

INSTITUTIONAL RESEARCH

Emerging Growth

INITIATION REPORT

Vuzix Corporation (NASDAQ: VUZI)

Buy: Initiate with Buy Recommendation and \$15 Price Target.

Vuzix is in the strongest product and financial position in its history. This has occurred when COVID has brought about changes in the economy that we believe benefit the demand for smart glasses and waveguides. Recent transactions highlight the value for both smart glasses and waveguide technology. We initiate coverage of Vuzix Corporation with a Buy recommendation and \$15 price target.

We believe Vuzix has the broadest product and service portfolio in its history addressing multiple market niches at multiple price points. Demand is strong as the years of development, pilots, and tests have been catalyzed by the disruptions wrought by the reaction to COVID. The need for remote monitoring, training, instruction, repair and other tasks, plus the need to improve productivity, has resulted in numerous customers adopting the technology and numerous new customers bringing forward their testing and deployment plans.

Remote training and support has been a key market for smart glasses, but traction prior to COVID was slower than expected. Vuzix has invested significant time and resources to improve the technology, expand distribution and service infrastructure and grow the ROI for customers. COVID was a crash course for businesses in the efficacy of remote training and support with smart glasses and we expect this, along with the improvements made by Vuzix, will result in a permanent shift in the need for this product resulting in an acceleration in the company's revenue.

The company has been working with the logistics and distribution market for many years, engaging in testing, pilots, product enhancements and the initial stages of deployments. With the change in US distribution, caused by the COVID 19 pandemic, improving logistics, vision picking and reliability of order fulfillment has become paramount. The company expects deployments to this market segment to accelerate in 2022.

The healthcare market has been a key source of revenue since the pandemic changed the nature of health care delivery. We expect this market to remain strong for the company as we believe the changes in health care delivery are not going back to the old methods any time soon.

Currently, the company has almost \$130 million in cash, more than enough to get it to cash flow break-even, in our view, and more importantly an asset for accelerating product development, market access and strategic acquisitions.

Price Target Methodology

Our \$15 price target values the company's smart glasses and waveguide businesses at a significant discount to recent market transactions in the smart glasses space of \$775M to \$2B and \$500M to \$542M in the waveguide market. (see page 7)

Risk Analysis

Risks to achieving our price target include continuing negative impacts of the COVID-19 pandemic on the overall economy, changes to business practices in the medium and long-term due to the COVID-19 pandemic, potential competition from Apple and Facebook, increased competition from Google and RealWear, ability to deliver new products on time and manufacturing costs as sales ramp.

December 21, 2021

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| | | | |
|---|-------------|--------------|-------------|
| Current Price | \$8.69 | | |
| Price Target | \$15.00 | | |
| Estimates | F2020A | F2021E | F2022E |
| Revenues (\$000s) | \$ 11,581 | \$ 13,869 E | \$ 24,325 |
| 1Q March | \$ 1,532 | \$ 3,915 A | \$ 4,019 |
| 2Q June | \$ 3,037 | \$ 2,917 A | \$ 5,019 |
| 3Q September | \$ 2,779 | \$ 3,019 A | \$ 6,644 |
| 4Q December | \$ 4,234 | \$ 4,019 E | \$ 8,644 |
| | F2020A | F2021E | F2022E |
| EBITDA (\$000s) | \$ (13,680) | \$ (19,675)E | \$ (19,215) |
| 1Q March | \$ (4,384) | \$ (3,890)A | \$ (5,641) |
| 2Q June | \$ (2,871) | \$ (4,602)A | \$ (5,241) |
| 3Q September | \$ (2,991) | \$ (5,708)A | \$ (4,566) |
| 4Q December | \$ (3,435) | \$ (5,474)E | \$ (3,766) |
| EV/Sales | NM | 30.7 x | 17.5 x |
| EV/EBITDA | NM | (21.6) x | (22.1) x |
| Stock Data | | | |
| 52-Week Range | \$7.65 | - | \$32.43 |
| Shares Outstanding (mil.) | | | 63.6 |
| Market Capitalization (mil.) | | | \$553 |
| Enterprise Value (mil.) | | | \$425 |
| Debt to Capital | | | 0% |
| Cash & Equivalents (mil.) | | | \$128.7 |
| Cash/Sh. | | | \$2.02 |
| Average Three Months Trading Volume (K) | | | 1,956 |
| Insider Ownership | | | 7.0% |
| Institutional Ownership | | | 42.8% |
| Short interest (mil.) | | | 21.1% |
| Dividend / Yield | | | \$0.00/0.0% |



Source: FactSet Prices

Overview

Smart glasses are used in enterprise, military, aerospace and consumer applications. In the enterprise, smart glasses are used for field maintenance, assembly-line check lists, viewing repair and assembly manuals, warehouse pick and place, training, simulation and education. Military and aerospace applications include head mounted displays projecting battlefield and/or airspace conditions that make warfighters and pilots more effective. Consumer applications include displaying maps and personal information such as flight information, weather, calendars, social media, emails, texts and videos. To date, applications for the military and aerospace have dominated the market but continued product improvements, cost reductions, and changes in work processes brought about by COVID are creating conditions favorable for accelerated growth in the enterprise and consumer markets. We expect the market will accelerate over the coming years because of greater awareness of the technology, advances in performance, an increased number of use cases, and lower costs. We also believe demand has been catalyzed by the changes brought about by COVID and many of these changes are long-lasting.

Augmented reality (AR) and virtual reality (VR) devices are of keen interest to Big Tech. Google was early in the market with the introduction of Google Glass in 2013. Facebook purchased Oculus Rift, a developer of virtual reality (VR) devices in 2014 for \$2 billion. In March of 2020, Facebook and Plessey announced Plessey would license its AR tech to Facebook and dedicate its entire LED manufacturing production to Facebook for the next several years. This allowed Facebook to lock up a key supplier to the market. In May of 2021, Snap purchased Wave Optics, its waveguide supplier for its AR glasses, for \$542 million. In September 2021 ByteDance, parent of TikTok, purchased VR headset maker Pico Interactive for a [reported](#) \$775 million. Speculation has swirled for years that Apple is developing AR glasses and Apple CEO, Tim Cook, has asserted AR "[will pervade our entire lives.](#)"

Vuzix is in an excellent position to benefit from future growth of the sector. It was an early entrant in the market and its current wearable, or near-eye displays can be delivered in multiple form factors including smart glasses, displays mounted on a helmet (head mounted displays or HMD) or mounted on another piece of equipment to allow a user to view the display. Most systems include cameras and sensors, allow the user to view and interact with data and video from the Internet, social media, entertainment and enterprise data. Also, the user can record, and upload, data received on-site to an organization's database or to a personal cloud-based account and services.

In one version of the product, Vuzix integrates its advanced optics with micro-display technology to deliver high-resolution images and videos to a display sized less than half an inch diagonally, but when viewed close to the eye, images seem similar in size to a computer monitor. The company has also developed see-through optics, or waveguides, built from plastic or glass that allow images to travel between two surfaces each about 1mm thick to an exit point on the lenses where it projects into the eye.

From 2003 to 2012 Vuzix sold a line of video eyewear, mostly for the military market, but in 2012 sold those products to TDG (now Six15 Technologies) for \$8.5 million so it could focus on the enterprise, industrial and consumer markets. In 2018 the asset purchase agreement was amended allowing Vuzix to again work with approved military organizations and enter into contracts or accept funding from certain government agencies. Since the agreement's amendment Vuzix has targeted the large aerospace and defense market and now serves all the important enterprise, commercial and government markets.

We believe the company now has the broadest product and service portfolio in its history and addresses multiple price points and market needs. The Blade is priced around \$800 and uses the company's proprietary waveguide technology. The M400 at \$1800 is a micro-display-based product and the company's volume leader. The M4000 utilizes the company's proprietary waveguide technology and is priced at \$2500. In early 2022 we expect Vuzix to release a next-gen, micro-LED smart glasses. These are dual display, single-layer waveguide, powered by micro-LED projectors, with both monochrome and full-color RGB HD versions under development. This product will be far ahead of competitive releases from Facebook, Snap, Google, ByteDance and Apple, in our view.

Vuzix has been able to establish and widen its technology lead over the years, and it has done this with an under-powered balance sheet. But between May of 2020 and May of 2021 the company raised over \$165 million, putting it in a position to widen its lead over existing and potential competitors, by accelerating product development, purchasing ancillary technologies and building its distribution and partnership networks. We believe the company's market and financial position makes the company a prime acquisition target.

Product Portfolio

The company's current AR smart glasses are monocular display computing systems for enterprise, commercial, and prosumer uses. Vuzix will soon be introducing a next-generation smart glasses, The Shield, which are lightweight, prescription ready binocular glasses using the company's proprietary waveguide technology. Smart glasses connect information from private clouds, the internet and other data and media sources to the display on the glasses and with embedded cameras can send input from the user to the cloud, to the internet, to social media or to enterprise databases. The company and its developer partners have created an ecosystem of applications for maintenance, repair and training, manufacturing, medical and social media uses.



The company's first M Series smart glass, the M100, was introduced in 2013, followed by the M300 in 2017, the M300XL in 2018, the M400 in 2019. All of these units incorporate a micro display that attach to a head-worn mount or directly to glasses. The M4000, the Blade and the upcoming Shield incorporate the company's proprietary waveguide technology with a microLED display engine. Prices range from \$800 to \$2500 per unit.

Vuzix Select Product History: 2013-2022

| | M100 | M300 | M300XL | M400 | M4000 | Blade | Shield |
|--------------------|--------------------|--------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| Introduction | 2013 | Q2 2017 | Q4 2018 | Q3 2019 | 2H 2020 | Q3 2018 | Q1 22 |
| CPU | TI OMAP4460 | Intel Atom | Intel Atom | XR1 | XR1 | ARM | |
| | Out of production | Out of production | Out of production | | | | |
| Field of view | 15 degree diagonal | 20 degree diagonal | 16.7 degree diagonal | 16.8 degree diagonal | 28 degree diagonal | 19 degree diagonal | |
| Display type | Kopin | Kopin | Kopin | Sony | See through waveguide | See through waveguide | See through waveguide |
| Display resolution | 428 x 240 | 640 x | 640 x 360 | 640 x 360 | 845 x 480 | 480 x 480 | |
| ASP at intro | \$1,000 | \$1,100 | \$1,500 | \$1,800 | \$2,500 | \$800 | TBA |

Source: Vuzix Corporation

M400

The M400 was the company's first model to utilize the Qualcomm XR1 processor, which is specifically designed for the AR market. In addition to the full-color OLED display, the glasses incorporate storage, voice navigation, Wi-fi, bluetooth, GPS, a camera, a touchpad to control the display and navigation buttons.





Source: Vuzix Corporation

M4000

The M4000 was introduced in 2020 and utilizes see-through optics from the company's proprietary waveguides, and the Cobra II display engine, a proprietary design that incorporates a micro digital light processing (DLP) unit from Texas Instruments.



Source: Vuzix Corporation

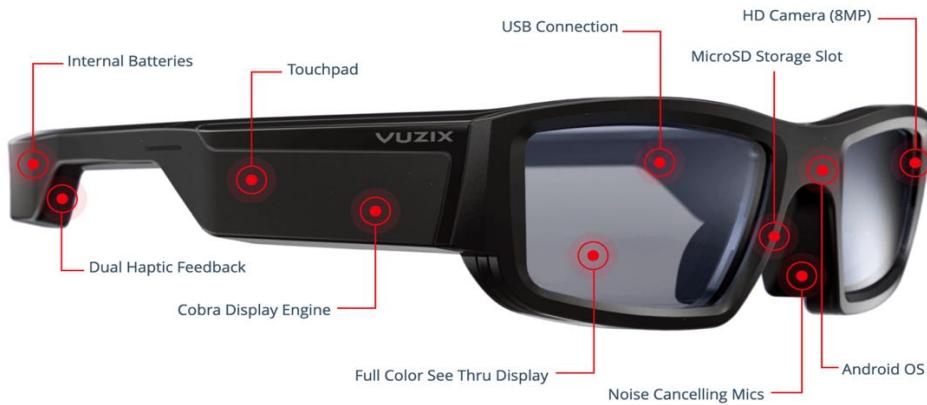
A key element of the M4000 is the see-through optics enabled by the company's proprietary waveguides. Vuzix has invested substantial sums in R&D and in-house waveguide manufacturing capabilities in its Rochester facility, an asset we think has significant value and gives the company control over the products it intends to sell under its own name as well as a potential OEM supplier for vendors looking to compete against Facebook, Google, Snap and possibly Apple.

Vuzix waveguides are transparent, optical elements, and about 1 mm thick for each individual plate. Light travels between two plates, along the interior of the lenses, and at the exit point, is projected into the eye. The 2mm optics are about the size of standard prescription glasses.

In May of 2019 Vuzix and Plessey announced a supply agreement for Plessey's microLED light source that was set to displace TI's DLP. However, Facebook locked up Plessey in an agreement announced in early 2020. In early 2021 Vuzix confirmed it had entered into a joint manufacturing and supply agreement with Shanghai-based Jade Bird Display for microLEDs. We believe Vuzix continues to evaluate other microLED suppliers for existing and future products. The company's ample cash balance gives it the opportunity to lock up supply arrangements if commercial terms can be agreed to.

Blade

The Blade Smart Glasses are a monocular system, with see-through optics, and utilize the company's Cobra II display engine. Blade was introduced at CES 2018 and current applications include text messaging overlaying maps, weather, calendar events, stock quotes, video conferencing, news and sports updates and social media message feeds. The idea is to enable users to use Blade for many functions instead of viewing the information on one's smart phone. In the Fall of 2020 a new enhanced version of the Blade was introduced which incorporated embedded stereo audio and improved auto focus camera and longer-lived battery.



Source: Vuzix Corporation

Shield

In Q1 of 2022 the company expects to introduce the Shield, a next-gen, binocular, waveguide-based AR smart glasses, that will utilize the company's advanced ultra-thin waveguides, microLED full-color displays, and advanced sensors for AR and UI applications. Shield will be supported by the company's development tools, cloud APIs and app store.

The Shield is a CES Innovation Award honoree and will be on display at CES in January of 2022. We expect a formal product introduction in the first half of 2022 and initial sales in the first half as well. Pricing has not been revealed, but we expect it to be at a premium to the \$800 price of the Blade since the Shield has more features including binocular capabilities.



Source: Vuzix Corporation

Engineering Services

Vuzix delivers custom solutions and engineering services to commercial, industrial and defense customers for waveguides and fully integrated wearable display systems, including head mounted displays. Engineering services have generated \$400 thousand to \$1.5 million annually since 2017 and since 2018 the company has completed multiple development contracts, at least one of which is expected to become a production contract in 2022.

Since 2018, with the amendment of the company's asset purchase agreement with Six15 Technologies, Vuzix has worked with multiple aerospace and defense contractors on custom products, one of which is likely to become a production contract in 2022. Other custom work could take a similar turn. Through its increased efforts in engineering services Vuzix has now developed some standard solutions that can be incorporated by customers into their custom solutions and this may shorten the time to revenue for Vuzix.

Competition

In the smart glasses market Vuzix faces competition from Microsoft Corporation, Meta, Sony Corporation, Epson, Atheer, Magic Leap, ODG and Nreal. Today many of these products are fairly bulky and tethered to an external controller. Many are being sold as AR Smart Glasses and are currently targeted at enterprise and academic researchers. The most complete and functional systems today are the Microsoft Hololens II and the Magic Leap One, both of which cost \$2,295 - \$3,500 per unit. In the enterprise, medical and commercial markets, where Vuzix mostly operates, the most relevant existing competitors to the M400 are Google and RealWear.

Google Glass Enterprise Edition 2 was introduced in 2019 and like the M400 and M4000 uses Qualcomm's XR1 processor. Google has struggled in the market, despite its large balance sheet and name recognition. The price for Google Glass is lower than the M400, but it also has a smaller battery, memory, storage and poorer camera compared to the M400.



Source: Vuzix Corporation

RealWear's HMT-1 has gained some traction in the market and the company [claims](#) to have shipped over 56,000 units at an undisclosed price. The company completed an [\\$80 million Series B financing round in July of 2019](#) led by Teradyne, Inc. and included Bose Ventures, Qualcomm Ventures LLC, Kopin Corporation and investors from JPMorgan's (JPM) Private Bank. The HMT-1 is significantly more expensive than the M400 and Google Glass, uses a prior generation Qualcomm processor, has less memory and storage than both Google Glass and the M400, but boasts a higher megapixel camera and bigger battery. In December of 2021 Realwear introduced the Navigator, the follow-on product to the HMT-1, with a \$2500 list price

| | M400 | Google Glass | HMT-1 | Navigator |
|-----------|----------|--------------|----------------|----------------|
| Price | \$1,799 | \$999 | \$2,100 | \$2,500 |
| Processor | XR1 | XR1 | Snapdragon 625 | Snapdragon 662 |
| Memory | 6GB | 3 GB | 2GB | 4GB |
| Storage | 64GB | 32GB | 16GB | 64GB |
| Camera | 12MP | 8MP | 16MP | 48MP |
| Focus | PDAF | Fixed focus | PDAF | PDAF |
| Battery | 1000 mAH | 800 mAH | 3250 mAH | 2600 mAH |

Source: Vuzix Corporation, Google, RealWear

The consumer market is moving in at least a couple of directions, with VR and gaming applications served by Oculus (Facebook), HoloLens and Magic Leap while the AR market is targeted by Facebook, Snap and possibly Apple. Magic Leap introduced its product with a [really cool video of a whale](#). Since then, the company has struggled and in October of 2021 raised \$500 million at a [reported](#) \$2 billion valuation. The Hololens, like the Magic Leap, is large, bulky and expensive. Facebook has been working on next-gen glasses that in concept would compete against Vuzix's next gen offering, but admits this will take many years to develop. Snap, in May 2021 introduced its fourth-gen AR displays but only for demo purposes and also acquired its waveguide supplier, Wave Optics, for over \$500 million, and it too [expects a lengthy time before AR smart glasses are a mainstream consumer device](#). There is frequent speculation of Apple entering the AR market with internally developed smart glasses, but so far the speculation is just that.

Vuzix also faces competition in the waveguide market from Lumus, Wave Optics, Digilens, Optinvent, and some vendors from China that have shown up at trade shows like CES displaying or promising products. Two recent transactions illustrate the interest and value of waveguide technology. Snap acquired Wave Optics, the waveguide supplier for its AR glasses, in May 2021 for over \$500 million. Digilens, which is working on holographic waveguide display technology, raised \$50 million in November at a \$500 million post transaction valuation. Vuzix's waveguide business to date has been dedicated to the M4000, the Blade and the Shield. However, we believe the company could offer its capacity on an OEM basis to others looking to enter the consumer market and/or sell all or some of its capacity to those same entities.

Outlook

The COVID lockdowns have been a catalyst for enterprises to more aggressively explore and evaluate solutions for remote work, including training, maintenance, production, oversight, and verification plus other activities. Travel restrictions as well as government and company-imposed work-from-home mandates have resulted in a sharp increase in demand for Vuzix's smart glasses. For instance, in late 2020 Vuzix announced Clorox had deployed the Vuzix M-400 for quarterly audits required by its

outside auditor and maintenance of manufacturing equipment and the Vuzix smart glasses solution allowed Clorox to meet these requirements.

We expect the economy-wide changes brought about by COVID will be semi-permanent. These changes include greater reliance on remote maintenance and repairs, increased use of telemedicine and increased investment in logistics technology to reduce the time and cost in providing goods to consumers and businesses. All of these changes, we believe, are positive for Vuzix and the smart glasses market. For example, corporate-imposed flying restrictions and worker reluctance to travel has companies looking for alternatives for a variety of tasks including diagnostics and repair. There are numerous Vuzix use cases in the medical markets. Ohana One has partnered with Vuzix to offer virtual surgical training globally. Surgeries using Vuzix smart glasses have been facilitated by technology partners, Pixee Medical and Medacta. The company is optimistic smart glasses use in healthcare, logistics, and remote training and repair will show meaningful growth in 2022.

Sales in 2020 increased 93% over 2019 levels and in the first half of 2021 sales were up almost 50% versus the first half of 2020. However, in Q3 the company experienced the widely-discussed economy-wide supply chain issues and sales grew only 9% versus the year-ago quarter. The company believes supply chain issues caused shipment shortfalls of \$500 thousand or more. Absent supply chain issues Q3 revenue growth would have been an estimated 25% or more.

Our revenue estimate for 2021 is \$13.9 million, a 20% increase over 2020, and negatively impacted by supply chain issues in the second half. For 2022 our revenue estimate is \$24.3 million, a 75% increase, with revenue accelerating in the second half as we assume supply chain issues ease and the company benefits from strong demand in the medial and logistics markets, as well as a high likelihood of production beginning on the custom aerospace/defense product it has been working on for the past two years.

From May of 2020 through May of 2021 Vuzix raised over \$165 million putting it in a much stronger position to compete against other smart glasses providers and waveguide manufacturers and capable of expanding its product and technology position with acquisitions and investments in other companies. For instance, Vuzix is performing due diligence on the “acquisition of a disruptive nano electrooptical technology.” (Source: Vuzix Corp. Investor Presentation, November 8, 2021) This is the first time in the company’s history it has been in such a strong financial position and we believe it makes Vuzix a much more formidable competitor and attractive acquisition candidate.

Valuation

Our price target is based on recent market transactions in the smart glasses and waveguide markets. These are two distinct markets, and Vuzix has important and meaningful positions in both of them.

In the smart glasses market Pico Interactive was acquired by ByteDance (parent of TikTok) in August of 2021 for a [reported](#) \$775 million. In October of 2021, Magic Leap raised \$500 million at a [reported](#) \$2 billion valuation. The average of these two transactions is \$1.4 billion. Financial data for each is not available, but we believe revenue for Magic Leap is minimal.

In the waveguide market DigiLens raised \$50 million in November 2021 at a [\\$500 million valuation](#) and in May of 2021 Snap purchased Wave Optics for cash and stock [totaling \\$541.8 million](#). The average of these transactions is \$521 million. Revenue is not available for either of these companies but we believe are minimal. Snap has [stated](#) revenue from Wave Optics was not material relative to its results.

Combining the average transaction value of \$1.4 billion for smart glasses with the \$521 million average transaction value for waveguides results in a combined target of \$1.9 billion, or \$30 per share after adjusting for the company’s \$129 million cash balance. However, we have discounted this sharply, to \$15, to reflect the risk of competition by larger and better capitalized competitors, the time it may take to bring products to market, the risks COVID has for the growth of the economy and potential Federal Reserve actions to combat inflation.

Risk Analysis

Risks to achieving our price target include continuing negative impacts of the COVID-19 pandemic on the overall economy, changes to business practices in the medium and long-term due to the COVID-19 pandemic, potential competition from Apple and Facebook, increased competition from Google and RealWear, ability to delivery new products on time and manufacturing costs as sales ramp.

Exhibit 1. Income Statement
(\$ in 000's except per share data)

| | 2019 | 2020 | Q1 21 A | Q2 21 A | Q3 21 A | Q4 21 E | 2021 E | Q1 22 | Q2 22 E | Q3 22 E | Q4 22 E | 2022 E | 2023 E |
|---------------------|-------------|-------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|-------------|-------------|
| Total Sales | \$ 5,997 | \$ 11,581 | \$ 3,915 | \$ 2,917 | \$ 3,019 | \$ 4,019 | \$ 13,869 | \$ 4,019 | \$ 5,019 | \$ 6,644 | \$ 8,644 | \$ 24,325 | \$ 42,575 |
| Total COGS | 11,079 | 9,654 | 2,836 | 2,337 | 2,435 | 3,035 | 10,644 | 3,035 | 3,635 | 4,585 | 5,785 | 17,042 | 27,942 |
| Total Gross Profit | (4,408) | 1,928 | 1,080 | 579 | 583 | 983 | 3,226 | 983 | 1,383 | 2,058 | 2,858 | 7,283 | 14,633 |
| R&D | 8,901 | 7,568 | 2,080 | 2,701 | 3,270 | 3,336 | 11,387 | 3,586 | 3,586 | 3,586 | 3,586 | 14,343 | 15,419 |
| Sales & Marketing | 4,216 | 4,040 | 1,241 | 1,338 | 1,590 | 1,621 | 5,789 | 1,300 | 1,300 | 1,300 | 1,300 | 5,200 | 5,200 |
| G&A | 6,600 | 6,915 | 3,704 | 4,750 | 3,112 | 3,174 | 14,740 | 3,412 | 3,412 | 3,412 | 3,412 | 13,649 | 14,673 |
| D&A | 2,442 | 2,458 | 517 | 502 | 434 | 449 | 1,902 | 449 | 449 | 449 | 449 | 1,794 | 1,794 |
| Other | 0 | 74 | 112 | 31 | 8 | 0 | 150 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Expense | 22,158 | 21,055 | 7,654 | 9,321 | 8,414 | 8,580 | 33,968 | 8,747 | 8,747 | 8,747 | 8,747 | 34,987 | 37,086 |
| Operating Income | \$ (26,566) | \$ (19,127) | \$ (6,574) | \$ (8,741) | \$ (7,830) | \$ (7,597) | \$ (30,742) | \$ (7,763) | \$ (7,363) | \$ (6,688) | \$ (5,888) | \$ (27,704) | \$ (22,453) |
| Interest & Other | 90 | 1,175 | (65) | (38) | (116) | (116) | (335) | (17) | (17) | (17) | (17) | (68) | (76) |
| Pretax Income | \$ (26,476) | \$ (17,952) | \$ (6,639) | \$ (8,779) | \$ (7,946) | \$ (7,712) | \$ (31,077) | \$ (7,780) | \$ (7,380) | \$ (6,705) | \$ (5,905) | \$ (27,772) | \$ (22,529) |
| Income Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Income | \$ (26,476) | \$ (17,952) | \$ (6,639) | \$ (8,779) | \$ (7,946) | \$ (7,712) | \$ (31,077) | \$ (7,780) | \$ (7,380) | \$ (6,705) | \$ (5,905) | \$ (27,772) | \$ (22,529) |
| Preferred Dividends | (1,932) | (2,056) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net to Common | \$ (28,408) | \$ (20,008) | \$ (6,639) | \$ (8,779) | \$ (7,946) | \$ (7,712) | \$ (31,077) | \$ (7,780) | \$ (7,380) | \$ (6,705) | \$ (5,905) | \$ (27,772) | \$ (22,529) |
| Diluted Shares | 30,348 | 38,110 | 54,142 | 63,071 | 63,521 | 63,631 | 61,091 | 63,747 | 63,978 | 64,209 | 64,439 | 64,093 | 65,016 |
| EPS | \$ (0.94) | \$ (0.53) | \$ (0.12) | \$ (0.14) | \$ (0.13) | \$ (0.12) | \$ (0.51) | \$ (0.12) | \$ (0.12) | \$ (0.10) | \$ (0.09) | \$ (0.43) | \$ (0.35) |
| Operating Income | \$ (26,566) | \$ (19,127) | \$ (6,574) | \$ (8,741) | \$ (7,830) | \$ (7,597) | \$ (30,742) | \$ (7,763) | \$ (7,363) | \$ (6,688) | \$ (5,888) | \$ (27,704) | \$ (22,453) |
| D&A | 2,542 | 2,642 | 578 | 562 | 494 | 494 | 2,128 | 494 | 494 | 494 | 494 | 1,978 | 1,978 |
| Stock Comp | 1,498 | 2,806 | 2,106 | 3,577 | 1,628 | 1,628 | 8,939 | 1,628 | 1,628 | 1,628 | 1,628 | 6,511 | 6,511 |
| EBITDA | \$ (22,526) | \$ (13,680) | \$ (3,890) | \$ (4,602) | \$ (5,708) | \$ (5,474) | \$ (19,675) | \$ (5,641) | \$ (5,241) | \$ (4,566) | \$ (3,766) | \$ (19,215) | \$ (13,965) |

Source: Vuzix Corporation and Dawson James Securities estimates

Exhibit 2. Balance Sheet and Cash Flow Statement

(\$ in 000's)

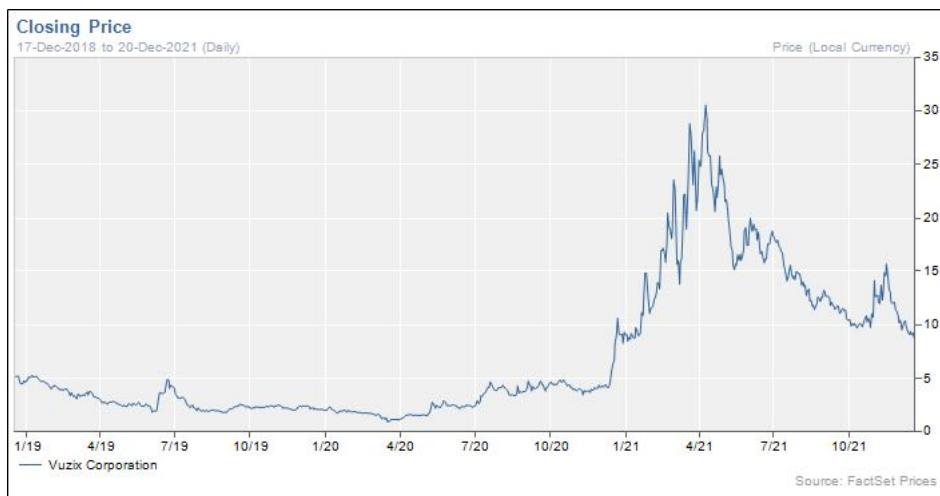
| | 2019 | 2020 | Q1 21 A | Q2 21 A | Q3 21 A | Q4 21 E | 2021 E | 2022 E | 2023 E |
|---------------------------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash | 10,606 | 36,070 | 132,722 | 137,604 | 128,747 | 121,317 | 121,317 | 96,508 | 77,828 |
| A/R | 1,372 | 1,389 | 1,297 | 1,099 | 1,059 | 2,642 | 2,642 | 5,684 | 8,642 |
| Note Receivable | 250 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inventory | 5,708 | 6,101 | 6,959 | 7,884 | 9,880 | 10,118 | 10,118 | 10,285 | 9,698 |
| Prepaid Expenses & Other | 1,138 | 1,496 | 3,071 | 4,447 | 4,302 | 5,727 | 5,727 | 12,319 | 18,732 |
| Current Assets | \$ 19,074 | \$ 45,055 | \$ 144,089 | \$ 151,035 | \$ 143,988 | \$ 139,805 | \$ 139,805 | \$ 124,796 | \$ 114,900 |
| Tooling & Equipment | 4,328 | 2,837 | 2,714 | 2,902 | 5,339 | 5,095 | 5,095 | 6,118 | 7,140 |
| Operaring Lease Right of use | 2,096 | 1,517 | 1,494 | 1,389 | 1,222 | 1,222 | 1,222 | 1,222 | 1,222 |
| Patents & Trademarks | 1,295 | 1,593 | 1,664 | 1,678 | 1,862 | 1,862 | 1,862 | 1,862 | 1,862 |
| Licenses, net | 314 | 194 | 164 | 1,522 | 1,447 | 1,447 | 1,447 | 1,447 | 1,447 |
| Intangible Assets & Other | 1,340 | 1,275 | 1,328 | 1,182 | 1,609 | 1,584 | 1,584 | 1,484 | 1,384 |
| Total Assets | \$ 28,446 | \$ 52,471 | \$ 151,453 | \$ 159,709 | \$ 155,467 | \$ 151,014 | \$ 151,014 | \$ 136,928 | \$ 127,955 |
| Accounts Payable | 1,063 | 1,517 | 1,326 | 1,425 | 1,483 | 1,974 | 1,974 | 4,246 | 6,456 |
| Operating Lease Right of use | 525 | 444 | 552 | 552 | 534 | 534 | 534 | 534 | 534 |
| Unearned Revenue | 142 | 41 | 23 | 14 | 14 | 19 | 19 | 41 | 62 |
| Accrued Expenses | 886 | 983 | 1,629 | 1,058 | 1,585 | 2,110 | 2,110 | 4,539 | 6,903 |
| Taxes Payable | 19 | 110 | 44 | 80 | 34 | 45 | 45 | 97 | 147 |
| Current Liabilities | \$ 2,635 | \$ 3,095 | \$ 3,575 | \$ 3,129 | \$ 3,650 | \$ 4,683 | \$ 4,683 | \$ 9,457 | \$ 14,102 |
| Operating Lease Right of use | 1,571 | 1,073 | 942 | 837 | 688 | 688 | 688 | 688 | 688 |
| Equity | <u>24,240</u> | <u>48,303</u> | <u>146,936</u> | <u>155,742</u> | <u>151,129</u> | <u>145,644</u> | <u>145,644</u> | <u>126,783</u> | <u>113,165</u> |
| Total Liabilities & Equity | \$ 28,446 | \$ 52,471 | \$ 151,453 | \$ 159,709 | \$ 155,467 | \$ 151,014 | \$ 151,014 | \$ 136,928 | \$ 127,955 |

| | 2019 | 2020 | Q1 21 A | Q2 21 A | Q3 21 A | Q4 21 E | 2021 E | 2022 E | 2023 E |
|----------------------|-------------|-------------|------------|------------|------------|------------|-------------|-------------|-------------|
| Net Income | \$ (26,476) | \$ (17,952) | \$ (6,639) | \$ (8,779) | \$ (7,946) | \$ (7,712) | \$ (31,077) | \$ (27,772) | \$ (22,529) |
| D&A | 2,542 | 2,642 | 578 | 562 | 494 | 494 | 2,128 | 1,978 | 1,978 |
| Stock Comp | 1,498 | 2,806 | 2,106 | 3,577 | 1,628 | 1,628 | 8,939 | 6,511 | 6,511 |
| Other | 4,673 | 41 | 112 | 31 | 8 | 25 | 175 | 100 | 100 |
| Working Capital | (4,591) | (1,501) | (2,078) | (2,578) | 16 | (2,214) | (6,854) | (5,025) | (4,139) |
| Operating Cash Flow | \$ (22,355) | \$ (13,964) | \$ (5,922) | \$ (7,187) | \$ (5,801) | \$ (7,780) | \$ (26,689) | \$ (24,209) | \$ (18,080) |
| CapEx | (1,899) | (497) | (315) | (404) | (2,874) | (250) | (3,843) | (3,000) | (3,000) |
| Other | (1,259) | (989) | (336) | (184) | (228) | 0 | (748) | 0 | 0 |
| Investing Activities | \$ (3,158) | \$ (1,486) | \$ (651) | \$ (588) | \$ (3,102) | \$ (250) | \$ (4,590) | \$ (3,000) | \$ (3,000) |
| Equity | 18,855 | 39,357 | 113,225 | 12,657 | 45 | 600 | 126,527 | 2,400 | 2,400 |
| Debt | 0 | 1,556 | (23) | (105) | (168) | 0 | (296) | 0 | 0 |
| Preferred | 0 | 0 | (10,000) | 0 | 0 | 0 | (10,000) | 0 | 0 |
| Financing Activities | \$ 18,855 | \$ 40,913 | 103,202 | 12,553 | (123) | 600 | \$ 116,231 | \$ 2,400 | \$ 2,400 |
| Change in Cash | \$ (6,658) | \$ 25,463 | \$ 96,629 | \$ 4,778 | \$ (9,025) | \$ (7,430) | \$ 84,952 | \$ (24,809) | \$ (18,680) |

Source: Vuzix Corporation and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

Initiated – Buy – December 21, 2021 – Price Target \$15.00

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Ratings Definitions:

- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of... 20-Dec-21

| | Company Coverage | | Investment Banking | |
|----------------------------|------------------|------------|--------------------|-------------|
| Ratings Distribution | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 26 | 68% | 5 | 19% |
| Market Perform (Neutral) | 12 | 32% | 0 | 0% |
| Market Underperform (Sell) | 0 | 0% | 0 | 0% |
| Total | 38 | 100% | 5 | 13% |

Analyst Certification:

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