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## Vuzix Corporation (NASDAQ: VUZI)

November 13, 2023

### Buy: Q3 Results. Adjusting Estimates and Price Target.

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*Q3 revenue was meaningfully lower than our estimate as were margins and EBITDA. A strong performance from the company's engineering services was far outweighed by customer delays and push-outs for smart glasses. We have adjusted our estimates and price target.*

Q3 revenue was \$2.2 million, significantly lower than our \$4.8 million estimate and a meaningful decline from Q2 revenue of \$4.7 million and year-ago revenue of \$3.4 million. The company experienced delays in smart glass orders from enterprise and OEM customers, and this was only partially offset by an improvement in sales of engineering services.

Engineering services was a bright spot for the company, contributing \$800 thousand in revenue and a \$3.2 million backlog to be delivered through 2025. These projects could result in meaningful revenue over an extended period of time from aerospace and defense customers looking to deploy the company's waveguide technology in their platforms. We believe the company's waveguide investment and expertise is a key component of the stock's value.

A plan to lower operating costs by 20% is underway and is scheduled to be fully implemented by the second half of next year. Operating expenses, excluding amortization of stock compensation, have grown from \$17 million in 2020 to \$28 million in 2022 and are on pace to exceed \$31 million this year. Cash at quarter-end was \$38 million, about 5 quarters of the Q3 OPCF burn.

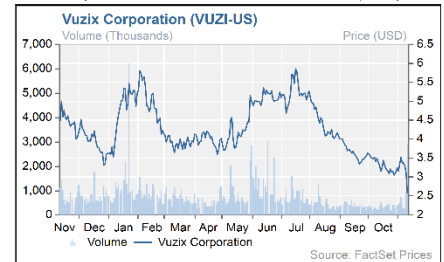
We continue to expect the company's investment in waveguide manufacturing and micro-LED development will be the primary drivers of growth in the years to come. The company has received multiple orders from aerospace and defense companies for development of waveguides and optical engines to be used in customized head-mounted displays. 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.

**Price Target Methodology.** Our \$5 price target, down from \$8, 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				\$2.58
Price Target				\$5.00
Estimates	F2022A	F2023E	F2024E	
Revenues (\$M's)	\$ 11.8	\$ 14.5 E	\$ 19.2	
1Q March	\$ 2.5	\$ 4.2 A	\$ 3.9	
2Q June	\$ 3.0	\$ 4.7 A	\$ 4.4	
3Q September	\$ 3.4	\$ 2.2 A	\$ 5.1	
4Q December	\$ 2.9	\$ 3.5 E	\$ 5.9	
	F2022A	F2023E	F2024E	
EBITDA (\$M's)	\$ (23.9)	\$ (25.1)E	\$ (26.1)	
1Q March	\$ (5.8)	\$ (6.0)A	\$ (7.3)	
2Q June	\$ (5.7)	\$ (5.5)A	\$ (6.8)	
3Q September	\$ (5.4)	\$ (6.9)A	\$ (6.2)	
4Q December	\$ (7.3)	\$ (6.6)E	\$ (5.9)	
EV/Sales	NM	8.6 x	6.5 x	
EV/EBITDA	NM	(5.0) x	(4.8) x	
<b>Stock Data</b>				
52-Week Range	\$2.50	-	\$6.06	
Shares Outstanding (mil.)				63.3
Market Capitalization (mil.)				\$163
Enterprise Value (mil.)				\$126
Debt to Capital				0%
Cash & Equivalents (mil.)				\$38.0
Cash/Sh.				\$0.60
Average Three Months Trading Volume (K)				756
Insider Ownership				7.6%
Institutional Ownership				44.5%
Short interest (mil.)				17.7%
Dividend / Yield				\$0.00/0.0%



**Q3 Actual v Estimates**

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

Q3 23	Actual	Estimates	Delta	% Delta
Total Sales	\$ 2,180	\$ 4,766	\$ (2,586)	-54%
Total COGS	2,418	3,698	(1,281)	-35%
Total Gross Profit	(238)	1,068	(1,305)	-122%
R&D	2,913	2,837	76	
Sales & Marketing	2,832	2,510	322	
G&A	4,467	4,260	207	
D&A	959	998	(39)	
Operating Expense	11,195	10,605	590	6%
Operating Income	\$ (11,433)	\$ (9,537)	(1,895)	-20%
Interest & Other	450	563	(113)	
Pretax Income	\$ (10,983)	\$ (8,975)	\$ (2,008)	
Income Taxes	0	0		
Net to Common	\$ (10,983)	\$ (8,975)	\$ (2,008)	-22%
Diluted Shares	63,325	63,319		
EPS	\$ (0.17)	\$ (0.14)	\$ (0.03)	-22%

Operating Income	\$ (11,433)	\$ (9,537)		
D&A	1,192	1,231		
Stock Comp	3,297	2,833		
EBITDA	\$ (6,943)	\$ (5,474)	\$ (1,470)	-27%

Source: Vuzix Corporation and Dawson James Securities estimates

Cash at quarter end was \$38 million, down from \$72 million at the end of 2022. Operating cash required \$8.0 million and investing activities an additional \$2.5 million. We forecast cash at year-end of \$32 million, and \$2 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 \$38 million cash balance. However, we have discounted this sharply, to \$5, 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 A	Q4 23 E	2023 E	2024 E
Total Sales	\$ 11,581	\$ 13,165	\$ 11,836	\$ 4,191	\$ 4,691	\$ 2,180	\$ 3,476	\$ 14,538	\$ 19,206
Total COGS	10,984	11,596	10,353	3,315	3,718	2,418	3,341	12,792	16,809
Total Gross Profit	598	1,568	1,483	876	972	(238)	135	1,746	2,397
R&D	7,568	11,675	12,677	3,070	2,837	2,913	2,913	11,731	10,340
Sales & Marketing	4,040	6,119	8,078	2,540	2,510	2,832	2,832	10,714	10,054
G&A	6,915	22,503	21,039	5,132	4,260	4,467	4,467	18,326	17,341
D&A	1,129	988	1,789	964	973	959	998	3,895	3,993
Other	74	133	133	18	0	24	0	42	0
Operating Expense	19,725	41,418	43,716	11,723	10,580	11,195	11,210	44,708	41,727
Operating Income	\$ (19,127)	\$ (39,849)	\$ (42,233)	\$ (10,847)	\$ (9,608)	\$ (11,433)	\$ (11,075)	\$ (42,962)	\$ (39,330)
Interest & Other	1,175	(397)	1,469	607	563	450	450	2,068	(76)
Pretax Income	\$ (17,952)	\$ (40,246)	\$ (40,764)	\$ (10,241)	\$ (9,045)	\$ (10,983)	\$ (10,625)	\$ (40,894)	\$ (39,406)
Income Taxes	0	0	0	0	0	0	0	0	0
Net Income	\$ (17,952)	\$ (40,246)	\$ (40,764)	\$ (10,241)	\$ (9,045)	\$ (10,983)	\$ (10,625)	\$ (40,894)	\$ (39,406)
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)	\$ (10,983)	\$ (10,625)	\$ (40,894)	\$ (39,406)
Diluted Shares	38,110	61,125	63,738	63,217	63,231	63,325	63,323	63,274	63,652
EPS	\$ (0.53)	\$ (0.66)	\$ (0.64)	\$ (0.16)	\$ (0.14)	\$ (0.17)	\$ (0.17)	\$ (0.65)	\$ (0.62)

Operating Income	\$ (19,127)	\$ (39,849)	\$ (42,233)	\$ (10,847)	\$ (9,608)	\$ (11,433)	\$ (11,075)	\$ (42,962)	\$ (39,330)
D&A	2,642	2,310	2,588	1,197	1,231	1,192	1,192	4,813	0
Stock Comp	2,806	17,303	15,776	3,668	2,833	3,297	3,297	13,094	13,188
EBITDA	\$ (13,680)	\$ (20,237)	\$ (23,870)	\$ (5,965)	\$ (5,544)	\$ (6,943)	\$ (6,585)	\$ (25,055)	\$ (26,142)
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%	110.9%	96.1%	88.0%	87.5%
Total Gross Profit	5.2%	11.9%	12.5%	20.9%	20.7%	-10.9%	3.9%	12.0%	12.5%
R&D	65.3%	88.7%	107.1%	73.2%	60.5%	133.6%	83.8%	80.7%	53.8%
Sales & Marketing	34.9%	46.5%	68.3%	60.6%	53.5%	129.9%	81.5%	73.7%	52.3%
G&A	59.7%	170.9%	177.8%	122.4%	90.8%	204.9%	128.5%	126.1%	90.3%
D&A	9.7%	7.5%	15.1%	23.0%	20.7%	44.0%	28.7%	26.8%	20.8%
Other	0.6%	1.0%	1.1%	0.4%	0.0%	1.1%	0.0%	0.3%	0.0%
Operating Expense	170.3%	314.6%	369.4%	279.7%	225.5%	513.5%	322.5%	307.5%	217.3%
Operating Income	-165.2%	-302.7%	-356.8%	-258.8%	-204.8%	-524.4%	-318.6%	-295.5%	-204.8%
Interest & Other	10.1%	-3.0%	12.4%	14.5%	12.0%	20.6%	12.9%	14.2%	-0.4%
Pretax Income	-155.0%	-305.7%	-344.4%	-244.3%	-192.8%	-503.8%	-305.7%	-281.3%	-205.2%
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%	-503.8%	-305.7%	-281.3%	-205.2%
Net to Common	-172.8%	-305.7%	-344.4%	-244.3%	-192.8%	-503.8%	-305.7%	-281.3%	-205.2%

Source: Vuzix Corporation and Dawson James Securities estimates

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

(\$ in 000's)

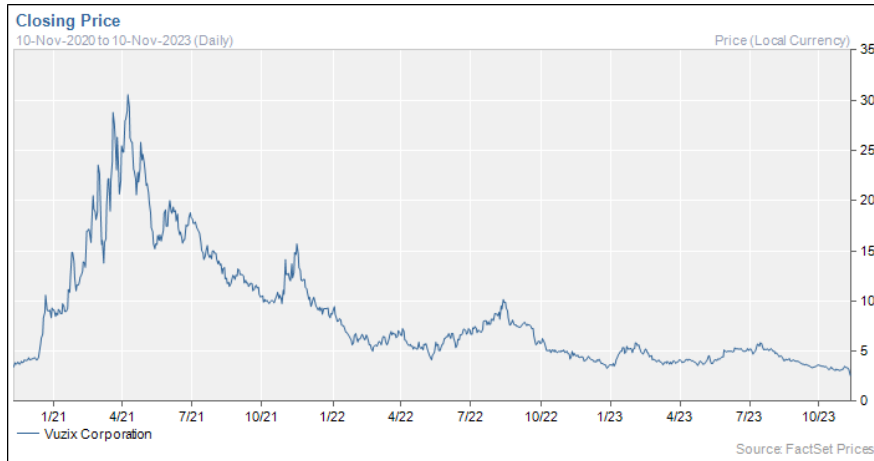
	2020	2021	2022 A	2023 E	2024 E
Cash	36,070	120,204	72,564	32,478	1,817
A/R	1,389	2,242	3,559	2,286	3,856
Revenue in excess of billings	0	0	269	437	437
Employee Retention Credit Rec.	0	0	467	0	0
Inventory	6,101	12,152	11,268	10,691	15,507
Prepaid Expenses & Other	<u>1,496</u>	<u>2,552</u>	<u>3,115</u>	<u>4,576</u>	<u>7,720</u>
<b>Current Assets</b>	<b>\$ 45,055</b>	<b>\$ 137,150</b>	<b>\$ 91,241</b>	<b>\$ 50,467</b>	<b>\$ 29,337</b>
Fixed Assets, net	2,837	5,190	3,879	6,607	4,839
Operating Lease Right of use	1,517	1,117	956	465	465
Patents & Trademarks	1,593	1,988	2,220	2,531	2,531
Licenses, net	194	1,390	30,159	46,448	46,448
Intangible Assets & Other	1,275	1,631	3,858	3,629	3,529
<b>Total Assets</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 132,313</b>	<b>\$ 110,148</b>	<b>\$ 87,149</b>
Accounts Payable	1,517	2,055	1,212	2,955	4,985
Unearned Revenue	41	28	29	163	275
Accrued Expenses	983	1,419	1,671	1,337	2,255
Licensing Fees Commitment	0	0	11,500	0	0
Taxes Payable	110	120	215	86	145
Operating Lease Right of use	<u>444</u>	<u>534</u>	<u>651</u>	<u>296</u>	<u>296</u>
<b>Current Liabilities</b>	<b>\$ 3,095</b>	<b>\$ 4,156</b>	<b>\$ 15,277</b>	<b>\$ 4,837</b>	<b>\$ 7,957</b>
Operating Lease Right of use	1,073	583	305	168	168
Licensing Fees Commitment	0	0	0	0	0
Equity	<u>48,303</u>	<u>143,728</u>	<u>116,730</u>	<u>105,143</u>	<u>79,024</u>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 52,471</b>	<b>\$ 148,467</b>	<b>\$ 132,313</b>	<b>\$ 110,148</b>	<b>\$ 87,149</b>

	2020	2021	2022 A	2023 E	2024 E
Net Income	\$ (17,952)	\$ (40,377)	\$ (40,764)	\$ (40,894)	\$ (39,406)
D&A	2,642	2,310	2,588	4,813	4,769
Stock Comp	2,806	17,303	15,776	13,094	13,188
Other	41	784	323	552	100
Working Capital	<u>(1,501)</u>	<u>(6,999)</u>	<u>(2,444)</u>	<u>(546)</u>	<u>(6,411)</u>
<b>Operating Cash Flow</b>	<b>\$ (13,964)</b>	<b>\$ (26,980)</b>	<b>\$ (24,521)</b>	<b>\$ (22,980)</b>	<b>\$ (27,761)</b>
CapEx	(497)	(3,809)	(1,724)	(4,359)	(3,000)
Acquisition	0	0	(18,823)	0	0
Other	<u>(989)</u>	<u>(1,043)</u>	<u>(624)</u>	<u>(12,323)</u>	<u>0</u>
<b>Investing Activities</b>	<b>\$ (1,486)</b>	<b>\$ (4,852)</b>	<b>\$ (21,171)</b>	<b>\$ (16,682)</b>	<b>\$ (3,000)</b>
Equity	39,357	127,112	(1,948)	(425)	100
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>\$ (425)</b>	<b>\$ 100</b>
<b>Change in Cash</b>	<b>\$ 25,463</b>	<b>\$ 84,134</b>	<b>\$ (47,640)</b>	<b>\$ (40,086)</b>	<b>\$ (30,661)</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
- Price Target Change – Buy – November 13, 2023 – Price Target changed from \$8.00 to \$5.00

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- 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.

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Current as of 3-Nov-23

	Company Coverage		Investment Banking	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	64.70%	3	8.80%
Market Perform (Neutral)	12	35.30%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	5	14.70%

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