Energous Corporation

Fourth Quarter 2018 Financial Results

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CORPORATE PARTICIPANTS

Mike Bishop – *Investor Relations*

Steve Rizzone – *Chief Executive Officer*

Brian Sereda – *Chief Financial Officer*

PRESENTATION

Operator

Good day, and welcome to the Energous Corporation Fourth 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 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 touchtone phone. 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 with the Company's Investor Relations. Please go ahead.

Mike Bishop

Thank you, Andrew, 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 in 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 on the Company's website.

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

Steve Rizzone

Thank you, Mike. Good morning, and thank you for attending the Energous fourth quarter conference call. Brian Sereda, our Chief Financial Officer, is joining me today. We have a number of things to talk about this morning, so I want to get right into my comments on the Company.

First, I want to address upfront the Company's revenue performance for the quarter. During the last quarterly conference call we messaged that we saw the potential for a material increase in revenue over previous quarters. We communicated this because we were tracking to schedule two large revenue opportunities. One was our key strategic partner, and the second involves another top 10 consumer electronics company who is in the final decision stages of a global launch. For reasons completely unrelated to Energous, both of these opportunities were delayed.

Regarding our key strategic partner, we were tracking a large engineering services payment in conjunction with the delivery of the first iteration of a system we have been developing to their specifications. While the system was delivered, our partner decided to extend the review and acceptance cycle, which meant we were not able to invoice for the delivery. This is a common occurrence when working with large product companies, and especially common when they are considering a new, groundbreaking technology which has the potential to be adopted across a variety of products.

A similar situation befell us with the second top-tier opportunity we were tracking for Q4 revenue. The customer was planning a second quarter product launch, which would have triggered a meaningful order in the fourth quarter of last year to support pre-production and initial mass production manufacturing ramps. After substantive internal reviews of the original product design and functionality, the customer refined some of the specifications to enhance both the user experience and the competitive position of the product. With these changes, we now anticipate the associated chip order will come and ship in the second quarter of this year.

Both of these situations highlight the business reality when dealing with very large companies that have a global presence and are looking to introduce a new industry-changing technology. Both companies changed their schedules, for their own internal reasons, which resulted in a delay of the revenue we were tracking for the fourth quarter that formed the basis of our forecast.

While this situation is frustrating for us as a management team, as I am sure it is frustrating for our investors, we also understand that we are in the very enviable position of working with these very large customers. The quality of the customers we are engaged with, and the variety and the impact of the applications of the WattUp technology these engagements represent, give us a confident outlook for the future and a steadfast determination to capitalize on these opportunities as we push through these delays.

The second event is a financial transaction we just announced this morning. The transaction raised $25 million less expenses, which, factoring in our existing cash, forecasted revenues, reduced expense budget for the year should fund the Company for the foreseeable future. The Energous Board of Directors and executive management team felt it was important to get the runway issue behind us and focus all of our attention on accelerating the Company to cash flow breakeven as quickly as possible.

Moving on to the Company's progress. We were extremely pleased with the Vivo announcement. Vivo is one of the fastest growing smartphone manufacturers in China, with a very strong market presence in both China and India. We believe both of these markets hold great potential for the Energous WattUp technology. Vivo is a relatively new opportunity we have been working with for less than a year. After the announcement, we received a number of calls questioning if this relationship was in violation of our first-to-market agreement we have with our key strategic partner. As has always been our policy, we do not comment on any of the specifics regarding this relationship. However, I can assure you that Energous would not embark on any path that would be contrary or in violation of this agreement.

We are pleased that Vivo is the first smartphone manufacturer to publicly announce a relationship with Energous. Given the strong competitive advantages the WattUp technology enjoys over the first generation coil-based technologies, coupled with the trends in the industry towards greater transfer power and higher efficiencies, we believe the global smartphone market will be a significant revenue contributor, keeping in mind the long-term product cycles associated with this market.

Another important validation of the continued progress and momentum of the company is the fact that the first fully commercialized WattUp-enabled product has become available to the consumer. The Delight announcement that their Oasis-RC personal sound amplification product, or PSAP, is now available for sale is a major milestone for Energous, officially signaling the transition of the Company from a development stage to a commercial stage, and validates the fact that the WattUp technology can pass all of the regulatory, health and safety, and production hurdles necessary to pave the way for a new generation of consumer products powered by wireless 2.0 charging. We are also pleased to announce that just yesterday Delight received the necessary regulatory approvals in the European Union to begin sales of the product in Europe.

We expect to see a number of additional products shipping to the consumer in 2019, including markets that have not been able to adopt or have had difficulty adopting coil-based wireless charging technologies. Our primary focus will be on five key markets: wearables, hearables, hearing aids which includes PSAPs, smart glasses, and medical sensors. Based on independent market sources, we believe worldwide sales for the applications represented in these five markets exceeded 1.25 billion devices in 2018. We believe an achievable goal in the next two to three years is to attain a minimum 20% market share in each market. The strong interest from leading companies in these target markets highlights the advantages of our WattUp technology over coil-based charging.

To support this product opportunity and accelerate our penetration of these markets, our engineering team, working with the lead customer in each market, has developed a series of reference designs capable of being replicated across multiple customers with nominal custom engineering required. A case in point is the fact that we expect to see a number of WattUp-enabled hearing aids from different manufacturers launched to the consumer in 2019. While these hearing aids will have different form factors and functional capabilities based on the individual product specifications, they will all share a common WattUp reference design, and in many cases a common transmitter.

The maturity of our technology, the development of the reference designs for each targeted market and the continued expansion of our customer funnel has led us to the point where we have begun discussions with high-quality, experienced ODMs with strong engineering capabilities about taking over the presales integration interactions with selected opportunities we want to move forward but do not have the necessary internal resource to support. While there will be an investment in resource to train and support these selected ODMs and some level of expense, we see this as the most expeditious and economical way to expand and accelerate the list of WattUp wireless power 2.0 integration, shipping to consumers and generating revenues from the sale of chipsets.

Given all of the maturity of both the technology and the customer relationships integrating the technology, the CMOS near-field low-power technology and the five target markets previously discussed will be the source of the majority of our 2019 revenues. Having said this, the newly announced GaAs and GaN near-field, high-power technology is opening up even more opportunities. With industry-leading efficiency at high-power, advanced foreign object detection, and other key advantages over coil-based charging, this technology is very attractive for cordless power tools and appliances to smartphones and tablets, as trends in these markets dictate faster charging times and higher levels of power transfer.

Strong interest in the technology is being generated by the fact that based on feedback from our customers, first generation coil technologies are having difficulty scaling beyond 15 watts without sacrificing efficiency as well as requiring receivers with large footprints, putting the coil-based technology at odds with industry trends that in particular future generations of smartphones require.

Energous continues to enjoy strong customer interest and continued funnel expansion in distance charging, especially for manufacturers of Bluetooth speakers, headsets and hearables. This category of distance transmitter will likely be the first to be made available to consumers. Further, a number of Bluetooth speaker opportunities have expressed interest in developing transmitters, combining near-field high-power, fast charging contact solutions with lower power distance charging capabilities. Energous is in a unique position to support this combination, as we are the only wireless power company with a product spectrum capable of addressing both distance and contact charging.

The first distance transmitters will likely be made available to consumers on a regional basis in the US and Europe, as regulatory approvals for distance technology in Asia are extending out. While FCC approval has served as a strong reference point and accelerator around the globe, the regulatory agencies in Japan, Korea and China have chosen to conduct their own studies along the same lines as the FCC approval process. We do believe our strategy of including major consumer electronics companies based in these jurisdictions that demonstrate a strong self-interest seeing the WattUp technology come to market will accelerate these approvals. We will be announcing updates as to these approvals as they change and status warrants.

Accelerating revenues to the point of self-sustainability remains the top priority at Energous, however, everything we do at the Company points to increasing shareholder value. Of particular importance to increase value of the Company is our IP portfolio, which continues to progress and expand. Currently, Energous has 176 patents issued and 26 allowed, for a total of 202 patents as well as an additional 131 patents pending. Maintaining and extending a portfolio of this size is a significant expense and investment in resources, however, it is one we believe will pay dividends, not only increasing the value of the Company but in extending our competitive advantage.

While we have yet to see any competitor that can compete with the broad spectrum of system technology and chipset product offerings we have developed, we remain vigilant to the possibility that at some future point in time a noteworthy competitor may emerge. It is at this point we believe the investments we have made in the intellectual property barriers we have constructed will best serve the company.

To conclude, while two major customers changed their review and launch cycles, causing a delay in revenue, the overall business continues to progress and is very-healthy. Energous officially crossed the commercialization chasm with the general availability of the first WattUp-enabled products to the consumer from Delight. Our expectations are that a number of WattUp-enabled products shipping to the consumer will continue to expand and accelerate through the end of the year. With the cash issue behind us, the majority of our attention will be focused on achieving our primary objective, profitability.

Brian, I will now turn the call over to you for comments on the fourth quarter.

Brian Sereda
Thanks, Steve. Before I get started, as you saw before market open today, we issued press releases announcing financial results for our fourth quarter and fiscal year ended December 31, 2018 along with the news of a $25 million financing transaction through Roth Capital Partners.

Summarizing our financial results for fiscal 2018, we recognized approximately $0.5 million in revenues compared to $1.2 million in revenue in the prior year, mainly from engineering services in both this year and in 2017. Revenue for the fourth quarter was $56,000, compared to $29,000 in the same quarter last year. As you've garnered from Steve's comments, regardless of the size of the customer, the commercialization cycle is a lengthy and complex process involving many elements, from engineering to commercial and regulatory issues.

GAAP expenses for 2018 were $51.4 million compared to $50.5 million in the prior year. Underlying charges for stock compensation account for most of the increase over last year, with only a modest increase year-over-year for underlying operating expenses, which I'll highlight shortly. For the fourth quarter, total GAAP expenses declined to $12.6 million, from $12.9 million in the third quarter, but increased by $1.3 million over the same period last year. This year-over-and and quarterly difference was also driven primarily by stock compensation charges.

Net loss on a GAAP basis for 2018 was $50.8 million compared to $49.4 million in 2017. This equates to a $1.99 loss per share on 25.5 million weighted average shares outstanding versus $2.31 per share on 21.3 million shares weighted average outstanding last year. For the fourth quarter, our net loss was $12.5 million or $0.48 per share, compared to a loss of $12.6 or $0.49 per share in the third quarter. Compared to the prior year, fourth quarter's net loss was $11.2 million or $0.50 per share.

Let me conclude our discussion on expenses with a non-GAAP overview, as we believe that adjusted or non-GAAP EBITDA provides a useful tool to investors when used in conjunction with GAAP information.

Total net non-GAAP expense in 2018 was $33.6 million, compared to $33.4 million in the prior year. We had previously forecasted a higher increase in expense over 2017 due to an aggressive chip development cycle in the second half of 2018. Despite the increased chip development activity in the year, we were able to leverage our past development efforts, thereby limiting the need to significantly ramp up expenses to meet delivery schedules.

Our non-GAAP results for both years excludes non-cash expenses of $17.8 million and $17.1 million, respectively. These non-cash charges include stock comp and depreciation and amortization, with stock comp representing over 90% of the total in both years. On a quarterly basis, our Q4 non-GAAP expense declined to $8.4 million from $8.8 million in the third quarter, and was $0.8 million higher than the $7.6 million total non-GAAP expense in the same quarter last year.

The year-over-year quarterly increase was primarily driven by increased spending in R&D due to the uptick in chip development work, which increased spending by approximately $0.5 million. SG&A rose by only $0.3 million, with the bulk of the increase coming from increased customer-facing, integration, engineering activities. R&D remains our biggest area of investment, representing almost 70% of our total non-GAAP expense for the year. As we discussed many times in the past, that despite increased customer interest spread across different applications, our partnership formed with Dialog allows us to focus the bulk of our financial resources on development and commercialization efforts, including regulatory, instead of adding to operations in marketing and sales. We ended the year with 71 heads, up 4 from the same time last year.

Our net loss on a non-GAAP basis for fiscal 2018 was $33.1 million, $0.8 million higher than the $32.3 million net non-GAAP loss in 2017. For the fourth quarter, our net non-GAAP operating loss was $8.3 million, approximately $0.2 million lower than the $8.6 million net non-GAAP loss from the prior quarter and $0.7 million higher than the $7.6 million net non-GAAP loss in the fourth quarter of last year.

As I mentioned at the beginning, the financial transaction completed after yesterday's close of market will add approximately $23.3 million to our balance sheet. In 2019, this current fiscal year, we expect our cash spending to decrease over 2018, barring no customer-driven requirements to deviate from our roadmap. We continue to believe that our expense structure is highly leverageable, due in part to the partnership with Dialog. Combined with the strengthened balance sheet and customers progressing towards product launches, we look forward to updating you on our next earnings call.

Let me now turn the call back to Steve for his closing remarks.

Steve Rizzone
Thanks, Brian. I think we're going to go ahead and move directly to questions. So, operator, questions, please?

QUESTIONS AND ANSWERS

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 Ilya Grozovsky of National Securities. Please go ahead.

Ilya Grozovsky
Thanks. Steve, the delay in the strategic partners research R&D offset payment, given that we're a little over halfway through Q1, has that come in, in Q1?

Steve Rizzone
No. Maybe to provide some more color on that, we have delivered the prototype on schedule. We were informed that due to internal changes within the company the review cycle would be delayed. We continued to work with the customer regarding this review cycle. They have the technology, we understand that they have tested it to some extent. We're not in a position really to push back on this. As you can appreciate, when you're a small company dealing with a very large company, their priorities, their approach to the situation really dominates the way we engage and operate.

So, it is our belief that this will be resolved and reviewed at some point in time. But today, I cannot tell you exactly when that will be or how that will roll out. We're very pleased with the technology that we've developed. We think it is really groundbreaking. But at this point in time, the ball is really in our strategic partner's court.

Ilya Grozovsky
Okay. Thank you.

Operator
The next question comes from John Always of Lott Investors Network. Please go ahead.

Steve Rizzone
Hello, John.

John Always
Hi, Steve. How are you today?

Steve Rizzone
I'm fine.

John Always
We have a few questions that are, we think, germane, so I'm going to jump right in. What's the status of your contract with Energous?

Steve Rizzone
It is my intent to remain as part of the company. I think we've had ongoing discussions with it. Quite frankly, it's not been a priority. I am totally committed. I understand that there is a level of disappointment here now. I can only assure you that I believe very strongly in the future of the Company. I am absolutely totally committed to see that we realize the shareholder value that we have communicated as the potential for this Company, and so while the contract is not finalized, it's not been a priority. But, as I said, I fully intend to see that the vision and the potential opportunity that we started working with four years ago is achieved.

John Always
Thanks. Given direction, foreign approvals, have there been any foreign regulatory approvals for at a distance?

Steve Rizzone
There have been, I believe, two or three, but not in the major markets. In particular, the Chinese, the

Japanese and the Korean markets are really the gating items, and this is where we have been focusing the bulk of our attention. We believe that these represent the biggest obstacles, because our ability to leverage the FCC approval has met with limited response in these jurisdictions. These three jurisdictions have decided to do their own surveys and studies. And so we have changed course. And where we originally were submitting Energous devices like we did to the FCC, we backed off of that strategy and are now engaging with top-tier companies in these respective jurisdictions to work with them to submit their own devices and indicate a national interest in seeing that these regulatory approvals are awarded.

We are confident that the issue of regulatory approval for the rest of world is really an issue of when, and not if. Our focus right now is on these three jurisdictions because we see them as the biggest gating items. And at the same time, our clear focus as a company is really on generating revenue and closing the expense cap and rolling over to profitability. So, the real dominant focus of the Company internally is on near-term revenue opportunities to get us to the point of self-sustainability. I know that's a long-winded answer but there were several points that I wanted to communicate with that. Next question.

John Always
A little bit of follow-up on that, the regulatory approvals that have been obtained and are now being obtained, will they suffice for the GaAs and GaN chips, or are we going to need another round of approval?

Steve Rizzone
No, no. Again, the bulk of our effort has really been around contact, and that's where we have 111 countries that have been approved because that, as I said, represents the shortest distance to profitability and to significant revenues. The regulatory approvals are not chip-sensitive, if you will, they are technology-sensitive. So, changes from CMOS to GaAs or GaN would not necessitate an approval in and of itself. It would likely, though, be in a different device. We are pleased with the preliminary results that we've received on our GaAs and GaN technology. They're well within the regulatory limits, and so we don't see a problem with this technology from a regulatory perspective.

Operator
The next question comes from Kevin Winter of Oppenheimer. Please go ahead.

Kevin Winter
Do you have any approval to do any of the wireless charging that you show in all your videos, so where somebody walks into a room and puts their phone or watch down and can charge? Because I looked to your website and it shows all these people walking into a room charging things wirelessly, but from what I'm hearing, you guys don't actually have the approval to charge wirelessly. Could you just enlighten us on that?

Steve Rizzone
Yes, Kevin. That's not the case. The major announcement in December of last year for the FCC approval was clearly all about distance charging. It was a groundbreaking announcement because it really opens up the whole area of next-generation technology. So, we believe that FCC approval can be leveraged across a broad number of jurisdictions. The troublesome ones that we have, I spoke earlier, is the complexities of the three Asian jurisdictions.

At the same time, as I said, from a corporate perspective, we understand that revenue is really the validation point that our shareholders are expecting us to deliver, and as I said, the closest and fastest and most expeditious point to achieve that is through the contact technology. And that is where we have focused the bulk of attention, not only on development and customer funnel and customer applications, but also from a regulatory perspective.

Kevin Winter
[Audio disruption] answer my question. You go to your video on your website, it shows people walking into the room and putting their watch down on their desk and it's charging that. Now, contact, I went to TJ Maxx the other day and they have dozens of contact chargers—

Steve Rizzone
Kevin, I've answered your question.

Kevin Winter
Okay. Do you have a product that actually charges wirelessly that's available right now? That's my question.

Steve Rizzone
We do not have a product that charges wirelessly, when you say at a distance in the market. We have a number of engagements with customers who are developing products for that market. Again, remember, we do not sell products, we engage with customers to integrate our technology into their technology. We do have FCC approval, the most important regulatory agency in the world, for distance charging, the ability to charge products like your watch or like your wearable at a distance wirelessly. We've had that since December of 2018.

Operator
Again, if you have a question, please press star then one on a touchtone phone. The next question comes from Raymond Vahosky, a private investor. Please go ahead. Mr. Vahosky, your line is open. Please go ahead with your question.

Okay. We'll go on to the next question, Karen Shasky, a private investor. Please go ahead.

Karen Shasky
Can you please give us a status on the tier 1 that you've been talking about for the last several years? You really haven't said anything about them on this call yet.

Steve Rizzone
Hello, Karen. I believe that the start of the call was really focused on our tier 1 strategic partner and the fact that we continue to work with them on the development of the WattUp technology. We were looking to have a substantial engineering services payment as part of the deliverable in the fourth quarter. And for internal reasons to base -- I mean, internal reasons -- excuse me, the strategic partner made the decision to elongate the cycle and delay the decision. So, we're continuing to engage with the strategic partner. There has been no change, other than, as I said, their decision, for their own internal reasons due to changes in organization and operations within their company, to elongate or delay the review cycle. And so—

Karen Shasky
I'm sorry to interrupt you. But I thought that there were two top tier 1 customers, so to speak, that you are working with. And one of them is the one that you have a contract with, and this is supposed to be a very important top tier 1 partner. So, this must be the same one then that you were expecting sales from for the fourth quarter, because again you are working with I guess at least two top tier 1s. And I had thought that the last time you had the conference call, that this one very special important top tier 1, that you were starting to look into putting your product into their devices, that you had left the R&D stage and that you were now looking to actually putting your product into their devices. So, are you saying then that this special top tier client you've been working with for many years, that this is the same one that you

were expecting sales from fourth quarter?

Steve Rizzone
So, let's try and clear up some of the confusion. First of all, we're working with a number of top-tier consumer electronic companies. We have a very enviable position, in that the strength of our technology has allowed us to engage with a number of top-tier consumer electronic companies. There are two in particular that occupy the top 10 consumer electronic companies in the world. These two are the ones that I referenced at the beginning of my remarks. One of them is -- we have continuously referred to as our key strategic partner, and we've been engaged with them for multiple years now.

I do not believe that I have ever signaled that they have begun to integrate into their devices. I would not comment on that because I have never made any specific references to the status of integration, other than the milestone deliverables that we have developed in conjunction with their specifications and requirements. I have always maintained that we are not privy to their integration, the details of their integration. And at the same time, we have no guarantee that they will integrate this technology at all, even though the relationship continues to move forward. That is the one key strategic partner with whom we were expecting a large engineering services payment based on the deliverable of a next-generation system that we had built to their specifications. But, as I said, they decided to elongate the review cycle, and that has not been completed today as we speak.

The second company is also one of the largest consumer electronic companies in the world, and it was a different scenario, where they were engaged in a product launch cycle. And in conjunction with that product launch cycle, we anticipated an early chip sale that would allow them to begin the prototype and preproduction and early stages of mass production cycles necessary to carry a product into a full product launch. As I said, they made the decision based on their own research and market surveys that they wanted to add more functionality and enhance the product. And as a result, the launch has been delayed to the latter part of this year, which in turn delays the chip order that we're expecting because there's usually a four to six-month delay in the time when we receive an order between the time that you actually see the products hit the consumer market.

So, hopefully, that corrects your understanding. But there are in fact two top tier consumer electronic companies, both of which changed their own schedules, not something that we could control, something that we have to deal with. But at the same time, we are very, very fortunate to have these relationships.

CONCLUSION

Operator
This concludes the Q&A session. I will now turn the call back to Mr. Rizzone for concluding remarks.

Steve Rizzone
Since, there are no more questions, we would like to thank you for joining our Q4 earnings call. We very much look forward to speaking to you again in three months, where we expect to report continued acceleration of the Company towards our primary goal of self-sustaining revenues, expanding our market presence and increased shareholder value.

We understand that there may be a degree of frustration with our investors, just as we are frustrated with some of the delays that we have experienced, however, we do believe that we are on a path to revenues, which ultimately, I think are the key validator. We remain extremely confident and excited about the future despite these setbacks and look forward to reporting, as I said, improved results in the next quarter. Thank you, and we'll look forward to talking to you again then.

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