Energous Corporation

Fourth Quarter and Year-End 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Steve Rizzone - *President and Chief Executive Officer*

Brian Sereda - *Chief Financial Officer*

Evan Pondel - *Investor Relations*

PRESENTATION

Operator
Good afternoon and welcome to the Energous Corporation Fourth Quarter and Year-End 2016 Earnings 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 telephone keypad, to withdraw your question, please press "*" then "2." Please note that this event is being recorded.

I'd now like to turn the conference over to Evan Pondel of Investor Relations. Please go ahead.

Evan Pondel
Thank you, Operator, and welcome, everybody. I am Evan Pondel, Investor Relations for Energous.

Before we begin, I need to remind everyone that during today's call the company will be making forward-looking statements. These statements whether in prepared remarks or during the Q&A session are subject to inherent risks and uncertainties, which 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 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 measures 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, Evan. Good afternoon. I would like to welcome everyone to the Energous fourth quarter and fiscal 2016 conference call and update. Joining me today is Brian Sereda, our Chief Financial Officer.

I will begin the call by reviewing the company's progress against both the short term quarterly objectives and the annual objectives established at the beginning of last year. Brian will then review the financial results for the fourth quarter and fiscal year 2016. I will then close with comments on our key goals for 2017, following these comments we will open the session to questions.

In Q4 of 2016 and continuing through Q1 of 2017, Energous has been extremely focused on four objectives, each of which has a potentially significant impact on our company. Specifically, finalizing product design and release schedules with our initial customers in order to generate volume shipments leading to revenues for the company.

Second, continued progress with our tier 1 strategic partner as evidenced by milestone accomplishments and engineering services revenues.

Third, continuing the current momentum with the FCC and advancing the regulatory process and working toward certification of the first power at a distance transmitter and finally enabling Dialog operations to manufacture what WattUp ICs resulting in reduced manufacturing cost and increased supply chain credibility coupled with the integration of the Energous Dialog sales and business development efforts to increase sales momentum and accelerate our sales process.

I will address our progress on each of these objectives individually. Beginning in Q4 and continuing today, significant focus has been applied to transition the company from WattUp technology development to integrating the technology into consumer devices to drive silicon- based revenues.

As noted in previous calls and announced at CES, we have a number of customers who are in various stages of adoption. To provide some detail on our customer funnel, we are currently focusing on 59 opportunities out of the over 100 established customer engagements we have. 25 near field and 12 mid-field and far field customers are currently classified as being in the opportunity phase, which means specific applications for integration of the WattUp technology have been identified and Energous application resources have been assigned to actively work the opportunity.

Further, we have nine near field and six mid-field and far field opportunities in the design in phase, which means a prototype has likely been developed for a specific application of the WattUp technology, and there are one or more target platforms or end products that have been identified as integration candidates. The potential number of annual shipments of consumer devices associated with opportunities in this phase is over 165 million annual devices shipped.

Finally, we have six near field and one far field opportunity in the design win phase, which means the WattUp technology is now in the customer's product release cycle. Potential annual shipments of WattUp-enabled devices in this cycle is well over 4 million devices.

Also a word about our vertical penetration strategy, we have identified eight large vertical markets that are outside our key partners first to market advantage. We have engaged with the top market leaders in each vertical and either have or are in the process of developing specific reference designs for the respective vertical based on the interaction with the market leaders. It is our belief that we can leverage the

reference design throughout the vertical which will allow us to scale efficiently and aggressively expand our market presence and our market share in each vertical.

As a licensor of technology and a fabless semiconductor company, we have two product cycles we must work with. The first is our own product cycle to fully develop and commercialize the WattUp technology for integration into our customer product lines.

And the second is our customers product cycles, many of our customer opportunities in the design win phase were specifically selected out of our large customer funnel because of their ability to quickly integrate the WattUp technology, their short product cycles and their commitment to innovation. Our goal has been to have initial shipments of WattUp integrated devices shipping to the consumer before the end of the second quarter.

As previously announced our product cycle has substantially been completed with the qualification of both our transmitter and receiverships in conjunction with our advanced antenna designs and enabling software. However, our initial reference design included some third party discrete components.

We made the decision to extend our product cycle to include the recently announced 4100 IC which integrates the third party discrete components into a single Energous IC. The high level of integration in the 4100 significantly lowers the bill of material cost to our customers thereby broadening the opportunity to bundle WattUp miniature transmitters in box with receivers as an alternative to a wall plug or USB cable.

The 4100 also expands the Energous percentage of the overall bill of materials, improving both our top and bottom line financial performance. And finally, the 4100 adds a very, very important element to our reference design, security, which we believe will eliminate the possibility of unlicensed or reversed-engineered WattUp devices hitting the market.

The 4100 is in the final stages of qualification. We will complete qualification of the IC in the second quarter, thus enabling shipments of complete chip sets to customers in our design win phase which will move them into the production phase in late Q2 early Q3. Timing of the chipset shipments will determine when WattUp-enabled products will be shipping to consumers which will likely be early to mid-Q3.

We believe the benefits derived from delaying shipments of our chipsets until they could include the 4100 far outweigh any minor impact of delaying shipments to end consumers by a few weeks. We are genuinely excited about the prospects of receiving our first orders for a significant number of WattUp chipsets in the second quarter. These orders will be filled by Dialog.

We will recognize revenue upon shipment to the customer and Dialog will invoice and collect from the customers. We will then collect from Dialog in the quarter following

shipment. In any case, our top line picture is beginning to crystallize and we believe we will see significant, very high margin revenues in the latter quarters of this year.

We will provide more detail on our expected revenues in future calls as we have more experience with the Dialog relationship and have more of a basis to make accurate forecasts. However, I would like to eliminate some confusion surrounding our ASPs, for competitive reasons I will not go into specifics but suffice to say our ASPs are measured in single digit dollars per chip set.

Regarding our progress with our Tier 1 strategic partner, our relationship continues to advance and evolve. Based on specific requests from our partner, we modified and expanded our fourth quarter deliverables into three separate milestone projects which rolled over from Q4, 2016 into Q1, 2017.

All three projects were successfully delivered in January and were well received by our partner, resulting in revenues of $128,000 and payment of $625,000 for engineering services performed earlier. We expect these revenues to continue and are forecasting revenues from engineering services in Q1 to be in the range of $500,000.

Of course, as we have maintained since we announced this relationship in 2015, there is no guarantee the WattUp technology will be integrated into any of our key partners' consumer products. However, we believe the uniqueness of the functional capabilities we have developed and the potential to build up a WattUp enabled power at a distance ecosystem is a compelling alternative to the commonplace limited functionality alternatives available today.

In any case the advancement of the WattUp vision of a ubiquitous wire free power solution continues at an aggressive pace. A key part of this advancement is FCC certification of our mid-sized transmitter, commonly referred to as a desktop transmitter. I am pleased to report that we have made significant progress towards the first FCC certification of a true power at a distance transmitter.

For competitive reasons and respect for the agency we cannot communicate details of the process or its status. However, all indications we have point to the fact that we are very close, and should expect to have certification well before the forecasted release of our mid-sized transmitter at the end of this year.

It is important to note the work we are doing with the FCC is complex since it is not just determining how to certify our current desktop transmitter, but how this will apply to our future products as well. The foundations we are laying today, with respect to certification are vital to making future product certifications quicker and easier.

The fourth main objective for the company has been to push forward with the Dialog partnership we commenced in November. We are working closely with Dialog to integrate Energous' operational functions into Dialog's well established and very efficient supply chain capable of providing mass quantities of Energous-designed silicon

products to end customers. We are also creating co-marketing and joint sales initiatives to pursue opportunities with a common set of end customers. Significant progress has been made along both fronts.

With respect to operations, the transfer of our operational functions to Dialog is in the final stages, while initial samples of chipsets to our early customers were released under the Energous brand, going forward all WattUp chipsets will be ordered through Dialog will carry the Dialog black brand, and will be shipped and supported by Dialog. Our agreement with Dialog stipulates that Dialog will invoice the customer and collect revenues which will be split between the two companies after standard COGS are subtracted.

As noted earlier, revenues are consolidated on a quarterly basis which means that chipsets shipped in a quarter will result in revenue in the quarter of shipment with cash received the following quarter. The justification for entering the partnership appears to be very well founded based on our early experience with Dialog team.

Having Dialog services supply chain for our chipset has been well received by our customers and prospects. There is a much better comfort level emanating from our customers based on the fact that are well-regarded and well established semiconductor company will source and support the WattUp chipsets.

The Dialog credibility and strong presence in vertical markets Energous is currently focused on has been a very significant accelerator in terms of business development. Besides Dialog production being a strong validation point, the Dialog sales presence is well established, professional and extremely capable. Since we are jointly calling on WattUp adopters we have benefited from Dialog's long term relationship with these customers, their high level connections and their outstanding reputation.

As planned, we have completed four out of seven regional road shows with Dialog sales and support teams with the goal to complete the remaining three by the end of March. This training and integration process is key to enable Energous and Dialog to jointly meet with Tier One customer opportunities and offer joint solutions.

The meetings have been characterized as very positive by all participants and the combined sales and business development efforts are gaining considerable momentum. In addition to the significant progress on the engineering and commercialization fronts Energous raised $35 million in three private placement transactions.

Turning now to our performance against the objectives we set for 2016, there are significant overlaps with the tactical objectives just discussed, but we have been tracking against these annual objectives since early last year so I believe it is important to quickly summarize our progress.

Goal number one was to have a WattUp enabled consumer products shipping late 2016, early 2017. We noted that earlier for the right reasons two things have impacted

this objective, Dialog and the 4100. Our expectations now are that the WattUp chipsets will ship in Q2 and products to the consumer will be shipping in Q3.

Goal number two was to have multiple licensees displaying WattUp-enabled consumer products at the 2017 CES show. We exceeded the expectations for this objective with eight partner's demonstrated fully integrated WattUp consumer product at CES.

Goal number three was to obtain the right required regulatory certifications for our initial WattUp near field transmitter implementations. This objective was met as we obtained the necessary certifications required for the release of our first implementations of the WattUp near field transmitter technology to consumers in 2017. Having cleared this hurdle, subsequent certifications of WattUp integrated consumer products will be accelerated since our partners will be able to reference our certification.

Goal number four was to successfully transition from a development company to a fabless semiconductor company. This goal was met and exceeded, we have complete reference design supporting fully qualified IC's, and we have the Dialog relationship which provides a well-established credible world class supply chain critical to adoption of our WattUp technology by large high volume consumer product opportunities.

Goal number five was to maintain our momentum with our top tier strategic partner while expanding our licensee base. As noted earlier, both elements of this objective have been met. The relationship with our key strategic partners continues to move forward and we expect to see a new set of milestone requirements in the next few days. We have significantly expanded our customer funnel and licensee base.

In the nearly three years since our IPO we have made great progress towards our goal of a ubiquitous WattUp ecosystem. Energous is the only commercially viable solution in the entire wireless power industry that is positioned to finally deliver on the promise and potential of wire free power from contact to at a distance.

I will now turn the call over to Brian for his comments on the fourth quarter and fiscal 2016 financials. Brian?

Brian Serada
Thanks Steve. Before I get started, as you saw at the close of the market today, we issued a press release announcing our operating and financial results for our fiscal fourth quarter and fiscal year ended December 31st, 2016.

Although we are well underway with our strategic alliance agreements signed with Dialog Semiconductor in November of last year, it did not have a material impact on our chip development initiatives and customer activities in the fourth quarter of fiscal year 2016, given the timing of the deal signing.

For the year, we recognized $1.5 million in revenues primarily from achieving milestone deliverables for our strategic customer. Revenues for the year also included small

amounts of engineering services revenue from one other customer currently engaged with us on a far field application. On a full year basis our GAAP operating expenses grew at $47.3 million compared with $30.1 million in 2015.

Research and development cost represented almost 70% of total operating expenses at $32.8 million in 2016 compared with $18.8 million spent in 2015. Chip development activity continued throughout 2016 with two new chips completed earlier in the year and included work on next generation devices and completion of the development work on our 4100 chip in the fourth quarter that Steve spoke about.

Sales and marketing was essentially flat year-over-year at $3.2 million, while G&A on a full year basis increased to $11.2 million compared with $8 million in 2015. Stock compensation and other non-cash charges represent over 20% or approximately $10.5 million over total GAAP operating expenses compared with $6.8 million in 2015. During the year we added 20 heads bringing our headcount to 70 at the end of 2016, as we hired critical talent, primarily in the areas of core engineering and sales and application engineering.

Adding back negligible interest income our GAAP net loss for 2016 totaled $45.8 million or a loss of $2.60 per share on 17.6 million weighted average shares outstanding. This compares with a GAAP net loss of $27.6 million in 2015 or $2.07 per share. During the year, as Steve mentioned, we raised a total of $35 million of working capital through three private placement transactions, which increased our outstanding share count by approximately 2.7 million shares.

Moving on full year, for the fourth quarter we generated approximately $130,000 in net revenues compared with $1 million in the prior third quarter and zero revenues for the fourth quarter of 2015.

Total operating expense on a GAAP basis for the fourth quarter rose to $14.7 million compared with $11.1 million in Q3 and $8.9 million in Q4 of last year. Noncash expenses in the fourth quarter totaled $4.4 million compared with $2.1 million and $1.8 million in the prior third quarter and fourth quarter of 2015 respectively.

The bulk of the remainder of the comparative increases can be tied back to again higher engineering related expenses. The net loss on a GAAP basis for the fourth quarter was $14.6 million or $0.75 per share on 19.5 million weighted average shares outstanding compared with a loss of $10.1 million or $0.57 per share and $8.9 million or $0.61 per share in the prior third and fourth quarter of last year respectively.

Now, expanding the discussions on expenses, we believe that adjusted or non-GAAP EBITDA provides a useful tool to investors especially when used in conjunction with GAAP information. As I mentioned earlier, our total GAAP spent in 2016 of $47.3 million included non-cash expenses of $10.5 million compared with $6.8 million in 2015.

The result is total non-GAAP spend in 2016 of $36.8 million versus $23.3 million in 2015. We remain heavily focused on research and development; accordingly non-GAAP R&D spends was $28 million versus $15.5 million in the prior year, an increase of $12.5 million. The additional expenditure in this area was primarily tied to growth and engineering headcount, chip development and prototype work for our expanded customer funnel.

Comparatively total selling and G&A grew by only $1 million year-over-year on a non-GAAP basis as we added additional heads in areas such as sales, application engineering and other related marketing personnel.

For the fourth quarter of 2016 our non-GAAP expense was $10.3 million after subtracting out noncash expenses of approximately $4.4 million, which nets to a $1.3 million increase over total non-GAAP spending of $9 million in the third quarter and $3.3 million higher than the $7 million of non-GAAP expense in the fourth quarter of 2015.

Non-GAAP R&D spending in the fourth quarter totaled $7.9 million, an increase of $1.1 million from the $6.8 million in Q3 and $2.9 million higher when compared with $5 million of non-GAAP engineering expense in the fourth quarter of last year. The bulk of the quarterly and year-over-year increases was tied to the additional engineering heads added throughout 2016 and third party chip development [indiscernible] costs.

Overall, SG&A expense on a non-GAAP increased by only $0.2 million in Q4 compared to Q3 and approximately $0.1 million when compared to the same period last year. Our net loss on a non-GAAP basis for the fourth quarter was $10.2 million or $0.52 per share compared with $8 million or $0.45 per share in the third quarter and $7 million or $0.49 per share on a non-GAAP basis in 2015.

Looking now forward, our relationship with Dialog should allow us to avoid building our traditional fabless semi-operations infrastructure and global sales and support organization as we expect to begin to scale in 2017. Under the strategic alliance agreement, Dialog assumes responsibility for most of the qualification process, manufacturing and management of the supply chain along with jointly driving and sharing sales and marketing responsibilities.

On the engineering side, we believe we are close to critical mass in terms of resources but we will add selectively in specialized area to continue our advancement of the WattUp up technology. We may also see additional headcount in areas of sales and applications engineering as Dialog's global reach is expected to expand our presence in many markets and verticals as we head into the fiscal year and beyond.

Regarding our balance sheet, total cash at the end of the year was $31.3 million and we remain debt free. As previously mentioned in 2016, we completed three private placements raising a total of $35 million. Given our expectations for transition to shipping and growing revenues from chips, our ongoing revenues expected from engineering services, we anticipate having adequate working capital to achieve our

commercial goals in fiscal 2017. As we discussed on today's call, our business is very dynamic and evolving rapidly and we look forward to discussing the progress in our Q1 conference call in May.

I'd like to turn the call back to Steve for his closing remarks.

Steve Rizzone
Thank you, Brian. Before turning the call over to the operator for questions, I would like to review the objectives the Energous board of directors and executive management team have set for 2017. Fundamentally, this year the primary topics of subsequent quarterly calls will shift towards revenue and EBITDA as we complete the transition from a development and commercialization company to a fabless semiconductor company.

For 2017, our first priority is to ship fully commercialized WattUp up chipsets through Dialog to customers beginning in the second quarter of this year resulting in WattUp enabled products reaching the consumer in Q3 from one or more licensees.

Our second goal for 2017 is to build the scale and predictability of our business model implemented together with our partner Dialog to achieve revenue levels that translate into cash flows that cover our operating expenses. Goal number three is to successfully complete FCC certification of the WattUp mid-sized transmitter, laying the groundwork for our Q4 four objective of shifting a WattUp enabled mid-sized transmitter before the end of the year.

Goal number five is to continue to expand our customer base focusing on the top two or three market leaders in eight vertical markets we have identified as having the highest potential growth possibilities coupled with the requirement that they be outside our first-to-market commitment to our key strategic partner, which leads us to our sixth goal, to continue to advance the relationship with our key strategic partner.

And finally, our seventh goal is to maintain strong fiscal controls while continuing to expand our silicon roadmap and device library portfolio as we shift our focus from an engineering-driven company to a sales-driven company. While challenging, we believe the objectives we have laid out for 2017 are achievable and we will exit this year as a much different company, one that has successfully transitioned and is poised for continuing significant growth, profitability and market leadership in the coming years.

Before we open the call to questions, I would like to make some closing comments. The management team and members of the board of directors appreciate the support of our partners and emphasize with our long term investors given the volatility of our stock. However, we have an advantage in that we see daily the progress made and the continual reduction of risk associated with the opportunity which those outside the company cannot see.

We see first-hand the productive relationship we have with the FCC, how far we have come and how close we are to the actual certification of a power at a distance

transmitter, a reality which many believe and still believe to this day is impossible, but certification of a far field device is absolutely not impossible. We anticipate in all likelihood it is actually close at hand.

We see the very real advantages in foot print and cost the WattUp near field technology presents over the inductive alternatives. We don't compete with inductive because we don't have to. In the markets we are concentrating on, the alternative technology simply cannot provide the size, cost, rotational freedom and ecosystem path from contact to distance charging the WattUp technology can provide. We also clearly see the TAM numbers in the markets we are actively participating and representing tens of millions to hundreds of millions of devices, each an opportunity for a WattUp chipset.

As noted earlier, we have a number of customer engagements in the design in and design-win phases expanding at a rapid pace. And given the size and rapid progression of our customer funnel, a few customer wins will generate significant cash and profits since our revenue model is so efficient and the market opportunities are so large. We see the partnership with Dialog blossoming well beyond that of a supply chain partner.

We see the fundamental mutual benefit the relationship is fostering in the Dialog sales presence and the company credibility is helping to accelerate our sales process while the WattUp technology and chipsets provide Dialog with a new product line to present to their customers and an opportunity to expand their top and bottom lines. We see the steady and continuing progress towards a commercial desktop transmitter with multiple active customers engaged in the design-in phase which we expect will expand our reach into the enterprise.

Finally, we understand that bringing a completely new technology to market which can have a profound and lasting impact and represents a paradigm shift in consumer charging habits and options does not happen overnight and that there will be course corrections to make and hurdles to overcome. But the shift is happening, the momentum is strong and building and from our vantage point today the goal of enabling the build out of a WattUp system is well within our reach.

Thank you for your attention and continued support. Operator, we will now take questions.

QUESTION AND ANSWER

Operator
Thank you. To ask a question, you may press “*” then “1” on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys,

to withdraw your question, please press "*" then "2." Again, that's "*" then "1" to ask a question and we will pause momentarily to assemble our roster.

The first question is from William Gibson of Roth Capital Partners.

William Gibson
Yes, I'd like to dig a little into the FCC approval process, if you get approval in relatively near term, would there be an announcement or does that wait for products to come on the market?

Steve Rizzone
Well, hello Bill. I think that decision has yet to be made. We understand that it's certainly a watershed event and very, very significant, at the same time, there is no obligation on our part to make an announcement. And we may make a decision to interact with our customers first before making any public announcement. We'll have to see how that plays out but again, we are very, very close and we believe that the path to the FCC certification is very clear for us.

William Gibson
Okay, thank you. And then a follow-up on the R&D spend, so it sounds like that moves up a little bit in the first quarter, does it start declining after that or what's the set up there?

Steve Rizzone
So I think that we are reaching critical mass in our R&D, certainly in our hiring and also in the pace of our silicon development. We do anticipate making some increase in expenses in heads in critical areas in development, but I think our focus is now shifting to marketing and customer facing resources like application engineering.

Brian, do you want to comment further on that?

Brian Sereda
Yes, I think, Bill, your question is how our expenses trend in 2017…

William Gibson
Yes.

Brian Sereda
…we did these peak expenses in Q4 primarily because of the wrap up of 4100 tape out costs, which are borne in the quarter that we incurred them. I think where there is an opportunity for expenses trend down slightly in the first couple of quarters of this year.

As Steve mentioned, we use this term critical mass; we have built out most of our engineering teams, there is a couple of areas of specialty that will continue to pursue heads, but we are talking a handful of heads. We don't have to add significant

expenses to build out a global sales force, the operations required to offer that supply chain to customers is going to be primarily borne by Dialog.

So I am hoping that we have capped out our infrastructure build you could say, in order to approach, the opportunity that we have in front of us in 2017. So I am expecting overall flattish expenses for the year, we will see peaks and valleys as we go through the year depending on chip development cycles, and the only caveat I will give you, is that, if there is a requirement that we go in a different direction with regards to our science that may require additional spending in some areas of engineering.

So with that, I think, right now our view is that there is an opportunity to reduce expenses slightly in quarter-over-quarter and depending on how the customer requirements pan out during the year and any other developments on the engineering side would determine where we spend the money.

Steve Rizzone
I would also like to reemphasize the point, Bill, that this is a lean model. Given the magnitude of the opportunity and the verticals that we are pursuing, the number of customers that we have in queue, the number of potential devices associated with each application and the ASP associated with our chipset, it doesn't take a large number of customer wins to push us over the mark to where we are generating cash flow that covers our operational expenses. And so, again, I think that this is the year where we transition that and we look to see real breakout next year along those lines.

William Gibson
Okay, thanks Steve and thanks Brian.

Steve Rizzone
Yes, no problem. Thanks Bill.

Operator
The next question is from Lou Basenese at Disruptive Tech Research.

Lou Basenese
Congrats on the progress, guys. Just a couple of clarifying questions. On the unit economics you mentioned single-digit dollars per unit; is that for each side for the receiver and then the transmit side separately or is that combined?

Steve Rizzone
To combine for the chipset.

Lou Basenese
Okay, and is there a variability depending on that, the vertical that you are going into or is that pretty much set across the board?

Steve Rizzone

There is some level of variability, especially as it relates to our extremely small footprint devices like hearing aids. So there is some variability but that is an overall average.

Lou Basenese
Okay, and then on the pipeline, you mentioned, I think, six or seven design wins that were in that last phase. Does that include any design wins or will you include design wins in those counts from the strategic Tier One partner?

Steve Rizzone
There are no design wins from the strategic partner that are considered. We don't comment or as, you know, we don't comment or characterize our strategic partner in any of these discussions. And so their particular status would not be included one way or the other in any of these categories.

Lou Basenese
Okay, so it wouldn't be in there. Then if you can, you are limited, but on the last call we had talked about the milestone payments slipping from Q4 to Q1 because of the tape outs, and then it sounded like you mentioned there was three separate milestones in this in Q1, and then, in a couple days several others. Can we expect the level of milestone payments to be similar to what we have seen here or any color in that regard?

Steve Rizzone
Well, I think, we forecasted about 500,000 for the quarter in milestone payments. And I think that's probably about, as far as, we are prepared to go until we see the next set of deliverables or what comes back from our partner based on the milestones that were submitted the beginning of January.

Lou Basenese
Okay. And then, just last question, more along the lines of just the evolution of the product and the amount of R&D spending that's gone into it already. From your perspective is the technology risk distinguished largely for the near and mid-field, as it really just, the far field that requires some additional investment?

Steve Rizzone
Well, first of all, I think it's important to note that the architecture that our Founder Michael Leabman established is common to all three product lines, the near field, the midfield and the far field. And so, it's basically the same architecture, it involves the more distance and the more power you look to send over distance, the greater number or combination of chips. And so, from that perspective, I think the silicon situation is well in hand. Certainly, there is a continuing evolution in terms of the actual implementation of the products.

As an example, antennas are an absolutely key element in all three product lines, near field, mid field, and far field. And so, we see that, at least at the beginning almost every one of our reference designs involve some element of customization on the antenna

level so on and so forth. So I think the best way to answer that is we believe that the core technology is solid, that it's very, very scalable, but there will be continuing development as we progress through both the verticals and through the three product lines.

Lou Basenese
Okay. Thanks Steve, thanks Brian.

Steve Rizzone
Good to talk to you, Lou.

Operator
The next question is from Ilya Grozovsky, National Securities.

Ilya Grozovsky
Thanks guys. I just wanted to clarify, so given the layout that you've put up there for 2017. Is it clear that other than milestone payments…the potential milestone payments in the June quarter you don't anticipate any revenues beyond that?

Steve Rizzone
No, we believe that we will have revenues from silicon in the latter part of this year. We are not prepared to forecast that now, because a big part of this is how this all plays out with Dialog and the delay between shipments and collections on our part. As I mentioned earlier, all shipments will go through Dialog, they will collect invoice and collect from the customer, and then we will collect from Dialog in the quarter following shipments. And so, there is the element of revenue recognition and cash receipts that I think we have still got to get a feel for, as well as a better understanding of how quickly the full chip set which includes the 4100 will be available for shipment to our initial customers, and how quickly they can turn the chipsets into production. Again, a long answer, but clearly we expect a combination this year of revenues from engineering services, as well as a ramp up of revenues from silicon based customers.

Ilya Grozovsky
No, but I was asking specifically on the June quarter, not on 2017 overall.

Steve Rizzone
Yes, as we've talked, we expect to ship late in the second quarter, if we ship in the quarter we will recognize as it stands today, as much as we know about how the chips will be delivered to customers and through Dialog. We will recognize revenues in the quarter of shipment and collect in the following quarter.

Ilya Grozovsky
Great, thank you.

Operator
The next question is from John Hickman at Ladenburg.

John Hickman
Hi, just one quick question. Can you tell me what the lead time is on the manufacturing of a chip set?

Steve Rizzone
The lead times, I think are dependent upon obviously the calendar cycles of the fabs, but we don't anticipate lead times being an issue, once designs have been finalized, and the final bombs have been built for each customer. So lead times are not an issue John.
I think maybe more to…

John Hickman
But, how long…

Steve Rizzone

Keep in mind, well let me just…

John Hickman
[multiple speakers] manufacturing cycle then?

Steve Rizzone
Well, it's number of layers and it typically takes three to four weeks to complete a full cycle…

John Hickman
Okay.

Steve Rizzone
…keeping in mind though that our partner is Dialog who has wafers on order on a continuing basis. And so, in terms of lead times, our lead times would be much different going through the Dialog cycle than going through our own cycle because they have wafers that are already procured in cycle and it's simply a matter of a transmitting or transferring the required, or allocating wafers for our chipsets at any given time. So again, we work with Dialog, and we are putting in place a forecasting system. The good news is Dialog is tied at the hip with us in terms of our sales process, so they know what is coming down the pike and we don't anticipate the lead times to be any kind of a hurdle for us in terms of delivery of silicon to our customers.

Jon Hickman
Okay. Thank you.

Operator
The next question is from Mark Reda of Spartan Capital. Mr. Reda, please go ahead with your question. Mr. Reda?

Okay. As a reminder, if you would like to ask a question, you may press “*” then “1”.

The next question is from Jim Schnieders, Schnieders Capital Management.

Jim Schnieders
HI, guys. Congratulations on your progress. I had a question in terms of business development. I know that you know there's a process in terms of integrating some of these new opportunities out there with your engineering resources. Can you tell us now how quickly you can begin to service some of these new potential customers and also how will Dialog help in terms of integrating some of these new potential customers and their actual products?

Steve Rizzone
Well, I think the time frames vary based on the complexity of the application and also the product involved. The more distance, the more complex and so, it's quicker and easier and faster to integrate with the near field opportunity than it is a mid-field and far field opportunity. Again, I can't give you a specific time frame as it relates to that. Dialog is our, I guess you would consider our sales lead, we are leveraging off the Dialog sales force, but all of the technical elements, all of the application engineering resource and working with the specific customer to develop prototypical devices, first designs is done by our application engineering team.

Jim Schnieders
Okay. Thank you.

Operator
The next question is from Brett Conrad at Longboard Capital.

Brett Conrad
Hello, good afternoon, Steve and Brian. I have a question on the vertical markets, can you guys give us some more color on those just terms of what are the best ones, what are you expecting in percentage sales this year and if you could even next year, but let's say it may be easiest for this year to look at what vertical markets you are focused on and what percentage of sales would be going into those vertical markets?

Steve Rizzone
I think on a broad basis, we have said that wearables, hearables, hearing aid devices, small form factor IoT devices are the primary focus. Again, we are looking to aggressively pursue markets where basically we have a green field, and so that would be markets that require a very small footprint that are very, very price sensitive, that are where rotational position is important and because of that, the competitive solutions that are on the market today really can't participate. So those are the kinds of verticals that we are aggressively pursuing. I don't think I want to get into too much detail other than that, but as I said, suffice it to say those at the high level are the kinds of markets that we are pursuing.

Brett Conrad
Okay, great. I appreciate that. And just a question on the Tier 1, is there a sunset clause in there you know in terms of when actual products got to be activated using the technology, so you couldn't get dragged out for several years, for instance, on continuing the engineering, but nothing was really happening on the sales end?

Steve Rizzone
We can't comment at all on the specific terms of our agreement with our Tier 1 partner other than to say we believe it's a very fair and equitable agreement and we are very fortunate to have it.

Brett Conrad
Okay, great. And just a further question on branding, now that you are rolling this out consumers are going to be seeing this around. Is there a set of brand guidelines you've given and through Dialog into the customers hands so consumers can start to…you can develop a brand out in the marketplace for the WattUp eco-system?

Steve Rizzone
I think as we made it clear that from a branding perspective, the chipset is going to be Dialog's, I think over time as the WattUp technology gains in acceptance and starts to expand, that there will be opportunities for us to begin to establish our brand. I don't see that happening initially. There are very, very tight proprietary agreements in place with virtually every one of our early customers simply because of their own respective competitive situations but I think that will ease up over time as the technology gains traction and more and more customers and consumer devices are enabled with the technology.

Brett Conrad
Okay, great. So interoperability isn't a big deal then you are saying this year in the near term but you know it will become a bigger deal later, which then means the branding is more important to me at least…

Steve Rizzone
I'm not sure what you mean about interoperability as it relates to this. One thing is clear is that at the core of our ecosystem build out is the fact that everything that is WattUp-enabled is inter-operative. We have clauses in all of our agreements that require certification through the air fuel alliance that ensures that that all WattUp-enabled transmitters are compatible with all WattUp-enabled receivers and so, from an interoperability perspective, that is an inherent trait or characteristics of our ecosystem build out strategy. So I'm not sure what you are talking about in terms of interoperability then, maybe you can clarify that further?

Brett Conrad
Oh, sure. Just so the customers actually know that there's interoperability realizing that the technology allows for it but customers got to know, hey, this is all going to work

together with other transmitters and products out there that from other vendors that they buy from one vendor and then they know it works with other products using the same technology.

Steve Rizzone
That's a great comment and question, yes. Initially, I think there will be a little of that but I think that as I said, as this technology gains traction, there is significant advantage and a big…one of the big draws from our customers is the fact that there are very, very specific requirements in some of the competitive arenas you can have a enabled-device and even if it's the same technology it is not compatible, that is absolutely not the case with Energous, all Energous devices will be compatible. And I think over time, the customers will become aware of this, but certainly this is a big factor for our customers because they see how important that is to both to their benefit and to the benefit of the ecosystem build out.

Brett Conrad
Okay, great. Thank you. That's it.

Operator
At this time, this concludes our question and answer session. I would like to turn the conference back over to Steve Rizzone for closing remarks.

CONCLUSION

Steve Rizzone
I would like to thank everyone for attending our Q4 call and a reminder that we will be presenting next week at the Roth Conference in Laguna Beach. So thank you again and good afternoon.

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