Energous Corporation

Second Quarter 2017 Earnings Conference Call

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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 Second Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad, to withdraw your question please press star then two. Please note this event is being recorded.

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

Mike Bishop
Thank you, Brian and welcome, everybody, before we begin, I would like to remind everyone 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 Law, 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 regards 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 measure are included in today's press release, which is posted on the company's website.

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

Steve Rizzone
Thank you, Mike. I would like to welcome everyone to the Energous second quarter 2017 conference call and update.

Joining me today is Brian Sereda, our Chief Financial Officer. I will start with remarks regarding the company's operational progress since our last update before turning the call over to Brian, who will review the financial results for the second quarter of 2017. I will then close with some final comments before opening the session for questions.

Turning to milestones and objectives, during the second quarter Energous made significant progress in a number of key operational areas. Consistent with expectations set in our last earnings call in May, Energous received its first order from customers for production quantities of silicon chip sets.

These orders were from three different customers and were processed and accepted by our strategic partner Dialog Semiconductor. We expect quantities and the six figures to be shipped in the third quarter for integration into consumer devices to be generally available from some of our customer before the end of the current year. We also expect to book additional engineering services revenue in the next six months.

Our first production order for chip sets destined for integration into consumer products represent a strong and independent validation from customers that Energous is on a path to ship high volumes of chipset to a broad spectrum of opportunities.

Two additional comments regarding the path to commercialization. First, we now directly understand the effort and time required to move from prototype and development to a fully commercialized product.

The number of technological developments, customer enhancements, the amount of core IP required, cycle times, the complexities of regulatory certification and the required financial investments are very significant which should not be unexpected given the scale of the opportunity.

Any potential competitor will have to overcome these same obstacles, develop the same level of IP and make the same investment which gives us even more confidence in our first to market advantage.

Second, Energous owns all of the IP associated with all of our development efforts with no exclusion. Our portfolio of IP has grown with each integration win and will continue to grow with each new win.

The span of our IP library coupled with the learning experience we've gained in conjunction with customer product integrations is creating a path to efficient and scalable deployment of the WattUp technology. Each new customer integration will be faster, easier and less costly.

Regarding our IP portfolio, during the second quarter Energous increased its issued or allowed patent count to 54, up from 48 in the first quarter, this increase reflects Energous' ongoing commitment to investors to build significant barriers to competition and create core value for the company and its shareholders.

Moving to the certification of the first power at a distance transmitter; during our last earnings call, we reported that we were confident, we had a clear understanding of the type and scope of testing required to demonstrate compliance with our regulatory rules and regulations. I 'm very pleased to report that with the support of our Telecommunication Body or TCB, we have successfully completed these tests and the certification process remains on track.

Although we can't predict with precision how long the review of the results may take and what if any additional tests may be required, we are very encouraged by our progress and believe we will soon receive official certification of the first power at a distance transmitter.

Our previous regulatory updates have focused on certification within the United States. We have also made significant progress towards international regulatory approval. We are actively working with international regulatory bodies as well as international standards organizations to first certify our near field devices and then our mid field transmitter.

As a result of the progress and feedback we have received from these organizations, we believe we will receive our first international certification later this year. Another major highlight for the quarter was the additional $15 million investment from Dialog Semiconductor further strengthening our strategic partnership. This investment completed in early July was significant for two reasons.

First, the Dialog investment provides Energous with the working capital necessary to maintain the current base of forward momentum and technology advancement.

Second and perhaps more importantly, it represents a tremendous validation of the potential of the Energous opportunity from the customer perspective.

The strategic partnership we formed with Dialog several months ago had as one of its core elements the consolidation of our business developments efforts. After several months of joint sales calls to many of the major consumer, electronic and IoT companies in the world, Dialog made the decision to invest an additional $15 million in Energous.

As the investment suggest, our relationship continues to progress and strengthen. All of our backend operations as well as our sales efforts are now fully integrated with Dialog's bringing a number of key benefits to Energous including scalability, expense reduction, supply chain credibility, inventory management and most importantly, accelerated customer acquisition.

A key indicator of the strength and synergy of the partnership was evident during this past month when Dialog helped two charging days in Shenzhen and Taipei between various Dialog Technologies including our WattUp wire-free charging solution. Attendance for both events far exceeded expectations with WattUp soliciting a great amount of interest from attendees.

While we are on the subject of strategic partnerships, we noted in our last conference call, we are extremely limited in what we can communicate about our key strategic partnership. We can confirm that the relationship continues to advance and that we have invoiced additional engineering services revenue based on successful milestone performance.

As noted in past conference calls, the health and progress of our customer funnel is a key indicator of our progress towards meaningful revenue growth. This metric continues to expand and advance through the sales cycle phases.

With the expansion of our customer facing application engineering team and the aforementioned relationship with Dialog, we have been able to increase the number of active customers. Last quarter, we reported 68 opportunities were in the active status, that number has been increased to 76 active prospective customers.

The opportunities also continue to progress through the process phases with 43 in the opportunity phase, 22 in the design-in phase and 11 are in the design win phase. In total, 51 perspective customers are focused on near field opportunities and 25 are focused on mid-field, far-field opportunities.

Energous is extremely focused on the 11 customer opportunities in the design win phase with the intent to drive two to three to final mass production phase before the end of the current year and the remainder rolling over into production in the first half of 2018.

Also of note is that Energous substantially reduced expenses in the second quarter largely based on the fact that the bulk of our first-generation silicon development and tape-outs are behind us.

Our near-term silicon roadmap calls for fewer chip developments while our first generation of chip set is being absorbed by our customer pipeline and second-generation enhancement and expansions to the chip set portfolio are in the initial stages of design and development.

The expense reduction was also accomplished while the company significantly expanded its customer facing sales in engineering resources largely through internal redeployment. Brian will expand on this shortly.

The path to first shipments of WattUp-enabled consumer products, regulatory approval of the first power at a-distance transmitter, initial chip set revenues and the revenue ramp leading to a sustainable profitable business is crystallizing.

While Energous will likely face new challenges and additional obstacles as WattUp ecosystem is build out, the forward momentum is strong and our capabilities are significant, increasing our confidence that Energous will in fact finally deliver on the promise of true wire free power and leading to profitability, market leadership and mass commercial appeal.

I would now like to turn the call over to Brian for an update on our financials. Brian…

Brian Sereda
Thanks, Steve. As you saw at the close of market today, we issued a press release announcing our operating and financial results for the second quarter of fiscal 2017 ended June 30th.

I would like to now review our revenue and expenses for the second quarter. As in past quarters our revenue at this stage is made up mainly of engineering and development work we're doing for our key customer. Although we expected to grow this year historical payments have been somewhat irregular and disproportionate to the amount of resources and specific technology we're providing.

In the second quarter, we generated approximately $300,000 of engineering services revenue compared to $575,000 in the prior quarter. Although lower than the prior quarter, revenues for Q2 were approximately $118,000 higher than the engineering services revenue for the same quarter last year. In the second quarter, we're also able to lower our cash spend but before I get to that in our non-GAAP discussion, let me first review our GAAP results.

Second-quarter total GAAP operating expense was $13.2 million, a slight increase of approximately of $100,000 over the prior quarter's total of $13.1 million and an increase of $2.8 million over Q2 of last year.

On a quarterly basis, the increase was attributed to our $800,000 increase in stock compensation and $600,000 increases in total chip development costs offset by lower legal, marketing and other miscellaneous engineering project costs.

The year-over-year GAAP expenses understandably rose as we increased headcount by 30% compared to the same period last year. However, the added heads have allowed us to significantly lower our chip development costs by reducing our dependencies on external resources. Outside of core engineering, the growth in active customers has also required us add heads in areas of sales application engineering.

Our GAAP operating loss for Q2 was $12.9 million, $445,000 higher and $2.6 million higher than the prior quarter and Q2 of last year respectively. Our net loss for the second quarter on a

GAAP basis is virtually identical to the operating numbers I just quoted or $12.9 million. On a per share basis our GAAP net loss for the second quarter was $0.63 on 20.6 million weighted average shares outstanding. This compares to a net loss of $12.5 million or $0.61 per share in Q1 and $0.62 per share loss for the same period last year.

Weighted average share count for the quarter was 20.6 million against the current outstanding share count of approximately 21.9 million, which includes the recent $15 million Dialog investment. The growth in share count year-over-year is mainly a result of the completion of four private placements raising $50 million of additional working capital.

Switching over to a non-GAAP year-over-year results for the quarter as we believe adjusted or non-GAAP EBITDA provides a useful comparison for investors for a company at our stage especially when used in conjunction with GAAP information.

Excluding $4.7 million of stock compensation and depreciation expense from our second quarter, GAAP operating loss of $12.9 million, our adjusted EBITDA or non-GAAP operating loss was $8.2 million for the second quarter, $400,000 lower than Q1 and approximately $300,000 lower than the same time last year.

Operating expenses on a non-GAAP basis for Q2 totaled approximately $8.5 million, approximately $700,000 lower compared with $9.2 million in the prior quarter and approximately $200,000 lower than non-GAAP operating expenses in Q2 of last year.

Expanding on expenses further, non-GAAP engineering expenses dropped by approximately $300,000 compared to Q1, and was approximately $500,000 lower than the same period last year, primarily as a result of building our in-house engineering capabilities thereby reducing dependency on external development resources.

Going forward, we will continue to see some variance in our quarterly engineering spend mainly because of chip tape-out schedules and other development activity, but believe we can leverage our cost structure to a large degree and focus on the engineering in part thanks for the strategic partnership with Dialog Semiconductor.

Non-GAAP SG&A decreased in Q2 to $2.4 million, compared with $2.8 million in the prior quarter, as a result of lower marketing expenses as we continue to leverage Dialog sales resources and was approximately $300,000 higher than combined SG&A spending of $2.1 million in Q2 of last year. The year-over-year increase is mainly attributed to larger customer facing application engineering team.

Concluding on expenses, we believe we can level set our spending to a certain degree as the relationship with Dialog continues to develop. Headcount in chip development activity are now beginning to align with opportunities and the development of new technologies is now much more focused thanks to the engineering work completed in prior quarters.

This is not to say we expect declining of flat lined expenses, but we don't anticipate the new development work spending to spike dramatically quarter-over-quarter in absolute dollar terms. Nor do we believe we will have to ramp our headcounts significant across the board, instead we expect to only add critical heads in areas of engineering to progress the technology.

To wrap up, we ended Q2 with approximately $13.1 million in cash and cash equivalents and zero debt. This is before adding the $15 million invested from Dialog which officially closed in early July. As Steve mentioned, we expect engineering services revenues to increase over the balance of the year. Moreover, the real test of the Dialog partnership will happen shortly as we expect to ship our first orders through them beginning in the third quarter.

As I mentioned earlier, chip development activity will increase over the next few quarters impacting spending but overall expenses should be within the current ranges of prior quarters and current spending levels fluctuating with chip development and takeout cycles.

Let me now turn it back to Steve for his closing comments.

Steve Rizzone
Thank you, Brian. We will be turning the call over to the operator for questions in a few minutes but before we do, I would like to review the status of the revenue rollout picture we painted last quarter and set expectations for the last half of the year. Last quarter, we said in 2017 our goal was to create a beachhead focusing on smaller, earlier adaptor market opportunities with short product cycles as well as market leaders in each of our target markets expected to be major revenue contributors in 2018.

We believe we will achieve this goal. We have already received our first orders for production quantities of chip sets and believe it is highly likely that two to three of our early adaptors will have fully WattUp integrated and regulatory approved products available to the consumer before the end of the current year. Our beachhead will be established and the transition of the WattUp technology from development to commercialization will be complete. Further, the early adopter opportunities that do not ship before the end of the year will roll over into the first half of 2018.

We also stated that in 2018 we expect to ramp shipments and revenue as our high volume, longer product cycle opportunities start to come online in the latter half of the year. We believe we will achieve this goal as our more complex, larger volume opportunities continue to progress through the customer funnel phases. A key indicator is the fact that our design win phase continues to expand.

Finally, in 2019 we said we expect to see revenue benefits of the full year high volume opportunities as well as the effects of an expanded customer funnel pumping through new opportunities at an accelerated rate as our experience increases, our customer facing engineering team expands and our library of IP begins to take hold necessitating fewer custom designs for new opportunities. This goal also looks to be on track.

Target schedules for the first customer shipments along a broad spectrum of accounts are starting to firm up. While 2018 will see initial shipments of large volume opportunities in the latter half of the year, follow-on second and third product runs in 2019 as well as the expansion of number of customer shipping WattUp enabled product will collectively combine to generate continuing increases in revenue.

While the customer and revenue picture for 2018 and '19 is firming, the key to achieving this growth lies in our focus and performance over the next five months. During this period, our goals are the following.

First, ship qualified parts against orders in-house.

Second, complete the FCC midsized certification process.

Third, complete the final integration and regulatory certification of the first early adopter products with scheduled first customer shipments to consumers before the end of the year.

Fourth, gain traction on our international regulatory efforts and fifth, release the first non-contact WattUp enabled power distance transmitter before the end of the year.

While pleased with our progress to date, the Energous board and the executive management team understand that the last few steps to mass commercialization must be taken. We remain confident in our ability to do so and absolutely determined to achieve our objective and drive Energous to the next level.

Operator, we will now take questions.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question you may press star then one 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 star then two. At this time we will pause momentarily to assemble our roster.

The first question comes from William Gibson with Roth Capital Partners. Please go ahead.

William Gibson
Thank you. I know on Dialog which just put more money into your firm that on their conference call a question got asked of whether they were doing it for opportunities or were there fundamental issues and the CEO had a pretty positive response on customer reactions they see in the technology, and so is it safe to say that given that they are putting in more money, another $15 million, that is strategic, that they are in the loop on your fundamental development?

Steve Rizzone
Well, I believe that that certainly can be inferred. The relationship between the two companies is very, very close. As I mentioned, we've turned over all of our backend operations so they understand clearly the status of all of our technology, our silicon. We've also integrated our sales development efforts and they understand not only the status of our relationships, but they also understand clearly the response or the interest from the customer base. I think all of this as well as an understanding of the potential opportunity is combined to make this a real win-win and a very synergistic opportunity and that's the reason that they have put the additional or made the additional investment. Again, it's a very, very good relationship, there is a natural synergy here, there is pluses for both parties involved and that's of course what is key to a long-term relationship which is what we would expect to maintain with Dialog.

William Gibson
Good. And then just one follow-up in response to your five goals for next year or your five goals for the second half in next year, do you think that we get to a cash flow non-GAAP positive basis by the early second half next year?

Steve Rizzone

First, a clarification, the goals that I was referring to those five goals are really goals that we are looking to complete before the end of this year. We're very, very focused on shipping production quantities of silicon to customers in the coming months and having those customers integrate these chipsets into consumer devices, going through the certification process and making them available to the consumer before the end of the year. That's really the focus and what we're concentrating the major efforts on between now and the end of December.

With respect to our cash flow, I think that it is becoming clear. I'm not prepared to really put a timeline on it because I think that it is important that especially as we go forward that our view of revenue is more clearly baked, we've got definitive agreements in place, we've got definitive schedules on the shipment of these products. Again, it's positive, it's significant; it doesn't take a lot of customers to have a significant, very significant impact in revenue given the numbers of devices that we are talking about in each of our major markets. I think that all of this over the next several months will start to crystallize and the picture will become much clear.

William Gibson
Thank you, Steve.

Operator
The next question comes from Ben Padnos at Done Ventures. Please go ahead.

Ben Padnos
Thanks for taking my call and congrats on the first orders, very gratifying. Well first question is just around future fund raising, you've emphasized strategic money obviously with Dialog, are there other companies that are expressing interests in strategic investments?

Steve Rizzone
Well its good question. First of all, strategic partnerships as you know are at the core of our company. It was strategic money that launched the company and certainly strategic partnerships are key focus as we go forward. I think it's very safe to assume that the number of opportunities will increase as we continue to progress towards commercialization, as we get the SEC certification and so there will be a number of options. We have options now but I expect those options to increase significantly. I think it's also important to note though that when we talk about strategic partnerships or strategic relationships, we're not just looking at a source of funding. Each of these relationships is important to us because they bring a number of things to the company, they are critical in terms of helping us to expand the ecosystem and really execute on our vision of developing a mass adoption of the WattUp technology. Strategic partnerships are key, both from a fund-raising perspective as well as from the perspective of building out the ecosystem and it's something that certainly will continue and expand as we move forward.

Ben Padnos
Great thanks and I had just a second point regarding SEC regulatory, Martin Cooper is on our board, and I believe he is a pioneer of the cell phone, I believe he's the man who got things through the SEC the first time. Can you share any color or any comment that he might have on how we're doing in the regulatory process?

Steve Rizzone
Well certainly you're right. Having Marty as an advisor and an active participant in this process has been a very, very significant advantage for us, because it's helped us to understand the needs and requirements of the whole regulatory process and the kind of steps and hurdles that

need to be overcome, because you're right, he lead the effort to get the first base stations approved.

Certainly, he is a big advantage and I think as he recently mentioned in one or more interviews that he is optimistic about not only regulatory approval, but also the overall adoption of the technology. He really sees the WattUp opportunity as solving the next wave of the consumer problem and that is the whole issue of wireless tower, and certainly his cell phone invention established the first wave and he thinks that he is now part of the second wave which as I said, is all about eliminating the cables and establishing a true wire free ecosystem.

it's been a great benefit to us, he is a very knowledgeable and influential board member and we're very-very fortunate to have him and as I said in terms of his response I think he is very-very optimistic about not only where we are today but what holds for the future of the company.

Ben Padnos
Great to hear. Okay, that's it from me, keep up the good work, thanks Steve.

Steve Rizzone
Thanks.

Operator
Again, if you have a question, please press star then one. The next question comes from Elya Grozovesky with National Securities. Please go ahead.

Elya Grozovesky
Thanks, it's Ilya Grozovsky. Just I want clarification on the three customer orders that you've gotten. And you said they were in six figures quantities. Is that six figures total or six figures per customer?

Steve Rizzone
The total is in the six figures, in the low six figures for the three customers.

Elya Grozovesky
Combined?

Steve Rizzone
Correct.

Elya Grozovesky
Okay, got it. And then also on the 11 design wins that you called out, are those all 11 near-field or are there also some of the far-field?

Steve Rizzone
No, there is a mixture. I believe the number is eight and three, eight near-fields and three far-fields.

Elya Grozovesky
Okay, great. Okay, super. And then just finally, the cash balance at the end of the quarter didn't include the raise of 15, so if you add-in the 15 that gets us to about 28. What do you anticipate the cash is at the end of the September quarter?

Steve Rizzone
Brian.

Brian Sereda
Yes, as in my script Ilya, our expense is in a zone that I think we can manage fairly safely. I think we will see cash burn in the range maybe slightly higher than what we've burned from Q1 to Q2, somewhere between $8.5 million to maybe $9 million of cash burn in Q2…in Q3…ending Q2.

Elya Grozovesky
Okay, got it. Thanks for that, guys.

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

CONCLUSION

Steve Rizzone
Thank you, everyone for attending our conference. Again, we are extremely pleased with our progress. We believe that we are on the path to full commercialization and mass adoption of the WattUp Technology and look forward to continuing a positive report in future conference call. Thank you for your attention and your support and we look forward to talking to you again soon.

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