

Note: The prepared remarks are posted on MicroVision's website for the reader's convenience. Readers should refer to the audio replays, when available, on this site for clarification and accuracy.



MVIS Financial and Operating Results Q3 2018 Conference Call Prepared Remarks

Operator

Welcome to the Q3 2018 MicroVision, Inc. Financial and Operating Results Conference Call. (Operator Instructions) Please note, today's call 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 2018 Financial and Operating Results Conference Call. Joining me on today's call are Perry Mulligan, Chief Executive Officer, and Steve Holt, Chief Financial Officer.

The information in today's conference call includes forward-looking statements, including statements regarding benefits under existing contracts and license agreements and the negotiation of future agreements; our competitive advantages; 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; plans to manage cash used in operations; as well as statements containing words like believe, goals, paths, expects, plans, will, evolve, ensure, could, would, anticipate, transforming 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 February 23, 2018, Form 10-Q filed on August 1, 2018 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.

MicroVision plans to participate in two conferences this quarter, the Craig-Hallum Alpha Select Conference in New York City and the 11th Annual LD Micro Main Event in Los Angeles. Information about these events will be posted 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.

What a difference a year makes!

As I approach my first anniversary in this role, I am excited to share with you the progress we have made. We started off by telling you that we were targeting Tier 1 technology companies

in five vertical markets. We said that by implementing Machine Intelligence in our sensors, we could provide edge computing capabilities on our devices, making it easier for our Tier 1 OEM customers to adopt our products into their large artificial intelligence platforms. Now as we near completing the first year of that journey, I am pleased to say the work we have done and the thought leadership we have shown has earned us the right to engage with leading OEMs in each one of these verticals. We remain committed to executing on this business plan focusing on these five vertical markets, namely, augmented or mixed reality, interactive display, Consumer LiDAR, Automotive LiDAR, and display-only products through our license partner.

I am proud of the achievements that we have made in both our core technology as well as the products we are targeting for customers. As previously shared, we are in the process of overhauling basically every component in our core technology, including our Digital, Analog and Time of Flight ASICs, our MEMS components and firmware, while developing our Machine Intelligence capabilities. These activities have allowed our products to evolve and enabled the ongoing discussions we are having with leading technology companies. Based on this successful volume of work, we believe we are positioned to potentially support the launch of three product families during the second half of 2019 which could position us to achieve profitability in late 2019. To support these product launches we are now working with our module manufacturing partner to be ready for our 2019 sales opportunities and to minimize the associated working capital requirements.

In short, we remain on track with our business plan to transform MicroVision from being a R&D company into a solutions provider - a solutions provider with innovative technology that could unlock significant value for Tier 1 technology customers and ultimately reward our shareholders.

Now, let me provide a little more color to the progress we have made in Q3. We achieved a profit in the quarter, albeit a small profit. In Q3 we successfully transferred the required technology to our display-only licensee under the agreement that we announced in May. The

second \$5 million payment was received in early October as expected, bringing the total payments received under this License agreement to \$10 million, the entirety of which we recorded as revenue in Q3. We said earlier this year that we expected to perform some NRE or non-recurring engineering activity work for our Licensee to customize the display engines for the Licensee's customers. The good news is that so far, no customizations have been required. This implies that our references designs are closely aligned to what the OEM customers are looking for. If any NRE will be required for these products, we expect it to take place in the first half of 2019.

We continue to make progress on the \$24 million contract we were awarded in April 2017. In Q3 we booked another \$1.5 million in revenue from this program. We believe that most of the challenging technical issues are behind us. We expect to invoice our customer twice in Q1 2019 for a total of \$5 million with the first \$2.5 million invoiced in the first part of Q1 and a final \$2.5 million toward the end of the first quarter. As I mentioned during our last call, our Tier 1 customer advised us they plan to bring to market a product using our technology sometime in 2019. This is still the plan. The specifics regarding the size and timing of their 2019 product launch are still being finalized.

While we did not recognize revenue from Ragentek in the quarter, we did reach an agreement with this smartphone manufacturer on how to proceed with the inventory we built for them. Steve will provide more commentary on that matter, as well as our Q3 results and outlook for the final quarter.

In September, we posted on our website a video that demonstrates how a smart speaker, equipped with our interactive display technology, could be used. The video clearly captured how fast and natural it is to custom order an item with many different options using our interactive display solution in conjunction with an Artificial Intelligence or AI assistant. We plan to post an additional video demonstration of this technology during the quarter.

Our Consumer LiDAR solutions deliver a significantly higher resolution than available today in a comparable form factor, and when combined with Machine Intelligence capabilities, represent another major step forward in the category's evolution. We expect our dev kits for this product to be available at the end of Q4 as planned.

We expect the adoption of Consumer LiDAR technology to be very disruptive in the market and as such, the integration of our powerful solutions will likely take more time before being adopted than our display-only or interactive display solutions. To support market adoption, we plan to make explorer kits available to our customers' application engineers and software developers in the first half of 2019.

As I mentioned during the last call, we believe our Automotive LiDAR technology can provide a smaller form factor, higher-line count resolution, and a more cost-effective solution than those in the market today. Within the 30-meter space, our LiDAR solution would have the highest density available with 20 million bits per second as a part of our point cloud output.

Additionally, we believe the latency advantage that our system should have through the deployment of Machine Intelligence at the sensor will provide a feature that will be especially important as we look to adapt this solution to collision avoidance applications. We remain on track to demonstrate the proof of concept for our automotive solutions in 2019. Given the extensive testing and long sales cycle in the automotive industry, we would expect to see limited initial revenue from evaluation units in 2020, with the opportunity for sales more likely in late 2020 and 2021.

Based on the technical progress we've made over the last year and our ongoing discussions with leading AI platform owners and our supply chain partners, we believe as I mentioned earlier, that we are positioned to potentially support the launch of three product families during the second half of 2019 which could position us to achieve profitability in late 2019.

Let me conclude my opening remarks by saying we remain on track with our business plan and are convinced that the display-only products, provided through our licensee, along with our interactive display and Consumer LiDAR products can provide AI platforms with Input/Output capabilities that are unavailable today. By enabling users to interact through voice, image, gesture and spatial awareness, it should be easier for them to interact with an AI platform, making it easier for the user to transact, increasing the monetization opportunities for our customers.

I look forward to updating you on future conference calls of our progress transforming MicroVision from being a R&D company into a solutions provider - a solutions provider with innovative technology that could unlock significant value for Tier 1 technology customers and ultimately reward our shareholders.

I'll now turn the call over to Steve, our CFO, who will discuss our financial performance in the third quarter and offer some commentary of how we see the full-year of 2018 shaping up.

Steve Holt

Thank you, Perry. Good afternoon, everyone.

Third quarter revenue was \$11.6 million which included \$10 million related to the display-only license agreement we announced in May and \$1.5 million associated with the \$24 million contract we announced in April 2017. For comparison purposes, revenue in the prior quarter was \$2 million, and revenue in the third quarter a year ago was \$5.4 million.

The Q3 2017 numbers have been adjusted for the new Revenue Standard, ASC 606, which we adopted on January 1st of this year, using the full retrospective approach.

In the quarter we with Ragentek, the Chinese smartphone maker, and reached an agreement regarding the inventory we built for them. Based on our new agreement in the fourth quarter we expect to ship Ragentek about half of the inventory we built for them at a reduced price. We expect to ship the remaining units in 2019. As a result of lowering the price, we wrote down the value of the inventory by \$1.1 million dollars. This write-down is reflected in the cost of revenue section of the income statement. The result is that in the fourth quarter we expect to ship \$1.5 to \$2 million worth of the inventory we built for Ragentek.

Gross profit for the third quarter was \$8.9 million compared with \$333 thousand in the prior quarter and a negative \$278 thousand in the same quarter a year ago. The improvement over the prior quarter was primarily due to the gross profit on the display-only license.

Third quarter operating expenses were \$8.6 million, \$145 thousand lower than the prior quarter's \$8.8 million. In comparison, operating expenses were \$5.5 million in the same quarter a year ago.

The higher revenue and lower expenses in Q3 relative to Q2, resulted in a slight profit in the quarter of \$289 thousand, which comes to zero cents per share. This compares with a net loss of \$8.5 million or 10 cents per share in prior quarter and a net loss of \$ 5.8 million or 8 cents per share in the same quarter a year ago.

We ended the quarter with total cash and cash equivalents of \$13.2 million, compared to \$21 million at the end of the prior quarter, and \$25.3 million at the end of the same quarter a year ago. The \$13.2 million on September 30 does not include the \$5 million dollars we received on October 1st from our display only licensee.

On our last earnings call I recapped the potential sources for 2018 revenue, and I will update that now. Through the first nine months of 2018, we have recorded revenue of \$15.8 million compared with \$7.3 million a year ago. In Q4, we expect to recognize revenue of \$1.3 to \$2

million under the \$24 million contract we announced in April 2017. As I mentioned, we revised our agreement with Regantek, and expect now to record between \$1.5 and \$2 million in product revenue in the fourth quarter. As Perry indicated on the call, our display-only licensee has not needed to make customizations to the designs they licensed from MicroVision. As a result, we are backing out the NRE we expected for this work from our 2018 forecast. The result of these updates is that we now expect our full-year 2018 revenue to range between \$18.6 to \$19.8 million, compared to \$9.6 million last year when adjusted for the new revenue standard.

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 believe that the progress we have made is tremendous. We are committed to the value proposition that we believe we can provide, targeting leading Tier 1 technology leaders who have the capabilities to bring our innovative solutions to market.

In the second quarter we took the necessary steps to shore up our cash position and are now working with our supply chain partners to support the potential launch of three product families in 2019 with our sights on achieving profitability in late 2019.

With that, we will now open the call for questions.

Q&A

Perry Mulligan

Thank you, operator.

In closing, I want to thank our employees, business partners and our investors for their support and look forward to reporting our progress over the next several quarters.

Operator

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