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## Vuzix Corporation (NASDAQ: VUZI)

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### Buy: Expect Logistics to Drive Growth. Aerospace & Defense Customer Deployment Could Begin this Year.

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*We expect revenue growth this year to be primarily driven by deployment for logistics uses. We believe this can add \$5 to \$10 million in revenue this year in addition to the 20%+ growth the company has been posting in smart-glasses sales. We reiterate our Buy recommendation of Vuzix and \$15 price target.*

Our \$20.4 million revenue estimate for 2022 assumes the core Vuzix smart glasses business can grow about 20% and an additional \$5 million will be generated from logistics customer(s) deploying the Vuzix smart glasses solution in multiple warehouses this year. We believe announced orders from major customer(s) will be a significant catalyst for the shares.

Smart glasses sales in 2021 grew 27% to \$12.8 million and we expect growth in the core smart glasses business to about \$15 million this year. We also expect after years of pilots and evaluations, Fortune 50 customer(s) will begin meaningful deployments this year. For the year we assume a \$5 million contribution from these customer(s).

One Fortune 50 customer recently placed a \$400 thousand order for one use case in one facility. This customer has over 100 facilities implying an opportunity of \$40 million with just this one customer and just this one use case. Vuzix is also deployed with another Fortune 50 customer's warehouse and expects follow-on orders for its worldwide footprint.

Aerospace and Defense deployments would be upside to our estimates. Late last year the company delivered pre-production waveguide units for helmet-mounted display to a global Tier 1 aerospace and defense firm. We estimate this contract could generate \$10 to \$15 million over a multi-year time frame. We believe Vuzix is pursuing multiple opportunities in the defense market, particularly in heads-up and helmet-mounted displays that would be at least as large as the Tier 1 deployment already mentioned.

The balance sheet is strong, with over \$120 million in cash, plenty to fund the cash needs of the company for almost five years based on the 2021 burn. The recently announced \$25 million share buyback weakens the balance sheet, reducing the runway by a year, and provides very little support for the stock, in our view.

**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				\$5.98
Price Target				\$15.00
<b>Estimates</b>	<b>F2021A</b>	<b>F2022E</b>	<b>F2023E</b>	
<b>Revenues (\$000s)</b>	\$ 13,165	\$ 20,377 E	\$ 30,500	
1Q March	\$ 3,915	\$ 3,127 E	\$ 5,625	
2Q June	\$ 2,917	\$ 5,000 E	\$ 9,625	
3Q September	\$ 3,019	\$ 6,625 E	\$ 9,625	
4Q December	\$ 3,314	\$ 5,625 E	\$ 5,625	
	<b>F2021A</b>	<b>F2022E</b>	<b>F2023E</b>	
<b>EBITDA (\$000s)</b>	\$ (20,807)	\$(20,807)E	\$(21,155)	
1Q March	\$ (3,890)	\$(3,890)E	\$(6,089)	
2Q June	\$ (4,602)	\$(4,602)E	\$(4,489)	
3Q September	\$ (5,708)	\$(5,708)E	\$(4,489)	
4Q December	\$ (6,606)	\$(6,606)E	\$(6,089)	
<b>EV/Sales</b>	NM	12.8 x	8.6 x	
<b>EV/EBITDA</b>	NM	(12.6) x	(12.4) x	
<b>Stock Data</b>				
52-Week Range	\$4.54	-	\$32.43	
Shares Outstanding (mil.)				63.7
Market Capitalization (mil.)				\$381
Enterprise Value (mil.)				\$262
Debt to Capital				0%
Cash & Equivalents (mil.)				\$120.2
Cash/Sh.				\$1.89
Average Three Months Trading Volume (K)				3,490
Insider Ownership				7.0%
Institutional Ownership				43.2%
Short interest (mil.)				28.2%
Dividend / Yield				\$0.00/0.0%



**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	2021	Q1 22	Q2 22 E	Q3 22 E	Q4 22 E	2022 E	2023 E
Total Sales	\$ 5,997	\$ 11,581	\$ 13,165	\$ 3,127	\$ 5,000	\$ 6,625	\$ 5,625	\$ 20,377	\$ 30,500
Total COGS	11,079	9,654	10,714	2,570	3,693	4,643	4,043	14,950	20,974
Total Gross Profit	(4,408)	1,928	2,451	557	1,307	1,982	1,582	5,427	9,526
R&D	8,901	7,568	11,675	3,896	3,896	3,896	3,896	15,583	16,752
Sales & Marketing	4,216	4,040	6,119	1,645	1,645	1,645	1,645	6,579	7,072
G&A	6,600	6,915	22,503	5,870	5,870	5,870	5,870	23,478	23,897
D&A	2,442	2,458	1,870	449	449	449	449	1,794	1,794
Other	0	74	264	0	0	0	0	0	0
Operating Expense	22,158	21,055	42,431	11,859	11,859	11,859	11,859	47,435	49,516
Operating Income	\$ (26,566)	\$ (19,127)	\$ (39,980)	\$ (11,301)	\$ (10,552)	\$ (9,877)	\$ (10,277)	\$ (42,008)	\$ (39,990)
Interest & Other	90	1,175	(397)	(17)	(17)	(17)	(17)	(68)	(76)
Pretax Income	\$ (26,476)	\$ (17,952)	\$ (40,377)	\$ (11,318)	\$ (10,569)	\$ (9,894)	\$ (10,294)	\$ (42,076)	\$ (40,066)
Income Taxes	0	0	0	0	0	0	0	0	0
Net Income	\$ (26,476)	\$ (17,952)	\$ (40,377)	\$ (11,318)	\$ (10,569)	\$ (9,894)	\$ (10,294)	\$ (42,076)	\$ (40,066)
Preferred Dividends	(1,932)	(2,056)	0	0	0	0	0	0	0
Net to Common	\$ (28,408)	\$ (20,008)	\$ (40,377)	\$ (11,318)	\$ (10,569)	\$ (9,894)	\$ (10,294)	\$ (42,076)	\$ (40,066)
Diluted Shares	30,348	38,110	61,125	63,672	63,810	64,085	64,361	63,982	65,049
EPS	\$ (0.94)	\$ (0.53)	\$ (0.66)	\$ (0.18)	\$ (0.17)	\$ (0.15)	\$ (0.16)	\$ (0.66)	\$ (0.62)
Operating Income	\$ (26,566)	\$ (19,127)	\$ (39,980)	\$ (11,301)	\$ (10,552)	\$ (9,877)	\$ (10,277)	\$ (42,008)	\$ (39,990)
D&A	2,542	2,642	1,870	237	237	237	237	947	947
Stock Comp	1,498	2,806	17,303	4,472	4,472	4,472	4,472	17,888	17,888
EBITDA	\$ (22,526)	\$ (13,680)	\$ (20,807)	\$ (6,592)	\$ (5,843)	\$ (5,168)	\$ (5,568)	\$ (23,172)	\$ (21,155)

*Source: Vuzix Corporation and Dawson James Securities estimates*

**Exhibit 2. Balance Sheet and Cash Flow Statement**

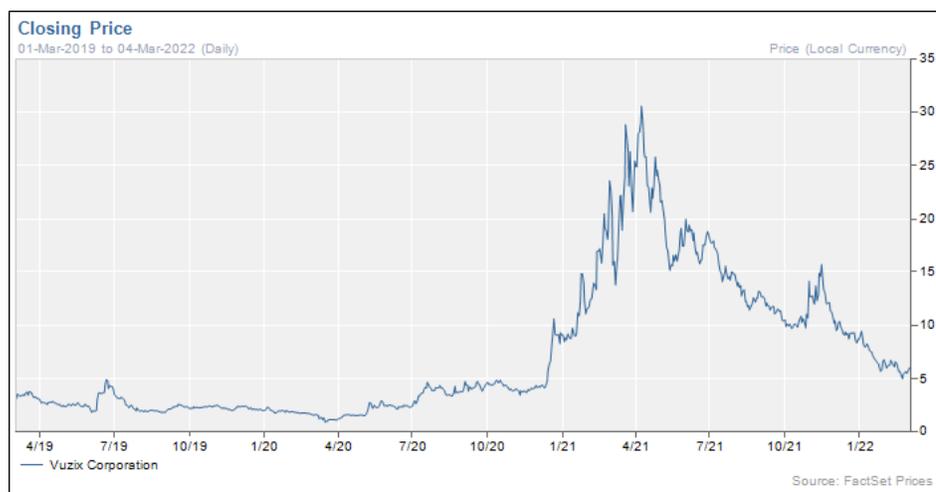
(\$ in 000's)

	2019	2020	2021	2022 E	2023 E
Cash	10,606	36,070	120,204	91,732	73,236
A/R	1,372	1,389	2,242	3,699	3,699
Note Receivable	250	0	0	0	0
Inventory	5,708	6,101	12,152	16,174	12,939
Prepaid Expenses & Other	<u>1,138</u>	<u>1,496</u>	<u>2,552</u>	<u>4,331</u>	<u>4,331</u>
<b>Current Assets</b>	<b>\$ 19,074</b>	<b>\$ 45,055</b>	<b>\$ 137,150</b>	<b>\$ 115,935</b>	<b>\$ 94,205</b>
Tooling & Equipment	4,328	2,837	5,190	7,243	9,296
Operating Lease Right of use	2,096	1,517	1,117	1,117	1,117
Patents & Trademarks	1,295	1,593	1,988	1,988	1,988
Licenses, net	314	194	1,390	1,390	1,390
Intangible Assets & Other	1,340	1,275	1,631	1,531	1,431
<b>Total Assets</b>	<b>\$ 28,446</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 129,205</b>	<b>\$ 109,427</b>
Accounts Payable	1,063	1,517	2,055	3,487	3,487
Operating Lease Right of use	525	444	534	534	534
Unearned Revenue	142	41	28	47	47
Accrued Expenses	886	983	1,419	2,409	2,409
Taxes Payable	<u>19</u>	<u>110</u>	<u>120</u>	<u>204</u>	<u>204</u>
<b>Current Liabilities</b>	<b>\$ 2,635</b>	<b>\$ 3,095</b>	<b>\$ 4,156</b>	<b>\$ 6,682</b>	<b>\$ 6,682</b>
Operating Lease Right of use	1,571	1,073	583	583	583
<b>Equity</b>	<b><u>24,240</u></b>	<b><u>48,303</u></b>	<b><u>143,728</u></b>	<b><u>121,940</u></b>	<b><u>102,163</u></b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 28,446</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 129,205</b>	<b>\$ 109,427</b>
	2019	2020	2021	2022 E	2023 E
Net Income	\$ (26,476)	\$ (17,952)	\$ (40,377)	\$ (42,076)	\$ (40,066)
D&A	2,542	2,642	1,870	947	947
Stock Comp	1,498	2,806	17,303	17,888	17,888
Other	4,673	41	1,223	100	100
Working Capital	<u>(4,591)</u>	<u>(1,501)</u>	<u>(6,999)</u>	<u>(4,732)</u>	<u>3,235</u>
<b>Operating Cash Flow</b>	<b>\$ (22,355)</b>	<b>\$ (13,964)</b>	<b>\$ (26,980)</b>	<b>\$ (27,872)</b>	<b>\$ (17,896)</b>
CapEx	(1,899)	(497)	(3,809)	(3,000)	(3,000)
Other	<u>(1,259)</u>	<u>(989)</u>	<u>(1,043)</u>	<u>0</u>	<u>0</u>
<b>Investing Activities</b>	<b>\$ (3,158)</b>	<b>\$ (1,486)</b>	<b>\$ (4,852)</b>	<b>\$ (3,000)</b>	<b>\$ (3,000)</b>
Equity	18,855	39,357	127,112	2,400	2,400
Debt	0	1,556	0	0	0
Other	0	0	(1,144)	0	0
Preferred	<u>0</u>	<u>0</u>	<u>(10,000)</u>	<u>0</u>	<u>0</u>
<b>Financing Activities</b>	<b>\$ 18,855</b>	<b>\$ 40,913</b>	<b>\$ 115,967</b>	<b>\$ 2,400</b>	<b>\$ 2,400</b>
<b>Change in Cash</b>	<b>\$ (6,658)</b>	<b>\$ 25,463</b>	<b>\$ 84,134</b>	<b>\$ (28,472)</b>	<b>\$ (18,496)</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

Update – Buy – March 4, 2022 – Price Target \$15.00

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Current as of... 3-Mar-22

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<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	76%	4	13%
Market Perform (Neutral)	10	24%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>41</b>	<b>100%</b>	<b>4</b>	<b>10%</b>

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