Energous Corporation

Q1 2021 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Brian Sereda - *Chief Financial Officer*

Cesar Johnston - *Chief Operating Officer*

Neeraj Sahejpal - *Senior Vice President of Marketing and Business Development*

Mike Bishop - *Investor Relations*

PRESENTATION

Operator
Good day and welcome to the Energous Corporation's First Quarter 2021 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your touchtone phone, and to withdraw your question, please press "*", then "2." Please note, this event is being recorded.

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

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

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

Now I would like to turn the call over to Brian Sereda, CFO of Energous. Go ahead Brian.

Brian Sereda
Hi, thanks Mike. I'm Brian Sereda, Chief Financial Officer at Energous. And joining me today on the call is, Cesar Johnston, our Chief Operating Officer, and Neeraj Sahejpal, our Senior Vice President of Marketing and Business Development.

At the close of market today, we announced our results and highlights for our first quarter of 2021 ended on March 31. The team would like to give you an update on several aspects of our business beginning with an update on customers and markets, along with engineering and regulatory, followed by an update on our operating results before opening the call up for Q&A.

On our last quarterly call, we had stated that we were expecting quarterly revenue growth to occur. Accordingly, we recognized $145,000 versus $90,000 in the prior fourth quarter. In combination with this modest growth, we also saw an expansion of interest in our technology, including notable potential customers, owing to the release of our WattUp PowerHub Developer Kit in March.

This technology continues to evolve in terms of power levels and at-a-distance charging capabilities, and we are excited to see the varied potential applications that are being considered by our partners. Previously announced, contact to charging base partners such as

NewSound, Gokhale, and American Equus continue to progress towards general commercial availability.

We and our partners continue to navigate the challenges associated with the direct impact of COVID-19 related closures, IC parts shortages, and working remotely. This is leading to some delays but we are excited about these upcoming product releases as they further highlight RF as the next generation and next evolution of wireless charging for both at contact and at-a-distance or over-the-air charging.

In addition, we continue to work with these customers as they prepare to bring their respective products to market in the coming months. We're also working with a number of additional partners who have not been announced that are looking to implement our RF-based contact charging technology, due to certain advantages over coil-based charging.

In general, interest in true wireless power as an industry continues to grow, especially regarding RF-based charging as evident from the recently announced early and early conceptual demonstrations by the likes of Xiaomi, Oppo, and Motorola Mobility. It is clear the freedom to charge at a distance is the next barrier to overcome and we believe Energous with its portfolio of chips, system, software and regulatory understanding is uniquely positioned to create the ecosystem of next generation wireless power at a distance.

Case in point, our PowerHub technologies value proposition is to allow device manufacturers, consumer, medical, industrial, and other markets to enable over-the-air wireless charging in the most cost effective and practical way. Something that we believe is not possible with older, first generation, coil-based charging technologies. Backed by our ability to secure early regulatory approvals using proprietary non-beamforming technology, we are seeing various distance tech-charging opportunities evolve at a faster pace than our earlier expectations.

In addition, the availability of our PowerHub transmitter reference kit has brought device manufacturers to the table that need to solve at-a-distance charging requirements that can only be currently solved with RF-based solutions. And we believe that our first partner product enabled with true over-the-air wireless power will be launched later this year.

While we also continue to make progress with opportunities in near field, we see three trends emerging in distance-based charging. Number one, new medical devices especially wearables are being designed in various sizes and shapes with a clear need for no open contact points that you find with Pogo pins. Difficulty in embedding coils into these devices along with a desire or requirement to offer charging at a distance has led to companies to RF charging to solve these issues. We are seeing the same trend in consumer IoT applications that we are working with partners on today.

Number two, the industrial segment is also quickly evolving, thanks to the introduction of faster communication standards and data gathering via Bluetooth with more display, sensor, and control applications. We believe this will require charging solutions in difficult environments capable of charging at much longer distances where batteries cannot be easily accessed.

And third, active harvesting is growing especially in commercial and industrial settings and is evolving into applications where a dedicated charger transmitter is needed to ensure that required amounts of energy are reliably available. Receivers in this category will most likely not have batteries but will need to receive enough energy to power data-gathering sensors in areas such as logistics and manufacturing.

Our strategy involves bringing an ecosystem together where more of our partners can enable our transmitter technology, providing a complete range of power and distance solutions. Our announcement yesterday of European regulatory approval is just one example of where Energous is leading the worldwide effort to expand the reach of wireless power transfer.

We are seeing an increase in the number of potential partners with industrial and medical applications, needing functionality that can't be supported by older, first generation wireless charging technologies. Our continued evolution of our PowerHub technology and future introduction of longer range capabilities with meaningful power at distance is expected to continue to expand our prospects in these areas, and we expect could lead to future higher volume commercial opportunities.

To summarize, what is becoming evident with our most recent customer engagements is the scale of the opportunity and the prominence of the customers and their respective applications that are pulling us and our technology into emerging opportunities, especially into markets such as medical devices, logistics, and other potentially high-volume opportunities where contact-based charging is either not an option, or is not ideal. We believe this is a testament to the progress we have made in establishing Energous as the leader in next generation wireless charging solutions.

I'd like to now turn the call over to Caesar, our COO, who will bring you up to date on our innovation, technology and regulatory progress, Cesar?

Cesar Johnston
Yes, thank you and good afternoon everyone. Energous continues to be the industry leader in radio frequency wireless power transmission, driven by our work in developing standards, new technologies, and most important accelerated product development, operating within a system for novel approaches, while meeting international regulatory rules. And I really want to emphasize the latter. Energous develops products that meet regulatory safety rules. As such, we are a unique company whose mission and vision are to develop second generation wireless charging technology supporting charging at contact, as well as at a distance or over-the-air functionality.

Thus our target is to continue our leadership in the deployment of RF wireless power transmission by increasing transmission power levels and transmission distance, while developing a state of the art semiconductors and systems which increment our unique IP portfolio. We at Energous continue to make progress on worldwide frequency harmonization and by innovating advanced systems and processes on RF wireless power transmission compliance as part of our R&D model.

Today, we're happy to report, as announced in our press release yesterday, that our latest efforts have now resulted in the European regulatory approval of our WattUp PowerHub. This certification is the first of its kind in the EU and it opens up the promise of RF wireless power transmission at distances beyond one meter, and now well beyond 15 feet. The result of this effort is an unheard 4.5 times increment at 15 feet in distance from our previous one meter record and very well beyond, as there's no distance limitation on this certification.

This achievement was made while maintaining the WattUp PowerHub conducted power well within its operational limits. We pushed the transmission distance and we pushed the power within regulatory limits and are well within safety limits as well. We have accomplished a major

achievement that many people thought was impossible. Our efforts on the regulatory front will continue as we develop our technologies to meet RF and safety regulations. Our current worldwide efforts include contributions in the ITU, ETSI, BWF and the FCC, where for instance, a new proposed rulemaking under Part 18 is under consideration to allow higher power and distance for wireless power transmission regulations. Our efforts are showing a positive impact as multiple countries have now recognized the need for RF wireless power transmission-dedicated rules.

Now, on the technology side, our patent portfolio now includes 236 patents with 3 patents allowed in Q1. Last quarter, we presented WattUp PowerHub for creating a workspace or desktop charging environment up to one meter transmission in distance. We are seeing increased interest on WattUp PowerHub from a number of potential customers as developer kit orders are being delivered.

The one meter WattUp PowerHub architecture that uses our DA4100, the EN3921 and EN3913 devices was retargeted for applications on active harvesting, with the goal to support IoT receivers, with up to 250 milli watts in a power broadcast configuration. This means a simultaneous power transmission to multiple receiver devices at a distance and with up to 250 milliwatt delivery supported by each receiver. Our webinar presenting the WattUp power harvesting technology was held on March 16 this year and a demonstration of this technology, using our new partner e-peas Power Management Device was shown on a video clip at the same webinar.

The PowerHub transmitter for the WattUp active power harvesting system is the same product that has now been certified in Europe and was also launched on our site as the WattUp power harvest and developer kit, which can safely operate in a 15-feet typical IoT distance requirement. Thus, mid-field and far-field WattUp PowerHub can now safely operate in Europe, opening up a new vertical market, which we're now ready to develop and penetrate.

WattUp active harvesting guarantees RF-powered delivery levels in an IoT environment where critical devices must be changed to provide time-sensitive information and deterministic operation. Active harvesting also opens up a new level of IoT-smart devices that require more power to operate, and where typical low-power passive harvesting architecture is incapable to support.

Our roadmap to cover more country certifications and to push the transmission power level continues, and we will be updating and informing of our progress as technical and regulatory progress is achieved.

In the first quarter, we have made many advances on the technology and regulatory fronts, and we are now introducing these capabilities to potential customers, so that they may begin to add it into their product roadmaps.

I will now turn the call over to Brian.

Brian Sereda
Thanks Cesar. I'd like to remind everybody once again that we issued a press release today at close of market announcing our financial results for the first quarter of 2021. And now I'll go through our customary review of our financials.

As I mentioned earlier, revenue in the first quarter was $145,000 compared to $90,000 in the prior quarter, and $61,500 in the same quarter of last year. As we've discussed, we are seeing strong demand for mid-range and longer distance charging solutions on the back of our evolving PowerHub technology and regulatory progress. We anticipate that we will be sharing additional partnerships and technology, plus regulatory progress in the coming quarters.

On the expense side total GAAP spending increased to $8.7 million, approximately $1.1 million higher than the prior fourth quarter, primarily due to stock compensation costs associated with seasonal employee equity refresh programs in the first quarter. Total GAAP spending in Q1 was essentially flat to the same quarter of last year. Over half of our total spending is tied to research and development and our total headcount was 55 at the end of Q1.

Net loss for the first quarter on a GAAP basis was approximately $8.5 million, or a $0.14 loss per share on approximately 61.6 million weighted average shares outstanding. This compares to a $7.5 million net loss in the prior quarter, or $0.15 loss per share and an $8.6 million net loss, or $0.25 per share loss in Q1 of last year on 34.8 million weighted average shares outstanding. The increase in share count year-over-year is primarily due to two at the market or ATM financings completed last fiscal year, raising approximately $60 million.

Let me now give you a non-GAAP view of our numbers for the first quarter as we believe adjusted or non-GAAP EBITDA provides a useful comparison for investors for a company of our stage, when used with GAAP information. Excluding $2.2 million of stock compensation and depreciation from our total Q1 GAAP expense of $8.7 million, net non-GAAP operating expenses totaled approximately $6.5 million, approximately $0.5 million higher compared to the $5.9 million total non-GAAP operating expense in the prior quarter and approximately $145,000 higher than the same quarter of last year.

Net of revenue adjusted EBITDA, or non-GAAP operating loss for Q1, was $6.3 million or $0.10 per share. This is approximately $0.5 million higher than the prior quarter, and essentially flat to the same quarter of last year. We saw minor expense increases across all areas in line with our expectations. Non-GAAP engineering expenses increased by approximately $167,000 from the prior quarter to $3.4 million and was approximately flat for last year. Non-GAAP SG&A increased over the prior quarter by approximately $0.4 million due to additional headcount costs and increasing public company costs, compared to the same period last year, Q1 SG&A costs increased by approximately $160,000. We ended the quarter with approximately $44.8 million in cash and remain debt free.

To close, we expect our GAAP and non-GAAP cash operating expenses for the full year to trend at the current range with quarterly fluctuations tied to chip development and tape up cycles. And we expect to see approximately a 10% increase in total non-GAAP spending over last year, as communicated previously.

With that, I'd like to now turn it back to the operator and we'll take some questions.

QUESTION AND ANSWER

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

And the first question will come from Suji Desilva with ROTH Capital. Please go ahead.

Suji Desilva
Hi, Brian, Neeraj, Cesar. Congrats on the progress here. The European approval, Cesar, if we could talk about what maybe opportunities that's going to open up for you that were not available in the past, that'll be helpful.

Cesar Johnston
Yes, what we've been able to accomplish this time is to get our PowerHub certified by basically pushing the limits on the power. Technically, we can go up to 5.5 watts with our PowerHub and there's no distance limitation, as opposed to in the past where we were limited to a one-meter distance. So, now, you pretty much can think of multiple diverse markets where charging is important, and distance is a must have.

Suji Desilva
Okay. Any specific applications, Cesar, that you could highlight as making the initial…. excuse me.

Cesar Johnston
Some high level applications and we actually show a little bit of that in our previous webinar video is that the use of sensors, the use of potentially labels, electronic labels with our partner, E Ink where we can actually deploy a number of such devices in retail areas, or also potentially labels for retails and so on. So, there are plenty of applications there. And if you want to get closer to the transmitter, you can also go into potentially some audio and video-specific applications that allow for surveillance and so on. So those are some of the ones.

Neeraj Sahejpal
Yes, Suji, if I may add, this is Neeraj. I think primarily, there are two verticals, which are of lot of interest to us. Number one is industrial. And you can see there are a lot of sensors and control devices, which requires charging. They are in very difficult locations for batteries to be replaced. And then we are also looking into retail, right? Retail has various applications. Similarly, very similar to RFID tags, application. And those require at a longer distance, with this approval now we can do that. And I think that's a really great achievement for the market in Europe, especially.

Suji Desilva
Okay, switching topics to the PowerHub. You've talked about the dev kit and that seems to have kind of opened up some pipeline opportunities. Can you talk about what the dev kit specifically has kind of enabled customers to do and how that might accelerate some of the adoption here?

Brian Sereda
Yes, I think the…

Neeraj Sahejpal
Go ahead Brian, sorry.

Brian Sereda
No, Neeraj, if you want to take it, go ahead.

Neeraj Sahejpal
Yes, okay. I think the dev kit is very, very important. If you have seen our webinar, where we talked about what we include in the dev kit, actually, it allows you to see what the technology can do. And now our customers can think about how they can integrate this technology into their devices, especially on the receiver side. They can see what amount of power they can get, what kind of flexibility they can get in front of the PowerHub transmitter. And…. imagination can go anywhere with those kind of applications.

Cesar Johnston
And I also think, from a technical point of view, is that we are using our state of the art semiconductor devices here, which actually only use one single PA, and it actually opens up the opportunity to have one transmitter to multiple receivers, which is not typically the case to have when you have let's say, beamforming in a given distance. And when I say multiple receivers, I mean, simultaneous receivers. That's unique on what we have.

Suji Desilva
Right, good. And then maybe last question for Brian, or perhaps anyone who wants to take it. Late in the second half of '20 you talked about having four top-tier customers in the pipeline. And you said at the time, you'd expect the launch of those customers to be in the first half of '21. Can you update us on those four top-tier customers, where we stand? And if perhaps Brian, that COVID has impacted what you earlier expected, that'd be great. Thanks.

Brian Sereda
Well, there are our top-tier customers definitely in the pipeline. Cesar and Neeraj, I think do you want to take that with the first half, we are seeing acceleration of customer interest, thanks to the breakthroughs in distance and the regulatory and technology front, we do expect to see what we would consider a top-tier customer introduce power to distance later in '21 at distance earlier than we expected. We didn't expect to see the first at distance necessarily until early '22 in commercial scale. There are opportunities in the pipeline. I think timing has always been our challenge in estimating when these will turn into commercial products. But we are impressed by the, you know, as we call them, notable customers, the scale of the customers that are coming to the table and are interested in our solutions contact and now distance in various…for various applications.

Does that answer…Cesar and Neeraj, do you want to add anything to that?

Neeraj Sahejpal
I think the PowerHub…and the distance has been a great differentiator for us, right? As a technology, and the fact that we can provide that distance with a very viable product, I think that's opening a lot more doors for us, a lot more…in the larger customers interested in PowerHub technology in general. And they want to see how they can implement into their applications.

Cesar Johnston
Yes, and as I said earlier, I mean, we're pushing this technology with the leaders. We are the ones moving that roadmap. We're opening up that mile that gets us even closer and closer to higher power and so on. And we have an advantage here.

Suji Desilva
Okay. Appreciate the color. Thanks guys.

Cesar Johnston
Okay.

Operator
The next question will come from Jon Hickman with Ladenburg Thalmann. Please go ahead.

Jon Hickman
Hi, just a couple of questions. First of all, can you define what you mean by active harvesting?

Cesar Johnston
Yes, definitely. So, there are two concepts, there's the concept of passive harvesting and there's the concept of active harvesting. So, let's just start first with passive harvesting. There's…that is the concept by which you use the RF power in the environment to be able to gather energy. When you do that, you are basically following and getting as much power as whoever controls the transmission system.

So, as far as deploying your receivers, you just get whatever you get in a given place. So, that has limitations. And in applications where you have to guarantee response and quality and timely sensitive transmission of data, you cannot rely on a passive system. So, what is really required in order to have real deployment of reliable systems is a deployment of transmitters, and these are transmitters that can pass regulatory, that are safe to be across people and can actually provide enough power to receivers so that those receivers provide the sensitive information that you're looking for. In other words, you need to deploy transmitters, similarly to WiFi, in that sense. Does that explain your question?

Jon Hickman
Yes, maybe you can help me out here. You talked about medical being…medical devices being one of your key areas and you mentioned wearables. Can you give me an example? Are you talking about like a watch that'll monitor my whatever? Or I don't…yes, could you give us an example of medical wearable?

Neeraj Sahejpal
Yes, it can be any kind of device, right? It can be wearable on the wrist or any other body part, right? The purpose of that is to measure the bodily function and monitor them on a continuous basis. I think there are many applications, which follow that…

Jon Hickman
So, where would that device send that information?

Neeraj Sahejpal
These devices typically are connected through BLE.

Cesar Johnston
So typically, what you have is, you have an infrastructure that can be a single star architecture or double star architecture. The single star architecture is pretty much what today you use on WiFi. So, you have an access point, you have receivers, that's a single star. In the case where now you have to insert power, you need to put in a single transmitter, and the function of that transmitter is to just send power to those receivers, and the communication channel across those transmitters and receivers is through BLE. So, what you're effectively doing through the, let's say, WiFi system, or other communication system, is you're providing the connectivity. And

by complementing that with our transmitter, and in the future, it will come together as the market grows, you are now providing the active power for this to provide the sensitive information.

Jon Hickman
Okay, Brian this question for you. Out of the revenues this quarter, was any of it chip related?

Brian Sereda
We don't break down our revenues, yet, Jon. It's a combination of all the various things we're doing for our customers. We've got reference kits, engineering services, we are shipping chips, but we don't break it down…. our revenues.

Jon Hickman
You are shipping chips though?

Brian Sereda
Yes.

Jon Hickman
Okay. Thanks.

Operator
At this point in time, I would like to turn the conference back over to Brian Sereda for any closing remarks. Please go ahead sir.

CONCLUSION

Brian Sereda
Yes, thanks, Chuck. In closing, we're a participating in the LD Micro Virtual Conference on June 9th and the ROTH Virtual Conference on June 21st, and 22nd. We'd like to thank our investors for their ongoing support as we move forward in terms of partner and customer engagements in near field and distance charging. We expect our previously announced customer products to hit the market soon, along with our first commercial example of distance charging later this year. Moreover, we also expect year-over-year revenue growth and to announce additional partnerships and regulatory progress throughout the balance of the year…..of this fiscal year. Thanks again, and this concludes our call.

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