

✓ Call Participants

EXECUTIVES

Conor B. Tierney

CFO, Principal Financial Officer & Treasurer

Matthew Fisch

CEO & Director

ANALYSTS

John Marc Andre Roy

Water Tower Research LLC

Kevin Garrigan

WestPark Capital, Inc., Research Division

Presentation

Operator

Good afternoon, and thank you for joining AEye's First Quarter 2023 Earnings Call. With me today are Matt Fisch, Chief Executive Officer; and Conor Tierney, Chief Financial Officer. Earlier today, we announced our financial results for the first quarter 2023. 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 May 11, 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, Jen. Here with me today is Conor Tierney, who has recently assumed the role of our Chief Financial Officer, and we're delighted to have Norbert Hammerschmidt, Vice President of the Components business at Continental, also speak today. I'll begin with our strategic plan and market opportunity. Norbert will discuss our Continental partnership, and Conor will review our first quarter financial results. We have a lot to cover today, so I'll jump right in.

Over the last 3 months, since joining AEye, I have met with our teams and partners, and I'm even more enthusiastic about where we stand on the cusp of commercialization and our enormous market opportunity. I've also met with

some of you in the investment community and appreciate the feedback you provided. We are committed to Investor Relations, and we'll work hard to rebuild Wall Street's support.

After these initial meetings, it was clear to me that we have the best business model in the industry, a gifted team and exceptional products featuring best-in-class LIDAR technology. It was also clear to me that we need to hyper focus on automotive and our path to commercialization with Continental. We believe that we have both product and business model advantages in automotive.

Our technologies' reliability, range and reconfigurability delivers the dependability, performance and adaptability that OEMs need, and our licensing model, cost structure and Continental partnership enables us to drive down our cash burn rate, deliver strong margins, ramp lighter volumes quickly and pivot to emerging technology trends faster.

We have rightsized our resources and cost structure to align with our automotive first strategy. This includes a company restructuring which took place in April as well as an across-the-board reduction in operating expenses. As a result of these actions, we have a plan to extend our cash runway through the end of 2024.

AEye's go-forward operational model is now realigned with our business model, which is based on licensing for automotive markets. This will continue to allow us to further reduce our operating expenses without hampering our ability to deliver to our customers and partners.

Our automotive approach is very different from many of our competitors who now faced increased operational and capital expenditures to scale in-house manufacturing. With our licensing model, we can ramp to large volume production quickly by leveraging partners such as Continental while minimizing OpEx and CapEx at AEye, accelerating our path to scalability and profitability. Achieving automotive scale will open our doors to even more opportunities in other markets longer term.

In the industrial space, we have narrowed our focus to select opportunities that are fit from a product and revenue generation standpoint. Our 4Sight M product is market-validated in the ITS sector with key automated tolling, smart intersection and automated incident detection deployments in Virginia, Minnesota, Turkey and Kazakhstan.

We continue to receive accolades on our products' performance, most recently with the Best of ITS Award for our collaboration with the Minnesota Department of Transportation. Our ultra-long-range solution was shown to improve road safety even in the most challenging weather conditions. In the automotive space, validation is already in progress at Continental, who is building the HRL131 Long Range LiDAR product using AEye's LiDAR technology.

Together in 2023, we're on track to hit key milestones by putting the product through its paces to ensure automotive-grade robustness. This entails rigorous product testing with extreme temperatures, humidity and vibration for thousands of hours. Once design validation is complete, we can scale quickly with Continental, who has a global production footprint. AEye is set up for success with our deep and complementary partnership with Continental and our jointly developed HRL131 Long Range LiDAR.

Now we are honored to have Norbert Hammerschmidt, Vice President, Components business at Continental, say a few words on our partnership. Welcome, Norbert.

Norbert Hammerschmidt

Thanks, Matt. I would like to start by saying that Continental is very pleased with the new management and the go-forward plan presented by AEye. AEye's decision to take an automotive first strategy further strengthens our partnership and provides the focus and velocity needed to secure automotive series production awards and expand our LiDAR business case.

As a 150-year old automotive Tier 1 supplier, we at Continental deeply understand the processes, time and capital required to industrialize products for passenger and commercial vehicles, so when we choose partners like AEye, we do so with our brand and reputation with OEMs in mind. We are as committed to AEye today as we were 3 years ago when we began this journey. And even more so as we work together to accelerate through the design validation stage, which is a precursor to OEM integration and higher volume production.

The Conti and the AEye engineering teams are working collaboratively during this stage to perform stringent accelerated life cycle testing on the HRL131 Long Range LiDAR products in our labs while also replicating real-world scenarios in a variety of adverse weather conditions at our closed course tracks in Michigan and Germany.

In parallel, our business teams have progressed tremendously on quoting activities with multiple large volume LiDAR programs from both passenger and commercial vehicle OEMs, where we believe we are well positioned to win. As the global leader in ADAS products, Continental began this journey with AEye with a belief that the automotive LiDAR adoption curve will mimic that of radars, which saw exponential growth over the last 25 years, and these recent RFQs from OEMs confirm our belief.

The future looks very bright for our LiDAR market and our partnership with AEye. With that, back to you, Matt.

Matthew Fisch

CEO & Director

Thank you, Norbert. I'd like to take a moment to talk about our product advantages. We think, ultimately, LiDAR products are going to be measured against what we call the 3Rs: reliability, range and reconfigurability.

Reliability. This is make-or-break for every player in the automotive LiDAR industry, and it's where our MEMS solution gives us a distinct advantage. The key is our size. At roughly 1 millimeter, it is orders of magnitude smaller than anything in the industry. You can see this visually in the presentation.

Range. At 300 meters, we see further down the road than anyone else. As you might imagine, this is a crucial element when it comes to maximizing safety while driving at any speed.

Reconfigurability. ADAS is continually evolving and presenting an ever-growing list of driving scenarios. This is where our software-defined LiDAR solution shines due to its ability to be easily reprogrammed in the field to adapt to the evolving needs of ADAS.

You can refer to our presentation for examples of some of these real-world scenarios. The product is perfectly suited to enable new advanced driver assistance system features and functionality, an important source of recurring revenue for OEMs in an era of software-defined vehicles.

Before I turn it over to Conor, I'd like to speak briefly on the market opportunity in 2023. We are seeing that OEMs are continuing to build momentum around ADAS as a service, and we are [indiscernible] see this momentum via the 2023 quoting activities through Continental that represent a \$5 million to \$10 million LiDAR unit opportunity.

With that, I'll now turn it over to Conor for his financial review. Conor?

Conor B. Tierney

CFO, Principal Financial Officer & Treasurer

Thanks, Matt. Welcome, everyone. I share Matt's enthusiasm that AEye has a tremendous opportunity ahead, and I'm excited to be speaking with you for the first time from this seat. I'll start by discussing the steps we've taken to reduce our cost structure to better align our expenses with our go-forward strategy and our plan to extend our cash runway out to the end of 2024.

As we previously announced in March, we made a difficult decision to reduce our workforce by about 1/3 and to curtail other expenses primarily related to professional services and real estate. As a result of these actions, we incurred \$1.3 million in onetime related restructuring charges in the first quarter.

Including the steps we took in the first quarter to reduce our expenses, our goal is to reduce our cash burn by about 50% by the first quarter of next year. We will achieve this through a combination of the previously announced workforce reductions, office locations, vendor savings and other cost efficiencies.

Now turning to our first quarter financial results. Given the significant changes we made to our business model and cost structure in the first quarter, we believe that comparisons of our first quarter 2023 and fourth quarter 2022 results are not helpful in evaluating our performance. For reference, all of those details are included in our earnings presentation. We will revert to discussing quarter-over-quarter results in our second quarter earnings call.

Revenue in the first quarter was \$636,000, which was above consensus estimates. We resumed shipments of our 4Sight industrial products during the quarter and are expecting an increase in order volumes towards the back half of this year. Due to the tighter expense management, first quarter GAAP operating expenses came in better than anticipated at \$24.3 million. Non-GAAP operating expenses were \$16.5 million in the first quarter. There were some onetime nonrecurring items in the first quarter, and we expect that operating expenses will decline in the second quarter.

For the first quarter, we reported a GAAP net loss of \$26.3 million or a loss of \$0.16 per share. On a non-GAAP basis, our net loss was \$17.7 million or a loss of \$0.11 per share in the first quarter, which was \$0.02 better than consensus estimates. We're also expecting GAAP and non-GAAP net loss to decrease in the second quarter because of the cost saving initiatives we outlined earlier. We continue to manage our cash carefully. Net cash used in operating activities for the first quarter was \$17.2 million. CapEx in the first quarter was modest at \$599,000.

We closed the quarter with a strong balance sheet with \$74.1 million of cash, cash equivalents and marketable securities. As an additional source of liquidity, we also have access to our equity line of credit facility. Subject to certain conditions, we have the right to issue another \$10 million convertible note to the same lender under this facility.

As noted earlier, the steps we have taken to focus our business model on automotive and to align our expenses accordingly have extended our cash runway. Looking ahead, we will continue to manage and allocate our cash carefully to critical areas of the business that directly support our strategy and product development.

Now turning to our guidance for the second quarter of 2023. We expect second quarter revenue to be in the range of \$500,000 to \$700,000. Given the production slowdown in our 4Sight platform that we discussed on our last earnings call, we expect most of our 2023 revenue to be generated in the second half of the year. We expect second quarter non-GAAP EPS to be a loss of approximately \$0.09, which is lower than last quarter as a result of our cost savings initiatives.

In conclusion, I'm pleased with the steps we've taken to align our expenses with our go-forward business model and our plan to extend our cash runway through the end of 2024. We are excited about our future, and our entire organization is focused on achieving our #1 goal: design validation of our HRL product that we jointly developed with Continental. With that, I'll pass it back to Matt to wrap things up.

Matthew Fisch
CEO & Director

I'd like to conclude by saying I'm incredibly excited about how AEye is positioned to succeed in the market. Our software-defined LiDAR solution is differentiated in the marketplace through the 3Rs: reliability, range and reconfigurability. Focusing on AEye's business model has allowed us to drive down our cash burn rate, minimizing CapEx and OpEx requirements, accelerating our path to scale and profitability.

We have a very strong go-to-market partner in Continental, which is offering the HRL131 as part of its full stack automated and autonomous driving platform for passenger and commercial vehicles. All told, we believe the value of our company, our technology, our unique model and our future opportunity are not reflected in our current valuation.

For 2023, the AEye team will be focused on executing our go-to-market strategy in the automotive space with a focus on meeting automotive design validation as a key operational milestone. We look forward to updating you as OEM RFQs progress this year, and trust that as we put execution proof points on the board, we will deliver significant shareholder value.

With that, I'll turn the call back over to the operator for questions.

Question And Answer

Operator

[Operator Instructions] Our first question is from John Roy of Water Tower Research.

John Marc Andre Roy
Water Tower Research LLC

So Matt, we've heard from a number of your competitors this week that you're also going to be going after the same OEM RFQs. Can you give us some color on the competition and how you guys expect to win this?

Matthew Fisch
CEO & Director

Thanks, John. Great question. So what we -- a couple of things to point out to context the answer here. Number one, from what we can see through our opportunities with Continental, these are mainly new opportunities. They're not extensions of existing vehicle lines, but new OEMs, new vehicle lines.

And one of the things that is a key factor in this type of situation is that -- so first of all, I spent quite a few years bringing new tech into automotive OEMs, and one of the things I've learned about that process, it's not simply a rinse and repeat. Well, I have a product and now I sold it to one OEM, and I just keep doing the same thing. Every OEM wants to differentiate. And so there's always going to be unique heavy lifting involved in getting those OEMs into the market.

So one of the obvious vectors on all of these opportunities are being bid for is product performance and capability. We addressed that earlier in the call, but I think another key viewpoint on this is that at the end of the day, when the OEM procurement department makes a decision on who to source, one of the key questions they're going to ask to any supplier in this space is, "How busy are you?" And, "How vast are your resources to support us in that heavy lifting?" And that's going to be a key consideration.

The thing that makes me feel great about being part of this partnership with Continental is we literally have an army standing behind us, a very seasoned and experienced and very resource-rich automotive Tier 1 provider, and I really think that's going to be a really key factor as we get to this next series and resolving the next series of quotes and RFQs this year.

John Marc Andre Roy
Water Tower Research LLC

Great. So as a follow-up, talking about Conti and what's next, can you give us some milestones that investors can look at your go-forward plan to see if you're making them in a timely manner? And what would you suggest that we look for?

Matthew Fisch
CEO & Director

Great. I'd break it down into 3 categories. One is the technical side. The other is the financial, and the third is the customer pipeline. So as we mentioned earlier, this design validation activity, which we're putting upfront in our process, can the LiDAR system live in an automobile for 10 years or more under very harsh conditions? This is a technical milestone. We're running this process with Conti throughout a good chunk of the year. We'll come back and talk about our progress as we go on that activity.

And then there's the burn rate, which Conor alluded to. Are we managing our business in such a way that we have enough runway and burn rate to continue to support our partner and the OEMs? And then there is the customer pipeline. Now we use the term, RFI, RFQ, quoting and awards. You've heard probably many of those terms. There's a sequence to this, right?

And the first step is assessing every supplier's product and then determining a set of finalists for who would -- will get to buy in auctioning or quoting the price for the product, and then there's the awarding of the series production contract itself. So I just roughly described 3 phases of pipeline as we go through this process, and this is something that we can speak to as we go forward about which phase that we're in and how we're doing according to those phases with the various OEM activities in which we're engaged.

Operator

[Operator Instructions] Our next question comes from Kevin Garrigan of WestPark Capital.

Kevin Garrigan
WestPark Capital, Inc., Research Division

So at the beginning of the year, some LiDAR companies were expecting automotive OEM award decisions kind of in the first 3 to 6 months. Now it seems like there might be a little bit of a delay in OEM decisions. I know you guys have partnered with Continental, but just wondering on -- your thoughts on if the macroeconomic environment is causing any potential pushouts with OEM decisions and kind of causing them to shift their focus? Or any color you guys are -- you guys think?

Matthew Fisch
CEO & Director

Yes. Thanks, Kevin. Good to hear your voice again. Look, I think you rightfully pointed out that the decision of when to source is ultimately up to the OEM. And so then it leads to, okay, what environment our OEM is facing. So I can answer that basically on 2 indicators that we have visibility into.

First and foremost is that quoting pipeline that I mentioned, and what are the dates? What are the decision dates, one of the conclusion of testing and early product evaluation, we're seeing those hold relatively stable to what has been announced by the OEM so far. This has not changed. We haven't seen any major slips in the RFQ dates that are out there.

I think the second piece is what's going on. I did mention earlier what's going on in the industry, and we believe that ADAS itself is one of the more, if not most, tangible ways for OEMs to drive software revenue and service revenue. And I think we heard Jim Farley in the last week speak to this. I think he got a similar question.

And Jim's response to that, I'm not going to quote it, but he did reiterate the importance of ADAS. I think Ford also made a recent announcement in the U.K. about a service for autonomous-type features and safety features. So given that ADAS is an important part of the OEMs promise to deliver a certain percentage or a large number of Software as a Service revenue, we're feeling very positive about what's happening in the market right now.

Kevin Garrigan
WestPark Capital, Inc., Research Division

Okay. Got it. Got it. That makes sense. Then just as a quick follow-up. Can you kind of give us an update on if you're gaining any more traction in the trucking market? Are you seeing any more engagements there?

Matthew Fisch
CEO & Director

So what I can say on that is when we talk about the 6 RFQ and quoting activities we're involved in, that certainly covers both the automotive and the trucking space. And again, we're continuing to see strong traction there as well as strong traction by Continental, our partner in that space.

Operator

There seems to be no further questions. This brings us to the end of our Q&A session. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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