

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)

*April 11, 2023*

### Buy: Q1 Revenue Pre-announced.

**James McIlree, CFA**
**561-237-2709**
**jmcilree@dawsonjames.com**

Vuzix announced Q1 revenue exceeded \$4 million, ahead of consensus expectations. We have modeled quarter-to-quarter improvement in sales this year based on broader deployments to customers who have been piloting the company's smart glasses. We also expect OEM orders from defense and commercial customers to begin in the second half.

Vuzix announced Q1 revenue exceeded \$4 million, ahead of consensus expectations of \$3.9 million and possibly a bit shy of our \$4.6 million estimate. We are retaining our full-year estimate based on the expectation of broader deployments at customers who have been piloting the company's smart glasses. We also expect OEM orders from defense and commercial customers to begin in the second half.

Commercial opportunities could be catalyzed by Apple's long-awaited entry into the market with an AR/VR headset. Vuzix offers an ultralite smartglass system for the OEM market that utilizes the company's proprietary waveguide solution and custom microdisplay engine. A consumer smartglass solution is being pursued by many of the major tech companies including Meta, Apple and Alphabet. We expect a robust market will emerge over the coming years and Vuzix is positioning itself to serve that space.

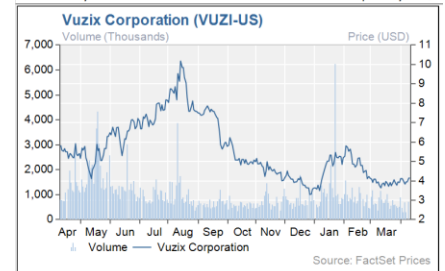
In the defense market, the company has development deals with a handful of major defense contractors on waveguide-based products. Lead times can be extended, but once deployment begins production runs can be long and very profitable. We estimate typical production contracts could generate \$10 to \$15 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				\$4.17
Price Target				\$15.00
Estimates	F2022A	F2023E	F2024E	
Revenues (\$M's)	\$ 11.8	\$ 20.5 E	\$ 25.5	
1Q March	\$ 2.5	\$ 4.6 E	\$ 5.6	
2Q June	\$ 3.0	\$ 5.1 E	\$ 6.1	
3Q September	\$ 3.4	\$ 5.6 E	\$ 6.6	
4Q December	\$ 2.9	\$ 5.1 E	\$ 7.1	
	F2022A	F2023E	F2024E	
EBITDA (\$M's)	\$ (23.9)	\$ (20.5)E	\$ (20.3)	
1Q March	\$ (5.6)	\$ (5.4)E	\$ (5.5)	
2Q June	\$ (5.8)	\$ (5.1)E	\$ (5.2)	
3Q September	\$ (5.4)	\$ (4.8)E	\$ (4.9)	
4Q December	\$ (7.3)	\$ (5.1)E	\$ (4.6)	
EV/Sales	NM	9.4 x	7.6 x	
EV/EBITDA	NM	(9.4) x	(9.5) x	
Stock Data				
52-Week Range	\$3.27	-	\$10.49	
Shares Outstanding (mil.)				63.7
Market Capitalization (mil.)				\$266
Enterprise Value (mil.)				\$194
Debt to Capital				0%
Cash & Equivalents (mil.)				\$72.6
Cash/Sh.				\$1.14
Average Three Months Trading Volume (K)				1,092
Insider Ownership				6.9%
Institutional Ownership				45.5%
Short interest (mil.)				23.6%
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 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)

	2020	2021	2022 A	Q1 23 E	Q2 23 E	Q3 23 E	Q4 23 E	2023 E	2024 E
Total Sales	\$ 11,581	\$ 13,165	\$ 11,836	\$ 4,625	\$ 5,125	\$ 5,625	\$ 5,125	\$ 20,500	\$ 25,500
Total COGS	10,984	11,596	10,353	3,397	3,597	3,797	3,597	14,387	16,387
Total Gross Profit	598	1,568	1,483	1,228	1,528	1,828	1,528	6,113	9,113
R&D	7,568	11,675	12,677	3,371	3,371	3,371	3,371	13,485	14,159
Sales & Marketing	4,040	6,119	8,078	2,175	2,175	2,175	2,175	8,701	9,136
G&A	6,915	22,503	21,039	5,184	5,184	5,184	5,184	20,738	21,165
D&A	1,129	988	1,789	449	449	449	449	1,794	0
Other	74	133	133	0	0	0	0	0	0
Operating Expense	19,725	41,418	43,716	11,179	11,179	11,179	11,179	44,718	44,460
Operating Income	\$ (19,127)	\$ (39,849)	\$ (42,233)	\$ (9,951)	\$ (9,651)	\$ (9,351)	\$ (9,651)	\$ (38,605)	\$ (35,348)
Interest & Other	1,175	(397)	1,469	(19)	(19)	(19)	(19)	(76)	(76)
Pretax Income	\$ (17,952)	\$ (40,246)	\$ (40,764)	\$ (9,970)	\$ (9,670)	\$ (9,370)	\$ (9,670)	\$ (38,681)	\$ (35,424)
Income Taxes	0	0	0	0	0	0	0	0	0
Net Income	\$ (17,952)	\$ (40,246)	\$ (40,764)	\$ (9,970)	\$ (9,670)	\$ (9,370)	\$ (9,670)	\$ (38,681)	\$ (35,424)
Preferred Dividends	(2,056)	0	0	0	0	0	0	0	0
Net to Common	\$ (20,008)	\$ (40,246)	\$ (40,764)	\$ (9,970)	\$ (9,670)	\$ (9,370)	\$ (9,670)	\$ (38,681)	\$ (35,424)
Diluted Shares	38,110	61,125	63,738	63,474	63,748	64,455	65,836	64,378	68,791
EPS	\$ (0.53)	\$ (0.66)	\$ (0.64)	\$ (0.16)	\$ (0.15)	\$ (0.15)	\$ (0.15)	\$ (0.60)	\$ (0.51)
Operating Income	\$ (19,127)	\$ (39,849)	\$ (42,233)	\$ (9,951)	\$ (9,651)	\$ (9,351)	\$ (9,651)	\$ (38,605)	\$ (35,348)
D&A	2,642	2,310	2,588	762	762	762	762	3,049	0
Stock Comp	2,806	17,303	15,776	3,759	3,759	3,759	3,759	15,037	15,037
EBITDA	\$ (13,680)	\$ (20,237)	\$ (23,870)	\$ (5,430)	\$ (5,130)	\$ (4,830)	\$ (5,130)	\$ (20,520)	\$ (20,311)

Source: Vuzix Corporation and Dawson James Securities estimates

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

(\$ in 000's)

	2020	2021	2022 A	2023 E	2024 E
Cash	36,070	120,204	72,564	28,425	16,120
A/R	1,389	2,242	3,559	3,370	4,685
Note Receivable	0	0	0	0	0
Revenue in excess of billings	0	0	269	269	269
Employee Retention Credit Rec.	0	0	467	467	467
Inventory	6,101	12,152	11,268	11,510	14,070
Prepaid Expenses & Other	<u>1,496</u>	<u>2,552</u>	<u>3,115</u>	<u>5,508</u>	<u>7,657</u>
<b>Current Assets</b>	<b>\$ 45,055</b>	<b>\$ 137,150</b>	<b>\$ 91,241</b>	<b>\$ 49,548</b>	<b>\$ 43,268</b>
Tooling & Equipment	2,837	5,190	3,879	3,830	3,781
Operating Lease Right of use	1,517	1,117	956	956	956
Patents & Trademarks	1,593	1,988	2,220	2,220	2,220
Licenses, net	194	1,390	30,159	64,409	64,409
Intangible Assets & Other	1,275	1,631	3,858	3,758	3,658
<b>Total Assets</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 132,313</b>	<b>\$ 124,721</b>	<b>\$ 118,292</b>
Accounts Payable	1,517	2,055	1,212	2,143	2,979
Unearned Revenue	41	28	29	51	71
Accrued Expenses	983	1,419	1,671	2,954	4,107
Licensing Fees Commitment	0	0	11,500	0	0
Taxes Payable	110	120	215	380	529
Operating Lease Right of use	<u>444</u>	<u>534</u>	<u>651</u>	<u>651</u>	<u>651</u>
<b>Current Liabilities</b>	<b>\$ 3,095</b>	<b>\$ 4,156</b>	<b>\$ 15,277</b>	<b>\$ 6,180</b>	<b>\$ 8,337</b>
Operating Lease Right of use	1,073	583	305	305	305
Licensing Fees Commitment	0	0	0	0	0
<b>Equity</b>	<b><u>48,303</u></b>	<b><u>143,728</u></b>	<b><u>116,730</u></b>	<b><u>118,236</u></b>	<b><u>109,649</u></b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 132,313</b>	<b>\$ 124,721</b>	<b>\$ 118,292</b>
	2020	2021	2022 A	2023 E	2024 E
Net Income	\$ (17,952)	\$ (40,377)	\$ (40,764)	\$ (38,681)	\$ (35,424)
D&A	2,642	2,310	2,588	3,049	3,049
Stock Comp	2,806	17,303	15,776	15,037	15,037
Other	41	784	323	100	100
Working Capital	<u>(1,501)</u>	<u>(6,999)</u>	<u>(2,444)</u>	<u>(11,544)</u>	<u>(3,867)</u>
<b>Operating Cash Flow</b>	<b>\$ (13,964)</b>	<b>\$ (26,980)</b>	<b>\$ (24,521)</b>	<b>\$ (32,039)</b>	<b>\$ (21,105)</b>
CapEx	(497)	(3,809)	(1,724)	(3,000)	(3,000)
Acquisition	0	0	(18,823)	0	0
Other	<u>(989)</u>	<u>(1,043)</u>	<u>(624)</u>	<u>(11,500)</u>	<u>0</u>
<b>Investing Activities</b>	<b>\$ (1,486)</b>	<b>\$ (4,852)</b>	<b>\$ (21,171)</b>	<b>\$ (14,500)</b>	<b>\$ (3,000)</b>
Equity	39,357	127,112	(1,948)	2,400	11,800
Debt	1,556	0	0	0	0
Other	0	(1,144)	0	0	0
Preferred	<u>0</u>	<u>(10,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Financing Activities</b>	<b>\$ 40,913</b>	<b>\$ 115,967</b>	<b>\$ (1,948)</b>	<b>\$ 2,400</b>	<b>\$ 11,800</b>
<b>Change in Cash</b>	<b>\$ 25,463</b>	<b>\$ 84,134</b>	<b>\$ (47,640)</b>	<b>\$ (44,139)</b>	<b>\$ (12,305)</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
- Update – Buy – November 10, 2022 – Price Target \$15.00
- Update – Buy – November 17, 2022 – Price Target \$15.00
- Update – Buy – January 11, 2023 – Price Target \$15.00
- Update – Buy – March 2, 2023 – Price Target \$15.00
- Update – Buy – April 11, 2023 – 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 March 17, 2023, 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 17-Mar-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	1	3%
Market Perform (Neutral)	11	31%	2	6%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>36</b>	<b>100%</b>	<b>3</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.