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**MVIS Financial and Operating Results Q3 2019
Conference Call Prepared Remarks**

Operator

Welcome to the Q3 2019 MicroVision, Inc. Financial and Operating Results Conference Call. (Operator Instructions) Please note, this event is being recorded. I will now turn the call over to Lindsey Stibbard. Please go ahead.

Lindsey Stibbard

Thank you. Good afternoon and welcome everyone to MicroVision's Third Quarter 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, significant, target, intend, confident, believe, goals, focus, path, 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-Qs filed on April 26, 2019, July 19, 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.

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

Perry Mulligan

Thank you, Lindsey. Good afternoon, everyone.

We made considerable progress in the third quarter with OEMs across multiple segments in our product portfolio that could have a significant positive impact on our 2020 results. Production unit shipments for our April 2017 contract customer began in the third quarter and continue to proceed smoothly, meeting our customer's production schedule. Our activities related to our Interactive Display solutions resulted in a major step forward during the past few months as customer due diligence work has now led to negotiations for a component purchase agreement that we aim to complete this quarter for a targeted launch of our Interactive Display module in 2020. As customer products come to market, we expect our company revenues could reach

\$100 million over a 12-month period following product launches that we expect to start in the second half of 2020.

On today's call I will provide you updates on the Interactive Display product, Automotive LiDAR and our April 2017 contract. While we continue to work with customers on our Consumer LiDAR solution, we plan to provide updates in that product in future calls.

So let's take a look at some of the details.

Our Interactive Display module has been exceptionally well received by multiple top tier OEMs. The capability of instantly producing a large, bright, wide area, short throw display on virtually any surface and allowing the user to interact with the image using multi-finger touch is very powerful. Coupled with OEM AI platforms, we believe that this module significantly augments users' access to the customer solutions.

Since this module follows on from previous generations of our Laser Beam Scanning designs, our manufacturing capabilities are already in place and ready to support the 2020 production ramp.

So where are we with our customers?

During the past few months we have been actively engaged with our customers. They have vetted our manufacturing processes, supply chain and pricing models. We are currently working on a component purchase agreement with the goal to close by the end of the current quarter to support a 2020 product launch. These engagements over the past few quarters continue to reinforce our belief that MicroVision has the potential with our Interactive Display product to sell 1 to 3 million units during the first 12 to 24 months of production.

On our previous call we discussed how our Class 1 laser safety solution was truly unique, meeting safety requirements while still producing a large bright image. We believe that this capability expands the potential market for our Interactive Display products to include personal mobile gaming devices. With a larger potential market, we believe that we have increased the opportunity for our Interactive Display product to sell well in excess of 10 million units to multiple customers.

So let's recap. The capabilities of our Interactive Display module and our overall ability to support the business have been well received by our customers. We are working to close OEM agreements. We are preparing for product launch in 2020. We have multiple OEMs interested in developing products that use our solution. We believe that our future products could be very significant to our current targeted AI platform-based customers, and also open markets beyond smart speakers for us, such as high volume hand held gaming devices.

I think that is pretty exciting!

Let's move on to our Automotive LiDAR product.

The market for Advanced Driver Assistance Systems is experiencing high growth that we expect will accelerate with the need for safety features and new regulations targeted to come into effect in the next 3 to 4 years. As the era of new mobility models appears, including an expected high growth in the electric vehicle market, we believe the need for supporting autonomous driving in the near future is clear. Combining these influencing factors, customers looking for safer automobiles, new mobility models, new electric vehicle market and new regulations going into effect in US and Europe, there will be a large market for sensors. We believe that a small form factor MEMS-based scanning LiDAR is key to achieving the solid state LiDAR that will be required.

Leveraging our years of Laser Beam Scanning experience and our demonstrated capabilities in LiDAR, the Automotive LiDAR vertical is a natural fit for MicroVision. That said, we needed to develop critical additional capabilities to meet some of the performance requirements in this space. With new IP for these innovations recently filed we believe we have the right solution at the right time.

Early in 2019 we engaged several top tier Automotive OEMs and presented an outline of our first product to market. This product would be intended to support up to ADAS Level 3 autonomy. MicroVision's 200+ meter LiDAR module would include our proprietary Perception System on Chip (SoC). Key innovations we have developed will allow this LiDAR module, which is targeted to be 80mm X 80mm X 35mm in size, to operate in full sunlight conditions at range and be immune to other LiDARs present within view. Our innovative LiDAR captures high density point cloud data in three different ranges which would allow safety and path planning at speeds, at full far field range, while maintaining safety boundaries with cars in near and mid field from the same LiDAR. We believe a vehicle with our module as part of its safety system would have the ability to predict the intent of other cars around it with high accuracy and low latency at highway speeds.

We are actively engaging top tier Automotive OEMs and their Tier 1 automotive suppliers to develop partnerships and expect to have engineering samples available in Q4 2020. With this schedule we believe we would be able to support a 2023 launch.

Finally, let me cover the products we are supplying under the April 2017 contract.

We are currently running production per the customer's plan and our products are shipping smoothly. At end of Q3 we had backlog of \$5.5 million. In addition to that backlog, we have received additional component orders in Q4 that represent approximately \$5 million.

With the product update complete, 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.

For the third quarter, revenue was \$1.2 million, with approximately \$1 million of the revenue related to product revenue, \$174 thousand of contract revenue and the balance due to license revenue. The product revenue came from two sources: first, we began shipping components to our April 2017 customer for about \$639 thousand, and second, we recognized \$360 thousand of revenue on the projection engines we built for Ragentek and were able to sell to another customer.

In comparison, last quarter we recognized \$1.2 million of revenue, virtually all of it from contract revenue related from contract revenue related to the development portion of the April 2017 contract.

Cost of revenue was \$2.1 million, resulting in a negative gross profit of \$882 thousand. During the third quarter we wrote off \$1.3 million worth of MEMS die that were incompatible with our Class 1 solution. On the April 2017 customer we had negative gross profit of \$23 thousand. Although we experienced good yields and have had no product quality issues, the negative gross profit was a function of the low volume. Because the Ragentek units had previously been written off, they had positive gross profit of \$360 thousand, contract revenue had gross profit of \$141 thousand, and license and royalties contributed \$17 thousand in gross profit.

In comparison, gross profit was a negative \$583 thousand in Q2.

Third quarter operating expenses were \$5.3 million, a 37% reduction compared to prior quarter's \$8.4 million. The reduction in OpEX in third quarter was caused by reduced spending on ASICs and other outside services, and since we were nearing the completion of our large development contract, we reduced our workforce in Q2.

At the end of Q3 our headcount was 82. At the end of Q2 our headcount was 80, and a year ago headcount stood at 109.

For the third quarter our net loss was \$6.1 million or 5 cents per share. This compares to a loss of \$9 million or 8 cents per share last quarter.

For the third quarter cash used in operations was \$3.4 million which compares to cash used of \$8.7 million the prior quarter. We ended the third quarter with cash and cash equivalents of \$6.6 million. We ended the second quarter with \$4.6 million.

During the third quarter we raised \$2 million from an investment from a long-time shareholder, and we raised \$3.7 million from the Lincoln Park facility that we announced in April. \$2.7 million remains available on the Lincoln Park facility, should we choose to utilize it.

So with the cash balance at \$6.6 million, our significantly lowered cash usage rate, and access to the Lincoln Park Facility, we expect that we have cash to carry us into Q1. Additionally, we have the expectation that we will receive payments for capital equipment and/or other customizations from a customer in the fourth quarter.

Now I'd like to go back for a minute and talk about the April 2017 contract. You may recall that when the agreement was signed, the customer made a \$10 million payment to MicroVision. If we failed to perform our development obligations, the \$10 million would be refundable to the customer. If they canceled the program, the \$10 million would be ours to keep. If the

customer moved forward with the program, the \$10 million would be used as a prepayment toward future purchases of components.

Fortunately, the program did move forward, and as a result of our completing the development portion of the agreement, we have passed the point where we might have to repay the \$10 million for failure to perform. The \$10 million is now classified on the balance sheet as a “Contract Liability”, previously it was classified as an “Other Current Liability”.

As we ship components to the April 2017 customer, a portion of the invoice will be paid in cash, and a portion of the invoice will be credited against the \$10 million prepayment. Additionally, MicroVision is entitled to a payment on each unit our customer ships. We record that payment as License and Royalty Revenue. And that payment will be applied toward the \$10 million prepayment until it is consumed. If the \$10 million has been fully used, the per unit payment will be made in cash.

Naturally, many of you will want to know the timing of the application of the prepayment against future invoices. This amount will be disclosed in the revenue footnote in our 10-Qs and 10-Ks that we file in the future. The amount we disclose will be based on the forecasts and orders we have from the customer, which will be subject to change. Based on the orders we had at the end of the quarter, we estimate that the amount of the \$10 million prepayment to be applied to invoices should be about \$800 thousand to \$1 million over the next six months, that’s over Q4 2019 and Q1 of 2020.

Finally, I’d like to give you an update on backlog and 2019 revenue. All of the backlog relates to our April 2017 customer. At September 30th we had \$5.5 million of product orders in backlog. As for 2019 revenue, we said on the last call that we expected product revenue from the April 2017 customer to be between \$3 and \$5 million over the last half of 2019. We currently do not see any change from that guidance. So, since we shipped around \$600 thousand in Q3 that would indicate \$2.4 to \$4.4 million would be shipped in the fourth quarter. Since our revenue

through the third quarter is \$4.3 million we see total year revenue for 2019 to be in \$6.5 to \$8.5 million range.

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

Perry Mulligan

Thank you, Steve.

I am pleased to report that we are delivering on the plan we discussed in the past and reiterated today.

We have successfully vetted our manufacturing process, supply chain and pricing models with customers in the IoT space. We are working to close agreements to launch our Interactive Display module in 2020.

We have outlined on this call, and shared with potential customers, our capabilities in the Automotive LiDAR Space. As a result, we have seen significant interest in our planned Automotive LiDAR product.

We are executing on the April 2017 contract and are on track with product shipments.

The major takeaways from today's call are

1) we are executing on our strategy;

2) we are working to close a commercial agreement this quarter and have never been in a better position to have product solutions in mass production in the market in 2020; and

3) our future products are targeting high growth markets.

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.