

**AEye, Inc. (Q3 2023 Earnings)**  
**November 9, 2023**

Corporate Speakers

- Jennifer Deitsch; AEye, Inc.; Communications Director
- Matt Fisch; AEye, Inc.; Chief Executive Officer
- Conor Tierney; AEye, Inc.; Chief Financial Officer

Participants

- John Roy; Water Tower Research; Managing Director
- Kevin Garrigan; West Park Capital; Analyst

**PRESENTATION**

Operator^ Good day. And thank you for standing by. Welcome to the AEye Third Quarter 2023 Financial Results Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to AEye's Communications Director, Jen Deitsch. Please go ahead.

Jennifer Deitsch^ Good afternoon and thank you for joining AEye's third 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 third quarter 2023. A copy of our press release can be found on our website at [investors.aeye.ai](https://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 November 9th, 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.

Matt Fisch^ Thanks Jen. And thank you all for joining us. On today's call, I will provide an update on the trends we are seeing in the lidar marketplace, our progress with respect to quoting activities, and share some news on our 4Sight Intelligence Sensing Platform, which is receiving strong industry recognition.

Since we rolled out a revised strategy in May, we have been relentlessly focused on ensuring we enter the automotive market with a differentiated and superior product that integrates seamlessly into OEM solutions and carries a price point that establishes AEye as a major ADAS player.

Based on our ongoing work and conversations with Continental, OEMs, and other partners, we remain confident that AEye has the right technology and the right model to successfully compete and win our fair share of business in the lidar space.

Our technology, which has been endorsed by major players, including Continental and NVIDIA, stands out for its ability to deliver safety with long-range detection at highway speeds.

We are working closely with Continental and our subsystem vendors to continue driving down costs well below the \$1,000 mark to ensure that our products are the most competitive in the market.

Our longstanding partnership with Continental remains highly productive, and we are in the binding quote phase with our lead OEM target, with a decision still expected by the end of this year.

We are still in the running for the additional five RFQs that we have previously discussed, although some of the decision timelines for those opportunities have been pushed out into 2024.

With RFQs typically ranging in size from \$250 million to more than a billion dollars, an award decision is a game-changing opportunity for AEye.

While it is no secret that the lidar landscape is highly competitive, AEye believes the market is shifting from a battle for the best technology to a battle for the best path to commercialization.

We are seeing that OEMs are now being more cautious about the pace of their capital spend and adding advanced technologies like lidar to the mix right now. Although, we're getting a clear signal from OEMs that lidar adoption will happen, and it is moving forward, just at a slower pace than expected.

Given the drive toward commercialization and the slight delays we are seeing with OEM quoting timelines, we made the decision to optimize our operations and cost structure around the Automotive First strategy that was announced in May. We have implemented steps to further drive down costs by reducing headcount and cash burn, helping to extend our runway out to 2025.

Connor will provide additional details on our go-forward expense structure shortly. On the product front, we continue to be recognized for our innovative next-generation products.

I'm happy to report that last month, our 4Sight platform received Reuters' prestigious Automotive Drive Honours Award for Excellence, with the judges calling 4Sight high-performing, flexible, scalable, and a critical enabling technology for the next generation of vehicles.

We beat out several of our lidar peers in being recognized as an automotive innovator that is accelerating advanced safety features and software revenue opportunities for OEMs.

We are also pleased to announce that today we have released a new 4Sight automotive reference design, 4Sight Flex. This compact, low-power design provides high-performance lidar in a small form factor, giving OEMs the ultimate flexibility in bringing safety solutions to market.

At half the height and one-third the power consumption of our first-generation 4Sight design, this product offers easy integration into the windshield, roof, or grille. We anticipate AEye's 4Sight Flex will deliver the lowest in-cabin lidar cost at volume in the industry.

Over the past several weeks, we have been actively engaged in an OEM customer roadshow, demonstrating the industry-leading performance enhancements of our 4Sight architecture.

Customer feedback has been incredibly positive, underscoring that AEye's technology is highly competitive. OEMs specifically note that our relationship with Continental is a key advantage, while also being impressed by our software-defined capabilities and reliability potential, thanks to our superior semiconductor IP.

With that, I'll hand it off to Connor for a summary of our financial performance.

Conor Tierney^ Thanks Matt. Welcome everyone. As Matt discussed earlier, AEye has incredible and innovative technology solutions for its automotive customers. Our products are close to production-ready, and so are the OEMs and partners we serve.

Going forward, we intend to focus the majority of our resources on commercializing our technology in the automotive market, while appropriately dialing back our research and development and non-automotive market investments.

In connection with this plan, we have realigned our operational and financial resources. I'll cover all the details in a couple of minutes, but the actions we are taking will significantly reduce our operating expenses, extending our runway out to 2025.

Now turning to our third quarter financial results. I'm happy to report that during the quarter, we achieved our goal of reducing our cash burn by 50% since the beginning of the year, one quarter earlier than anticipated. We also reduced our net cash burn by \$2.7 million from the prior quarter.

Third quarter revenues were \$188,000 as compared to \$571,000 in the prior quarter. This was mainly attributable to the timeline for certain industrial customer opportunities being pushed out, and the team focusing their efforts on key automotive milestones.

Third quarter GAAP operating expenses were \$12.9 million, down 13% from the prior quarter, due primarily to our continued cost reduction initiatives. Non-GAAP operating expenses were \$8.5 million, down sequentially from \$10.7 million last quarter.

We reported a third quarter GAAP net loss of \$17 million, or \$0.09 per share, versus a GAAP net loss of \$16 million, or \$0.09 per share, last quarter. The increase in GAAP net loss was mainly due to inventory write-downs outside of our ordinary operations associated with the transition to certain higher-grade automotive components as part of commercialization, which were partially offset by operating expense reductions.

On a non-GAAP basis, our net loss was \$9.5 million, or \$0.05 per share, in the third quarter, compared to a non-GAAP net loss of \$11.7 million, or \$0.07 per share in the prior quarter.

The expense reductions we made in the third quarter were the main reason we were able to meet our GAAP EPS loss guidance and beat our non-GAAP EPS loss guidance we provided last quarter by \$0.01.

We continue to manage our cash carefully, and net cash used for operating activities decreased to \$11.2 million in the third quarter from \$13.1 million in the second quarter. We closed the third quarter with \$45.9 million of cash, cash equivalents and marketable securities, and no debt.

As an additional source of liquidity, we have access to our equity line of credit facility.

During the quarter, we also filed a Shelf Registration Statement that allows us to raise up to \$200 million over the next three years. Since we have a healthy balance sheet and have continued to reduce our operating expenses and cash burn, we have no immediate plans to raise additional capital.

With that said, given our pipeline of RFQs, we wanted to have the flexibility to raise capital in the future to support the seamless execution of contract wins. Now turning to our guidance for the fourth quarter of 2023. As part of our shift from research and development to commercialization, we plan to leverage Continental's automotive supply chains to scale our business.

The beauty of our capital-like business model is that it enables us to rely on our partners to assemble, promote, and distribute our products, so we don't need to invest in manufacturing, sales and marketing, and other operating expenses.

Additionally, our model is based on licensing and royalties and allows us to rinse and repeat across automotive and then move into other markets by leveraging the foundation we have in place.

To that point, we are discontinuing our existing industrial product line and will be dialing back support for this end market until we have sufficient scale in automotive, which is our largest and highest priority market.

As a result, we expect to record a one-time non-cash charge in the range of \$4.5 million to \$6.5 million, principally related to the write-down of inventory and asset impairment charges.

We also expect to incur a cash charge in the range of \$2 million to \$2.5 million, related to the reduction in force we recently announced. We expect these measures will result in annualized savings in the range of \$7 million to \$8 million.

Now turning to revenues, we anticipate fourth quarter revenues will be less than \$100,000, primarily due to our focus on automotive. We expect fourth quarter GAAP EPS loss to be \$0.10, reflecting inventory write-downs, asset impairment charges and

one-time termination benefits related to the restructuring, and non-GAAP EPS loss to decrease to \$0.04 due to the reduction of our workforce.

We made some important decisions this quarter to align our operations with evolving business needs and to reduce fixed operating costs to extend our cash runway into 2025. We are bullish about the future and believe implementing the next phase of our Automotive First Plan will position AEye to optimize this significant opportunity we see with our OEM partners.

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

Matt Fisch^ Thank you, Connor. As I said earlier, we believe the lidar industry is at an inflection point as we transition from a battle for the best technology to a battle for the best path to commercialization.

We believe with the important steps we have taken, AEye continues to be well-positioned to navigate this transition and to play a significant role in improving automotive safety over the long term for several reasons.

First, our RFQ pipeline continues to be healthy. Second, our partnership with Continental is stronger than ever, and thanks to their partnership with the supply chain, we have and continue to make strides with significant cost down of our lidar product. We are in the binding quoting phase with our lead OEM.

Third, our unique capital-light licensing-based business model positions us for meaningful operating leverage as we ramp up sales and scale our business going forward. In the near term, it allows us to leverage our partners' manufacturing, supply chain, OEM relationships, and sales teams to cost-effectively bring our technology to market.

Finally, our capital-light model has enabled us to further right-size our expense structure to extend our runway to 2025 without raising additional capital. In closing, I want to thank our team at AEye for your hard work and dedication to executing our strategy every day, Continental for your collaborative partnership, and our shareholders for your support and interest.

With that, I will turn the call back to the operator for questions.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from John Roy with Water Tower Research. Please go ahead.

John Roy^ Hi, Matt and Connor. So this shift from R&D to commercial, can you guys provide any more detail about what's happening there and how that's really going to affect, given your automotive-first focus is really now where you're at?

Matt Fisch^ Yes, absolutely. First of all, welcome back, John, great to have you. So when we talk about R&D, what we're talking about is the development of the foundation of our products. That's done. We're complete with that, and we feel that we're a strong contender in meeting the various requirements that are out there in the automotive industry. So what's next? That is the series production award in the automotive space. And as we talked about in some of the earlier earnings calls, there's two things we need to get done here.

One is tie out from the customer through Continental to our sub-suppliers that we have high confidence, low risk ability to manufacture at scale with a reliable set of products. That's table stakes for the automotive business. And then the second part of this is vehicle integration. Each OEM and each vehicle line has different needs, likely road testing. We have to do software updates and product improvements as part of that process. This is what we talk about when we say commercialization, and this is a very heavily engineering and operations driven activity.

So going forward, you can look at it as 80% of the company being focused on engineering and operations activity. Think about the next six, 12, 18 months as we drive to market. The other 20% is working on new features, enhancements, and whatnot to go to the next generation of our products. And this is where 4Sight Flex was born. So this shift, if you will, was from developing the foundation of the product to now engineering and operations, very heavy focus in bringing that product to market.

John Roy^ Great. So kind of maybe as a follow on, you were talking about how things are going well with Conti and RFQs. Can you give us any more color on that, any more detail? I'm not asking to name names, but any kind of color would be helpful?

Matt Fisch^ Absolutely. To sum it up, I believe our relationship with Continental is stronger than ever. So we talked earlier in the script about what is a binding quote. This is a very serious step in the automotive nomination process. It's actually the phase where the tier one supplier, Continental in this case, has to vet your supply chain top to bottom and make a very serious type of contract called a binding contract with the OEM. And this is the first time in AEye's history that we've reached this level of maturity in automotive quoting activity.

So, tremendous progress driven by the team and our partners at Continental over the summer here since we've last spoken about it. So, binding quote, that's key part number one. The second is we talked about six RFQs. We're still in the running for all of those. We haven't lost any of those potential nominations, but as I mentioned earlier, some of those have shifted out a little bit. As part of my own personal activity over the summer, I've been out in Europe and also with Big Three [ph] in Detroit talking to ADAS leaders in the OEM space.

Every one of them has a lidar program. And just a question of timing, some are in 26, some are lining up in 27, varying times of when those nominations are going to be given.

And this is why I said earlier, we're seeing firsthand evidence that every major OEM we've spoken with has lidar on the roadmap. That's good news.

John Roy^ Great. Thanks so much, Matt.

Matt Fisch^ Thank you, sir. Good to hear from you.

Operator^ Thank you. One moment for our next question. Our next question comes from Kevin Garrigan with West Park Capital. Please go ahead.

Kevin Garrigan^ Yes. Hi. Good afternoon, Matt and Connor, and thanks for taking my question. I was wondering if you can give us a little more color on the timeline for the 4Sight Flex. I think you noted in the press release it's going to be available in 2024. So, just wondering on the timeline for shipment of samples and any other color you can kind of give?

Matt Fisch^ Great. We get cut right to the chase on that. And good to hear from you, Kevin. A samples next year.

Kevin Garrigan^ Okay, perfect. Can you give us any details on the manufacturing of the 4Sight Flex? Are you going to be using a Tier one partner such as Continental?

Matt Fisch^ We plan to continue to use that model, Kevin. And look, I think one of the things that's incredibly important to continue to scale in the automotive industry is to leverage existing supply chains. This is a really important point for us and our potential customers and our Tier one partner. It keeps the risk manageable and also allows us to leverage economy of scale through volumes. So very much think about reuse, high degree of reuse, but we've got some engineering improvements and whatnot going into this next generation of the product.

Kevin Garrigan^ Yep, got it. Okay. Yes. That makes a ton of sense. And then just lastly, are you guys seeing a lot of OEMs looking to integrate lidar systems behind the windshield instead of putting it on the grille or the roofline? And any specific reasons for that? I mean, is it just cheaper because you don't have to redesign the car?

Matt Fisch^ Yes, look, I think - I can tell you a bit of anecdotal data from my own trips and meetings with OEMs over the summer. Look, it's kind of a mixed bag, and this is actually one of the reasons why we announced the 4Sight Flex here today, because we are seeing the need. Different OEMs, different vehicle lines make different design choices. Some are okay with the bump on the roof. Others want to tuck it behind the grill, and you can do that, say, with cars that are higher up off the ground.

And there are a number of technical advantages to have something behind the windshield. It's easier to manage thermally in a number of ways, but it really depends. This is one of the beauties of the automotive industry. There's so much variety, and this is what drove



us to build a product that's a lot more flexible and being able to integrate into windshield and other places as well.

Kevin Garrigan^ Okay, perfect. That's all from me. Thanks guys and congrats on the progress.

Conor Tierney^ Thanks.

Operator^ Thank you. I'm showing no further questions at this time. I'd now like to turn it back to Matt Fisch for closing remarks.

Matt Fisch^ Thank you for joining us today, and we look forward to updating you in the coming months. And please do not to hesitate to reach out to us with any questions. Take care.

Operator^ Thank you for your participation in today's conference. This concludes the program.

You may now disconnect.