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MVIS Financial and Operating Results Q2 2018

Conference Call Prepared Remarks

Operator

Welcome to the Q2 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.

Lindsey Stibbard

Thank you. Good afternoon and welcome everyone to MicroVision's Second 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 May 10, 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 Liolios Gateway Conference in San Francisco and the HC Wainwright 20th Annual Global Investment Conference in New York City. 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.

When I assumed the CEO role 9 months ago, I believed we had an exceptional opportunity 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. Today, because of the customer reaction we see and the technical progress we've made, I am more convinced than ever that is the case.

We are moving in the right direction. We are doing what we said we would do, working to have products ready at the right time and at the right price when the market is ready. During the second quarter we raised cash to bolster our balance sheet through a public stock offering and signed a display license agreement that provides for payment of \$10 million in license fees this year. Throughout these activities, we remain focused on our goal of achieving profitability at some point during 2019.

Investors attending our Annual Shareholder meeting in June had the opportunity to see firsthand why I am so excited. At the Shareholder meeting, we demonstrated several of our technical solutions, including our new display engine that has improved video image quality and is capable of projecting at 80 lumens, approaching twice the brightness of our previous solutions. Later this quarter we plan to provide investors with an opportunity to view these demonstrations along with the improvements in our interactive display products, through videos that we plan to post on our website.

On prior conference calls, we discussed our Go-to-Market strategy and commitment to five vertical markets. We are targeting Tier 1 technology companies where we can bring compelling value to enable them to introduce disruptive solutions to the market. On this call, I would like to update you on our progress on those verticals, namely display-only, augmented or mixed reality display, interactive display, consumer LiDAR and automotive LiDAR.

On the last call, I reported a new world-wide exclusive license agreement with a leading global technology company for the manufacture, and sale, of display-only products. As part of that

license agreement, the licensee agreed to pay MicroVision a \$10 million license fee. The transfer of our technology to the licensee is progressing well, and to-date we have received the first of two \$5 million-dollar payments, and we expect the second payment in early October.

Our licensee has been actively meeting with Tier 1 customers about the sales opportunities using MicroVision's display-only technologies. We understand that they are getting good response from these customers. We remain optimistic that they will be successful landing customers, resulting in sales of MicroVision components to them in 2019.

We also continue to make progress with the \$24 million contract that we signed a year ago with a Tier 1 technology company. We are about two-thirds of the way through the contract and we believe that the difficult technical tasks are now behind us. Through the first seven months of this year, we have received \$5 million in payments for the completion of milestones, bringing the total payments under the \$14 million-dollar development portion of this contract to \$9 million. We remain on track and expect to complete the development agreement in Q1 of 2019. We've been advised by our customer that we should expect a product launch sometime in 2019 and that they are still determining the size and timing of their launch.

On our last conference call, I also discussed several technical initiatives that were underway to meet our product requirements for production in 2019. Initial feedback on our new 1440p MEMS scanner, new time of flight ASIC and next generation analog ASIC have been encouraging. We are also on track to tape out our new digital ASIC this summer, in time to meet our product requirements for production in 2019. In other words, all the core elements of our technology required to meet production launches of the display, interactive display and consumer LiDAR products in 2019 remain on track.

Also, our machine intelligence team continues to develop our capabilities. For example, we recently did customer demonstrations where we equipped a smart speaker with our interactive display. To highlight how easy it is to order goods and services with the interactive display, we

simulated ordering various products. These demonstrations clearly captured how fast and natural it was to custom order an item with many different options using interactive display in conjunction with an Artificial Intelligence or AI assistant. We expect our next developer kit incorporating these capabilities to be ready to ship later this quarter to targeted Tier 1 technology companies.

For smart home and security applications, our next generation of development kits for use with consumer LiDAR solutions is scheduled to be available in Q4. Our consumer LiDAR solutions project a significantly higher resolution than available today and when combined with machine intelligence capabilities would represent another major step forward in this category's evolution.

In automotive LiDAR, we believe our technology can provide a smaller form factor, higher-line count resolution, and a more cost-effective solution to those in the market today. 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 expect to demonstrate the proof of concept for our automotive solutions in early 2019. Given the extensive testing and long sales cycle in this industry, we would expect to see limited initial revenue in late 2019 or 2020, with the opportunity for significant sales more likely in late 2020 or 2021.

Let me conclude my opening remarks by saying we are moving in the right direction, we strengthened our balance sheet, and are doing what we said we would do to pave the way to achieving profitability during 2019.

We remain committed to five verticals that we believe have the potential to unlock significant value for our customers. We believe that enhancing our product strategy and incorporating machine learning into our sensor products will make it easier for Tier 1 technology companies with AI roadmaps to integrate our solutions into their products. Our solutions should provide

these companies with products that have a more natural end-user experience and a faster time-to-market path. We are convinced that our display-only products, provided through our licensee, and 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'll now turn the call over to Steve, our CFO, who will discuss our financial performance in the second quarter and offer some commentary of how we see the second half of 2018 shaping up.

Steve Holt

Thank you, Perry, and good afternoon, everyone.

I'll start by updating you on some of the cash items we discussed on the last call. First, related to the \$24 million-dollar contract, we did receive in May the \$2.5 million that we had billed our customer in Q1. Additionally, we billed this customer for an additional \$2.5 million in the second quarter, and that invoice was paid in July. Second, we received the first of two \$5 million-dollar payments related to the license of our display-only business, and we expect to receive the second payment in early October.

Also, we have completed the evaluation of the revenue recognition treatment of the display-only license and concluded that we will recognize the entire \$10 million license fee when our performance obligations under the agreement have been completed. We expect to complete our remaining obligations, which include providing certain technical documentation, in the third quarter.

Now, I will turn to the second quarter 2018 income statement.

Second quarter revenue was \$2.0 million dollars. Essentially, all of the quarter's revenue was from our contract with our Tier 1 technology customer that we announced in April 2017.

The status with Ragentek, the Chinese smartphone maker, has not changed. As we mentioned last quarter, we understand that Ragentek plans to launch two new products this summer and we have agreed to give them time to launch these products. We did not ship product to Ragentek in Q2, did not recognize any product revenue, and the units we've built for them remain in our inventory.

For comparison purposes, revenue in the prior quarter was \$2.2 million, while revenue in the second quarter a year ago was \$1.3 million.

The Q2 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.

Gross profit for the second quarter was \$333 thousand dollars compared with \$315 thousand in the prior quarter and \$346 thousand in the same quarter a year ago. The improvement over the prior quarter was mostly due to improved margin on contract revenue.

Second quarter operating expenses were \$8.8 million and compare with \$7.4 million in the prior quarter and \$6.0 million in the same quarter a year ago. The main contributor to the increased OpEx was spending on ASIC development and prototypes of our interactive display. These items increased OpEx by about \$900,000 over last quarter, and in total represent \$1.9 million of spend. ASIC development fees, which are paid to third parties, should decrease over the next few quarters. We do not expect these elevated levels of OpEx beyond one or two quarters.

Our second quarter net loss was \$8.5 million or 10 cents per share, compared with a net loss of \$7.1 million or 9 cents per share in prior quarter and a net loss of \$ 5.7 million or 8 cents per share in the same quarter a year ago.

We ended the second quarter with cash and cash equivalents of \$21.0 million, compared to \$7.2 million at the end of the prior quarter, and \$17.7 million at the end of the same quarter a year ago. The increase was primarily due to the proceeds received from the stock offering completed in June. In the financing we raised \$16.6 million net of expenses.

On our last earnings call I recapped the potential sources for 2018 revenue, and I will update that today. This year we expect to recognize \$10 million from the license agreement for our display only products; \$8.5 to \$9 million from the \$24 million Tier 1 contract; and \$4 million from the Ragentek order. We also expect approximately \$3 million of non-recurring engineering or NRE related to the display-only license of. When one adds up these opportunities, we have 2018 revenue opportunities totaling \$25 to \$26 million. Last year, our revenue was \$9.6 million 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.

Let me wrap up by saying we are doing what we set out to do when I assumed the CEO role. We refined our Go-to-Market strategy to target Tier 1 technology leaders who have the capabilities to bring to market our innovative solutions. We entered into a license agreement with a global technology company to address the display-only vertical. For our interactive display and consumer LiDAR products we are executing on the technical requirements, finalizing

development kits and product demonstrations to share with potential customers over the next few months, in support of product sales targeting 2019.

We have also taken the necessary steps to shore up our cash position, while keeping our sights on achieving profitability at some point in 2019. We are well positioned to execute the plan we have laid out for you and are excited by the benefits we believe this plan will provide our customers, shareholders, employees and suppliers.

I look forward to sharing more details with you as the second half of 2018 progresses on our journey from an R&D company to a solutions provider.

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.