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MVIS Financial and Operating Results Q1 2021 Conference Call Prepared Remarks

Operator

Welcome to the Q1 2021 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 2021 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, or completing any such strategic transaction; maximizing shareholder value; managing costs; potential 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; future product roadmaps, potential product sales, potential impact of products in the market, ongoing development of technology, scalability of technology and designs, expected performance of products, comparisons with competing products or technology, market opportunities and future demand; as well as statements containing words like opportunity, potential, possibly, intend, believe, goals, paths, expects, plans, will, could, would, likely, 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 15, 2021, as well as 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 materially 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, Chief Executive Officer

Thank you, Lindsey. Good afternoon everyone.

Thank you, Lindsey.

Good afternoon everyone.

The last fourteen months have been incredibly busy and productive at MicroVision. Today, I will cover some of the important achievements from our Automotive Lidar product development and their potential impacts, our target areas of execution going forward that we believe will increase shareholder value and provide a business update.

First, I want to thank our employees for their continued dedication and execution. Multiple times in our Company's history, our team has performed exceptionally and delivered products based on our technology that we believe were far ahead of global competitors. Our employees are incredibly smart and talented, and I am continuously humbled by their dedication to make MicroVision a success.

Let me start us today by updating you on our first-generation long-range lidar A-Sample and the potential impact it could have. I believe this sensor could offer a much higher level of performance compared to any lidar currently available or announced in the market. Our team successfully completed our A-Sample hardware and development platform on schedule. Our A-Sample hardware, as seen in the pictures shared in the press release earlier this week, is targeted for potential customers, partners and parties interested in a strategic transaction and can be mounted on top or behind the windshield inside a test vehicle. We designed this hardware to support automotive level moving platform testing from the ground up. Our robust design also allows us to target this hardware for initial sales in the second half of 2021 following completion of internal and external testing. I will elaborate on this a bit later on this call.

We expect our sensor to meet or exceed current target OEM specifications. MicroVision's lidar sensor is expected to perform to 250 meters of range. It is also expected to have an output resolution of 10.8 million points per second from a single return at 30 hertz. Lidar companies communicate product resolution in different ways as you may know. I think looking at points per second is the most relevant metric to compare resolution performance of competing lidar sensors. We believe our sensor will have the highest point cloud density for a single-channel sensor on the market. Our sensor has also been designed for immunity to interference from sunlight and other lidar sensors using our proprietary scan locking intellectual property. Our sensor will also output axial, lateral, and vertical components of velocity of moving objects in the field of view at 30 hertz.

I believe this is a groundbreaking feature that no other lidar technology on the market, ranging from Time-of-Flight or Frequency-Modulated-Continuous-Wave sensors, are currently expected to meet. Let me elaborate a bit more about the potential importance of this feature. The capability of future active safety and autonomous driving solutions to predict the path of all moving objects relative to the ego vehicle at 30 hertz is one of the most important lidar features. This is significant since these active safety systems are tasked with determining and planning for the optimum path for safety. Providing a low latency, high-resolution point-cloud at range is an important first step. However, having a detailed understanding of the velocity of moving objects in real-time enables fast and accurate path planning and maneuvering of the vehicle. Sensors from our competitors using either mechanical or MEMS based beam steering Time-of-Flight technology currently do not provide resolution or velocity approaching the level of our first-generation sensor. Additionally, flash-based Time-of-Flight technology has not demonstrated immunity to interference from other lidar which is big issue. This potentially limits the effectiveness of these sensors to be considered as candidates for "the optimal" lidar sensor or as the primary sensor to be considered for active safety and autonomous driving solutions required for 2024-25 OEM targets. Lidar sensors based on Frequency Modulated Continuous Wave technology only provide the axial component of velocity by using doppler effect and have lower resolution due to the length of the period the laser must remain active while scanning. With the lateral and vertical components of velocity missing, lower accuracy of the velocity data would make predicting the future position of moving objects difficult and create a high level of uncertainty.

The core function of active safety hardware and software is to accurately predict what will happen and adjust in advance of a dangerous event. These missing velocity components could potentially mean a larger error in the estimated velocity compared to the actual velocity of objects and predict incorrect positioning. Let me share an example. An ego vehicle moving at 60 miles per hour, and a target vehicle moving at 25 miles per hour relative to the ego vehicle, covers approximately 11 meters in a single second. Our sensor updates position and velocity 30 times per second which would enable better predictions at a higher statistical confidence compared to other sensor technologies. If the target vehicle suddenly starts changing its position relative to the ego vehicle, an active safety system would do a much better job if it had more precise position and velocity data of the target vehicle. This could mean the difference between active emergency braking stopping short of an accident versus a potential collision.

A sensor that can provide an accurate and detailed picture of position, resolution and velocity of all objects relative to the ego vehicle at a faster frame rate would enable better active safety systems. Delivering safe mobility at the speed of life requires a sensor that is fast in data output, has high resolution so it can classify objects, has appropriate cost for large volume scaling, and provides precise velocity and range of objects to predict what will happen in driving conditions all of us experience day to day. When evaluating lidar specifications from various sources, it is important to consider the context of actual risks in the driving experience all of us have.

I would also like to provide a fuller picture on what our product roadmap could look like and why this is important for our value. We expect MicroVision's long-range lidar sensor will have two versions in the future. Our first-generation sensor is the first product in this roadmap. A future generation sensor would be a more advanced version and could have the same hardware layout as our first-generation sensor. A future sensor could also include our proprietary software that would provide features needed for a standalone sensor used for active safety applications. I want to expand a bit on the importance of this future product and the value this could represent to our shareholders.

Having what I believe to be the best-in-class first generation sensor gives us a huge step up against competition. It also provides our very capable team with a hardware platform to further increase value for potential partners and our shareholders. In the short term, I expect our team to continue focusing on internal and external validation of our first-generation lidar sensor and any potential confidential evaluation from customers or partners. In the long-term, I believe a future sensor could provide features like Active Emergency Braking, Active Emergency Steering, Pedestrian Active Emergency Braking, and Active Lane Keep, among a longer list of higher level ADAS features with MicroVision software running on our edge computing. I believe a lidar sensor with embedded software that does not require massive amount of external computing will ultimately reduce cost of systems for OEMs, thus potentially accelerating adoption of vehicles with autonomous driving and active safety systems. I expect that key features in our first-generation sensor like highest resolution, full velocity components, immunity to sunlight and other lidar could allow an incredible opportunity for us to add significant value with our software for a greater sustainable strategic advantage. I believe future products built with our software, sensor performance, edge computing and scalability, would be valuable to OEMs, Tier 1 automotive suppliers, companies that are focused on mobility as a service and, therefore, of value to our shareholders.

As we remain focused on exploring all potential opportunities to increase value of our Company, a portion of our team will continue building towards this roadmap. I look forward to reporting on our progress. Another major advantage of our technology is its capability to demonstrate scalability. To demonstrate this, we successfully developed and installed our long-range lidar sensor pilot line in Redmond. This pilot line is sophisticated. It includes six custom active alignment stations that our team developed working with our automation partners to enable scalability and performance. Our team has launched multiple pilot lines in the past for our display, augmented reality, and interactive display products. I am very proud of our team's ability

to apply their expertise and complete this pilot line on time given the challenges with a global pandemic. This pilot line will allow us to validate designs and manufacturing processes in house in faster cycles. We expect limited quantities produced from this line will support exploring potential partnerships. This pilot line will also enable us to take our designs, process maps and control plans, and launch a new highly automated production line to support expected initial sales inventory in the second half of 2021 through a contract manufacturer. This future production line in Asia will eventually have the capacity to produce between 12-15 thousand sensors per year starting sometime in 2022. The purpose of this second line is to show the next level of scaling. The ultimate capacity of this production line can be adjusted to meet volumes as required prior to mass production in the 2024-25 timeframe. We continue to work to mitigate risks to our plan due to COVID and other supply limitations.

A key element to show scalability of our technology comes from being able to scale our highly reliable and cost-effective solid-state beam steering system for automotive use. This month, we launched our fifth-generation MEMS to a 200-millimeter wafer size with our MEMS fab partner. This is of course not a new effort for us. We have launched our MEMS to scale in the past with our third-generation that were used in a Sony product and our fourth-generation MEMS that was part of our April 2017 contract and are currently in production. Advancing our fifth-generation MEMS to the fab is a big step for this program that will allow us to demonstrate to potential partners our capability to meet future price targets. I am extremely proud of our team to have achieved this key objective with all the challenges faced through 2020.

I would be remiss if I did not mention that our long-range lidar sensor is designed and developed internally from our proprietary MEMS based laser beam scanning technology. This intellectual property has been developed and proven in various programs for more than two decades. Our differentiated sensor is built on a large body of intellectual property, including more than 400 patents. I believe this provides us with a competitive moat in hardware and software for years to come and a very important sustainable strategic advantage.

I would now like to briefly update you on our exploration of strategic alternatives. I believe, our technology and products, are at inflection point in multiple verticals. I want to emphasize that the Company remains committed to exploring all strategic alternatives to maximize shareholder value. In October 2020 we set the objective to complete our lidar product and said having hardware that can be productized would be an important step for evaluation by potential interested parties. We completed that objective in April as planned and are prepared to support any potential evaluation of our technology and capability to scale. As I shared earlier today, I believe our sensor technology is differentiated by features that will potentially be recognized as disruptive in the market. I have shared with you that I believe consolidation in this space will continue and signs of this are starting to become public. I believe MicroVision needs to continuously build value with our products, roadmaps, and partnerships, while also exploring strategic alternatives. Given the continued consolidation in the market, I believe this is a pragmatic approach as we seek to maximize shareholder value. I want to emphasize our primary focus will remain continued validation of our first generation lidar sensor and support any customized evaluation data from potential partners.

Finally, we ended the first quarter with \$75.3 million of cash and cash equivalents. As Steve will share, our cash requirement and plan for growth are under control providing a sustainable runway. This allows us to explore all our options from a much stronger position to maximize shareholder value. I sincerely believe our Company now is in one of the strongest positions in our history to be successful. We are in a solid financial position and potentially have a disruptive new product in a market segment expected to have global impacts.

The work required on the road ahead is hard. I am truly energized everyday as I think about our future and remain profoundly optimistic in our path.

Now let me turn the call over to Steve to discuss the first quarter's results.

Steve?

Steve Holt, *Chief Financial Officer*

Thank you, Sumit. Good afternoon, everyone.

For the first quarter, revenue was \$479 thousand, a 21% increase over last quarter's revenue of \$395 thousand. All of the first quarter's revenue was royalty revenue and attributable to our April 2017 customer. We're pleased to see an increase in royalties over the fourth quarter and look forward to our customer's continued success with sales of their product.

As I have pointed out before, royalties related to our April 2017 customer will be credited against the non-refundable prepayment the customer made in 2017. Once the prepayment is exhausted, the customer will begin making cash payments for royalties due. At the end of Q1, the balance of the prepayment stood at \$7.3 million dollars. The \$7.3 million is on the balance sheet as a contract liability.

Our first quarter cost of revenue included a \$5.0 thousand credit related to the reversal of a warranty accrual. The result is a first quarter gross profit of \$484 thousand. In comparison, gross profit was \$395 thousand in the prior quarter.

Operating expenses were \$6.7 million in the first quarter, up from \$4.0 million in the prior quarter. In the first quarter we put in place an employee incentive plan to retain and motivate our team. The expense recognition for this incentive plan increased our operating expenses by approximately \$1.2 million in the first quarter. Total non-cash compensation for the quarter was \$1.6 million. This expense was a non-cash item. Other causes for the increase were the Company's portion of payroll taxes on employee stock option exercises and vesting RSU awards. There was also increased spending on labor and benefits due to an increase in headcount, and an increase in materials and subcontractors for the development of our first-generation lidar sensor. Our headcount at the end of March was 57, up from 47 at the end of December.

For the first quarter, our net loss was \$6.2 million or \$0.04 cents per share. This compares to a loss of \$3.6 million or \$0.02 cents per share in the prior quarter.

For the first quarter, cash used in operations was \$4.5 million, which compares to cash used in the prior quarter of \$4.2 million. Again, the non-cash compensation I referenced a minute ago was the primary factor causing the cash usage to be so much lower than operating expenses.

Cash and cash equivalents at the end of the first quarter was \$75.3 million, up from \$16.9 million at the end of the prior quarter. The increase was the result the proceeds we raised from two ATMs which we discussed on our last earnings call and that were completed in the first quarter.

I'd like to now turn to the second quarter and give some thoughts on our spending and cash usage as we move forward through this year. I expect an increase in operating expenses in the second quarter. As I mentioned earlier, we initiated an incentive program that uses equity to retain and motivate team members. Those programs will continue through this year, and the expense recognized in Q2 will be similar to the \$1.2 million recognized in Q1. I then expect the expense related to that program to decrease to about \$1 million in Q3 and \$800 thousand in Q4. Additionally, in April the Company signed a 3-year employment contract with Sumit as CEO. The agreement eliminates any cash bonuses and instead primarily uses equity for CEO compensation. The agreement was designed to align CEO compensation with long-term shareholder interests. The agreement grants Sumit 1.2 million shares over 3 years and will likely generate non-cash compensation expense of approximately \$7.5 million this year. About \$5.3 million will be recognized in Q2, and then about \$1.1 million in Q3 and \$1.1 million in Q4. Again, this expense is a non-cash item.

As for cash expenses, we expect we will continue to add headcount at the pace of around 10 to 12 people per quarter for the remainder of the year, primarily in our engineering organization as we further advance our first-generation long-range lidar sensor and prepare to start production. Additionally, we expect to backfill some of the support positions that were eliminated in our February 2020 headcount reduction.

Taking those items in to consideration, along with other spending, we see Q2 Operating Expense in the \$13 million to \$14 million range.

Given that much of the increase is in non-cash compensation, we expect cash used in operations to be in the \$5.0 million to \$5.5 million range, up \$500 thousand to \$1 million from the \$4.5 million used in Q1. Additionally, you may have heard about tightness in the supply of silicon chips. To mitigate risk of supply shortages, we have ordered inventory for some long-lead-time components that are expected to arrive in Q3, but if they should arrive before the end of Q2, we could see another \$1 to \$2 million of cash used in operations in Q2. As Sumit said earlier, development is progressing well and to ensure the supply of components needed to meet our plans, we concluded it was prudent to place orders for those long-lead time components.

Before we open the call up to questions, let me add my appreciation for our engineering and G&A Teams. The engineering team, just days ago, completed the A-Sample hardware and development platform on schedule. This feat was something that some said they couldn't do, much less do on schedule. They were supported by a top-notch team in our G&A areas that were able to support the engineering effort and maintain the public company compliance and controls that are so necessary to our success.

We are very fortunate to have some many outstanding people working at MicroVision.

We will now open the call for the questions.