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**MVIS Financial and Operating Results Q1
Conference Call Transcript**

Operator

Welcome to the Q1 2020 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 First 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, managing costs, completing a strategic transaction; maximizing shareholder value; expected customer orders; future royalties; 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 products and key components; commercialization of our technology; market opportunities and future demand; effect of approvals of proposals contained in our Proxy Statement dated April 3, 2020; as well as statements containing words like opportunity, potential, possibly, intend, confident, believe, goals, focus, paths, expects, plans, will, could, would, 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, Proxy Statement documents, and various other SEC filings made from time to time in which we discuss risk factors associated with investing in MicroVision. These risk factors could cause results to differ 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

Thank you, Lindsey. Good afternoon everyone.

MicroVision is at an important inflection point in our history. In the future, Laser beam scanning modules will enable our four product verticals to solve some of the hardest problems in the consumer and automotive industries. We have advanced the technology to this inflection point, as well as demonstrated our capability to commercialize it into volume. We currently have our module products in a top tier, North American OEM device that is shipping to end customers under our April 2017 contract. We were ready to launch an interactive display module in an OEM product in 2020. We developed a consumer LiDAR platform that

would allow interested OEMs to possibly get their products to market in 2021, and also could enable an automotive solid state LiDAR solution in the next 2 years.

However, given the impact of the COVID-19 pandemic on the global economy, decreasing consumer demand and the delay of an expected OEM product launch in 2020, we have shifted our focus to exploring strategic alternatives including a sale of part or all of the Company. I would like to clarify with an example. Acquiring one or more product verticals may be more appealing than acquiring the entire Company for certain interested parties. We have retained Craig-Hallum as financial advisors to help expand our reach globally and to work with the Company to evaluate potential transactions and maximize shareholder value. We believe our laser beam scanning technology is appealing and could provide cost-effective solutions to enable solid state LiDAR for consumer and automotive applications in the near future, and could also provide a path to a wider field of view and low power micro display module for augmented and mixed reality headset products.

We took several actions with the goal to provide us with an appropriate financial runway to complete such transactions. In our last call I shared our actions to reduce expenses including a 60% reduction of our workforce. We completed an agreement with our April 2017 customer to transfer responsibility for component production and to sell production assets without selling any Intellectual Property. We also raised cash through the Lincoln Park Equity Facility, and received funds from the Paycheck Protection Program of the 2020 CARES Act, suspended all bonus payments for current or past cycles company-wide and payment of board fees, and the base salary for executives has been reduced by approximately 30%. We continue to look at additional ways to reduce our expenses and manage cash. Based on these actions, we expect to have sufficient cash to continue through Q4 2020 as we seek a strategic transaction.

MicroVision's Intellectual Property includes over 450 issued and pending patents. However, that does not tell the whole story of the value of our intellectual property which includes trade secrets and proprietary know-how. In addition to the patents we have created, we have key

algorithms in closed loop and phase locked MEMS control and laser controls, machine learning software, proprietary processes in MEMS fabrication, automated manufacturing capital equipment and a library of hardware designs which we believe comprise the deepest body of work, globally, in laser beam scanning technology. Laser beam scanning is key to enable high-volume, low-cost solid state LiDAR products in a market which has seen a lot of interest from major OEMs who are poised to deliver augmented reality, interactive displays, consumer, and automotive LiDAR products.

Let me now address our upcoming Annual Shareholder Meeting on May 19th, which will be a virtual online meeting this year because of the COVID-19 pandemic. Specifically, I would like to discuss one key shareholder proposal that I believe is vital to our efforts to enhance shareholder value.

Proposal 3 asks shareholders to approve a reverse stock split, if necessary, to remain listed on the Nasdaq Global Market. Approval of Proposal 3 provides the Company with needed flexibility which is important in light of our efforts to complete a strategic transaction including a sale or merger of the Company. There are two key points I would like to highlight to support approval of this proposal.

First and foremost, approval of Proposal 3 will provide the Company with the necessary tools to maintain the liquidity and value of our investors' shares. Delisting would make MicroVision less appealing to institutional investors and limit the pool of potential investors which would make it more difficult for our investors to obtain a quote or sell their shares. As we explore potential transactions it is very important to maintain liquidity of our investors' shares.

Secondly, Proposal 3 provides flexibility enhancing our ability to consider and possibly facilitate a tender offer or exchange of shares in the event of a sale or merger, which are among the opportunities we are exploring to maximize shareholder value.

MicroVision’s Board of Directors, of which I am a member, understands that some shareholders may be reluctant to approve this proposal. However, we believe, for the reasons I just mentioned and others noted in our Proxy, it is in our best interest as shareholders to approve this key proposal. Additionally, two leading independent proxy advisory firms, Institutional Shareholder Services (“ISS”) and Glass Lewis, both recommended that MicroVision shareholders vote FOR Proposal 3 to approve a reverse stock split, as well as to vote FOR Proposal 2 to approve an increase in the number of authorized shares of common stock. For those not familiar with ISS and Glass Lewis, both firms are widely recognized as leading independent institutional proxy advisory firm in the United States, and their analyses and recommendations are relied upon by hundreds of major institutional investment firms, mutual funds, and fiduciaries throughout the world.

On behalf of our employees and board of directors, I am proud of the body of work done over more than 20 years to get to this inflection point. Despite the current state of global economic headwinds, we believe, we have prepared MicroVision with sufficient cash to continue through Q4 and complete a strategic transaction including a sale or merger.

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

Steve Holt

Thank you, Sumit. Good afternoon, everyone.

For the first quarter, revenue was \$1.5 million, with approximately \$1.2 million of product revenue, \$212,000 of royalty revenue and the balance from contract revenue. The product revenue was from our April 2017 customer. I’d like to note that first quarter results were impacted by decreased production associated with the coronavirus. Production was stopped for an additional week after the lunar new year in February, then when production started, it was at a lower rate due to a shortage of manufacturing personnel at the contract manufacturer.

In comparison, last quarter we recognized \$4.6 million of revenue, with about \$4.1 million in product revenue and the balance in contract and royalty revenue.

First quarter cost of revenue was \$1.4 million, which included \$168,000 of write-offs of materials and other items related to our interactive display product. The resulting gross profit was \$70,000. In comparison, gross profit was \$1.2 million in Q4.

In March we completed an agreement with our April 2017 customer in which the customer took over production of components. From March going forward MicroVision will receive a royalty for each component shipped by the customer.

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 Q1, the prepayment stood at \$9.3 million. There is no potential scenario that we see where MicroVision would be required to repay any portion of the \$9.3 million prepayment.

This \$9.3 million is on the balance sheet as a contract liability. ASC 606, the new 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 the 10 Q we will be filing. Our current estimate is that approximately \$1.4 million of the \$9.3 million will be recognized over the remainder of the year.

Operating expenses were \$5.0 million in the first quarter, compared to \$4.5 million in the fourth quarter. The first quarter operating expenses included approximately \$100,000 in charges related to the reduction in workforce we announced in February. There were also other non-recurring expenses and credits in the quarter. Because the last two quarters have some non-recurring expenses and credits, we think it is useful to share our forecast for

operating expenses for the second quarter. We forecast our second quarter operating expenses to be in the range of \$3.0 to \$3.5 million.

For the first quarter, our net loss was \$4.9 million or \$0.04 per share. This compares to a loss of \$3.3 million or \$0.03 per share in the fourth quarter.

For the first quarter, cash used in operations was \$5.4 million, which compares to cash used in the fourth quarter of \$4.3 million.

We ended the first quarter with total cash and cash equivalents of \$2.3 million. During the quarter we raised \$1.5 million from the Lincoln Park Capital facility that we established in December 2019.

Since the end of the quarter our cash balance has improved. As Sumit mentioned, in April we secured \$1.6 million of funding under the Payroll Protection Plan. We also used our equity facility with Lincoln Park Capital to raise another \$6.2 million, so that as of today our cash balance is approximately \$9.1 million. Given our current expense rate, we believe this cash balance will fund operations through the fourth quarter.

Now I'd like to turn to NASDAQ compliance. Our request for a six-month exemption to the \$1 minimum bid price requirement was granted and the Company had until June 9 to regain compliance. On April 16, 2020 in response to the COVID-19 pandemic, Nasdaq announced temporary relief from the continued listing bid price and market value listing requirements through June 30, 2020. The effect of the Nasdaq action extends the Company's time period for compliance with the bid price listing requirement to August 24, 2020. In order to evidence compliance with the bid price requirement, the Company must evidence a closing bid price of at least \$1.00 per share for a minimum of 10 consecutive business days. Note, the time extension to address the Nasdaq's listing requirements does not change the timing of the Company's Annual Shareholder Meeting, scheduled for May 19, 2020. Nor does it change the

nature of the Proxy proposals Sumit discussed. It simply gives the Company more time to meet the minimum bid price listing requirement before effecting a reverse split, if such reverse split is approved by the Company's stockholders. So, if the Company were to regain compliance and the proposal for a reverse stock split were to pass, the board would have discretion to effect a reverse stock split based on the then current stock price.

The Company also received formal notice from Nasdaq on April 8, 2020 that for 30 consecutive business days the market value of the Company's listed common stock was less than \$50 million, which is the minimum market value required for continued listing on Nasdaq. The Company had 180 calendar days, or until October 5, 2020, to regain compliance with this requirement. However, the Nasdaq action on April 16th also extends the Company's time period for compliance with the market value listing requirement to November 27, 2020. During this period, the Company can regain compliance if the market value of the Company's listed common stock is at least \$50 million for a minimum of ten consecutive business days.

Let me conclude by re-iterating what Sumit said. We believe approval of the Proxy proposals are important to maintain our listing on the Nasdaq Global Market and are needed to support our ongoing efforts to maximize shareholder value as we continue to discuss strategic opportunities with other companies.

I will now turn the call back over to Sumit for a few comments before we open the call to questions.

Sumit Sharma

Thank you, Steve.

Before we open the call for questions, I would be remiss if I didn't thank our hard working employees and partners for continuing to work, in many cases remotely during the COVID-19 pandemic. Finally, I would like to re-iterate our commitment and sense of urgency to implement strategic alternatives that we believe will maximize shareholder value.

Thank you we will now open the call for the questions.

Q&A – there were no questions

Thank you, operator.

In closing, I want to once again thank our employees, business partners, and our stockholders for their continued support and we encourage you to vote for the the Proxy proposals discussed on the call. I look forward to reporting an update on our progress to our stakeholders in the future. Thank you.