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

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. 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.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Mike Malouf with Craig-Hallum Capital Group. Please go ahead.

Q - Mike Malouf, Analyst with Craig-Hallum

Great. Thanks guys for taking my questions. If we could just focus a little bit on the change in the Class 1 lasers. Obviously, we always thought 3R was safe, but maybe you can give us a little more color with regards to why they wanted to go to Class 1? And what kind of trade-offs do we have with Class 1, you say it's not as -- it's as bright, but are there any other trade-offs with regards to size or with regards to cost or anything else that we should know about? Thanks.

A - Perry Mulligan, MicroVision CEO

So, I think, Mike, historically, we've talked about to our customers, and we're focused on the Class 3R product launch, because it was the fastest time to market. As the customer reviewed our product opportunities and use cases, the excitement grew and the notion of trying to potentially larger launches became more evident.

Class 1 simply makes it easier to deploy a global solution. Both are safe, but Class 1 simply allows them to get to more countries sooner easier. So from that perspective, that's the difference in the Class 1 and Class 3R kits. Does that answer your question?

Q - Mike Malouf, Analyst with Craig-Hallum

Yeah, just wanted to know if there is any trade-offs with regards to cost or size or such.

A - Perry Mulligan, MicroVision CEO

At this point in time, we believe that we can adopt the solutions required into our hardware module and don't expect it to have a significant impact on costs or other performance issues.

Q - Mike Malouf, Analyst with Craig-Hallum

Okay. Great. Good. All right. And then and so was this a real hang-up between launching this year and launching next year? Was just a shift in the need to do Class 1?

A - Perry Mulligan, MicroVision CEO

I just want to -- I'd answer it slightly differently, Mike. I think that unchecked the Class 3R product was ready to launch. I think that as people reviewed the potential of this being truly a market impact, a market leader, an important aspect of the market portfolio Class 1 became a question that when answered really sort of opens up a larger opportunity for us. So I don't think it's a sticking point. I don't think it was an impediment. I think it was an increased opportunity.

Q - Mike Malouf, Analyst with Craig-Hallum

Got it. Okay, great. And then a question on the April 17 product. You expect orders this month, this month being just within the next couple of weeks, I guess, or as you say orders this quarter?

A - Perry Mulligan, MicroVision CEO

We expect the orders to be shipping this month for the April 2017 contract and that's it -- balance of the year.

Q - Mike Malouf, Analyst with Craig-Hallum

That's great. And then -- and when do you think we'll have some visibility on exactly what product that's going into?

A - Perry Mulligan, MicroVision CEO

Well, we have not been able to comment historically on the customer's launch plan. I don't believe that's been formalized and I can't make any comment on it, Mike. So I don't -- I can't answer the question.

Q - Mike Malouf, Analyst with Craig-Hallum

Okay, all right. Thanks for the help. Appreciate it.

Operator

The next question comes from Aman Gulani with B. Riley FBR. Please go ahead.

A - Perry Mulligan, MicroVision CEO

You might be on mute, Aman.

Q - Aman Gulani, Analyst with B. Riley FBR

Can you hear me?

A - Perry Mulligan, MicroVision CEO

Now we can.

Q - Aman Gulani, Analyst with B. Riley FBR

Okay. Yes, I've put you on speaker for some reason. Yes, so my first question is regarding the Class 1 laser. Is that something that will be utilized with your April 2017 customer?

A - Perry Mulligan, MicroVision CEO

Yes we can't provide any more color on the April 2017 contract and we've already described in the previous press releases about that product.

Q - Aman Gulani, Analyst with B. Riley FBR

Got it. Okay. And I mean for the April 2017 contract, has the customer given you an indication of when they might start shipping to their customers?

A - Perry Mulligan, MicroVision CEO

We obviously have some indication, but we just can't share information with you at the time, but we're starting production. So you can think about it.

Q - Aman Gulani, Analyst with B. Riley FBR

Okay. Got it. Last question from me. Are you seeing any opportunity in the space within the mixed reality VR space?

A - Perry Mulligan, MicroVision CEO

Yes. We've done some work in the AR VR space. We think that laser beam scanning have some attributes that make it very applicable in that space, but we don't have any specific comments on anything that we can talk about today.

Q - Aman Gulani, Analyst with B. Riley FBR

Okay. Thank you. I'll pass it on.

Operator

The next question comes from Glenn Mattson with Ladenburg Thalmann. Please go ahead.

Q - Glenn Mattson, Analyst with Ladenburg Thalmann

Hi. Thanks for taking the questions. So on April 17 contract, just from what I understand, I remember there were some pricing issues with some components, perhaps that were going into Europe product and trying to get final terms all worked out on that. Has that all been settled at this point? And is it -- is there a full understanding of the pricing involved between your customer as well as your components and all that?

A - Perry Mulligan, MicroVision CEO

Yes. We've got that and that's why we are able to give you a revenue range, yes.

Q - Glenn Mattson, Analyst with Ladenburg Thalmann

And did you -- I missed. Did you say \$3 million to \$5 million in 2019?

A - Perry Mulligan, MicroVision CEO

Yes, yes.

Q - Glenn Mattson, Analyst with Ladenburg Thalmann

So that's a bit lower than I think people were expecting. Is that the end customer perhaps pushed out a launch date or you just can't comment on that at this point?

A - Perry Mulligan, MicroVision CEO

That's from the forecast that we see today. Certainly, it could always change, but that's the forecast that we see today.

A - Steve Holt, MicroVision CFO

Well Glenn and it's not atypical for these products to have a ramp to them. So this is a preliminary view. We had questions already on the call about whether there's a launch date that hasn't been defined. So how this unfolds in the next few months, we'll keep you apprised as soon it's visible.

Q - Glenn Mattson, Analyst with Ladenburg Thalmann

Okay. And the cash needs and cash burns that is certainly an issue at this point. So is it -- I guess last time you came quickly with announcements shortly after stating similar language on the call that you thought that there would be -- funds would be available that you're confident funds would be available and then within a few days we had announcements about that. Is it -- is that kind of thing, how you're thinking about this time or is this something that maybe over the next few months we're going to have to figure or we'll have to wait to find out how you expect to fund the operation through the rest of the year?

A - Steve Holt, MicroVision CFO

Yes, we're looking at several different options and I really can't comment on the timing or which option may ultimately come to fruition. So can't give you a lot of specifics. But we ended the quarter at \$4.6 million, if you add in the \$2.5 million payment for July, you're kind of at \$7.1 million. It's kind of similar to where we were at start of the previous quarter. So we obviously know that we need to bolster our cash balances, but just can't get into the specifics.

Q - Glenn Mattson, Analyst with Ladenburg Thalmann

Okay. Great. Thanks for the questions and good luck.

A - Perry Mulligan, MicroVision CEO

Q - Glenn Mattson, Analyst with Ladenburg Thalmann

End of Q&A

Operator

[Operator Instructions] This concludes our question-and-answer session. I would like to now turn the conference back over to Perry Mulligan for any closing remarks.

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 about the opportunities ahead of us. Operator?

Operator

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

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.

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