

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)

July 6, 2022

**Buy: M400 Follow-on Order from Fortune 100 Retailer.**
**James McIlree, CFA**
**561-237-2709**
**jmcilree@dawsonjames.com**

*Vuzix announced a \$350,000 order for its M400 smart glasses for use in a logistics application. We reiterate our Buy recommendation and \$15 price target.*

A U.S.-based Fortune 100 retailer placed a follow-on order valued at \$350,000 for the M400. The company has indicated this is one of four Fortune 100 retailers using its smart glasses and that this particular customer has informed Vuzix that sizable follow-on orders are expected. We expect logistics and healthcare to be key drivers of demand for the company's smart glasses over our forecast horizon.

Aerospace and defense are also expected to be important in the company's growth. Vuzix has worked with five major defense contractors on waveguide-based products and is set to add three more customers in the coming months and to begin development work that lasts into next year. The challenge has been the long-lead time involved in this type of work, but once deployment begins production runs can be long and very profitable. We estimate typical production contracts 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 display. Importantly, its 10-year non-compete agreement in the U.S. military market expired in mid-June giving it the freedom to be more aggressive in this space.

Vuzix is also expanding its waveguide capacity both in response to customer indications of interest and to make itself the number one choice of waveguides in the OEM market for industrial and consumer use. This investment is modest, a few million dollars, and will expand capacity, lower costs and enable a more robust feature set than the current product. We believe Vuzix can be one of the leading suppliers of waveguides and that this investment will enhance that capability.

Pro forma for the \$30 million development agreement with Atomistic (see below) the balance sheet remains strong, with over \$83 million in cash, plenty to fund the cash needs of the company for three years based on the 2021 burn.

**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				\$7.33
Price Target				\$15.00
Estimates	F2021A	F2022E	F2023E	
Revenues (\$000s)	\$ 13,165	\$ 14,753 E	\$ 30,500	
1Q March	\$ 3,915	\$ 2,503 A	\$ 5,625	
2Q June	\$ 2,917	\$ 2,500 E	\$ 9,625	
3Q September	\$ 3,019	\$ 4,125 E	\$ 9,625	
4Q December	\$ 3,314	\$ 5,625 E	\$ 5,625	
	F2021A	F2022E	F2023E	
EBITDA (\$000s)	\$ (20,368)	\$ (20,368)E	\$ (17,064)	
1Q March	\$ (3,890)	\$ (3,890)A	\$ (5,066)	
2Q June	\$ (4,602)	\$ (4,602)E	\$ (3,466)	
3Q September	\$ (5,708)	\$ (5,708)E	\$ (3,466)	
4Q December	\$ (6,167)	\$ (6,167)E	\$ (5,066)	
EV/Sales	NM	24.0 x	11.6 x	
EV/EBITDA	NM	(17.4) x	(20.8) x	
Stock Data				
52-Week Range	\$3.88	-	\$19.33	
Shares Outstanding (mil.)				63.7
Market Capitalization (mil.)				\$467
Enterprise Value (mil.)				\$354
Debt to Capital				0%
Cash & Equivalents (mil.)				\$113.3
Cash/Sh.				\$1.78
Average Three Months Trading Volume (K)				1,161
Insider Ownership				7.4%
Institutional Ownership				45.6%
Short interest (mil.)				27.6%
Dividend / Yield				\$0.00/0.0%



The recent license and share purchase agreements with Atomistic are critically important to Vuzix's product roadmap, giving it control of this crucial technology in the smart glasses market. In 2019 the company entered into joint development agreement with Plessey, but this was voided by Plessey's subsequent agreement to license its AR technology and dedicate its entire LED manufacturing capacity to Facebook. In 2021 the company announced it was working with Jade Bird Display for micro LED display engines, but was subject to the same risk profile it had with Plessey. The deal with Atomistic puts Vuzix in control of this technology and greatly reduces risk of a supplier being called away. The import of micro LED display technology to the smart glasses market is demonstrated by Facebook's deal with Plessey and the recent purchase of Raxium by Google for a reported \$1 billion.

The license agreement gives Vuzix a right to Atomistic's micro LED and micro laser technology and Vuzix will fund development of a custom design and tooling of a backplane for micro displays. A share purchase agreement could result in ownership of Atomistic by Vuzix.

The development agreement calls for Vuzix to pay Atomistic \$30 million, \$18.5 million this year and \$11.5 million in 2023. Depending on achievement of six milestones, Vuzix will issue 1.75 million to 2.84 million shares, valued at \$22.75 million, for control of Atomistic.

### **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 they 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 A	Q2 22 E	Q3 22 E	Q4 22 E	2022 E	2023 E
Total Sales	\$ 5,997	\$ 11,581	\$ 13,165	\$ 2,503	\$ 2,500	\$ 4,125	\$ 5,625	\$ 14,753	\$ 30,500
Total COGS	11,079	9,654	10,714	1,864	1,862	2,812	3,712	10,249	19,647
Total Gross Profit	(4,408)	1,928	2,451	639	638	1,313	1,913	4,504	10,853
R&D	8,901	7,568	11,675	3,103	3,103	3,103	3,103	12,414	13,345
Sales & Marketing	4,216	4,040	6,119	2,023	2,023	2,023	2,023	8,094	8,701
G&A	6,600	6,915	22,503	5,454	5,717	5,717	5,717	22,606	23,288
D&A	2,442	2,458	1,870	423	449	449	449	1,769	1,794
Other	0	74	264	50	0	0	0	50	0
Operating Expense	22,158	21,055	42,431	11,053	11,293	11,293	11,293	44,931	47,128
Operating Income	\$ (26,566)	\$ (19,127)	\$ (39,980)	\$ (10,414)	\$ (10,655)	\$ (9,980)	\$ (9,380)	\$ (40,428)	\$ (36,275)
Interest & Other	90	1,175	(397)	(92)	(92)	(92)	(92)	(368)	(76)
Pretax Income	\$ (26,476)	\$ (17,952)	\$ (40,377)	\$ (10,506)	\$ (10,747)	\$ (10,072)	\$ (9,472)	\$ (40,796)	\$ (36,351)
Income Taxes	0	0	0	0	0	0	0	0	0
Net Income	\$ (26,476)	\$ (17,952)	\$ (40,377)	\$ (10,506)	\$ (10,747)	\$ (10,072)	\$ (9,472)	\$ (40,796)	\$ (36,351)
Preferred Dividends	(1,932)	(2,056)	0	0	0	0	0	0	0
Net to Common	\$ (28,408)	\$ (20,008)	\$ (40,377)	\$ (10,506)	\$ (10,747)	\$ (10,072)	\$ (9,472)	\$ (40,796)	\$ (36,351)
Diluted Shares	30,348	38,110	61,125	63,695	63,668	63,827	64,146	63,834	64,942
EPS	\$ (0.94)	\$ (0.53)	\$ (0.66)	\$ (0.16)	\$ (0.17)	\$ (0.16)	\$ (0.15)	\$ (0.64)	\$ (0.56)
Operating Income	\$ (26,566)	\$ (19,127)	\$ (39,980)	\$ (10,414)	\$ (10,655)	\$ (9,980)	\$ (9,380)	\$ (40,428)	\$ (36,275)
D&A	2,542	2,642	2,310	483	483	483	483	1,932	1,932
Stock Comp	1,498	2,806	17,303	4,320	4,320	4,320	4,320	17,279	17,279
EBITDA	\$ (22,526)	\$ (13,680)	\$ (20,368)	\$ (5,611)	\$ (5,852)	\$ (5,177)	\$ (4,577)	\$ (21,216)	\$ (17,064)

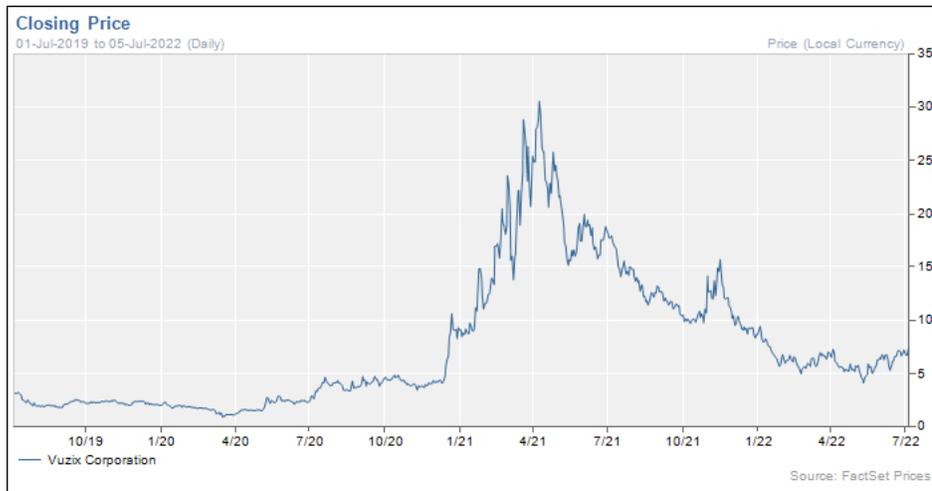
Source: Vuzix Corporation and Dawson James Securities estimates

**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	73,098	46,927
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	14,847	11,878
Prepaid Expenses & Other	<u>1,138</u>	<u>1,496</u>	<u>2,552</u>	<u>4,623</u>	<u>4,623</u>
<b>Current Assets</b>	<b>\$ 19,074</b>	<b>\$ 45,055</b>	<b>\$ 137,150</b>	<b>\$ 96,267</b>	<b>\$ 67,126</b>
Tooling & Equipment	4,328	2,837	5,190	7,343	8,411
Operating Lease Right of use	2,096	1,517	1,117	968	968
Patents & Trademarks	1,295	1,593	1,988	2,020	2,020
Licenses, net	314	194	1,390	19,833	54,083
Intangible Assets & Other	1,340	1,275	1,631	1,414	1,314
<b>Total Assets</b>	<b>\$ 28,446</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 127,845</b>	<b>\$ 133,923</b>
Accounts Payable	1,063	1,517	2,055	2,750	2,750
Operating Lease Right of use	525	444	534	514	514
Unearned Revenue	142	41	28	67	67
Accrued Expenses	886	983	1,419	2,533	2,533
Taxes Payable	<u>19</u>	<u>110</u>	<u>120</u>	<u>103</u>	<u>103</u>
<b>Current Liabilities</b>	<b>\$ 2,635</b>	<b>\$ 3,095</b>	<b>\$ 4,156</b>	<b>\$ 5,966</b>	<b>\$ 5,966</b>
Operating Lease Right of use	1,571	1,073	583	454	454
<b>Equity</b>	<b><u>24,240</u></b>	<b><u>48,303</u></b>	<b><u>143,728</u></b>	<b><u>121,425</u></b>	<b><u>127,503</u></b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 28,446</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 127,845</b>	<b>\$ 133,923</b>
	2019	2020	2021	2022 E	2023 E
Net Income	\$ (26,476)	\$ (17,952)	\$ (40,377)	\$ (40,796)	\$ (36,351)
D&A	2,542	2,642	2,310	1,932	1,932
Stock Comp	1,498	2,806	17,303	17,279	17,279
Other	4,673	41	784	125	100
Working Capital	<u>(4,591)</u>	<u>(1,501)</u>	<u>(6,999)</u>	<u>(4,756)</u>	<u>2,969</u>
<b>Operating Cash Flow</b>	<b>\$ (22,355)</b>	<b>\$ (13,964)</b>	<b>\$ (26,980)</b>	<b>\$ (26,217)</b>	<b>\$ (14,071)</b>
CapEx	(1,899)	(497)	(3,809)	(3,808)	(3,000)
Other	<u>(1,259)</u>	<u>(989)</u>	<u>(1,043)</u>	<u>(18,659)</u>	<u>(11,500)</u>
<b>Investing Activities</b>	<b>\$ (3,158)</b>	<b>\$ (1,486)</b>	<b>\$ (4,852)</b>	<b>\$ (22,467)</b>	<b>\$ (14,500)</b>
Equity	18,855	39,357	127,112	1,578	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>\$ 1,578</b>	<b>\$ 2,400</b>
<b>Change in Cash</b>	<b>\$ (6,658)</b>	<b>\$ 25,463</b>	<b>\$ 84,134</b>	<b>\$ (47,106)</b>	<b>\$ (26,171)</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  
 Update – Buy – May 11, 2022 – Price Target \$15.00  
 Update – Buy – May 19, 2022 – Price Target \$15.00  
 Update – Buy – July 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 not 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 June 16, 2022, 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 16-Jun-22

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	72%	4	13%
Market Perform (Neutral)	12	28%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>43</b>	<b>100%</b>	<b>4</b>	<b>9%</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.