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**MVIS Financial and Operating Results Q2 2020  
Conference Call Prepared Remarks**

**Operator**

Welcome to the Q2 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 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 interest regarding strategic alternatives, potential value of the Company or product verticals, 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 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 Preliminary Proxy Statement dated August 5, 2020; as well as statements containing words like opportunity, potential, possibly, intend, believe, , 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 filed August 5, 2020, 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](http://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.

For over two decades, MicroVision has been driven by one simple principle – to continuously innovate and 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 we have demonstrated to potential customers the capability to profitably scale our modules to 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 from 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 a potential sale or merger of the Company. With the help of our financial advisors, Craig-Hallum, we have since reached out to more than 100 companies from 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 potentially interested parties who are at various stages of diligence. We do not plan

to make public statements about any bids or potential transactions unless and until an appropriate agreement is reached.

I can share that a focused 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 would be particularly interested in our Augmented Reality and Automotive Lidar verticals. We continue to work closely and responsively with their technical and corporate development teams as well as our board to evaluate options that would 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 speaker 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 perceptions of value for these verticals.

MicroVision has a long history of engaging with OEMs for custom development funded by NRE or Non-Recurring Engineering programs. At the outset of our discussions the full value of the body of work and products MicroVision could bring to market may not have been clear to interested parties or the investment community. It is, therefore, incumbent upon us to clearly identify all these future monetization opportunities for 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 with up to 40 degrees field of view packaged into eye wear that resembles frames currently accepted in the market. I believe one could see how our module in the design example would be compelling for a mass-market product. Our module illustrated in the 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 a NRE program for development of this design, we expect that the future value it may present should be acknowledged. This potential module has not previously been discussed publicly, but I think it is easy to 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 interests of our shareholders in mind, we are endeavoring to make a compelling case for the opportunities 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 a Preliminary Proxy Statement earlier today, I would like to provide some general background and context on the strategic alternatives process to our shareholders

as they consider the Company's recommendation to authorize additional shares of common stock in the 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 verticals 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 are endeavoring to make sure that the value of all they would acquire is demonstrated through our designs, 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's 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 two decades. We continue working diligently to find the right match with each party in an effort to maximize the value of the Company for our shareholders. As you can imagine, can take time and needs to develop at the natural pace common to such agreements. I strongly believe that it is critical that we have the time needed to 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 acquiring party multiple disruptive products in multiple verticals. An acquiring company would also benefit from our experienced engineers joining their team and continuing to mature the technology. We believe we have solved the key challenges of supply chain partnerships and established the capability to scale our modules in production. Combined with a 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 am happy to share that the MicroVision team has made valuable progress in enabling our Automotive Lidar path. One of the disruptive features that enables our Automotive Lidar is its capability to actively reject ambient sunlight noise while using a 905 nm 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 earnings call in which we demonstrated in a working prototype the capability of our future Lidar to actively reject ambient sunlight 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

based module 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 authorizing 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 am happy to announce that, after serious evaluation of the situation, the Board of Directors has decided not to effect a reverse stock split within the time frame authorized by shareholders.

Also, today we filed a preliminary proxy statement which includes a 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 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 our 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 and 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 Holt**

Thank you, Sumit. Good afternoon, everyone.

For the second quarter, revenue was \$587 thousand, with \$572 thousand 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 assumed production responsibility of our product on March 1st.

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 very importantly, enables MicroVision to enjoy the upside should the customer's 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 our 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 zero given the transfer of manufacturing responsibility to our April 2017 customer. The resulting gross profit was \$588 thousand. In comparison, gross profit was \$70 thousand 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 Form10-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 \$3.0 to \$3.5 million second quarter range we provided on our last call. In comparison, operating expenses were \$5.0 million in the prior quarter which included approximately \$100,000 in charges related to the reduction in workforce we announced in February and other non-recurring expenses and credits in that quarter.

For the second quarter, our net loss was \$2.3 million or \$0.02 s 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 total 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 have only a few hundred thousand authorized shares of common stock available to issue, the facility does not currently offer an effective opportunity to accessing the remaining \$6.7 million, or raise any material amount of cash outside of this 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 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 shareholders after resolution.

It is very important that everyone vote, 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's a high bar 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 have previously indicated that we have cash until the end of the year, and that we are essentially out of shares of common stock. So a buyer 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 negotiation position.

Also, there's 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 some other 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 would 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 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. But remember, the 60 million shares are not issued if they are approved on the proxy, they only would be issued as needed. It is possible, if 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 current 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 vote 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 the 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 have opted for electronic delivery and vote in favor of authorizing more shares.

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

## **Q&A**

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 Proxy proposals discussed on the call. I look forward to reporting on our progress to our stakeholders in the future. Thank you.