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## Vuzix Corporation (NASDAQ: VUZI)

November 2, 2022

### Buy: Moviynt Purchase. Q3 Preview.

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Vuzix announced the acquisition of Moviynt, a developer of software for warehouse and logistics applications, which is a key market for the company. The acquisition will add \$100 to \$200 thousand in annual revenue, and we estimate the purchase price was \$1 to \$2 million. The company reports Q3 results on Wednesday, November 9<sup>th</sup> after the close.

Moviynt develops software for warehouse and industrial applications where connectivity can be a challenge and the need to integrate handheld devices operating Android, iOS, and Windows operating systems with the company's ERP system is critical. Vuzix will integrate its hands-free smart glasses solution with Moviynt for this key market segment. The deal should add \$100 to \$200 thousand in annual revenue, and we estimate the acquisition price was \$1 million to \$2 million.

The company is scheduled to report Q3 results on Wednesday, November 9<sup>th</sup> after the closed followed by a 4:30 PM Eastern conference call. We expect Q3 to look fairly similar to Q2 with revenue of \$3 million and an EBITDA loss of \$5.6 million.

The company has multiple large-scale deployments possible in the logistics and healthcare markets. Announcements could come in the coming months. Vuzix is pursuing multiple opportunities in the defense market, particularly in heads-up and helmet-mounted display. The company has development deals with a handful of major defense contractors on waveguide-based products. Lead times can be extended, 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. Vuzix is also working with multiple customers on supplying waveguides for the consumer market. There is upside to our sales projections from these waveguide projects.

The company has unique expertise in waveguide design and manufacturing and is 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.

**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                           |             |              |             | \$5.16      |
| Price Target                            |             |              |             | \$15.00     |
| Estimates                               | F2021A      | F2022E       | F2023E      |             |
| Revenues (\$000s)                       | \$ 13,165   | \$ 12,644 E  | \$ 20,500   |             |
| 1Q March                                | \$ 3,915    | \$ 2,503 A   | \$ 4,625    |             |
| 2Q June                                 | \$ 2,917    | \$ 3,008 A   | \$ 5,125    |             |
| 3Q September                            | \$ 3,019    | \$ 3,008 E   | \$ 5,125    |             |
| 4Q December                             | \$ 3,314    | \$ 4,125 E   | \$ 5,625    |             |
|   | F2021A      | F2022E       | F2023E      |             |
| EBITDA (\$000s)                         | \$ (20,368) | \$ (21,894)E | \$ (20,725) |             |
| 1Q March                                | \$ (3,890)  | \$ (5,611)A  | \$ (5,381)  |             |
| 2Q June                                 | \$ (4,602)  | \$ (5,509)A  | \$ (5,181)  |             |
| 3Q September                            | \$ (5,708)  | \$ (5,612)E  | \$ (5,181)  |             |
| 4Q December                             | \$ (6,167)  | \$ (5,162)E  | \$ (4,981)  |             |
| EV/Sales                                | NM          | 18.2 x       | 11.2 x      |             |
| EV/EBITDA                               | NM          | (10.5) x     | (11.1) x    |             |
| Stock Data                              |             |              |             |             |
| 52-Week Range                           | \$3.88      | -            | \$16.20     |             |
| Shares Outstanding (mil.)               |             |              |             | 64.0        |
| Market Capitalization (mil.)            |             |              |             | \$330       |
| Enterprise Value (mil.)                 |             |              |             | \$230       |
| Debt to Capital                         |             |              |             | 0%          |
| Cash & Equivalents (mil.)               |             |              |             | \$100.6     |
| Cash/Sh.                                |             |              |             | \$1.57      |
| Average Three Months Trading Volume (K) |             |              |             | 812         |
| Insider Ownership                       |             |              |             | 7.7%        |
| Institutional Ownership                 |             |              |             | 45.1%       |
| Short interest (mil.)                   |             |              |             | 21.2%       |
| Dividend / Yield                        |             |              |             | \$0.00/0.0% |



Cash at end of Q2 was \$100M. We forecast the investment in Atomistic requires an additional \$25 million through 2023, EBITDA losses will consumer \$31 million, Moviynt a couple million, and working capital and capital spending will result in year-end 2023 cash of about \$33 million. The company needs to see an acceleration in revenue, and a reduction in operating cash flow losses in order to stave off future equity raises.

Recent commentary from Meta on its investment in Reality Labs gives us pause regarding the resources and time needed for the AR/VR market to mature. In 2021 Meta generated \$2.3 billion in revenue and an operating loss of \$10 billion. YTD in 2022 Reality Labs generated \$1.4 billion in revenue and an operating loss of \$9.4 billion. The \$4.0 billion in Reality Labs expenses in Q3, a \$16 million annual run rate, is expected to grow “significantly” in 2023. A precise value for “significant” was not provided, but if it means 25% to 50% growth, Meta will be spending \$20 billion to \$24 billion in 2023 and sustaining that level. On a positive note, it indicates the belief Meta has in the AR/VR market but one could also look at this investment and question just how long and how much it will require before the market accelerates.

### 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.

Meta investing billions and billions shows it will take time and dollars to make the market.

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 \$10, 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 deliver 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 A     | Q3 22 E     | Q4 22 E    | 2022 E      | 2023 E      |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|
| Total Sales         | \$ 5,997    | \$ 11,581   | \$ 13,165   | \$ 2,503    | \$ 3,008    | \$ 3,008    | \$ 4,125   | \$ 12,644   | \$ 20,500   |
| Total COGS          | 11,079      | 9,654       | 10,714      | 1,864       | 2,582       | 2,566       | 3,233      | 10,245      | 15,333      |
| Total Gross Profit  | (4,408)     | 1,928       | 2,451       | 639         | 426         | 442         | 892        | 2,398       | 5,167       |
| R&D                 | 8,901       | 7,568       | 11,675      | 3,103       | 2,996       | 2,996       | 2,996      | 12,092      | 12,883      |
| Sales & Marketing   | 4,216       | 4,040       | 6,119       | 2,023       | 1,851       | 1,851       | 1,851      | 7,575       | 8,701       |
| G&A                 | 6,600       | 6,915       | 22,503      | 5,454       | 5,040       | 5,250       | 5,250      | 20,994      | 20,481      |
| D&A                 | 2,442       | 2,458       | 1,870       | 423         | 540         | 449         | 449        | 1,860       | 1,794       |
| Other               | 0           | 74          | 264         | 50          | 0           | 0           | 0          | 50          | 0           |
| Operating Expense   | 22,158      | 21,055      | 42,431      | 11,053      | 10,427      | 10,545      | 10,545     | 42,571      | 43,859      |
| Operating Income    | \$ (26,566) | \$ (19,127) | \$ (39,980) | \$ (10,414) | \$ (10,001) | \$ (10,104) | \$ (9,654) | \$ (40,172) | \$ (38,692) |
| Interest & Other    | 90          | 1,175       | (397)       | (92)        | (21)        | (21)        | (21)       | (154)       | (76)        |
| Pretax Income       | \$ (26,476) | \$ (17,952) | \$ (40,377) | \$ (10,506) | \$ (10,022) | \$ (10,124) | \$ (9,674) | \$ (40,326) | \$ (38,768) |
| Income Taxes        | 0           | 0           | 0           | 0           | 0           | 0           | 0          | 0           | 0           |
| Net Income          | \$ (26,476) | \$ (17,952) | \$ (40,377) | \$ (10,506) | \$ (10,022) | \$ (10,124) | \$ (9,674) | \$ (40,326) | \$ (38,768) |
| Preferred Dividends | (1,932)     | (2,056)     | 0           | 0           | 0           | 0           | 0          | 0           | 0           |
| Net to Common       | \$ (28,408) | \$ (20,008) | \$ (40,377) | \$ (10,506) | \$ (10,022) | \$ (10,124) | \$ (9,674) | \$ (40,326) | \$ (38,768) |
| Diluted Shares      | 30,348      | 38,110      | 61,125      | 63,695      | 63,740      | 63,829      | 64,139     | 63,851      | 65,606      |
| EPS                 | \$ (0.94)   | \$ (0.53)   | \$ (0.66)   | \$ (0.16)   | \$ (0.16)   | \$ (0.16)   | \$ (0.15)  | \$ (0.63)   | \$ (0.59)   |
| Operating Income    | \$ (26,566) | \$ (19,127) | \$ (39,980) | \$ (10,414) | \$ (10,001) | \$ (10,104) | \$ (9,654) | \$ (40,172) | \$ (38,692) |
| D&A                 | 2,542       | 2,642       | 2,310       | 483         | 611         | 611         | 611        | 2,316       | 2,443       |
| Stock Comp          | 1,498       | 2,806       | 17,303      | 4,320       | 3,881       | 3,881       | 3,881      | 15,963      | 15,524      |
| EBITDA              | \$ (22,526) | \$ (13,680) | \$ (20,368) | \$ (5,611)  | \$ (5,509)  | \$ (5,612)  | \$ (5,162) | \$ (21,894) | \$ (20,725) |

Source: Vuzix Corporation and Dawson James Securities estimates

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

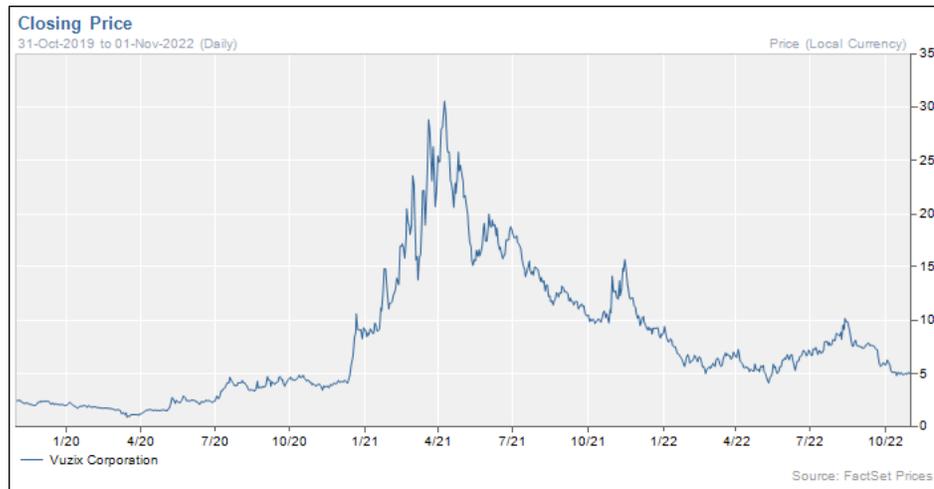
(\$ in 000's)

|                                       | 2019               | 2020               | 2021               | 2022 E             | 2023 E             |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Cash                                  | 10,606             | 36,070             | 120,204            | 71,774             | 33,507             |
| A/R                                   | 1,372              | 1,389              | 2,242              | 2,712              | 3,699              |
| Note Receivable                       | 250                | 0                  | 0                  | 0                  | 0                  |
| Inventory                             | 5,708              | 6,101              | 12,152             | 12,933             | 13,227             |
| Prepaid Expenses & Other              | 1,138              | 1,496              | 2,552              | 3,970              | 5,413              |
| <b>Current Assets</b>                 | <b>\$ 19,074</b>   | <b>\$ 45,055</b>   | <b>\$ 137,150</b>  | <b>\$ 91,498</b>   | <b>\$ 55,954</b>   |
| Tooling & Equipment                   | 4,328              | 2,837              | 5,190              | 9,830              | 10,386             |
| Operating Lease Right of use          | 2,096              | 1,517              | 1,117              | 838                | 838                |
| Patents & Trademarks                  | 1,295              | 1,593              | 1,988              | 2,137              | 2,137              |
| Licenses, net                         | 314                | 194                | 1,390              | 30,089             | 64,339             |
| Intangible Assets & Other             | 1,340              | 1,275              | 1,631              | 1,789              | 1,689              |
| <b>Total Assets</b>                   | <b>\$ 28,446</b>   | <b>\$ 52,471</b>   | <b>\$ 148,467</b>  | <b>\$ 136,181</b>  | <b>\$ 135,343</b>  |
| Accounts Payable                      | 1,063              | 1,517              | 2,055              | 1,813              | 2,472              |
| Operating Lease Right of use          | 525                | 444                | 534                | 520                | 520                |
| Unearned Revenue                      | 142                | 41                 | 28                 | 56                 | 76                 |
| Accrued Expenses                      | 886                | 983                | 1,419              | 2,214              | 3,020              |
| Licensing Fees Commitment             | 0                  | 0                  | 0                  | 4,250              | 6,250              |
| Taxes Payable                         | 19                 | 110                | 120                | 60                 | 82                 |
| <b>Current Liabilities</b>            | <b>\$ 2,635</b>    | <b>\$ 3,095</b>    | <b>\$ 4,156</b>    | <b>\$ 8,913</b>    | <b>\$ 12,420</b>   |
| Operating Lease Right of use          | 1,571              | 1,073              | 583                | 318                | 318                |
| Licensing Fees Commitment             | 0                  | 0                  | 0                  | 6,250              | 0                  |
| <b>Equity</b>                         | <b>24,240</b>      | <b>48,303</b>      | <b>143,728</b>     | <b>120,699</b>     | <b>122,605</b>     |
| <b>Total Liabilities &amp; Equity</b> | <b>\$ 28,446</b>   | <b>\$ 52,471</b>   | <b>\$ 148,467</b>  | <b>\$ 136,181</b>  | <b>\$ 135,343</b>  |
|                                       |                    |                    |                    |                    |                    |
|                                       | 2019               | 2020               | 2021               | 2022 E             | 2023 E             |
| Net Income                            | \$ (26,476)        | \$ (17,952)        | \$ (40,377)        | \$ (40,326)        | \$ (38,768)        |
| D&A                                   | 2,542              | 2,642              | 2,310              | 2,316              | 2,443              |
| Stock Comp                            | 1,498              | 2,806              | 17,303             | 15,963             | 15,524             |
| Other                                 | 4,673              | 41                 | 784                | 100                | (6,150)            |
| Working Capital                       | (4,591)            | (1,501)            | (6,999)            | (2,076)            | 783                |
| <b>Operating Cash Flow</b>            | <b>\$ (22,355)</b> | <b>\$ (13,964)</b> | <b>\$ (26,980)</b> | <b>\$ (24,025)</b> | <b>\$ (26,168)</b> |
| CapEx                                 | (1,899)            | (497)              | (3,809)            | (6,505)            | (3,000)            |
| Acquisition                           | 0                  | 0                  | 0                  | 0                  | 0                  |
| Other                                 | (1,259)            | (989)              | (1,043)            | (18,898)           | (11,500)           |
| <b>Investing Activities</b>           | <b>\$ (3,158)</b>  | <b>\$ (1,486)</b>  | <b>\$ (4,852)</b>  | <b>\$ (25,403)</b> | <b>\$ (14,500)</b> |
| Equity                                | 18,855             | 39,357             | 127,112            | 997                | 2,400              |
| Debt                                  | 0                  | 1,556              | 0                  | 0                  | 0                  |
| Other                                 | 0                  | 0                  | (1,144)            | 0                  | 0                  |
| Preferred                             | 0                  | 0                  | (10,000)           | 0                  | 0                  |
| <b>Financing Activities</b>           | <b>\$ 18,855</b>   | <b>\$ 40,913</b>   | <b>\$ 115,967</b>  | <b>\$ 997</b>      | <b>\$ 2,400</b>    |
| <b>Change in Cash</b>                 | <b>\$ (6,658)</b>  | <b>\$ 25,463</b>   | <b>\$ 84,134</b>   | <b>\$ (48,430)</b> | <b>\$ (38,268)</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
- Update – Buy – July 18, 2022 – Price Target \$15.00
- Update – Buy – August 3, 2022 – Price Target \$15.00
- Update – Buy – August 10, 2022 – Price Target \$15.00
- Update – Buy – November 2, 2022 – Price Target \$15.00

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- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
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Current as of 28-Oct-22

|                             | <b>Company Coverage</b> |            | <b>Investment Banking</b> |             |
|-----------------------------|-------------------------|------------|---------------------------|-------------|
| <b>Ratings Distribution</b> | # of Companies          | % of Total | # of Companies            | % of Totals |
| Market Outperform (Buy)     | 24                      | 80%        | 3                         | 13%         |
| Market Perform (Neutral)    | 5                       | 17%        | 1                         | 20%         |
| Market Underperform (Sell)  | 1                       | 3%         | 0                         | 0%          |
| Total                       | 30                      | 100%       | 4                         | 13%         |

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