

AEye, Inc., Q4 2022 Earnings Call, Mar 15, 2023

Call Participants

EXECUTIVES

Matthew Fisch

CEO & Director

Robert Anthony Brown

Chief Financial Officer

Stephen J. Lambright

Chief Marketing Officer

ANALYSTS

John Marc Andre Roy

Water Tower Research LLC

Joseph Amil Osha

Guggenheim Securities, LLC, Research Division

Linda Umwali

D.A. Davidson & Co., Research Division

Suji Desilva

ROTH MKM Partners, LLC, Research Division

Presentation

Operator

Thank you for standing by, and welcome to the AEye Q4 2022 and Full Year 2022 Earnings Results Conference Call. [Operator Instructions] As a reminder, today's call is being recorded. I would now like to turn the conference over to your host, Mr. Stephen Lambright, Chief Marketing Officer. Please go ahead.

Stephen J. Lambright

Chief Marketing Officer

Good afternoon, and thank you for joining AEye's Fourth Quarter and Year-end 2022 Earnings Call. With me today are Matt Fisch, Chief Executive Officer, and Bob Brown, Chief Financial Officer.

Earlier today we announced our financial results for the fourth quarter and full year 2022. A copy of our press release can be found on our website at

investors.aeye.ai.

Before we begin, I would like to remind participants that today's discussion may include forward-looking statements as defined in the securities laws and regulations of the United States with reference to future events, future operating results or financial performance. Forward-looking statements are based on our current expectations and assumptions regarding our business, the industry and other conditions. These forward-looking statements are subject to inherent risks, uncertainties and changes in circumstances that are difficult or impossible to predict. Our actual results may differ materially from those contemplated by these forward-looking statements. We caution you, therefore, against placing undue reliance on any of these forward-looking statements. You can find more information about the risks, uncertainties and other factors in our reports filed from time to time with the Securities and Exchange Commission, including in our more recent periodic report.

All information discussed today is as of March 15, 2023, and we do not intend and undertake no obligation to update any forward-looking statements, whether as a result of new information, future developments or otherwise, except as may be required by law. In addition, today's discussion will include references to certain non-GAAP financial measures. These non-GAAP measures are presented for supplemental information purposes only and should not be considered as a substitute for financial information presented in accordance with GAAP. A reconciliation of the measures to the most directly comparable GAAP measures is available in our press release, and you should refer to our reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures in our earnings release.

Now let me pass the call over to Matt.

Matthew Fisch
CEO & Director

Thank you, Steve. Good afternoon, and welcome to our fourth quarter and year-end 2022 earnings call. I'm Matt Fisch, AEye's CEO. I am joined on the call today by our CFO, Bob Brown. I'll begin the call by introducing myself, sharing some insights into what I've learned in my first month on the job and some initial thoughts on where we go from here. I will then hand the call to Bob, who will review AEye's financial performance for fourth quarter and full 2022 fiscal year, as well as a few comments on our 2023 outlook. Then we will open the call for questions.

Let me start by telling you a bit about myself and why I'm thrilled to be here. Over the past 30 years, I have delivered transformational products that have supported the rapid evolution of the automotive and technology industries. I am excited about the opportunity for AEye to become a premier sensing technology provider. To do this, I will leverage my extensive experience with systems, software and scaling large product organizations, as I did during my prior leadership roles at Gentherm, Harman and Intel.

I recently led the technology team at Gentherm, a \$1.3 billion developer of thermal management technologies. Under my leadership, we delivered innovative products to the automotive market that aligned with the industry's shift to electrification and created new value propositions with systems and software.

At AEye, our software-definable Lidar is also at the center of this transformation. I will lead our team to enhance, productize and monetize AEye's platform and product portfolio to power the next generation of advanced driver assistance systems and drive greater efficiency, productivity and safety in smart infrastructure and other industrial markets. Throughout my career, I've consistently pursued opportunities that have the vision and capacity to change the world, to have an impact, to create opportunities that didn't previously exist. This is more than a passion. My track record shows I thrive and succeed when presented with the challenge of bringing revolutionary technologies to market. My greatest satisfaction and success comes from making a difference, and AEye's technology has the potential to be transformative.

I joined AEye because I believe it has all the ingredients for commercial success. We have industry-leading technology, a unique and compelling business model, a healthy commercial pipeline, a stellar team and exceptional business partners like Continental. Continental has a proven ability to deliver full-stack advanced driver assistance systems to the automotive and trucking markets. Over the years, they have delivered over 150 million sensors across dozens of product lines, making them one of the leading integrated ADAS solution providers in the world.

For me, the most powerful market validation is that Continental selected AEye's technology for productization and integration into their industry-leading ADAS product portfolio. And we continue to receive positive feedback from OEM customers regarding Continental's automotive-production-intent B-sample, giving me great confidence that we have the right product market fit for the next generation of advanced driver assistance systems.

In my first month at AEye, I'm thoroughly impressed with the vitality and creativity of the team. The culture and energy here is remarkable and has me excited about what's to come. My immediate task at hand is to set clear objectives and focus our efforts and remove impediments so that our team can successfully execute and achieve our goals. To that end, I've been working with the executive team to develop a go-forward plan that aligns our strengths with our objectives. We are well underway, but this takes time and careful consideration.

My commitment to you is that we will come back to you in our May earnings call with my plan for the company and a time line to which you will be able to hold me and the executive team accountable. We will align our innovative 4Sight platform with the most promising opportunities, and focus on a set of achievable objectives that will define success for AEye and its shareholders.

I'm excited to be here. AEye is well-positioned with exceptional technology and talent. And I look forward to sharing our vision for the next phase of AEye's evolution at our earnings call this May.

At this point I will turn it over to Bob Brown to review the details of our financial performance last quarter and last year. Bob?

Robert Anthony Brown

Chief Financial Officer

Thanks, Matt. Welcome, everyone. Revenue in the fourth quarter was \$1.1 million, up 42% from the third quarter. Our development contract services revenue was stronger in the fourth quarter due to contract-specific progress in our automotive business. Revenue for the full year was \$3.6 million, up 21% from the prior year. We managed our spending carefully throughout the year as we continued to focus our resources on the most impactful areas of our business.

GAAP operating expenses were \$22 million in the fourth quarter, an increase of 2.9% from the prior quarter due to a favorable item in the third quarter that did not repeat in the fourth quarter. Our non-GAAP operating expenses were \$16 million in the fourth quarter, up from \$15.1 million in the third quarter. Net loss in the fourth quarter was \$23.7 million on a GAAP basis, up slightly from a net loss of \$23.6 million in the third quarter. GAAP EPS was a loss of \$0.15 per share in the fourth quarter, which was flat relative to the prior quarter.

Net loss on a non-GAAP basis in the fourth quarter was \$17.5 million. And non-GAAP EPS was a loss of \$0.11, which was flat relative to non-GAAP EPS in the third quarter. Non-GAAP net loss for the full year was \$73.8 million, which represented a substantial improvement relative to our initial expectations for a non-GAAP net loss of \$100 million at the beginning of 2022.

Net cash used in operating activities for the fourth quarter was \$16.1 million, which improved from \$22.4 million in the third quarter. The quarter-over-quarter improvement was primarily driven by cash used in the third quarter for working capital and for annual prepaid insurance costs that did not recur in the fourth quarter. We're continuing to manage our cash very carefully, especially in this environment, and we're focusing our cash outlays on critical areas that clearly support our strategy and product development. Our capital expenditures in the quarter were very modest at \$800,000, reflecting our unique capital-light model and our partnerships with manufacturers like Continental and Sanmina.

We ended the year with \$94.2 million of cash, cash equivalents and marketable securities on our balance sheet. We believe this provides us with a solid financial base to support our business as we head into what's

expected to be a challenging economic climate in 2023.

We've received many questions over the last several days about our exposure to Silicon Valley Bank, or SVB. The vast majority of our cash, cash equivalents and marketable securities are held in our account with a much larger bank, which was unaffected by SVB's issues. While we were also an SVB customer, we regained full access to our SVB accounts as of Monday morning.

Turning to our external sources of funds. You may recall that we issued a convertible note in September, which provided us with \$10 million of proceeds. Thus far, we have paid the monthly installments required under the note in cash rather than shares. We have the right subject to certain conditions to issue another convertible note to the same investor in 2023 in the same amount and on the same terms. We also continue to have access to our equity line of credit facility as an additional source of liquidity. We did not issue any shares under that facility in the fourth quarter.

Now let me address our near-term outlook. We are maintaining a cautious view on the business in the first quarter. We expect revenue for the first quarter to be in the range of \$500,000 to \$700,000. We have temporarily slowed production of our 4Sight industrial product in Q1 as we complete the second phase of the transfer of production to our manufacturing partner and complete the planned validation of the product built in the production environment. While volumes are expected to be modest in the near term, we are continuing several proof-of-concept deployments of our lidar with key customers, particularly in the ITS market.

In response to the uncertain environment we noted earlier, we have been managing our spending carefully. However, we expect our first quarter operating expenses to be up approximately 10% to 15% from the fourth quarter, based primarily on the timing of certain development projects. We expect our non-GAAP EPS to be a loss of approximately \$0.13 in the first quarter.

Let me conclude by saying that while we expect to feel the impacts of a potential recession and ongoing supply chain challenges in the near term, we are well-positioned to navigate through this period. The secular backdrop for Lidar adoption across the automotive and industrial markets remains compelling. And the feedback we're getting from OEM customers on Continental's automotive-production-intent B-sample continues to be very encouraging.

With that, we'll open the line for questions. Operator?

Question And Answer

Operator

[Operator Instructions] Our first question comes from the line of Suji Desilva of ROTH.

Suji Desilva

ROTH MKM Partners, LLC, Research Division

Welcome, Matthew, best of luck. Bob, best of luck with your next steps.

Robert Anthony Brown

Chief Financial Officer

Thank you, Suji.

Suji Desilva

ROTH MKM Partners, LLC, Research Division

So the manufacturing transition for your non-auto, can you talk about the time frame for when that would come up and be able to support volume around there?

Robert Anthony Brown

Chief Financial Officer

We're slowing production, as we said, in Q1, and this is really related to doing validation and testing on that product. So we've held off a bit on production here in Q1. So that's what you're seeing in the Q1 impact. So it's going to be very minor volumes here in Q1 as we work through that. So the hardware is in very good shape. So we've been getting good feedback from the field on how those hardware units are performing in the field, but we are doing an update to the software. So we've got a pretty significant software revision that we want to roll out.

And as a result of that, we want to do a formal testing on that, make sure we've got it rock-solid before we start getting into further production. So we're not going to give guidance for the full year. So we're really just guiding to Q1 at this point, Suji. But we do expect to have more production again here in Q2 when we get there. But Q1 is going to be light because of those reasons. And Matt, I don't know if you want to comment further on what we're doing around the software side and how that relates to the production.

Matthew Fisch

CEO & Director

Yes. Thanks, Bob. Just to give a little bit of color to that. One of the things we're learning as we're going through this manufacturing transition is that there are some differences in requirements between the industrial and the automotive markets. Just to make it very clear, an example of that being 24/7 operation of the Lidar system that's required in industrial, whereas that requirement does not exist in such a strong form in the automotive space. So that's an example of the learnings that we're having as we're doing this transition outside of automotive and into other markets. And the good news here is that what we're finding is that because of the foundation of software programmability of our platform, we're able to address these issues without having to redesign the product essentially.

Suji Desilva

ROTH MKM Partners, LLC, Research Division

Okay. Great. And then maybe my next question could be on the visibility here. You talked about the pipeline, the number of engagements, and maybe weave into that Continental and the next steps with the partner there.

Matthew Fisch

CEO & Director

Yes, I'll take that one. So we have line of sight at this point in time into 6 very clear automotive OEM engagements. Look, I've been in the automotive business for several years and have some very good insight at this point into the signals of how these deals are going. And based on that, I feel very confident that before the end of this year, we're going to get some clear decisions on a subset of those for sure.

Suji Desilva

ROTH MKM Partners, LLC, Research Division

Okay. Great. Maybe last question for Matt. Matt, since you've come in, can you talk about the AEye product in the Lidar market and the technology differentiation from your perspective, what you're hearing from customers and what you think is going to resonate as you do compete. It's a crowded Lidar market, but I'd love to hear your thoughts coming out of the gate here.

Matthew Fisch

CEO & Director

Absolutely. I think first and foremost, we have best-in-class distance -- long distance detection of objects, and this is really an essential piece of higher levels of autonomous driving. That's really a key piece of differentiation for us. And also what I've really been impressed by is the actual design of the product which minimizes the size and number of moving parts, mechanically

speaking. That's going to be a clear advantage as we get further down the road, especially into the design validation testing and reliability testing that's required of the automotive industry.

This is really going to be a key hurdle and challenge for everyone. And our design, I would say, is about as close as you can get to solid state at this point. And then as we discussed earlier is the flexibility and the programmability of the design, for example, being able to change scan patterns which allows us to deal with a wide range of issues or learnings that we're having in the field. Those are the top 3 that really stood out to me and drove my choice to join this company. I think it's fantastic.

Operator

Our next question comes from the line of Joseph Osha of Guggenheim Partners.

Joseph Amil Osha

Guggenheim Securities, LLC, Research Division

Best of luck, Bob, with the next venture, and go blue, of course.

Robert Anthony Brown

Chief Financial Officer

Thank you, Joe.

Joseph Amil Osha

Guggenheim Securities, LLC, Research Division

You finished the year about \$95 million in cash, which is a lot of money, and you burned about \$71 million. So understanding of course that the plan is still coming together. How much runway do you guys feel like you need to have before the business begins to support itself? Because if you operate the business like it's been running for the last year, you're going to run out of money early in 2024. So I'm just wondering what sort of initial signposts you can give us for thinking about how you're going to manage the company's remaining cash?

Robert Anthony Brown

Chief Financial Officer

Yes, absolutely. Thanks for the question, Joe. So yes, as you said, we had \$94 million in cash at 12/31. So from where we're standing today, we feel confident we've got at least a year's worth of cash on the balance sheet from today. So we're in reasonably good shape from that perspective. We do intend to raise more capital in the future. So you'll see that in our 10-K that we mentioned that when that is published here shortly. But as you know, given the cash balance, we do have some flexibility on timing. So there's not an urgency to do

something, although we do intend to raise some capital at some point here. So we'll see more about that in the future. We're not going to guide further than that at this moment. Given Matt's only been in the chair for 30 days here, I think I want to give Matt a chance to finish his strategic analysis here. And then I think we'll come back in May with some further thoughts about how we're going to take the company forward and what that implies for the cash.

Matthew Fisch

CEO & Director

And I'll just add one thing to that. I've been digging into especially the customer engagements. Over the last 30 days, there's definitely opportunity for focus. And looking at those signals and that I mentioned earlier, I think we can get more focused. That's really a key initiative from my end.

Operator

Our next question comes from the line of Tom Diffely of D.A. Davidson.

Linda Umwali

D.A. Davidson & Co., Research Division

This is Linda with D.A. Davidson on behalf of Tom Diffely. Congratulations on your progress, and thank you for letting us ask questions. And welcome, Matt. And best of luck with the next steps, Bob. So my first question, if I remember correctly, you expected some supply chain challenges to last longer. And I was wondering if you could provide any update on the rounds with 4SightM and given those supply chain challenges. And then if you could give us some color on how the order bookings look like at the moment and then add the growth trajectory there throughout next year.

Robert Anthony Brown

Chief Financial Officer

Yes, you bet. Thank you, Linda. So in terms of the supply chain challenges, some of those problems are still there. So there are still some key parts that we would classify as long lead time types of parts. So it's taking longer to get those. There are also still some PPV challenges where parts are still priced above where you would normally see them priced if there were not the supply chain challenges in place. I'd say it's getting better. So we are seeing some improvement, but I would say those issues are still lingering. So it's not hurting us too much in terms of the production at this point.

As we said, for Q1, the key issue there is just doing this software revision and then the testing and validation. So I don't think that will be a big limiter in terms of production for this year. We are working closely with customers. As we said in the prepared remarks, we are focusing and we're going to spend quite a bit of time [Technical Difficulty] so there will be a lot of focus around

that area this year. So Matt, I don't know if you want to add further in terms of the customer engagements and visibility from what you've seen so far?

Matthew Fisch

CEO & Director

All right. No, I think it's a good summary, Bob. And as we're looking at things right now, it's the software and getting those updates done, that's really on the critical path.

Linda Umwali

D.A. Davidson & Co., Research Division

Great. I appreciate the color. And then last quarter you had mentioned some successes in trucking. And I was wondering where at the moment you're sitting with that. Have you seen any more engagement there? How are you looking at it?

Matthew Fisch

CEO & Director

Right, I had alluded to the OEM engagements in general earlier. But specifically for the announcement, I think you're referring to, we did have a press release out in October of last year. And for strategic reasons, we did agree with the trucking platform partner to delay disclosing their identity until a later date. So we don't have an update on that today, but you can refer to that press release that came out in October.

Linda Umwali

D.A. Davidson & Co., Research Division

Sounds good. And then my last question. So I may have missed it, but besides the impact of the manufacturing transitions in 1Q, could you provide any context for what the revenue run rate looks like for this year beyond 1Q?

Robert Anthony Brown

Chief Financial Officer

Yes. We think there's an opportunity for modest growth this year. That won't be easy from where we're starting, right? It's a slow start to the year as you see in terms of the guidance. But we feel like we've got the opportunity to generate some modest growth this year. So that's what we're going to be working towards on the top line.

Operator

Our next question comes from the line of John Roy of Water Tower Research.

John Marc Andre Roy
Water Tower Research LLC

So Matt, the signals that you're seeing from the automotive industry, I wonder if you can, given your background, could you give us maybe a little more color and related to your experience as to how that might play out. And as a corollary to that, I'm also curious, in your new role, how are you going to engage with customers? You're going to be really out there on the forefront, trying to make it rain. And what is your thinking there?

Matthew Fisch
CEO & Director

Yes, absolutely. Why don't I take on the second part of the question first. Getting out and hearing firsthand what customers are saying, especially the various components of our partnership with Conti, first and foremost, for me, I'm already booking travel to make those arrangements. But especially given that we're in this go-to-market phase right now and a little bit of my -- or a lot of bit of my technical background weighing in, it's super-important to really understand what the friction points, the constraints and the problems that customers are trying to solve. And bringing that perspective back into the company and translating that to a set of objectives for the team and priority and focus, that's a key part of the game plan here.

Just as an example, now getting back to the first part of your question, I recently worked for a Tier 1 provider in the automotive space called Gentherm. And we had a pretty deep engagement with General Motors, that's public now, bringing a new category of product into market with one of their new vehicles. So I've been on the front lines of that for the last 3 years. And seeing the moving parts of what those signals are, if you will, that tell us, hey, the customer is really engaged with us in a very material and meaningful way, a leading indicator towards success on a series production award. I just experienced that firsthand with a new category of product this last 3 years in my most recent assignment. So I'm definitely making those connections to what's going on with AEye's engagements with our customers. So we're in the mix.

John Marc Andre Roy
Water Tower Research LLC

It sounds good. You had mentioned that software is going to be a key point going forward in terms of development. Do you guys feel like you need to staff up a little more, given that you might be putting a lot more effort into the software?

Matthew Fisch
CEO & Director

So software has always been a critical priority for the company. It's deeply woven into the product architecture and value proposition. Look, as the

automotive industry is embracing more of the software-defined vehicle concept, I think this is going to be a catalyst for pulling in Lidar as a solution beyond autonomous driving, if you will.

Certainly, I believe that there will be a pull for Lidar early on. We've got to get the hardware in the vehicle so the data collection can begin. As soon as we start talking about data collection and analysis, to feed into autonomous driving even a huge amount of software involved in that. So we're on it and staffing and investing appropriately.

John Marc Andre Roy

Water Tower Research LLC

And Bob, congratulations, and we'll talk to you soon.

Robert Anthony Brown

Chief Financial Officer

Great. Thanks very much, John. Appreciate it.

Operator

I'm showing no further question. At this time I'd like to turn the call back over to Matt Fisch, CEO, for any closing remarks.

Matthew Fisch

CEO & Director

I want to thank everybody for joining our call today. In closing, I believe AEye is well-positioned with exceptional technology, talent and partners. And I look forward [Technical Difficulty] for the next phase of AEye's evolution in our May earnings call.

Operator

Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.