2022 Third Quarter Financial Results
Conference Call Transcript
November 9, 2022

Speakers:
- Carolyne Sohn, The Equity Group
- Lior Tal, Chairman and CEO, Cyngn
- Don Alvarez, Chief Financial Officer, Cyngn
- Ben Landen, Vice President of Business Development, Cyngn

Q&A Participants
- Theodore O'Neill, Litchfield Hills Research
- Rommel Dionisio, Aegis Capital Corp.
- Jason Corman, Corman Financial

Operator: Greetings and welcome to the Cyngn third quarter 2022 financial results conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. {operator instructions} It is now my pleasure to introduce your host, Carolyne Sohn, Investor Relations for Cyngn. Thank you, Carolyne. You may begin.

Carolyne Sohn: Thank you, operator, and hello, everyone. Thank you for joining us.

The press release announcing Cyngn's results for the third quarter and nine months ended September 30, 2022, is available at the Investors section of the Company's website at investors.cyngn.com. A replay of this broadcast will also be made available on the website after the conclusion of this call.

Before we get started, I would like to remind everyone that this conference call and any accompanying information discussed herein contains certain forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terms such as "anticipate", "believe", "expect", "future", "plan", "outlook", and "will" and include, among other things, statements regarding the Company's continued development of the Enterprise Autonomy Suite (or EAS) and its components, expectations regarding sales and/or revenues, growth strategy, ability to deliver sustainable long-term value, ability to respond to the changing environment and operational focus.

Although the Company believes that the expectations reflected in its forward-looking statements are reasonable as of today, those statements are subject to risks and uncertainties that could cause the actual results to differ dramatically from those projected. There can be no assurance that those expectations will prove to be correct. Information about the risks associated with investing in Cyngn is included in its filings with the Securities and Exchange Commission, which we encourage you to review before making an investment decision.

Carolyne Sohn: The Company does not assume any obligation to update any forward-looking statements as a result of new information, future events, changes in market conditions, or otherwise, except as required by law.

On today's call, the Company's Chairman and CEO Lior Tal will discuss recent operating highlights. Chief Financial Officer Don Alvarez will follow with a review of the Company's financials for the third quarter and first nine months of 2022. Lior will return to make a few concluding remarks before opening the floor for questions.

With that, I will turn the floor over to Lior. Please go ahead.

Lior Tal: Thank you, Carolyne. Good afternoon, everyone.

Toward the end of the third quarter and in November, we announced several major developments that brought us further ahead of our go to market timeline since becoming a public company and closer to scaled commercialization of our software offering.

The first key development was the signing of a multi-phase contract with a significant new customer that has chosen Cyngn as its technology partner to apply DriveMod to electric forklifts. The electric forklift will be the customer's first autonomous vehicle as it embarks on its electrification and automation strategy. This partnership marks Cyngn's expansion of DriveMod to its second vehicle platform that is geared toward commercialization. We are excited to have the opportunity to work with this customer, a multi-million dollar global manufacturer of a variety of building materials used in commercial and residential properties. We have worked closely with this customer's team to understand their operations, which will allow us to apply our Enterprise Autonomy Suite to create differentiated value propositions for their business.

The second major development was our contracting with a US-based manufacturer that will allow us to scale the production of DriveMod Kits more quickly for autonomous stockchasers, putting the kits in the hands of customers at lower cost. This represents a significant opportunity for Cyngn as we look to leverage DriveMod Kit's ease of installation and scaled deployment for a larger base of customers and vehicle fleets. The ability to retrofit vehicles and operate a heterogenous fleet continues to be a key differentiator of Cyngn versus other companies, and we look forward to additional future opportunities to prove our unique AV technology's value proposition to customers.

In October, we announced a contract with HEVI, a manufacturer of electric industrial vehicles under Greenland Holding Corporation, whereby Cyngn will be the exclusive supplier of vehicle tracking systems to HEVI. Our asset-tracking device, Infinitracker, will be installed on each purchased HEVI vehicle as a value-added item for their customers. We are pleased to be recognized by this industry incumbent for the value brought by key features offered by Infinitracker, such as location tracking using cell tower triangulation and extra long battery life. This contract serves as added validation of the value of Infinitracker and location data as part of Cyngn's EAS offering.

Lior Tal: Through focus and efficient execution, and despite the difficult macro-economic circumstances, we surpassed all of the major milestones for 2022 that we had set forth for Cyngn a year ago when we went public. Our original goal for this year, as communicated with investors during the IPO, was to deploy EAS at a single customer site with one vehicle type. We have executed multiple beta deployments at multiple sites and have begun expanding DriveMod to our second vehicle type.

In addition, we have made significant progress in recruiting and are close to having the team we need to get us to commercialization at scale. That being said, we do expect to make a few key personnel hires in the coming months. From an operational perspective, we recently completed the expansion of our Menlo Park headquarters, which includes an autonomous vehicle development and test facility. We are excited by our achievements this year and look forward to closing out 2022 on a strong note.

And with that, I'll turn it over to Don to review our financial results.

Don Alvarez: Thanks, Lior.

I'll quickly go over the financial highlights for the third quarter and nine months ended September 30, 2022, covering both R&D and G&A expenses, which make up our total opex. Additional details can be found in our financial press release that was issued earlier today as well as in the Form 10-Q, which we anticipate filing with the SEC this week.

Total operating expenses for the third quarter ended September 30, 2022, were $5.3 million, compared to $2.1 million in the same quarter of the prior year. The increase was primarily due to a $1.6 million increase in R&D expenses related to non-cash, stock-based compensation, costs incurred for additional engineering staff and contractors, allocated occupancy costs and R&D-related travel costs. We expect these costs to continue to increase as we continue to invest in building our engineering team to further our R&D efforts. G&A expense also increased by $1.6 million, which was largely related to increased non-cash, stock-based compensation, expenses incurred for additional personnel and professional services to support our status as a public company.

We reported a net loss of $5.3 million for the third quarter of 2022, compared to a net loss of $2.1 million in the prior-year quarter, as a result of the increased total expenditures.

Don Alvarez: Net loss per share on a basic and diluted basis was $0.16 based on approximately 33.6 million weighted average shares outstanding for the quarter ended September 30, 2022. This compares to a net loss per share on a basic and diluted basis of $2.17 based on approximately 1.0 million weighted average shares outstanding in the prior-year quarter.

For the nine months ended September 30, 2022, total operating expenses were $13.7 million, compared to $5.8 million in the prior-year period. This was due to a $3.7 million increase in R&D expense and a $4.2 million increase in G&A expense.

Net loss was $13.7 million for the nine months ended September 30, 2022, compared to net loss of $5.7 million in the prior-year period. Net loss per share on a basic and diluted basis was $0.45 based on approximately 30.4 million weighted average shares outstanding, compared to net loss per share on a basic and diluted basis of $5.94 based on approximately 1.0 million weighted average shares outstanding in the prior-year period.

Turning to the balance sheet, we had $27.7 million in cash and short-term investments at September 30, 2022, which compares to $22.0 million at the end of 2021. Our working capital was $27.3 million, compared to $22.1 million at the end of 2021. And total stockholders' equity was $28.8 million, compared to $22.2 million at December 31, 2021.

I'd now like to turn it back over to Lior. Lior?

Lior Tal: Thank you, Don.

It has been a very exciting year for Cyngn so far. We are in a unique position in the industrial autonomy space and are working hard to be the first company to reach scaled commercialization with our AV technology. The recent developments we announced are setting the stage for an eventful 2023 and beyond, and we look forward to continuing to work closely with our partners and customers, expanding and leveraging these relationships to get us to recurring revenue streams via a Software-as-a-Service, or Robotics-as-a-Service, model and commercialization at scale.

With that, operator, let's open it up for questions and answers.

Operator: Thank you. At this time, we will be conducting a question-and-answer session. {operator instructions} Thank you. Our first question is from Theodore O'Neill with Litchfield Research. Please proceed with your question.

Theodore O'Neill: Thank you very much. I was wondering, in your prepared remarks here at the beginning, you said, you know three important recent developments in terms of the electric forklift market and scaling production of the DriveMod and the contract with HEVI, and I was wondering if you could give us any milestones that we can look forward to related to these contracts either in the phases they are going through or what other monetary aspects of it or production aspects of it we might expect to see over the next 12 months.

Lior Tal: Hi Theo, this is Lior. So the three are separate topics. With regards to EAS/DriveMod as it applies to Columbia stockchasers, the focus so far has been the end-to-end go-to-market in taking the technology with our partners into the hands of customers and being able to support them throughout the deployment. We actually accelerated that timeline and took on several in addition to the one we were planning in order to explore the applicability of the stockchaser to different applications. And we had the opportunity to deploy them at a 3PL facility but also a manufacturing site. The next steps with these are to look at slightly larger deployments and start moving some of those to commercial contracts beyond the initial pilot. So that's on the stockchaser application.

The HEVI is the first distribution of Infinitracker through a partner to different channels. So HEVI vehicles are going to come from the factory with the Infinitracker attached. At the beginning, it's going to be a few dozen trackers, and that's going to expand over time as HEVI starts selling those services to their customers. And we're working on additional channels in direct B2B sales at the company.

Anything else that you had a question on--?

Theodore O'Neill: What about the forklifts?

Lior Tal: Yea, OK. Good question. So the forklift is something that is really ahead of its time in the sense that our plan was really to move forward with the stockchasers and get them to commercial deployment before taking on a second vehicle. However, this specific company presented a very interesting opportunity for us. This project is more an NRE project. This is a bring-up of a new vehicle that is specifically needed for their purposes, and once we've completed successfully the R&D, the pilot phase and prove the applicability of DriveMod and EAS for forklifts in their operation, then we will discuss continued commercial engagement. So at the moment, we're going to keep the disclosure to what has already been published. And once we start clearing more of those milestones, we're going to go back and update the status of that project.

Theodore O'Neill: OK, and I was under the impression on the Q2 call that there had been a large increase in R&D employees and I sorta expected that number to go up significantly in the operating expense Q2 to Q3, which it didn't really change very much. Is there any expectation that this number's going to grow significantly before the end of the year? The R&D expense?

Don Alvarez: Hi Theo, this is Don. The expectation is that our R&D expenses will continue to increase. They will not increase as dramatically as they did between Q1 and Q2, but we definitely anticipate it going up. And I think we had a couple of specific positions that were fairly high paying that we had planned for Q3 that did not materialize and will probably slip into Q4, maybe even Q1. And that might be a good thing actually given the market.

Theodore O'Neill: OK. Sounds good. Thanks very much.

Operator: Thank you. Our next question is from Rommel Dionisio with Aegis Capital. Please proceed with your question.

Rommel Dionisio: Good morning. I had a question on labor or R&D, which, Don, you just touched on. Obviously we're seeing pretty big headlines about significant layoffs in the tech sector. Is that providing any sort of ease to the labor cost pressure that you've seen here in that market for the past couple of years? Or is maybe too early to tell that just yet? Thank you.

Lior Tal: It definitely creates a flood of candidates that are relevant to us, especially companies that have people that are experienced in and developing AI, people that have worked on robotics or self-driving. It's going to probably take a quarter or two until there's really going to be a change in compensation and compensation structure. Immediately what we're already seeing is a bigger flood of candidates and much easier ability to be selective and hire the right people we need. So we're already starting to see the benefits of that but I think the real impact is going to take some time, and of course, as Don said, we are aware of the environment, we are trying to be conservative as much as we can and not be in a position like other companies that will need to consider layoffs later. We'd rather slow down recruiting and really bring in the critical roles and then grow the function of commercial traction as we start seeing customers come in and revenues grow.

Rommel Dionisio: OK, and maybe just a follow-up if I could. I think youFinal touched on this in the comments, Lior, but you know you've obviously had some very strong initial success signs, some pretty meaningful customers right off the bat. Maybe with an initial project here or there, but I was wondering if you could maybe just talk a little more about the opportunity of bringing them into your ecosystem, bringing them with you know one product line with DriveMod and the forklift. Obviously that's a $5 billion company, there's significant opportunities just with that one client alone and with others. I was wondering if you could just talk about the evolution of getting in with the customer but then also just building with them over time once they're in your ecosystem. Thanks.

Lior Tal: OK let me hand this over to Ben who can answer that.

Ben Landen: Hi Rommel, that's a great question. There's only so much I can disclose given the early stages, but what you're alluding to is exactly what we have preached about the vehicle-agnostic approach that we have. So we alluded to electric forklifts being the first and most prominent of vehicles that this customer wants to automate and electrify in their new rollout of an automated and electric vehicle strategy. And it is representative though of what we been preaching which is that electric forklifts are not the only vehicles in their fleet. So we do really see it as a first opportunity for meaningful success out of the gates with the most impactful vehicle in the electric forklift. And part of the reason for our selection and what we see as really the long-term vision that grows this from being a customer for a vehicle is that it really does ultimately grow into this being then repeated across other vehicle form factors within their global feet, which is a substantial vehicle fleet, and growing that footprint within the customer and bringing to fruition that defensibility that we have been touting about the way we have built the technology which is that automating that second vehicle, that third vehicle becomes a de facto solution with Cyngn as opposed to with a different automation supplier. So it really is that first meaningful step in what we see as, as long as we continue to be successful, a larger rollout into multiples vehicles with a very meaningful customer.

Rommel Dionisio: And just following up on that, to what extent then does that, to the extent that you can successfully do that, become a barrier to entry with that customer as well as many others?

Ben Landen: Do you mean—for our competitors?

Rommel Dionisio: Yes, for your competitors. Right, right, exactly.

Ben Landen: Yea, that is our expectation. That once we understand the customer's operation, we've done a first vehicle for them. Our marginal cost for rolling out additional vehicles beyond that reduce whereas any new competitor that would come and try to bid to automate those types of vehicles would incur marginal costs that are higher that we already incurred and are in the process of reducing. So we're seeing firsthand that this strategy that we have been pitching about the ability to automate different types of vehicle form factors by being more software centric, by being a more software-defined vehicle and vehicle-agnostic is really coming to fruition and it's getting us the most difficult selection of winning that first vehicle, and winning the next ones become iteratively and incrementally easier and easier for us, which means on the flip side, trying to capture those becomes more and more difficult for our competitors.

Rommel Dionisio: Great, that's very helpful. Thank you so much.

Ben Landen: Yep, thank you.

Operator: {operator instructions} Our next question is from Jason Corman with Corman Financial. Please proceed with your question.

Jason Corman: Hey, guys. Good evening. First, congratulations on a successful quarter. I'm really happy to see you following through on your plan. The question that I have is in regards to Infinitracker. So right now it seems like you're doing in-house sales and you have that partnership with HEVI, etc. have you thought about reaching out to perhaps some MGNOs or maybe primary service providers or in general other service providers who already have their own sales teams? I'm sort of asking like could you outsource all that sales and maybe accelerate that revenue generation? And then maybe just to broaden the question to the SaaS space, like what you're doing with RaaS and SaaS, maybe that as well. A lot of SaaS companies the first million, two million, five million is very difficult so maybe just to jumpstart that revenue growth. You know, I think you got my question.

Ben Landen: Yea. The simple answer is yes. We are- we are doing a combination of traditional B2B sales, if you will, that is in-house, but we are also looking for leveraged opportunities whether it be through different distribution channels, value-add resellers that go and allow us to lean on other sales team and other channels that go beyond our own organic efforts and spend in order to grow the reach of Infinitracker. And Infinitracker very much does target an onboarding and a familiarization with our tools, and by extension, an earlier introduction of revenues than the EAS product, which is a larger ticket price but an often longer sales cycle. So Infinitracker certainly does try to create sort of a springboard in that regard, both from a revenue and a customer engagement and onboarding perspective.

Jason Corman: All right, appreciate that. And maybe I should just ask, have you actually reached out to—Verizon obviously doesn't deal with this, but there are service providers that deal in the industrial and in that space in the U.S. and internationally. What about reaching out to them directly because you have like, I mean, 15-year battery life. I'm not going to go through all the specs, but I think you fare very competitively against your competitors. So what about that?

Ben Landen: Yea, again, the simple answer is yes. We do see the telecoms providers as one of the most meaningful partner opportunities for Infinitracker. It's one that is certainly in our consideration.

Jason Corman: All right, appreciate that. Thank you very much.

Ben Landen: Thank you.

Operator: Thank you. There are no further questions at this time. I would like to turn the floor back over to Lior Tal for closing comments.

Lior Tal: Thank you all for your time today. We are always open to a conversation with investors and welcome you to visit us at our newly renovated offices in Silicon Valley where you can witness our vehicles and technology and meet the team firsthand. Please feel free to reach out to us with any additional questions. Thank you all very much.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.