

Energous Corporation

Q4 2019 Financial Results Conference Call

Wednesday, February 26, 2020, 4:30 PM
Eastern

CORPORATE PARTICIPANTS

Steve Rizzone - *Chief Executive Officer*

Brian Sereda - *Chief Financial Officer*

Mike Bishop - *Investor Relations*

PRESENTATION

Operator

Good afternoon. Welcome to the Energous Corporation Fourth Quarter 2019 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please call a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. Please note, that this event is being recorded.

I would now like to turn the conference over to Mike Bishop, with the company's Investor Relations. Go ahead.

Mike Bishop

Thank you, Kate, 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 the 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 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

Good afternoon and welcome to the Energous fourth quarter and fiscal year 2019 conference call. Joining me today is Brian Sereda, our Chief Financial Officer. I will begin with comments on the company's business and performance, then turn the call over to Brian for a financial update. We will then open the call to questions.

Let me start off by saying that the executive management team and the board of directors of Energous are united in the belief that the company is at a positive inflection point and that we expect our expenses to remain relatively flat, the number of customers shipping products to consumers will increase, and our revenues will grow in fiscal 2020. What gives us the confidence to make such a statement? The answer is very straightforward, we believe there are a number of elements to the Energous business, which have changed and matured going into this year when compared to past years.

First, let me call your attention to the announcement that was made today regarding the WattUp technology being certified for sale in Japan. There are several reasons why this is such a significant milestone for the company. Japan is a key market for wireless power, and this market is now open to consumer and industrial products with integrated WattUp technology.

Energous also has several top tier Japanese-based opportunities who needed the Japan certification to seriously consider green lighting WattUp integrated products for domestic

followed by global launches. We believe multiple large-scale projects, specifically targeted for domestic markets by Japanese companies will now move forward with anticipated 2021 launch dates.

As has often been stated, global certification or the ability to sell products in North America, Europe and Asia has been an important consideration for a number of our tier 1 opportunities. Several have slow rolled the development of WattUp enabled products until such time as a path to certification in all three markets materialized.

While this clearly hampered our efforts with some Tier 1 opportunities, we continued to engage with them in anticipation of successfully creating a global path to certification. We believe the Japanese certification, the difficulty in obtaining it, coupled with the high regard such a certification holds in the Asia-Pacific region, has the potential to move a number of these projects to design win status, based on the belief that if the WattUp technology can achieve regulatory approval in Japan, there is a high likelihood this can be done on a global basis.

Finally, one of the last remaining open questions concerning Energous and its future as a viable leader in the Wireless Power 2.0 rollout was whether or not the WattUp technology could be certified on a global basis. While the Chinese and Korean certifications remain to be completed, the Japanese certification establishes the fact that the WattUp technology can be approved in a major Asian Pacific market. We believe this certification answers the question in the affirmative, eliminates this overhang, and decreases the risk profile of the company.

In addition to the expansion of regulatory certification to a 112 countries, including Japan, going into 2020 we have a greater understanding of the underlying wireless power business. To appreciate the significance of this, one needs to understand how Energous has grown and matured as a company.

Recalling we went public with a vision and an early prototype, we spent the first two years engaging with a broad array of domestic and international customers to make fundamental decisions on the core technology driven by what we thought would be the fastest path to market.

We executed this early pioneering effort with first to market designs, invention, innovation, and regulatory breakthroughs, all the while virtually every step of the company's progress involved blazing new trails for a completely new technology. This process resulted in Energous developing a broad spectrum of technology, spanning six different frequencies from 60 GHz to 40 MHz, 215 proof-of-concept projects, chips targeting multiple fabrication processes in CMOS, GaAs, and GaN technologies, in a 11 distinct consumer and IoT markets, all covered by over 300 valuable patents and patent applications.

Moreover, while Energous was developing this broad spectrum of technology and evolving its go-to-market strategy and roadmap, the company began to engage with regulatory agencies around the world. It became clear as we engaged with these agencies, that achieving global regulatory certification was doable, but would be challenging.

It also became clear that the initial regulatory certification of a new WattUp technology would be conservative in terms of allowable conductive power and compliance with established health and safety standards. Therefore, the challenge Energous faced was to identify meaningful markets in which WattUp could achieve near term global certification that were a good fit for the technology with strong use cases and a favorable competitive landscape.

This challenge has been met and we have a clearly delineated market penetration roadmap that represents the fastest, clearest path to revenue. The target markets for WattUp Near Field technology in 2020 are smart glasses, hearing aids, personal sound amplification products or PSAPs, hearables, and medical sensors.

In 2021, we believe possibly expansion markets include smartphones, military and public safety, gaming, industrial and commercial IoT. We also believe, over time, regulatory requirements will evolve and be relaxed as was the case with WiFi, as the regulatory agencies become more comfortable with WPT, and the products become more prevalent in consumer and IoT markets. These changes can only benefit WattUp as the current capabilities of the technology go well beyond what can be certified today.

As noted earlier, the global regulatory realities led Energous to reprioritize focus from top-tier opportunities requiring global certification to second and third tier opportunities, who could and would launch on a regional basis in the near term. Going into 2020, our reprioritization is now complete, and the company is focused on opportunities that have accelerated product cycles and will launch on a regional basis in the U.S. and Europe.

Given the Japanese certification and the anticipated positive response from top tier opportunities that delayed their WattUp enabled product plans, we will be expanding our customer-facing resources to enable a company to simultaneously focus on a broad spectrum of opportunities, both regional and global in scope with launch dates in 2020 and 2021.

Therefore, going into this year, armed with an in-depth knowledge of the current global regulatory environment and the best customer use cases that represent the quickest path to revenue, the executive team was able to develop our current go-to-market strategy and 2020 operating plan with confidence.

Also, new for you this year is the fact that Energous has a fully commercialized regulatory approved WattUp-enabled product from a partner shipping to the consumer. The Delight PSAP is shipping to customers and is available on Amazon. We have made it very clear from the offset that the significance of this product announcement is not associated with revenue, but the fact that the chasm between developmental stage to full commercialization has been crossed. It is important to note that the Delight announcement also represents the first and only next generation wireless product that has successfully transitioned to full commercialization.

We expect to see additional products in the market, possibly this quarter headed by the NewSound hearing aid. Unfortunately, NewSound's market launch has been impacted by the coronavirus in China, which shut down their workforce and supply chain. We understand they are just coming back online now. We will continue to monitor this situation as a large percentage of our early adopter customers are either based in China or have Chinese manufacturing dependencies. We are also seeing related delays from our customers in Japan and Korea.

Our visibility is murky, but we understand that operations should resume in the next few weeks on a limited basis, with limited availability of the WattUp-enabled product shortly after that. While these and other early adopters will fuel our revenue ramp for the current year, they are also significant and that they provide further validation of the technology. They will enable WattUp...the WattUp technology to gain a foothold in key product markets, and they will provide a path for regulatory certification for future larger customers. Finally, the experience gained in

the manufacturing startup process of these early adopters will benefit our larger opportunities when they begin to ramp-up later this year.

Regarding our target markets for 2020, as stated, we intend to focus on Near Field opportunities in the hearables, hearing aids, smart glasses, and medical sensors markets. We have credible use cases, mature technology, significant competitive advantages, path to regulatory approvals and a strong customer funnel for all of these markets. In addition, our stakeholders can expect to hear major announcements in the coming weeks regarding two new markets Energous will be participating in.

First, our stakeholders can expect announcements in the coming weeks regarding a completely new, low cost, small form factor desktop charging at a distance technology. This new technology will clearly differentiate Energous, and we believe it will be the basis of the first charging at a distance transmitters from our customers likely in the form of smart speakers, clock radios and table lamps, as well as, standalone special application transmitters.

Second, this same charging at a distance technology will form the core of what we anticipate will be a major opportunity for WattUp, specifically harvesting for consumer and industrial IoT applications. We are actively engaged with multiple partners to develop the next generation harvesting receiver, which will leverage our existing technology, while setting the bar for captured power and distance.

We will be providing more details on this fast-growing market opportunity in the coming months. But the sheer numbers associated with sensor, tracking devices, and retail displays make this a compelling revenue opportunity and value creator for the company.

A few additional comments before turning the call over to Brian. Our partnership with Dialog remains strong, as we continue to leverage their significant sales presence in both commercial and industrial applications, as well as, their operational strength as one of the leading fabless semiconductor companies in the world.

As noted earlier, customer interest in our technology remains strong. The number and scope of reference design kits being sent to qualified business opportunities continues to increase on a month-to-month basis. We continue to focus on enabling compelling use cases with our diversified technology portfolio. When combined with regulatory successes, such as the Japanese approval announced today, we are defining a path for Wireless Charging 2.0 adoption.

In summary, we expect increasing momentum quarter-to-quarter in the form of revenues ramping and increasing number of WattUp-enabled products shipping to consumers and new markets opening up based on a new generation of wireless charging at a distance technology.

We ask our stakeholders to track our progress through coming announcements, our website, and future quarterly calls. We believe we have all the necessary components in place to deliver on the promise of the next generation of Wireless Charging 2.0 to the benefit of all of our stakeholders.

Brian, I'll turn the call over to you.

Brian Sereda

Thanks Steve. Before I get started, as a reminder, we issued two press releases today at close of market: one announcing our financial results for fiscal year ended December 31st, 2019, and a second announcing our Japan regulatory approval.

Summarizing our financial results for fiscal 2019, we recognized approximately \$200,000 in revenue compared to \$500,000 in the prior year. Revenue for the fourth quarter was approximately \$46,000 compared to \$56,000 in the same quarter last year.

As you heard in Steve's section, the company has made important engineering and regulatory progress over the last year, and customer interest, along with our Dialog partnership, remains strong as we continue to knock down barriers to commercialization that have played havoc with our ability to predict the timing of product introductions and follow-on ship royalties. Given the highlighted progress we have made in 2019 and potential of our customers under engagement, for fiscal 2020 we expect to generate revenues in the seven-figure range.

On the expense side and on a non...and on a GAAP basis, total expenses were \$39 million, down approximately \$12.4 million, or 24% from \$51.4 million in fiscal 2018. The decline is due to a combination of lower chip fabrication and associated engineering cost, plus lower headcount costs, including stock compensation.

For the fourth quarter, total GAAP expenses declined by approximately \$3 million to \$9.5 million, 24% lower than the \$12.6 million of GAAP expenses in the same quarter last year, but an increase of approximately \$1.2 million over the third quarter, mainly due to additional chip tape out work performed in the fourth quarter that we alerted investors to on our last call. Stock compensation was the primary driver of the remainder of the increase, when compared to the quarter.

Net loss on a GAAP basis for fiscal 2019 declined by \$12.4 million, or approximately 25% to \$38.4 million, or \$1.27 per share on 30.3 million shares compared to 50.8 million and \$1.99 per share in the prior year on 25.5 million shares. For the fourth quarter, our net loss was \$9.4 million, or \$0.29 per share. This is 3.1 million lower and similar to the annual results 25% lower compared to the loss of \$12.5 million, or \$0.48 per share in the fourth quarter of last year.

The fourth quarter net loss this year was approximately \$1.2 million higher than Q3, as I just mentioned, but as we completed additional chip tape out work which was fully expensed in the fourth quarter and accounted for approximately \$0.03 of the net loss per share in the quarter.

I would like to now go over our non-GAAP view of our expenses, as we believe that adjusted or non-GAAP EBITDA provides a useful tool to investors when used in conjunction with GAAP information. Excluding non-cash depreciation and stock compensation expense of approximately \$11.4 million, approximately \$6.4 million less than the prior year, total net non-GAAP expense in 2019 was \$27.6 million--18%, or \$6.1 million lower when compared to the \$33.6 million of net non-GAAP expense incurred in 2018.

The largest drop in expense comes from our engineering and R&D areas including lower third party tape out costs associated with chip development, and we believe it signals a maturing of the technology that we expect will generate future revenues in certain vertical markets where we are actively engaged with a number of customers. Spending in engineering and R&D and regulatory represents just over 60% of our non-GAAP cost structure. However, this is down from historical non-GAAP spend rate of almost 70% in these three areas.

On a quarterly basis, our fourth quarter non-GAAP expense declined year-over-year by approximately \$1.6 million, or 19% to \$6.8 million from \$8.4 million of non-GAAP expense in the same quarter last year. Compared to the prior third quarter, non-GAAP expense increased by approximately \$0.7 million, again due to the chip tape out costs that I mentioned incurred and were incurred in the fourth quarter.

With Dialog's support in areas such as operations, sales and marketing, we continue to invest the majority of our capital in ongoing engineering-related, commercialization, and global regulatory efforts.

In addition, legal including intellectual property protection costs and public company costs are significant for a company of our size. We ended the year with 51 employees compared to 71 at the end of 2018. We expect to maintain headcount on this range to support our core structure, which is focused on bringing additional examples of RF-based charging to market this fiscal year.

Our net loss for 2019 on a non-GAAP basis was approximately \$27.4 million, \$5.7 million, or 17% lower than the \$33.1 million non-GAAP net loss incurred in the prior year. For the fourth quarter, our net non-GAAP operating loss was \$6.8 million, approximately \$0.7 million higher than the \$6 million net non-GAAP loss in the prior quarter for reasons I discussed earlier and approximately \$1.6 million, or 19% lower than the \$8.3 million net non-GAAP loss in the fourth quarter of 2018.

For the current fiscal year 2020, we expect our cash spending to remain below 2019 levels, diverting investments to regulatory and other commercialization efforts versus developing multiple new chip designs as in past fiscal years. Our significantly lower cost structure compared to prior years run rates remains leverageable, thanks in part to our partnership with Dialog, that will allow us to scale without adding those traditional costs in areas such as operation and global sales associated with revenue growth.

We ended Q4 debt-free with \$21.7 million in cash. In October of last year, we entered into an aftermarket issuance sales agreement or commonly known as an ATM with B. Riley. The cash balance at 12/31 reflects a net \$4.5 million raised on approximately \$2.1 million shares sold, net of fees including associated initial legal costs.

Keeping the interest of all stakeholders in mind, along with our reduced expense run rate, expected to continue through fiscal 2020, we believe we have sufficient resources to navigate fiscal 2020 while balancing this view against the recent volatility of the market driven by pandemic fears and the upcoming election cycle.

Let me now turn the call back to Steve.

Steve Rizzone

Thank you, Brian. 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 "*", then "1" on your touchtone phone. If you are using a speakerphone, please pick up the handset before pressing the keys, to withdraw your question, please press "*", then "2."

Our first question is from Suji DeSilva from Roth Capital. Go ahead.

Suji DeSilva

Hi Steve and hi Brain, congratulations on the progress you made here. So maybe just kind of on the ground question here, the coronavirus impact, can you guys talk about maybe how many weeks on average you are seeing launches pushed back in orders, just to get a sense of how much of disruption this is, quantifying if possible?

Steve Rizzone

Again, our view of this is murky, but it is measured in weeks. I think that, as I noted, that they are starting to come back to work now. There was about 15% in the office yesterday morning. So, we think that this is something that will impact us as we now see it in numbers of weeks, four-to-six-to eight something like that. We don't see this as a long-term problem, unless it gets completely out of control with the caveat that, as I mentioned earlier, we have a significant dependence on the Chinese manufacturing infrastructure and supply chain infrastructure for the majority of our early adopters. And so, we'll have to see how this plays out, but right now we are talking about weeks.

Suji DeSilva

Understood, that's very fair. And then, I think you have one customer with product in the market today, correct me if I am wrong, but what do you think that that can look like by the end of 2020, what is kind of the magnitude of pipeline products that can come to market throughout the next three or four quarters?

Steve Rizzone

Well, I'm not sure that I'm prepared to give a number, other than the fact that we do have a clear view to several additional products in multiple markets coming to market. And as Brian said, we have a clear view to our revenues ramping in the seven-figure range. We want to be conservative as we begin to give this guidance, because there are a number of factors that impact us, not the least of which is how these products will roll out and how quickly they will come to market.

But we have a significant pipeline in the markets that we talked about, hearing aids, PSAPs, medical sensors that in particular that we anticipate will begin to hit the market potentially as early as this quarter and certainly next quarter. We see our revenues ramping, as I said, quarter-over-quarter as are the number of expected customer shipments and products in the market. We have a significant queue of customers that are lining up for regulatory approval. So that department is very, very busy. And as I said, this is kind of all coming together at this particular point in time, where we were getting a much clearer view this year than last year as to how things will rollout and what we can expect to see.

Suji DeSilva

Okay, great. And then on Japan a couple of questions here. First of all, how long did this process with Japan taken? I'm really asking in the spirit of China and Korea being kind of

behind them, how far along those are...and if that's a good metric to think about, when those might fall into place?

Steve Rizzone

Well, we would measure it in certainly over a year that we've been engaged, probably closer to a year and a half. We did engage aggressively all three of the major Asian markets, Korea, Japan, and China pretty much at the same time. They each represent different problems, but we do believe that there is now a path in Korea and China to certification. And we've already made the statement that we believe it's possible this year that we will complete full global certification path for the regulatory environment.

Suji DeSilva

Okay, and then lastly, I think on the transition to sort of regional strategy near term, Japan specifically with the approval here. Are there any particular end markets or sub segments that have the most opportunity near term for product launches? And can you just talk about the design and cycles. You said you think Japan products launch in 2021. What is the design cycle length that gets you to that kind of launch with the approval here? How those two inter-relate? Thanks.

Steve Rizzone

Our strongest markets right now are hearing aid, PSAPs, hearables and smart glasses, with I think medical sensors ramping. The product cycles are really dependent upon the customer. For a Tier 1 opportunity from the period, it's really green-lighted until you can expect to see it in the hands of the consumer is probably an 18-month cycle. That's why, again, we think that there will be a number of domestic products launched or green-lighted as a result of this certification, and we would expect to see those start to hit the consumer market mid-next year, third quarter possibly. We would expect to see chip sales ramping to meet those requirements towards the end of this year going into the beginning of next year.

Suji DeSilva

Okay, Steve and Brian again, congratulation on the progress, thanks for the time.

Steve Rizzone

Yes. Thanks, Suji.

Operator

Again, if you have a question, please press "*", then "1."

Our next question is from Jon Hickman from Ladenburg. Go ahead.

Jon Hickman

Can you hear me okay?

Steve Rizzone

Sure, yes. Hi Jon.

Jon Hickman

Okay. Thanks. Can I...so I wanted to ask to make sure I understand exactly what you mean by these two new markets--the desktop charging at a distance and then the IoT applications? So, you intend to announce like partners in these two markets in the next few months or is there

actually going to be a product that you can announce in the next couple of months? What exactly did you want us to take away from here?

Steve Rizzone

I think there's two important elements to this. First of all...and let me give you some historical perspective here. I mentioned earlier in the call that we have gone through a very elongated and detailed regulatory review on a global basis to understand realistically what is possible, what can be certified, and how we can move the product portfolio, based on those regulatory requirements. It became clear from a regulatory perspective as well as from a customer perspective that significant work needed to be done to our desktop distance technology in order for it to meet both the global regulatory requirements, as well as the cost footprint and available power requirements necessary for our customers to launch products, the first products at a distance.

We have completed that cycle and we will be announcing a completely new desktop technology in the in the coming weeks. This will form the basis of what we believe will be the first transmitters. But the announcement is really the beginning of the cycle. We do not anticipate that these transmitters will begin to hit the market until at the very early as late this year, very, very likely next year, just based on the product cycle. Having said that, this will clearly differentiate the company as we will be the only wireless power provider that has the ability to do both contact and distance technology.

This same core technology has been designed specifically to be very, very versatile in terms of its applications. And based on the largest markets available to us at this time, we have zeroed in on industrial and commercial IoT and harvesting as a major, major opportunity for the company.

The sheer number, as I mentioned, of sensors and retail displays that are being implemented on a global basis, both commercially and industrial...and on an industrial basis is really very significant. And so, we will be very active and aggressive participants in this market. And we will be releasing what we believe will be leapfrog technology that will position us very well in these markets.

The first example of that was the POSCO sensors that we talked about earlier, and I think you can expect to see more and more announcements as it relates to these kinds of sensors and this kind of activity. This will not impact us to a degree this year, but we believe will be a very significant element of our revenue in 2021 and will have a very significant contribution to both the bottom and top line for the company next year.

Jon Hickman

So, this new generation, I think when we talked at CES, you mentioned that their cost of goods here was significantly lower than the current versions? Is that...

Steve Rizzone

So that's correct, and that's been a key factor with our perspective customers. When we released the first distance transmitter in 2017, it was considerably larger in size, much more complicated, and certainly much more expensive. And we have been working with that transmitter and engaged with customer since 2017 on the rollout of the distance technology.

It became clear, as I said, that to really incorporate this into the most attractive markets, which are smart speakers, table lamps, clock radios as the first utilizations of this desktop technology

that the WattUp technology itself had to become very, very small, had to become very low-cost, and we also simultaneously had to figure out a way to actually increase the conductive power while decreasing footprint and cost. And that's why this announcement, which is pending, will I think have a very significant impact on the company, because it accomplishes all three of those objectives. It is being very well received and we will be announcing an early adopter program in conjunction with this roll out at the appropriate time.

Jon Hickman

Okay, then just one more question from me. When you say seven figures, does that mean somewhere \$1 million and \$10 million, is that how I should understand that?

Steve Rizzone

Yes.

Jon Hickman

Okay. I just wanted to make sure I was on the same page as you. Thanks, and nice progress here.

Steve Rizzone

Thank you, Jon.

Operator

At this time, I would like to turn the conference back to Mr. Rizzone for closing remarks.

CONCLUSION

Steve Rizzone

Thank you, operator. A few closing comments to reiterate what's been said today. First, the confidence that we have expressed today is not based on some hope for a future event or a technological breakthrough, but rather the fact that the regulatory product and customer vectors have aligned themselves in such a way to provide a clear and compelling picture that the company is indeed at an inflection point. We expect customer shipments and revenue to move upward from here on a positive quarter-by-quarter basis. Further, the Japanese regulatory approval now sets the stage for the final push towards global certification of the WattUp technology that we anticipate as I said will come this year.

And finally, the release of a completely new second generation charging at a distance technology that has the size, power, and cost to successfully launch desktop applications as well as propel the company into a new fast-growing harvesting IoT markets for both commercial and industrial applications while leapfrogging current solutions will certainly have a very positive impact on both the top and bottom line performance of the company, as well as create significant value for our stakeholders.

We do not ask you to take this on faith. Please track our progress as Energous can and we will deliver on these expectations. I will be attending the Roth Conference in Laguna Niguel in mid-March and I hope to see a number of you at that conference. We thank you for your attention. We look forward to you in the next conference call where we expect to announce additional progress and performance, as well as announcements that you can expect to see in the coming weeks. Thank you for your attention and good afternoon.

Operator

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