 contract. We completed the development work required under the contract and have invoiced all of the amounts owed. We received the final \$2.5 million payment this month, bringing the total cash received under the development portion of contract to \$15 million.

We have shifted to a new phase of our relationship with this customer, and this month will begin shipping production parts. We expect product shipments to this customer will generate between \$3 million to \$5 million in sales through the balance of 2019. As our customer

launches their product into the market, we expect to gain further insight and will provide guidance on what revenue we could expect to see in 2020.

This program represents a high-water mark in MicroVision's ability to execute a major program with a Tier 1 global technology leader, meeting the quality, performance, cost and schedule expectations of our customer.

I also want to make you aware that as the development portion of our April 2017 contract came to a close, it became clear that we were over staffed for the work we had ahead of us. During the latter part of the second quarter we completed a reduction in headcount of approximately 25%. The engineering teams saw the majority of the reductions, but areas in SG&A were also affected. As a result of these reductions, and other expense reductions, we expect our operating expense to decrease below \$7 million in Q4 from the \$8.4 million incurred in Q2.

Now, moving to our Consumer LiDAR platform opportunities, we continue to engage with our customers who are using the explorer kits we have shipped. There is strong customer interest and we are looking for the lead customer that could drive the volume needed to achieve a cost-effective and successful product launch.

Finally, as we look at our automotive LiDAR vertical, we continue to have positive meetings with customers, partners and suppliers in this space. The team is continuing to develop intellectual property and file patents in this area. We continue to look for a lead partner to help us with the investment required to bring products to market.

Let me wrap up my introductory comments by re-iterating that we set out nearly two years ago to transform MicroVision. We believe we are now very close to design wins that could enable products that would be shipped all over the world. We have completed a large and challenging development agreement for a Tier 1 customer, and are moving to the production phase of that program. These successes, and others, reflect the transformation of the company.

I'll now turn the call over to Steve, our CFO, who will discuss the financial side of our business.

**Steve Holt**

Thank you, Perry. Good afternoon, everyone.

Second quarter revenue was \$1.2 million, with virtually all of the revenue related to the April 2017 development contract. Revenue in the prior quarter was \$1.9 million, with about \$1.7 from the April 2017 contract and \$199 thousand from the sale of modules.

During the quarter we reserved the remaining value of the inventory we built for Ragentek. As a result, gross profit on product revenue was negative \$1 million dollars. Contract gross profit was \$442 thousand, and total gross profit was negative \$583 thousand. In comparison, gross profit was a positive \$608 thousand in Q1, and we recorded a positive \$333 thousand in the same quarter a year ago.

Second quarter operating expenses were \$8.4 million, compared to prior quarter's \$8.7 million. In comparison, operating expenses were \$8.8 million in the same quarter a year ago. Second quarter operating expenses included \$390 thousand of severance costs related to the reduction in our workforce that Perry mentioned.

At the end of Q2 our headcount was 80. At the end of Q1 our headcount was 105, and a year ago headcount stood at 107. Looking ahead, we expect our operating expenses over the next two quarters to continue to decline. We are targeting for Q4 operating expenses to be in the \$6.5 to \$7 million dollar range. The expected reduction is due to the lower number of employees and reduced expenses for outside services and supplies.

For the second quarter our net loss was \$9 million or 8 cents per share. This compares to a loss of \$8.1 million or 8 cents per share last quarter, and \$8.5 million or 10 cents per share in Q2 of 2018.

We ended the quarter with total cash and cash equivalents of \$4.6 million, which does not include the \$2.5 million payment received in July from the April 2017 contract customer. We ended the prior quarter with \$7 million, and \$21 million at the end of the same quarter a year ago.

During the second quarter we raised \$4.6 million from the Lincoln Park financing agreement we announced in April and another \$2 million from a registered direct offering completed in April. Under the Lincoln Park agreement we have the ability, at our discretion, to sell up to \$6.4 million of additional common stock to Lincoln Park, subject to certain limitations, based on our prevailing share price at the time of each sale.

As mentioned earlier, in the second quarter we took steps to reduce our ongoing operating expenses by approximately \$3 million during the second half of 2019. We are currently examining a number of additional options, including non-dilutive options, to increase our cash balance and bolster the balance sheet. While we cannot comment today on what form that financing might be, we are confident that funds will be available.

I'll now turn the call back over to Perry for some comments before opening the call to questions.

**Perry Mulligan**

Thank you, Steve.

Since assuming the CEO role 20 months ago, MicroVision has undergone an important transition from developing technology to providing solutions to our customers. The achievements described in this call should illustrate why our customers have confidence in our ability to deliver. As we enter the second half of 2019, we are now beginning a new phase of that journey. This month we will begin shipping components to our April 2017 Tier 1 customer for their product launch. We expect to hear this quarter that our Interactive Display and Display-only modules will be adopted for smart speaker applications that we believe have the potential to set a new standard for this product category when launched next year. As we go forward, we expect to work with our customers to support their production plans and ensure the successful launches of their products. We are very excited by the market opportunity that a Class1 solution provides for us. Integrating this solution into our hardware we believe is an enabler that unlocks access to mass markets sooner.

With that, we will now open the call for questions.

## **Q&A**

### **Perry Mulligan**

Thank you, operator.

In closing, I want to once again thank our employees, business partners and our investors for their continued support. We are committed to keep you informed of our progress as we go forward and remain excited the opportunities ahead of us.

### **Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.