

Energous Corporation

Third Quarter 2018 Financial Results Conference Call

Tuesday, October 30, 2018, 4:30 PM Eastern

CORPORATE PARTICIPANTS

Steve Rizzone - *Chief Executive Officer*

Brian Sereda - *Chief Financial Officer*

Mike Bishop - *Investor Relations*

PRESENTATION

Operator

Good afternoon and welcome to the Energous Corporation Third Quarter 2018 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." Please note, this event is being recorded.

I would now like to turn the conference over to Mike Bishop with Investor Relations. Please go ahead.

Mike Bishop

Thank you, Andrea, and welcome everyone. Before we begin, I would like to remind participants that during today's call, the company will make forward-looking statements. These statements, whether in prepared remarks or during the Q&A session are subject to inherent risks and uncertainties that are detailed in the company's filings with the Securities and Exchange Commission, except as otherwise required by Federal Securities Laws, Energous disclaims any obligation or undertaking to publicly release updates or revisions to the forward-looking statements contained herein or elsewhere to reflect changes and expectations with regard to those events, conditions, and circumstances.

Also, please note that during this call, Energous will be discussing non-GAAP financial measures as defined by SEC Regulation G. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are included in today's press release which is posted to the company's website.

Now, I would like to turn the call over to Steve Rizzone, CEO of Energous. Please go ahead.

Steve Rizzone

Thank you, Mike. Good afternoon and welcome to the Energous third quarter conference call and update.

With me today is Brian Sereda, our Chief Financial Officer. I will begin the call by commenting on the overall performance Energous achieved in the third quarter, including major progress with our key strategic partner, as well as, advancements we recently made in the WattUp GaAs and GaN chip solutions. I will then turn the call over to Brian for details on our financial performance and will close with a comment before turning the call over to the operator for questions.

During the quarter, Energous further solidified its position as the only...the only commercially viable contact through distance charging solution capable of powering the build-out of the wireless charging 2.0 ecosystem.

While we have made significant progress in a variety of areas, we would like to begin by commenting on the latest technological breakthroughs in our GaAs and GaN transmitter, receiver and power amplifier chips which are particularly of interest to our customers looking for higher power solutions.

This new generation of GaAs and GaN chips currently support up to 15 watts of fast charging contact power, with the ability to go higher, at efficiency levels that are more than 10% better than any other wireless charging option currently available in the market today. The efficiency numbers are especially important as increased efficiency means less heat, while fast-charging devices such as smartphones, tablets, cordless power tools, drones and other large battery devices. While we cannot give you specific timeframes, indications are that the WattUp technology will be available in future releases of all of these devices.

Couple of these breakthroughs with orientation freedom, small footprint, low cost and the elimination of foreign object detection problems plaguing the older first generation coil charging solutions and you can understand why virtually every one of our customer prospect queue of over 75 opportunities either has implemented or considered implementing first generation Chi [ph] technology solutions only to switch their future product plans over to next generation wireless technology from Energous.

Beyond the significant continued investment in core development which brought about the breakthroughs noted earlier, Energous focused on four key business elements in the quarter. One, advancing our key strategic partner to the next level, two, supporting our early adopters as they migrate from product announcement stage to full commercial production; three, progressing our top-tier revenue opportunities forward to meet our Q4 and 2019 revenue expectations; four, expanding our global regulatory leadership position, country certified, knowledge-based and experienced, all of which paves the way for a number of global and regional launches of WattUp-enabled products in the coming months.

First, regarding our ongoing relationship with our key strategic partner; as our investors are well aware, Energous has been actively engaged with this top-tier consumer electronics company since February of 2015. During this period of time, a broad range of technological approaches to wireless charging have been explored. Given the most recent advances in our core technology noted earlier, the relationship has now progressed beyond development, exploration and testing to actual product engineering.

I cannot provide any further details other than to confirm that the relationship has successfully advanced to a new level, focused on a broader ecosystem that can be launched to support a diverse set of devices. And while we are cautiously optimistic as to the ultimate outcome of this relationship, consistent with our past commentary, there continues to be no guarantee that the WattUp technology will ever be commercially available in any of our key strategic customers' products.

Second, commenting on the support of our early adopters. It is vitally important to the long-term success of the global rollout of the wireless charging 2.0 ecosystems that the initial shipments of WattUp-enabled products are reliable, well-received, proven high utility and improved and provides an improved wireless charging experience to their respective target markets. To-date, three of our customers, SK Telesys Delight, The Gokhale Method and Qubercomm have announced WattUp-enabled commercial products.

We have also announced the general availability of our reference design transmitter from our ODM partner, IDT.

We continue to work with and support these customers and partners as they work their way through from announcement to full commercial availability. Indications are that the hearing aids from SK Telesys and Delight will be the first WattUp-enabled products to hit the consumer

market hopefully, before the end of this year, as they complete the final stages of regulatory certifications and other customary steps for companies launching new products.

Additionally, we are honored that SK Telesys, part of the SK Group along with SK Telecom, the largest carrier in Korea, has chosen Energous to demonstrate its WattUp wireless charging technology at the SK ICT Tech Summit in September.

As announced yesterday, Energous is equally honored to have been the only wireless charging Technology Company invited by Deutsche Telekom to present a market overview, discuss the future of RF charging and demonstrate the WattUp technology at its Telekom Gallery Team Trends event at the Deutsche Telekom headquarters in Bonn, Germany.

Similarly, Energous customer, Austar Hearing, or AST, one of the largest hearing aid manufacturers in China, demonstrated its newly designed WattUp-enabled hearing aids at the 63rd Annual International Congress of Hearing Aid Acousticians Conference earlier this month. Response to the demonstration has been overwhelmingly positive, resulting in a significant expansion of engagements in hearing aid manufacturers across the globe who intend on integrating WattUp's unique charging 2.0 capabilities into future hearing aids and personal sound amplification, or PSAP, products.

It is important for our investors to note that the next generation of in-the-ear hearing aid devices is a Greenfield opportunity for Energous. There is no other wireless charging option commercially available that has the efficiency and footprint to fit into these devices. All of the small form factor markets, hearing aids, hearables and wearables which have addressable markets measured in the millions of devices shipped per year, will be major revenue contributors beginning in 2019.

Our third major focus for the third quarter concentrated on the advancement of multiple opportunities across several vertical markets towards significant chip shipments in anticipation of initial product rollouts in the first half of 2019. While we cannot specifically name these opportunities or comment on their status; we can report that we achieved across the board progress on all of our focused revenue opportunities which we believe will drive a material increase in both chip and engineering services revenue in the fourth quarter.

The path to meaningful revenues leading to cash flow breakeven which we expect to achieve in 2019 are becoming much clearer and have solidified as noted by the progress I've just highlighted.

As discussed earlier, along with the currently announced products from our customers and our top two tier partners, we are also working with over 75 other companies which are in various stages of product development. These projects include near-field, mid-field and far-field applications of our technology. It is very, very clear to us, that our technology is extremely attractive to a broad base of electronic device companies, as they build-out the next generation of products that span consumer, medical, industrial, automotive and other major industries.

Finally, our fourth major focus was on the all-important global regulatory certifications. Our regulatory team has secured certifications for the WattUp near-field technologies in 108 countries. The growing list of approved countries gives us a solid base of regulatory certifications in North America, the European Union, Southeast Asia, Africa and Central and South America to begin regional launches of WattUp-enabled products. Further, Energous is continuing to make solid progress in other key markets including China, Korea and Japan.

Our regulatory team is actively engaged with respective regulatory bodies in each of these countries and the progress has now reached the point where we are introducing key customers into the process which we believe will have a material impact on both the pace and the scope of the certifications.

Continuing on with our progress for the quarter, Energous expanded its IP portfolio to 130 patents issued and 49 applications expected to be issued shortly. In the third quarter, we filed eleven new patent applications and nine new continuing applications. The increasing patent account reflects our continued commitment to increase the value of the company and build defensive competitive positions based on the judicial creation and use of intellectual property.

Moving on, we want to confirm that our partnership with Dialog continues to progress as planned and remains unaltered by the recent transaction with Apple. Dialog has been an outstanding partner and the partnership continues to be mutually beneficial. We are fortunate to be able to leverage many teams within the Dialog organization, including sales, marketing, operations, customer support, manufacturing and order management.

Leveraging these resources, as well as, Dialog's leadership position in BLE and power management silicon has significantly expanded and accelerated our opportunity base, as well as, fostered the creation of a very significant competitive barrier for any new wireless company attempting to enter our market without the benefit of a partnership of a top-tier semiconductor company.

We believe Dialog benefits from the opportunity to introduce the next generation of wireless charging solutions to their customers which represents a new and diversified source of revenue. We look forward to continuing to strengthen the partnership as the number and scope of our mutual customers accelerates and expands.

This year, again we will be partnering with Dialog at CES, where the focus will be on demonstrating the latest achievements in the WattUp technology as discussed earlier. The high power and efficiency levels we have been able to achieve with our advanced GaAs and GaN technology, as well as, the only real solution to the foreign object detection problem, continues to be of interest to our customers and prospects. We will also be demonstrating a number of actual customer products, both in our booth and in customer booths around the show.

To conclude, Energous continues to make steady achievements towards meaningful revenues and profitability which is our top corporate priority. The path to achieve our profitability goal is clear and the pieces are in place to accomplish this mission. The company has demonstrated significant progress across all functions in the quarter, especially in the all-important advancement of our technology, key partnerships, customers and global regulatory certifications. In the not too distant future, I am confident the subject of these quarterly calls will shift from milestone achievements to revenue and EBITDA growth.

Brian, I will now turn the call over to you.

Brian Sereda

Yes, thanks, Steve. At the close of market today, we issued a press release announcing our operating and financial results for our third quarter of fiscal 2018 ended September 30th. In the third quarter, revenue totaled \$228,000 compared to \$206,000 in the previous quarter. We believe we are on track to see growing revenues beginning in the fourth quarter, and as Steve

explained, our expectations for 2019 revenue growth, both engineering services and chip royalties, remain on track.

Although, Q3 revenue was a modest increase over the prior quarter, our expansion within our top-tier partners continues, setting our expectation and foundation for growing services revenue and chip royalty growth from both recently announced customers and those that have been under engagement for some time.

GAAP expenses for the third quarter totaled \$12.9 million, approximately \$0.4 million higher than the \$12.5 million in the prior quarter and approximately \$0.1 million lower than Q3 of last year. The increase over the prior quarter was primarily a result of higher engineering costs in the area of chip development, partially offset by lower stock compensation.

We discussed on last quarter's call that we would see an increase in chip development in the third and fourth quarters of this year, as we entered into a new chip development cycle to meet a potentially significant opportunity in the second half of 2019 with one or more customers. This investment has broad market applications, but as Steve mentioned, is being driven primarily by our tier one partner.

We expect spending to continue to rise in the fourth quarter, as we [indiscernible] the bulk of the chip development, then return to more of a normal engineering spend pattern in line with the first half of this fiscal year. Through our partnership with Dialog, we are managing our headcount and ended the quarter with 68 heads, the majority tied to engineering.

The net loss for the third quarter on a GAAP basis was \$12.6 million which equates to a loss of \$0.49 per share on approximately 25.7 million weighted average shares outstanding. This compares to a \$12.3 million net loss in the prior quarter or \$0.48 per share loss on approximately 25.5 million weighted average shares and a \$12.7 million net loss or \$0.58 per share loss in the same quarter of last year.

Now, for a little more background, I'll move on to a non-GAAP review of our operating numbers for the quarter as we believe adjusted or non-GAAP EBITDA provides a useful comparison for investors for a company of our stage, especially when used in conjunction with GAAP information.

Excluding \$4.1 million of stock compensation and depreciation from our total GAAP expense of \$12.9 million in Q3, net non-GAAP operating expenses totaled approximately \$8.8 million, approximately \$0.9 million higher than Q2 and \$0.7 million higher than Q3 of last year. This was anticipated, as I previously highlighted and driven by higher engineering costs.

Adjusted EBITDA or non-GAAP operating loss for Q3 was \$8.6 million, approximately \$0.9 million higher compared to the non-GAAP operating loss of \$7.7 million in the previous quarter and \$0.7 million higher than the \$7.9 million non-GAAP operating loss for the same period last year.

Non-GAAP engineering expense rose to \$6.2 million compared to \$4.9 million in the prior quarter, with the increase being tied to the chip development cycle discussed earlier and expected to peak in the fourth fiscal quarter of this year. Compared to the same quarter last year, non-GAAP engineering spends increased by only \$3.3 million. We believe we've demonstrated that we can leverage our relationship with Dialog, keeping our headcount level

consistently weighted towards engineering, while meeting the demands of our diverse customer funnel.

Non-GAAP SG&A declined by approximately \$0.4 million, reflecting lower legal and selling costs in Q3 versus the prior second quarter. Compared to the same period last year, combined SG&A costs were approximately \$0.4 million higher, mainly due to expanded sales, engineering headcount and related selling expenses directly tied to a global customer base, integrating our technology into potential future products?

We ended the quarter with approximately \$28.6 million in cash and with zero debt. We continue to manage our working capital against the opportunities in front of us and would like to emphasize again that we believe our current operating model is indeed highly leverageable even with the anticipated growth curve into 2019.

Finally, to recap and consolidate Steve's comments and mine, we expect our engineering services and chip revenues to grow in the fourth quarter and as we enter into 2019. Alongside this, and most importantly, we are seeing customers, both large and small, make steady progress towards commercialization as evidenced by recent announcements and progress we are measuring through engineering integration cycles and global regulatory discussions. What further underpin our confidence is the long-term relationships we have maintained with some of the largest consumer and industrial companies in the world, and along with our valued business partner and one of our largest shareholders, Dialog Semi.

With that, I look forward to discussing our progress in future calls and I'll now turn the call back to Steve.

Steve Rizzone

Thank you, Brian. Before, I turn the call over to the operator for questions; I would like to make one final comment. I recently celebrated my fifth year anniversary at Energous. It's hard to believe how far we have collectively come since we took the company public in March of 2014 with 10 people and a vision. Since then, we have stayed true to that vision, confident that Energous would one day lead a major paradigm shift as to how consumers charge their electronic devices.

Many of our investors have been with us since the beginning. And together, we have experienced euphoria and disappointments as we discovered new chip technologies and worked through long development and customer integration cycles, as well as challenging domestic and global regulatory certification. Through it all, we have remained true and steadfast, always optimistic, comfortable in the belief that we were on the right path, we knew what needed to be done and we would do it.

Let me end with this final thought that while we have been and continue to be optimistic, we have never, let me repeat, never have we as an executive team, as a board of directors or have I as the CEO of Energous been as confident in our vision, our team and our ability to execute against our objectives and achieve our ultimate goals as we are today. We do not intend to disappoint. We fully expect to surprise to the upside. Thank you.

Operator, I'll now take questions.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question you may press "*" then "1" on your touchtone phone. If you are using a speakerphone please pick up your handset before pressing the keys, to withdraw your question please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

Our first question comes from Ilya Grozovsky of National Securities. Please go ahead.

Ilya Grozovsky

Thanks, guys. On Q3, can you confirm that you had royalty revenue or is the revenue purely from R&D offset?

Brian Sereda

Yes Ilya, we're not breaking our revenue out at this point. We did ship chips in the quarter and we've got an arrangement with Dialog and there are certain terms and conditions under that arrangement. So, right now, given the numbers, we're not required to break out the numbers. So, with that, I'll just leave the total revenue numbers as displayed.

Ilya Grozovsky

Okay. And then, if we look at Q4, at the December quarter, do you think that patterns holds as well? Do you anticipate both R&D offset and royalties or kind of how are you thinking about it and how much visibility do you have? And, finally, just on that, how many different products, if you are anticipating royalties, do you think will contribute in Q4?

Brian Sereda

Just a quick note on that, yes, we do expect growth in both areas, Ilya, both engineering services and chip royalties. Number of products, Steve, maybe...

Steve Rizzone

Yes, I think that we'll see multiple...when you say products, you mean customer shipments or customers, I should say, taking shipments of chips in preparation for launches in 2019. We'll see multiple customers. We're looking for at least one, if not two, top-tier customers taking a significant number of chips, and so, it's still early in the quarter, but all indications are that as I said earlier, that we're going to expect a material ramp in our revenue in the fourth quarter and it will have both shipments of chips as well as increases in engineering services revenue.

Ilya Grozovsky

Great, thank you.

Operator

Again if you have a question please press "*" then "1." Our next question comes from William Gibson of ROTH Capital Partners. Please go ahead.

William Gibson

Thank you. You talked about the near-field certification. How is the process going for mid-field?

Steve Rizzone

We're working in parallel with that, Bill. The strategy has always been that we go in first with near-field, engage the regulators, and then migrate the discussions to distance. Our clear focus

is on near-field now because that is going to be the bulk of our revenue, I think going into 2019. And so, it's really all about getting these near-field certifications, first of all, on a regional basis and then, ultimately, on a global basis, so we can launch multiple products for multiple customers. But again, we do both, but the strategy right now, as I said, is to lead with near-field and then migrate the discussions to distance.

William Gibson

Thank you. And you mentioned 68 employees, how many would you expect to have at year-end 2019?

Brian Sereda

Now, I don't expect we're going to grow headcount by that much. I would say maybe upwards of 75.

William Gibson

Thank you.

Steve Rizzone

I think you can expect that we've been able to manage our headcount, I think, pretty effectively. Of course, we have a tremendous advantage with the Dialog relationship because we're not building out our operations team and, of course, we're not building out our sales organization. We're leveraging Dialog for both of those. We will expect to move more of our engineering expertise from core development, though, over to customer-facing engineering as we continue to expand our customer and prospect base.

William Gibson

Thanks, Steve.

Operator

Our next question comes from John Hickman of Ladenburg Thalmann. Please go ahead.

John Hickman

Hi. Thanks for taking my question. You mentioned a number of products, consumer products, that you thought might include the WattUp technology. If you look out to 2019, could you maybe narrow it down to which one or two consumer products might be the bulk of your shipments? I would imagine [multiple speakers] but...

Steve Rizzone

As I mentioned, I think the smaller form factor products will be the majority of our revenue in 2019. We have clear Greenfield opportunities there these...since these products contain our first-generation CMOS chips, which are generally available now, these are the ones that are in the final stages of integration and the ones that we can expect to see come into the market in the first half of 2019.

The higher power applications are just starting the integration process now as these chips, these new GaAs and GaN chips are just coming in from qualification, and so I think that those will be starting to hit towards the latter part of next year. Again to...so to conclude or summarize, the smaller form factor, CMOS-based technologies will be driving the majority of the revenue in 2019. Towards the end of the year, we'll see the larger high-power opportunities that we talked about coming into fruition.

John Hickman

And then, if I could just pin you down a little bit, when you...your key strategic partner, so previous to your comments for this quarter, they've been kind of studying and qualifying the technology, so to speak, and now they're actually putting that technology in individual products that might hit the shelves some quarters out.

Steve Rizzone

Again, we really cannot comment, we can't comment beyond what I've said in the prepared remarks. The relationship has moved to a new level and we're pleased with our progress. But, again, we can't make any definitive statements nor can we make any commitments as to whether or not this technology will ever be available in their consumer electronic products.

John Hickman

Was it...can you define product engineering then?

Steve Rizzone

It is a...where we are engaged in exploring specific products as opposed to general research and develop into the potential of the technology.

John Hickman

Okay, thanks. That helps. Appreciate it.

Operator

This concludes our question and answer session. I would like to turn the conference back to Mr. Steve Rizzone for any closing remarks.

CONCLUSION**Steve Rizzone**

Thank you, everyone, today for participating. We look forward to reporting even more progress in our next quarterly call and we look forward to talking to you then. Thank you and good day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.