

## Vuzix Corporation (NASDAQ: VUZI)

August 9, 2023

### Buy: Q2 Results as Expected.

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Q2 results exceeded our estimates with revenue of \$4.7 million better than our \$4.6 million estimate and an EBITDA loss of \$5.5 million down from Q1 and better than our estimate of a \$5.6 million EBITDA loss. We forecast revenue this year will increase 60% and estimate a 35% increase in 2024.

Q2 revenue of \$4.7 million increased 56% over the year-ago quarter and 12% over the prior quarter. We forecast revenue will increase almost 60% for the second half, and we expect revenue in 2024 to increase 35%.

Product sales of \$4.4 million were dominated by sales of the M400 and one customer accounted for 75% of total product sales. Engineering services contributed \$266 thousand in sales. Product gross margin of 19% was down from Q1 but up substantially from the year-ago quarter due to absorption of overhead. The company continues to target product gross margin of 40%. We expect Vuzix to accomplish this with greater volume.

We continue to expect the company's investment in waveguide manufacturing and micro-LED development will be the primary drivers of growth in the years to come. The company has received multiple orders from aerospace and defense companies for development of waveguides and optical engines to be used in customized head-mounted displays. To date, the company's OEM business has generated modest revenue but these are long sales cycle projects, and with the number of engagements growing, a hockey stick in revenue could occur in the next 18 months.

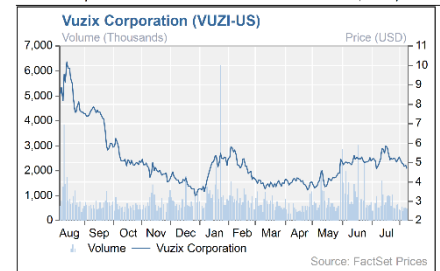
In the defense market, the company's development deals with a handful of major defense contractors on waveguide-based products could generate \$10 to \$15 million over a multi-year time frame. Lead times can be extended, and once deployment begins production runs can be long and very profitable. Vuzix is also working with multiple customers on supplying waveguides for the consumer market. There is upside to our sales projections from these waveguide projects.

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.

**Price Target Methodology.** Our \$8 price target values the company's smart glasses and waveguide businesses at a significant discount to 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				\$4.70
Price Target				\$8.00
Estimates	F2022A	F2023E	F2024E	
Revenues (\$M's)	\$ 11.8	\$ 18.9 E	\$ 25.5	
1Q March	\$ 2.5	\$ 4.2 A	\$ 5.6	
2Q June	\$ 3.0	\$ 4.7 A	\$ 6.1	
3Q September	\$ 3.4	\$ 4.8 E	\$ 6.6	
4Q December	\$ 2.9	\$ 5.3 E	\$ 7.1	
	F2022A	F2023E	F2024E	
EBITDA (\$M's)	\$ (23.9)	\$ (22.2)E	\$ (20.6)	
1Q March	\$ (5.8)	\$ (6.0)A	\$ (5.6)	
2Q June	\$ (5.7)	\$ (5.5)A	\$ (5.3)	
3Q September	\$ (5.4)	\$ (5.5)E	\$ (5.0)	
4Q December	\$ (7.3)	\$ (5.2)E	\$ (4.7)	
EV/Sales	NM	12.4 x	9.2 x	
EV/EBITDA	NM	(10.6) x	(11.4) x	
<b>Stock Data</b>				
52-Week Range	\$3.27	-	\$10.49	
Shares Outstanding (mil.)				63.3
Market Capitalization (mil.)				\$298
Enterprise Value (mil.)				\$235
Debt to Capital				0%
Cash & Equivalents (mil.)				\$63.2
Cash/Sh.				\$1.00
Average Three Months Trading Volume (K)				543
Insider Ownership				7.6%
Institutional Ownership				44.0%
Short interest (mil.)				21.9%
Dividend / Yield				\$0.00/0.0%



**Q2 Actual v Estimates**

(\$ in 000's, except per share data)

<b>Q2 23</b>	Actual	Estimates	Delta	% Delta
Total Sales	\$ 4,691	\$ 4,591	\$ 99	2%
Total COGS	3,718	3,367	351	10%
Total Gross Profit	972	1,224	(252)	-21%
R&D	2,837	3,070	(233)	
Sales & Marketing	2,510	2,540	(30)	
G&A	4,260	5,224	(963)	
D&A	973	964	9	
Operating Expense	10,580	11,797	(1,217)	-10%
Operating Income	\$ (9,608)	\$ (10,573)	966	9%
Interest & Other	563	607	(44)	
Pretax Income	\$ (9,045)	\$ (9,967)	\$ 922	
Income Taxes	0	0		
Net to Common	\$ (9,045)	\$ (9,967)	\$ 922	9%
Diluted Shares	63,231	63,214		
EPS	\$ (0.14)	\$ (0.16)	\$ 0.01	9%
Operating Income	\$ (9,608)	\$ (10,573)		
D&A	1,231	1,197		
Stock Comp	2,833	3,759		
EBITDA	\$ (5,544)	\$ (5,617)	\$ 73	1%

Source: Vuzix Corporation and Dawson James Securities estimates

Cash at quarter end was \$48 million, down from \$63 million at the end of Q1. Operational cash flow used \$7.9 million of cash and investing activities an additional \$6.7 million. We expect cash needs to diminish over the coming quarters, with better revenue and margins reducing operational cash needs and lower payments to Atomistic for development of micro-LED technology. We forecast cash at year-end of \$33 million, and \$13 million at the end of 2024.

**Valuation**

Our price target is based on 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 \$63 million cash balance. However, we have discounted this sharply, to \$8, to reflect the risk of competition by larger and better-capitalized competitors, the

time it may take to bring products to market, and the sharply higher interest rates currently compared to rates at the time of these transactions.

**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 A	Q2 23 A	Q3 23 E	Q4 23 E	2023 E	2024 E
Total Sales	\$ 11,581	\$ 13,165	\$ 11,836	\$ 4,191	\$ 4,691	\$ 4,766	\$ 5,266	\$ 18,914	\$ 25,500
Total COGS	10,984	11,596	10,353	3,315	3,718	3,698	3,898	14,630	17,367
Total Gross Profit	598	1,568	1,483	876	972	1,068	1,368	4,283	8,133
R&D	7,568	11,675	12,677	3,070	2,837	2,837	2,837	11,579	11,914
Sales & Marketing	4,040	6,119	8,078	2,540	2,510	2,510	2,510	10,069	10,667
G&A	6,915	22,503	21,039	5,132	4,260	4,260	4,260	17,913	17,509
D&A	1,129	988	1,789	964	973	998	998	3,934	0
Other	74	133	133	18	0	0	0	18	0
Operating Expense	19,725	41,418	43,716	11,723	10,580	10,605	10,605	43,513	40,089
Operating Income	\$ (19,127)	\$ (39,849)	\$ (42,233)	\$ (10,847)	\$ (9,608)	\$ (9,537)	\$ (9,237)	\$ (39,230)	\$ (31,957)
Interest & Other	1,175	(397)	1,469	607	563	563	563	2,295	(76)
Pretax Income	\$ (17,952)	\$ (40,246)	\$ (40,764)	\$ (10,241)	\$ (9,045)	\$ (8,975)	\$ (8,675)	\$ (36,935)	\$ (32,033)
Income Taxes	0	0	0	0	0	0	0	0	0
Net Income	\$ (17,952)	\$ (40,246)	\$ (40,764)	\$ (10,241)	\$ (9,045)	\$ (8,975)	\$ (8,675)	\$ (36,935)	\$ (32,033)
Preferred Dividends	(2,056)	0	0	0	0	0	0	0	0
Net to Common	\$ (20,008)	\$ (40,246)	\$ (40,764)	\$ (10,241)	\$ (9,045)	\$ (8,975)	\$ (8,675)	\$ (36,935)	\$ (32,033)
Diluted Shares	38,110	61,125	63,738	63,217	63,231	63,319	64,522	63,572	67,280
EPS	\$ (0.53)	\$ (0.66)	\$ (0.64)	\$ (0.16)	\$ (0.14)	\$ (0.14)	\$ (0.13)	\$ (0.58)	\$ (0.48)
Operating Income	\$ (19,127)	\$ (39,849)	\$ (42,233)	\$ (10,847)	\$ (9,608)	\$ (9,537)	\$ (9,237)	\$ (39,230)	\$ (31,957)
D&A	2,642	2,310	2,588	1,197	1,231	1,231	1,231	4,891	0
Stock Comp	2,806	17,303	15,776	3,668	2,833	2,833	2,833	12,166	11,331
EBITDA	\$ (13,680)	\$ (20,237)	\$ (23,870)	\$ (5,965)	\$ (5,544)	\$ (5,474)	\$ (5,174)	\$ (22,173)	\$ (20,626)
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total COGS	94.8%	88.1%	87.5%	79.1%	79.3%	77.6%	74.0%	77.4%	68.1%
Total Gross Profit	5.2%	11.9%	12.5%	20.9%	20.7%	22.4%	26.0%	22.6%	31.9%
R&D	65.3%	88.7%	107.1%	73.2%	60.5%	59.5%	53.9%	61.2%	46.7%
Sales & Marketing	34.9%	46.5%	68.3%	60.6%	53.5%	52.7%	47.7%	53.2%	41.8%
G&A	59.7%	170.9%	177.8%	122.4%	90.8%	89.4%	80.9%	94.7%	68.7%
D&A	9.7%	7.5%	15.1%	23.0%	20.7%	20.9%	19.0%	20.8%	0.0%
Other	0.6%	1.0%	1.1%	0.4%	0.0%	0.0%	0.0%	0.1%	0.0%
Operating Expense	170.3%	314.6%	369.4%	279.7%	225.5%	222.5%	201.4%	230.1%	157.2%
Operating Income	-165.2%	-302.7%	-356.8%	-258.8%	-204.8%	-200.1%	-175.4%	-207.4%	-125.3%
Interest & Other	10.1%	-3.0%	12.4%	14.5%	12.0%	11.8%	10.7%	12.1%	-0.3%
Pretax Income	-155.0%	-305.7%	-344.4%	-244.3%	-192.8%	-188.3%	-164.7%	-195.3%	-125.6%
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	-155.0%	-305.7%	-344.4%	-244.3%	-192.8%	-188.3%	-164.7%	-195.3%	-125.6%
Net to Common	-172.8%	-305.7%	-344.4%	-244.3%	-192.8%	-188.3%	-164.7%	-195.3%	-125.6%

Source: Vuzix Corporation and Dawson James Securities estimates

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

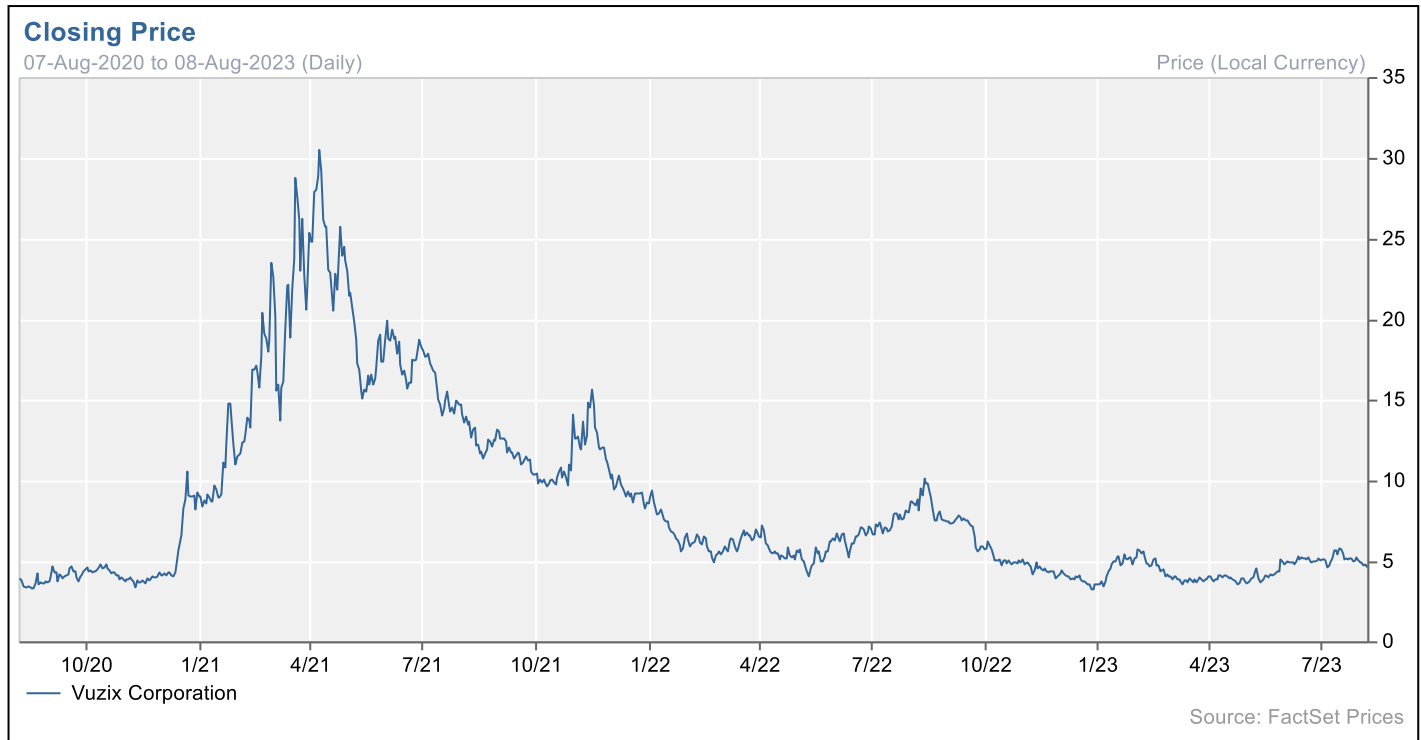
(\$ in 000's)

	2020	2021	2022 A	2023 E	2024 E
Cash	36,070	120,204	72,564	33,398	13,868
A/R	1,389	2,242	3,559	3,462	4,685
Revenue in excess of billings	0	0	269	310	310
Employee Retention Credit Rec.	0	0	467	0	0
Inventory	6,101	12,152	11,268	12,474	14,854
Prepaid Expenses & Other	1,496	2,552	3,115	2,261	3,059
<b>Current Assets</b>	<b>\$ 45,055</b>	<b>\$ 137,150</b>	<b>\$ 91,241</b>	<b>\$ 51,904</b>	<b>\$ 36,775</b>
Fixed Assets, net	2,837	5,190	3,879	5,852	3,927
Operating Lease Right of use	1,517	1,117	956	628	628
Patents & Trademarks	1,593	1,988	2,220	2,438	2,438
Licenses, net	194	1,390	30,159	48,775	48,775
Intangible Assets & Other	1,275	1,631	3,858	3,806	3,706
<b>Total Assets</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 132,313</b>	<b>\$ 113,403</b>	<b>\$ 96,250</b>
Accounts Payable	1,517	2,055	1,212	1,819	2,461
Unearned Revenue	41	28	29	120	163
Accrued Expenses	983	1,419	1,671	1,155	1,563
Licensing Fees Commitment	0	0	11,500	0	0
Taxes Payable	110	120	215	156	211
Operating Lease Right of use	444	534	651	429	429
<b>Current Liabilities</b>	<b>\$ 3,095</b>	<b>\$ 4,156</b>	<b>\$ 15,277</b>	<b>\$ 3,680</b>	<b>\$ 4,828</b>
Operating Lease Right of use	1,073	583	305	199	199
Licensing Fees Commitment	0	0	0	0	0
Equity	48,303	143,728	116,730	109,525	91,223
<b>Total Liabilities &amp; Equity</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 132,313</b>	<b>\$ 113,403</b>	<b>\$ 96,250</b>
	2020	2021	2022 A	2023 E	2024 E
Net Income	\$ (17,952)	\$ (40,377)	\$ (40,764)	\$ (36,935)	\$ (32,033)
D&A	2,642	2,310	2,588	4,891	4,925
Stock Comp	2,806	17,303	15,776	12,166	11,331
Other	41	784	323	548	100
Working Capital	(1,501)	(6,999)	(2,444)	(4,139)	(3,253)
<b>Operating Cash Flow</b>	<b>\$ (13,964)</b>	<b>\$ (26,980)</b>	<b>\$ (24,521)</b>	<b>\$ (23,470)</b>	<b>\$ (18,930)</b>
CapEx	(497)	(3,809)	(1,724)	(4,275)	(3,000)
Acquisition	0	0	(18,823)	0	0
Other	(989)	(1,043)	(624)	(12,166)	0
<b>Investing Activities</b>	<b>\$ (1,486)</b>	<b>\$ (4,852)</b>	<b>\$ (21,171)</b>	<b>\$ (16,440)</b>	<b>\$ (3,000)</b>
Equity	39,357	127,112	(1,948)	744	2,400
Debt	1,556	0	0	0	0
Other	0	(1,144)	0	0	0
Preferred	0	(10,000)	0	0	0
<b>Financing Activities</b>	<b>\$ 40,913</b>	<b>\$ 115,967</b>	<b>\$ (1,948)</b>	<b>\$ 744</b>	<b>\$ 2,400</b>
<b>Change in Cash</b>	<b>\$ 25,463</b>	<b>\$ 84,134</b>	<b>\$ (47,640)</b>	<b>\$ (39,166)</b>	<b>\$ (19,530)</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
- Price Target Change – Buy – May 11, 2023 – Price Target changed from \$15.00 to \$8.00
- Update – Buy – July 11, 2023 – Price Target \$8.00
- Update – Buy – August 9, 2023 – Price Target \$8.00

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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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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 3-Aug-23

	Company Coverage		Investment Banking	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	69%	3	8.60%
Market Perform (Neutral)	11	31%	3	8.60%
Market Underperform (Sell)	0	0%	0	0.00%
<b>Total</b>	<b>35</b>	<b>100%</b>	<b>6</b>	<b>17.20%</b>

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