

Aeye, Inc. (Q2 2023 Earnings)
August 7, 2023

Corporate Speakers

- Matt Fisch; AEye Inc.; Chief Executive Officer
- Conor Tierney; AEye Inc.; Chief Financial Officer

Participants

- John Roy; Water Tower Research; Analyst
- Kevin Garrigan; WestPark Capital; Analyst

PRESENTATION

Operator^ Good afternoon and thank you for joining AEye Second Quarter 2023 Earnings Call. With me today are Matt Fisch, Chief Executive Officer -- Tierney, Chief Financial Officer.

Earlier today, we announced our financial results for the second quarter 2023. A copy of our press release can be found on our website @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 most recent Periodic Report. All information discussed today is as of August 7, 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 are 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.

Matt Fisch^ Thanks, [Jen]. And thank you all for joining us, especially those of you who are new investors based on a recent trading volume and stock price activity.

On today's call, I'll provide an update on our progress and executing against the plans we laid out in our first quarter earnings call and the continued demand for lidar we are seeing in the automotive space. Then I'll spend a few minutes talking about how our technology that delivers safety at speed and our capital light licensing model positioned AEye to win in the [ADAS] market. This allows us to quickly scale across automotive and other industries.

Let me start by reviewing the important progress we have made in automotive design validation. I'm excited to tell you that we recently achieved major in vehicle test milestones with both Nvidia who is a major ADAS player in to tier one global automotive OEMs. We received tremendously positive feedback from all three about the performance of our HRL 131 Long Range technology in both urban and high speed highway scenarios. We are especially gratified that after road testing our technology, in video commented that AIs technology is best in industry based on a crucial set of their KPIs.

Safety and speed is a critical advantage in the lidar space that enables safe hands free highway driving. In addition, supply chain readiness and cost have been barriers to widespread adoption of lidar. As expected, automotive OEMs are focused on all of these factors. Over the course of our long standing partnership with continental, AEye has made substantial progress in addressing these critical issues.

In this past quarter, due to our cost reduction initiatives and our intensely focused work with Continental's team, we have made a significant breakthrough in lowering the BOM or bill of material costs. This ensures that we now have a production ready supply chain in ADAS product at a price point well below \$1,000 even at modest volumes. This attractive price point along with the rigor of the supply chain, we have established with Continental our distinct competitive advantages that give AEye a clear path to manufacturing at scale. We are highlighting this important benefit in all of our RFQ responses to automotive OEMs.

We have a huge opportunity ahead of us. The automotive lidar market is expected to grow at a compound annual growth rate of 55% over the next five years to reach 4.7 billion in 2028. As mentioned last quarter, we're in the process of responding to six RFQs through Continental. I'm pleased to report that since then, AEye has been named as a finalist for two of the six RFQs, and we expect those award decisions by the end of the year. Furthermore, we expect to bid on additional RFQs later this year.

RFQs typically range in size from 250 million to more than \$1 billion. So, each RFQ is an important opportunity for AEye. And taken together, our pipeline of RFQs represents a sizable revenue opportunity. To be clear, these are serious production awards, not development projects. As revenue begins to ramp for us, we also expect to benefit from a capital light and royalty based business model that delivers high margins.

In the second quarter AEye launched 4Sight +, a solution that enables vehicles to detect pedestrians, small objects in vehicles at distance at speeds of up to 80 miles per hour. This functionality is key to OEM's successfully delivering safe hands free highway driving. 4Sight + has received tremendous positive feedback from OEMs in the ADAS ecosystem, and is currently being incorporated into Continental's HRL 131 Long Range LIDAR product.

Beyond automotive, we continue to gain traction in other markets, including Intelligent Transportation Systems or ITS. For those of you who might not be familiar, ITS is critical to urban planning and enable smarter and more connected transportation systems. ITS has many applications, including in smart intersections, highway automated tolling, traffic management, and highway incident detection to improve both safety and performance.

In the ITS category, we have been working with our systems integration partner [Intetra] on a lidar tolling system in Turkey that is nearly complete. We recently expanded our engagement within Intetra to deliver lidar based tolling solutions for a major international highway in Kazakhstan. Based on our success, we expect to expand into new markets within Intetra including southern Europe and APAC.

In partnership with another systems integrator in the U.S., AEye's lidar has already been successfully deployed on a 22 mile stretch of interstate highway to improve highway monitoring and automated incident detection.

Before we close, I'd like to touch on our capital light business model, which is based on licensing and royalties. The beauty of our licensing model is that allows us to rinse and repeat across automotive suppliers, and then quickly move into other markets by leveraging the foundation we have in place. Looking ahead, as we scale, we expect to benefit from the leverage in our business model that is unmatched in the marketplace. With that, I'll turn the call over to Conor to discuss our financial performance.

Conor Tierney^ Thanks, Matt. Welcome, everyone.

I'll begin with some comments on the expense management initiatives we announced in March, and then I'll provide an update on our financial performance and our outlook. I'm pleased with the progress we've made in streamlining our cost structure. Our cash burn decreased by \$4.7 million from last quarter due to a combination of workforce reductions, office closures, vendor savings, and other efficiencies. We expect our burn rate to continue to decline next quarter as we realize further savings from these initiatives. We are also on track to achieve our goal of reducing last year's cash burn rate by 50% by the beginning of 2024.

As a result of the steps we took to reduce expenses, our cost structure is now more closely aligned with our near term revenue opportunities and our capital light business model. Importantly, we have a plan to extend our cash runway to the end of 2024. Today, our balance sheet remains healthy, and we have the financial resources we need to execute on our key objectives.

Now turning to our second quarter financial results. Second quarter revenues were \$571,000 which came in at the mid-range of guidance but decreased slightly from the prior quarter. During the quarter, we shipped more units of our core foresight lidar product compared to the prior quarter. Higher revenues from product sales were partially offset by lower automotive development contract revenues. Second quarter GAAP operating expenses were \$14.8 million down 39% from the prior quarter due primarily to our cost reduction initiatives. Non-GAAP operating expenses were \$10.7 million in the second quarter, down from \$16.5 million last quarter.

We reported a second quarter GAAP net loss of \$16 million or a loss of nine cents per share versus a GAAP net loss of \$26.3 million or a loss of 16 cents per share reported last quarter. On a non-GAAP basis, our net loss was \$11.7 million or a loss of seven cents per share in the second quarter compared to a non GAAP net loss of \$17.7 million or 11 cents per share in the prior quarter. Overall expense reductions for the second quarter exceeded our expectations and were an important driver of the improvement in our GAAP and non-GAAP net loss for the quarter.

We continue to manage our cash carefully. Net cash used and operating activities for the second quarter was \$13.1 million. CapEx in the second quarter was modest at \$209,000. We close the second quarter with a healthy balance sheet, including \$58.7 million of cash, cash equivalents and marketable securities. You may recall we had a convertible note on our balance sheet that was issued in September 2022. In July 2023, we paid the remaining balance on the note, the note is now paid in full. As an additional source of liquidity, we continue to have access to our equity line of credit facility.

Now turning to our guidance for the third quarter of 2023. We expect third quarter revenue to be in the range of \$500,000 to \$700,000. Looking to the fourth quarter, we anticipate increased demand for our industrial products and expect revenue to increase sequentially. We expect our third quarter GAAP EPS loss to be nine cents and our non-GAAP EPS loss to decrease to six cents as we continue to drive savings through our capital light licensing model with Continental. All told, I'm delighted about the progress we have made on key milestones related to product validation manufacturability and advancement to the quoting phase with multiple OEMs. This coupled with our healthy balance sheet puts us in a great position to execute on our 2023 strategic plan. We will continue to take a disciplined approach to managing our expenses as we navigate the path forward from design validation to high volume production.

With that, I'll pass it back to Matt to wrap things up.

Matt Fisch^ I'd like to close by recapping the highlights of our second quarter progress. First, we received important technology validation from three prestigious industry players, including Nvidia, as well as two tier one global automotive OEMs. Second, we made a significant breakthrough in lowering BOM costs, ensuring we have a production ready supply chain with Continental and can now deliver an ADAS product at a price point well below \$1,000. We have a strong pipeline of six RFQs. We have been named finalist for two of these and expect award decisions by year end.

Based on our ongoing conversations with OEMs, we expect to have the opportunity to bid on a meaningful number of additional RFQs going forward. Finally, thanks to our capital light licensing model and careful expense management we accomplished all of this while significantly reducing our cash burn rate. We look forward to building on a recent momentum for the remainder of 2023. Thanks to the consistent execution and hard work of our talented team and our partnership with Continental, commercialization in the automotive market is in our line of sight. The opportunity I saw when I joined AEye five months ago is unfolding.

And our entire team is engaged and excited about our future. With that, I'll turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator^ Our first question comes from John Roy at Water Tower Research. Please go ahead.

John Roy^ Thank you. So, Matt, can you give us a little more color on the demand environment for lidar and for your product specifically?

Matt Fisch^ Hey, thanks, John. And welcome back again. It's great to have you this quarter.

Look, it's a two major things that we're looking at here and that any lidar provider would be looking at. Number one, does your product perform? The second piece is, can you deliver? Meaning is your supply chain robust enough and is it hitting the cost targets that are needed to be competitive in the market?

I want to jump into both of these points. I've actually spent my last couple of months out on the road, talking to OEMs directly. And on these two points, here's what I see and here's what we're hearing. Number one on the performance side, what really matters at the end of the day is whether or not the lidar device can identify and see hazardous conditions on the road. And this is where we're getting some incredibly strong feedback.

And what I want to be specific about is, can you see it as object when you're driving at night, when you're driving at high speed, and every OEM has their own set of torture tests in this regard. Let me give you some examples, it could be a tire on the road, it could be the lane reflectors on the road, which are known to shine back into laser in causing

challenges there, pedestrians in a shadow at night or cars painted in these very dark black colors, every one of these OEMs have has their own unique torture tests. We're doing incredibly well in this regard, on these performance benchmarks, we'll call them. And this is where the feedback came from, that I mentioned earlier in the earnings call.

So, product performance, we're hearing that we're performing incredibly well. And best in industry on some of these pathological benchmarks, if you will, putting us into the final slot on these RFQs. The second piece is can you deliver on your supply chain. And this is where we have an unbelievable advantage working with Continental. So I'm now in the room with the heads of continental purchasing and category buying and you're completely mobilizing into high gear.

And you can see as you're sitting with the OEM in Continental purchasing in the room, that there's a lot of security and safety and peace of mind coming from the OEMs. They're making comments like, wow, Continental, we have competence in you, because you're supplying our other ADAS components, this is a big advantage for us. This is what I'm hearing in the rooms with OEMs and Continental as well. Great question.

John Roy^ Great. And one kind of follow up to that, in talking about the six RFQs opportunities that you and Conti have been looking at, you know, two of them, you're the finalist. So, how many other players? Did you beat out for those two? And what do you think about the other four?

Matt Fisch^ Yeah. So what they the OEMs don't necessarily share the information of who's who in the room, but what they do tell us is that we're in a finalist position because of the two advantages that I mentioned earlier. And so when I say finalists, just to be very, very clear, this means that the actual RFQ, the tender has gone out, and we've had to respond to it in an official capacity. That's what I mean by finalist in the RFQ.

As far as the other four go, we expect more of those four to enter that finalist mode this year. So, we'd be happy to provide an update on that in the next call and as the news comes in, but that's -- your definition of a finalist is we've actually had a quote and send an official response to Continental. And we expect -- those are the two that have happened so far and we expect at least one more, shall we say, between now and the end of the year to enter that phase?

John Roy^ Great, Matt. Thanks so much.

Operator^ One moment for our next question.

Our next question comes from Kevin Garrigan at WestPark Capital, please go ahead.

Kevin Garrigan^ Yeah, hey, good afternoon guys, and congratulations on the milestones. You know, the landscape of automotive, automotive OEMs out there, are there any OEMs that you're not engaged with? And you know, what are some of the reasons for that? And what are the ways you can kind of lever your way into them?

Matt Fisch^ Yeah. So, look, Kevin -- thanks, Kevin. So first of all, it's great to have you back, again, this quarter. Continental has an incredibly broad footprint internationally. And I would say that there's not -- anything necessarily out of bounds.

And so we do have access to the full portfolio of OEMs, at least the major global OEMs. And they also have reached into Asia and China, as well. So, I think the best way I can sum it up is we're incredibly busy quoting activities right now. And again, as I mentioned earlier, these are series production awards, high volume type tenders that are out there in the market. So we're incredibly busy. And there's certainly more on the [horizon].

Kevin Garrigan^ Okay, got it. Got it. That makes sense.

(Inaudible - audience question).

Matt Fisch^ Hey, Kevin, it looks like we're having a little bit of technical difficulty here. Maybe to repeat the question and mine just got very choppy.

Kevin Garrigan^ Can you hear me now?

Matt Fisch^ Perfect.

Kevin Garrigan^ Okay. Yeah, I'm sorry about that. The -- had announced the end of June, does that expand your revenue opportunity at all?

Conor Tierney^ Kevin, would you mind repeating that? It's hard to hear the first part of the question.

Kevin Garrigan^ Let me try one more time.

Matt Fisch^ Yeah.

Kevin Garrigan^ Okay. So the before site platform that you guys had announced, does that expand your revenue opportunity at all?

Matt Fisch^ Okay, it came through now. We got it. Yeah, regarding the 4Sight +, this -- as I mentioned earlier, there's some really tricky things that OEMs are now coming back and asking for these pathological cases, particularly driving at highway speeds, the 80 plus mile per hour range. And this was the intent of the 4Sight product is to further extend the sensor's ability in high speed high speed driving situations, as well as some tricky urban conditions as well.

So as the market is learning more about what are the hazardous conditions that need to be avoided, reacted to, areas where camera and radar, for example, aren't doing a great job, 4Sight + was in response to the evolving market needs and the feedback that we've been getting over the last year or so. So absolutely, yes, is the answer.

Kevin Garrigan^ Okay, perfect. That's it for me. Thanks guys and congrats again.

Conor Tierney^ Thanks, Kevin.

Matt Fisch^ Thanks, Kevin.

Operator^ I am showing no further questions at this time. I would now like to turn the conference back to CEO Matt Fisch for closing remarks.

Matt Fisch^ Thank you for joining our call today. We look forward to dating you on our progress in the coming months. We also spoke to see some of you at the J.P. Morgan automotive conference in New York on August 10. And the Jefferies Semiconductor, IT Hardware and Communications Technology Summit in Chicago on August 29. Please reach out if you want to schedule some time to meet with us while we're in New York or Chicago.

Thanks everyone and have a great day.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.