

Member FINRA/SIPC

Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

## Vuzix Corporation (NASDAQ: VUZI)

January 6, 2022

### Buy: New Products. Progress with Fortune 50 Online Retailer.

**James McIlree, CFA**  
 561-237-2709

jmcilree@dawsonjames.com

*This week Vuzix introduced the M400-C, the latest variation of its M400 series smart glasses and, as expected, previewed the Shield binocular smart glasses at CES. Also, the company also announced initial deployment in 40 warehouses of a Fortune 50 online retailer. We reiterate our Buy recommendation of Vuzix and \$15 price target.*

Vuzix has been working for over a year with a global Fortune 50 online retailer to integrate its smart glasses solution into the retailer's warehouse supply chain operations. Vuzix is now deployed in over 40 European warehouses for this customer; we expect this customer and this market segment to be a significant source of revenue for the coming years.

As expected, Vuzix unveiled its binocular smart glasses solution, the Shield, at CES. 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.

The company also introduced the M400-C, ruggedized smart glasses which attach to a portable computer or smartphone with a USB-C DisplayPort. The product is similar to a custom product made for Toshiba a few years ago.

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.

#### 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 2)

#### 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.

Current Price				\$8.70
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	(21.7) x	(22.2) x	
Stock Data				
52-Week Range	\$8.12	-	\$32.43	
Shares Outstanding (mil.)				63.6
Market Capitalization (mil.)				\$554
Enterprise Value (mil.)				\$426
Debt to Capital				0%
Cash & Equivalents (mil.)				\$128.7
Cash/Sh.				\$2.02
Average Three Months Trading Volume (K)				1,374
Insider Ownership				7.0%
Institutional Ownership				42.8%
Short interest (mil.)				21.6%
Dividend / Yield				\$0.00/0.0%



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.

### **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**

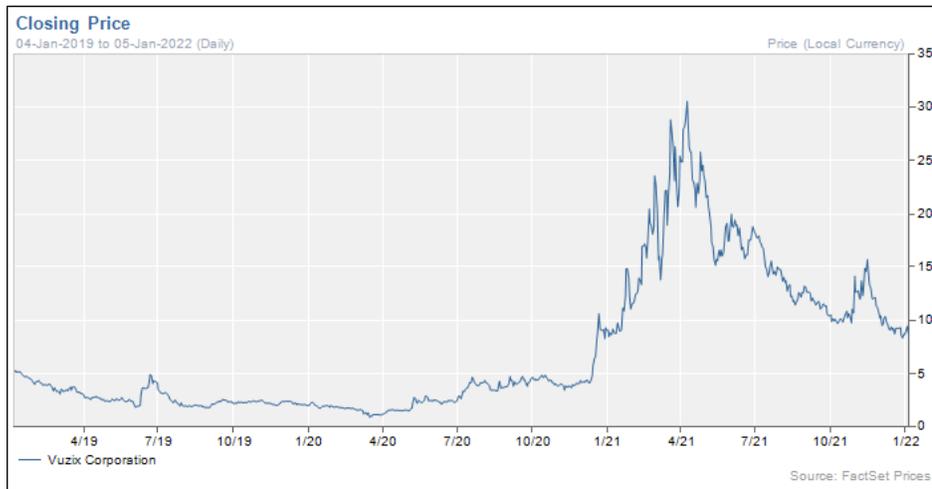
(\$ in 000's)

	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
<b>Current Assets</b>	<b>\$ 19,074</b>	<b>\$ 45,055</b>	<b>\$ 144,089</b>	<b>\$ 151,035</b>	<b>\$ 143,988</b>	<b>\$ 139,805</b>	<b>\$ 139,805</b>	<b>\$ 124,796</b>	<b>\$ 114,900</b>
Tooling & Equipment	4,328	2,837	2,714	2,902	5,339	5,095	5,095	6,118	7,140
Operating 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
<b>Total Assets</b>	<b>\$ 28,446</b>	<b>\$ 52,471</b>	<b>\$ 151,453</b>	<b>\$ 159,709</b>	<b>\$ 155,467</b>	<b>\$ 151,014</b>	<b>\$ 151,014</b>	<b>\$ 136,928</b>	<b>\$ 127,955</b>
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
<b>Current Liabilities</b>	<b>\$ 2,635</b>	<b>\$ 3,095</b>	<b>\$ 3,575</b>	<b>\$ 3,129</b>	<b>\$ 3,650</b>	<b>\$ 4,683</b>	<b>\$ 4,683</b>	<b>\$ 9,457</b>	<b>\$ 14,102</b>
Operating Lease Right of use	1,571	1,073	942	837	688	688	688	688	688
Equity	24,240	48,303	146,936	155,742	151,129	145,644	145,644	126,783	113,165
<b>Total Liabilities &amp; Equity</b>	<b>\$ 28,446</b>	<b>\$ 52,471</b>	<b>\$ 151,453</b>	<b>\$ 159,709</b>	<b>\$ 155,467</b>	<b>\$ 151,014</b>	<b>\$ 151,014</b>	<b>\$ 136,928</b>	<b>\$ 127,955</b>
	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)
<b>Operating Cash Flow</b>	<b>\$ (22,355)</b>	<b>\$ (13,964)</b>	<b>\$ (5,922)</b>	<b>\$ (7,187)</b>	<b>\$ (5,801)</b>	<b>\$ (7,780)</b>	<b>\$ (26,689)</b>	<b>\$ (24,209)</b>	<b>\$ (18,080)</b>
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
<b>Investing Activities</b>	<b>\$ (3,158)</b>	<b>\$ (1,486)</b>	<b>\$ (651)</b>	<b>\$ (588)</b>	<b>\$ (3,102)</b>	<b>\$ (250)</b>	<b>\$ (4,590)</b>	<b>\$ (3,000)</b>	<b>\$ (3,000)</b>
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
<b>Financing Activities</b>	<b>\$ 18,855</b>	<b>\$ 40,913</b>	<b>103,202</b>	<b>12,553</b>	<b>(123)</b>	<b>600</b>	<b>\$ 116,231</b>	<b>\$ 2,400</b>	<b>\$ 2,400</b>
<b>Change in Cash</b>	<b>\$ (6,658)</b>	<b>\$ 25,463</b>	<b>\$ 96,629</b>	<b>\$ 4,778</b>	<b>\$ (9,025)</b>	<b>\$ (7,430)</b>	<b>\$ 84,952</b>	<b>\$ (24,809)</b>	<b>\$ (18,680)</b>

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

Update – Buy – January 6, 2022 – Price Target \$15.00

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject company(s). The Firm has not engaged in investment banking relationships with the subject company in the prior twelve months, as a manager or co-manager of a public offering and has not received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has received other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director, or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of November 30, 2021, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts, or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

### **Information about valuation methods and risks can be found in the "Valuation" and "Risk Analysis" sections of this report.**

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

**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

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# 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%
<b>Total</b>	<b>38</b>	<b>100%</b>	<b>5</b>	<b>13%</b>

**Analyst Certification:**

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.