

CYNGN
First Quarter 2023 Earnings Call
May 10, 2023

Presenters

Lior Tal – the CEO and chairman of the board
Don Alvarez – CFO
Ben Landon – VP Business Development
Ben Mimmack – Investor Relations

Q&A Participants

Theodora O'Neil – Litchfield Research
Poe Fratt – Alliance Global Partners
Darren Tuttle – Singular Research
Rommel Dionisio – Aegis Capital

Operator

Greetings and welcome to the CYNGN First Quarter 2023 Earnings Call. At this time, all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad.

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ben Mimmack, with -- head of Investor Relations. Thank you, Mr. Mimmack. You may begin.

Ben Mimmack

Thank you, operator. And thank you to everyone on the call for joining us today. The press release announcing CYNGN results for the first quarter ended March 31st, 2023, is available at the investor section of the company's website at investors.cyngn.com. A replay of this broadcast will also be made available on the website approximately one hour 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 its commercial products, expectations regarding sales and all 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. 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 first quarter of 2023. Lior will then return to make a few concluding remarks before opening the floor for questions. And with that, I will turn the call over to Lior.

Lior Tal

Thanks, Ben. Good afternoon, everyone. Today I'm pleased to be reporting the significant progress we have made this quarter on a mission to bring autonomy to industrial vehicles, which is a total addressable market of over \$200 billion globally. For those on the call who are still learning what we do, I'll start with a brief overview, and I encourage you to visit our website and especially our blog at blog.cyngn.com for more information.

Attention is focused on solving the challenges associated with labor shortage, high cost of labor, and the cost of accidents that arise from human error and negatively impact the global economy. We address these challenges with AI, robotics and data to produce self-driving software that can be applied to any vehicle to help industrial organizations get work done consistently, efficiently and safely. As a developer and user of artificial intelligence, we're excited to see that the world has come to an inflection point with the wider community now using and seeing the value of AI.

We've been developing advanced learning-based algorithms for self-driving for many years. We believe the large-scale adoption of this technology is the future of the industrial world. The foundation of our technology is our Enterprise Autonomy Suite or EAS. This is a suite of intelligent fleet management and analytics software that allows customers to manage the complex AI and robotics technology and delegate the driving of those vehicles to our self-driving solution known as drive mode using simple tools and interfaces.

Across the different technologies that comprise EAS, CYNGN has seven issued US patents, 18 non-provisional patent applications, of which six have already been allowed and 20 pending PCT international applications. CYNGN's autonomy solution is available on new vehicles purchased from our OEM partners with the solution integrated off the line but importantly is also available as a retrofit on existing industrial fleets using our turnkey hardware solution.

The patent pending drive mode kit for our commercially released autonomous stock chaser solution can be installed in just a matter of hours. Drive mode kit is an important element of our InComm Conferencing

go to market strategy and allows for scalable deployment for existing or new vehicles. By developing a fast economical retrofit package for existing vehicles, our drive mode kit can simplify the transition to autonomous vehicles for companies that already have a fleet of vehicles.

We estimate CYNGN's significant market opportunity at more than \$200 billion a year based on the estimated cost of employing drivers for approximately 5 million material handling vehicles that operate worldwide. According to publicly available data, the global average annual cost to employ an individual to drive one of these vehicles is over \$40,000. This is an expense that could be eliminated with CYNGN's technology. The cost of labor and therefore the value of automation is significantly higher in Western economies and specifically in North America, which is where we're focusing our current sales efforts.

But even with the high cost of labor, industrial organizations, especially from the manufacturing and logistics, tell us that if they could hire more people now, they would do it without hesitation. But the shortages in the labor market prevent them. Firms in the warehousing, manufacturing and logistics space have high fixed costs as a percentage of their overhead, and the tight labor market makes it very difficult for them to run the most effective operation. By using autonomy to operate their vehicles, customers can redeploy existing workers to more productive tasks and optimize their operation, improving efficiency and profitability. In addition, these improvements don't factor in the increased productivity that autonomous operations of industrial vehicles allow.

Our EAS solution doesn't require breaks or vacations. It's never distracted and doesn't require periodic training, as human operators do, which allows for more efficient driving. CYNGN's technology is also safer. It doesn't become distracted or break the rules. It follows guidelines strictly and ensures that safety is prioritized, reducing the expense of accidents and downtime from human error. In a study conducted last year at a business using our vehicle autonomy solutions, CYNGN's technology improved the productivity of their operation by up to 33%. Unlike self-driving robotaxis on public roads and highway AV trucking companies that are still years away from any large-scale commercial deployments, we are bringing autonomy to industrial vehicles used in private facilities today. Our stock chaser solution is commercially available, ready to ship and being actively deployed to customers and prospective customers.

We signed our first commercial contract for the deployment of stock chasers with the US Continental for deployment in their Southern California facility at the end of 2022. And this deployment went live in the first quarter of 2023. With fully autonomous stock chasers towing goods throughout the US site. The deployment includes autonomous navigation both indoors and outdoors as products are moved between buildings on the site. Indoor and outdoor navigation is a differentiating feature of drive modes advanced autonomy capabilities.

During the first quarter, we brought our first head of sales on board. Chris Wright has a wealth of experience in the industrial automation space and he's already developing the sales funnel for the stock chaser solution. We're seeing promising interest in our stock chaser drive mode since

we ramped up our sales effort. Many firms in the industrial automation industry are in the process of developing a single solution for a particular use case. CYNGN, however, has developed a software foundation that is vehicle agnostic and can be deployed on almost any industrial use case. Therefore, our commercial development focus is also on ensuring we are expanding our solution to more areas of customer demand. We have a paid deployment engagement with a leading manufacturer of building materials, using commercial and residential properties that uses thousands of forklifts in its global operations.

This project will expand the capabilities of EAS and our Drivemod solution to the most widely used industrial vehicle in the world. Forklift autonomy is a significant commercial opportunity and we're excited that not only have we successfully validated development milestones and triggered payment under the development contract, but we have also increased the scope and size of the contract following the successful demonstrations. We're targeting a 2024 release of a commercial version of the forklift autonomy solution.

Another track of our product commercialization strategy is the expansion of EAS to the mining industry through an engagement with a Tier one OEM in the space. The mining industry is an early adopter of automation technology and readily accepts the productivity and safety benefits of vehicle automation. We are delighted to achieve state of the art results with a novel application of a key drive mode subsystem in the mining domain and received extremely positive feedback from our development partner. The commercial version of our mining solution is expected to follow the forklift solution into the market.

As we move increasingly into commercialization mode, we continue to develop our leadership and management team. Last month we welcomed on board Sean Stetson as Vice President of Engineering and Felix Singh as Vice President of Engineering Services. Sean has over 20 years' experience of commercializing emerging technologies and will be responsible for overseeing all hardware and software development on the engineering team as we expand the commercialization of our EAS capabilities.

Felix also has over 20 years of experience in robotics, automation and technology and will be responsible for quality assurance, customer success and support and streamlining development processes through the company. With Sean, Felix, Chris and several other extremely strong hires that we made recently, we have the core team that we need in place. Our management team has a wealth of experience as leaders in the industrial automation sector and our concentration now will be on executing on the plan.

We are already seeing the impact of our strengthened leadership team as we release the latest major EAS update this month. EAS 9.0 makes our customer proposition even more compelling by adding new features such as return-to-home automation, intelligent queuing and additional vehicle insights. We will continue to add features to our EAS platform, which is intended to help customers realize the full value of their autonomous fleet. The opportunity for CYNGN technology is significant and our focus on the rest of the year will be on identifying those

customers with the right combination of unit requirements and site specifications that will allow us to get fast short-term wins and high long-term upside. We expect that our sales team will secure additional sales channels and deployments as we move into the second half of 2023.

We also anticipate that we'll be disclosing the achievement of additional successful milestones on both our paid development projects as we move those towards commercially viable solutions. I look forward to updating you on all the commercial success as we move throughout the year. Finally, we filed a universal shelf registration statement on form S-3 with the SEC at the start of the month. Once it becomes effective, it will provide CYNGN with flexibility to access the capital markets in the future if circumstances arise that would make the sale of securities advantageous to the company and its stakeholders.

To summarize, during the first quarter, we continued our focus on commercialization that I outlined on our last earnings call. Our sales team is engaged with potential customers that we are confident will lead to additional commercial stock chaser deployments by the end of the year. We have met required milestones on the heavy industrial vehicle development project. And third, and perhaps most excitingly, we have not only met development milestones on the forklift project, but we have also extended and upsized the project to bring autonomy to this most widely used of industrial material handling vehicles. For the rest of the year, our objective remains unchanged, and I look forward to updating you on our further success in future calls. With that, I will turn the call over to Don.

Don Alvarez

Thanks, Lior. I'll now take you through a brief summary of our financials. During the first quarter, we reported our second successive revenue generating quarter as a public company and booked \$873,000 in revenue, which was more than three times the revenue we reported in the fourth quarter of 2022. Substantially all of the first quarter revenue was related to the two non-recurring engineering contracts that we signed with commercial partners to bring new vehicle types to the market.

We ultimately expect these contracts to yield more than the initially reported \$1.6 million, largely due to continuation of the projects with additional phases and increased scope towards product -- productization. First quarter total operating expenses were \$6.1 million as compared to \$3.8 million in the first quarter of 2022. The increase was primarily due to higher R&D costs related to additional headcount and contractors added over the past 12 months to support our technology.

G&A expenses were also higher in the first quarter because of an increase in personnel related costs and additional expenses to support both the overall growth of the company as well as public company responsibilities. Net loss in the first quarter of 2023 was \$5.6 million or \$0.17 per basic and diluted share. This compares to a net loss of \$3.8 million or \$0.14 per basic and diluted share in the corresponding quarter of 2022. We ended the first quarter with unrestricted cash in short-term investments totaling approximately \$17 million. Working capital at the end of the quarter was \$17.4 million, with stockholders equity of \$19.4 million. Additional detail on all of these

numbers can be found in our earnings press release that we issued earlier today and the 10-Q that we anticipate filing with the SEC later this week. With that, I'd like to turn it back to Lior for his final remarks. Lior?

Lior Tal

It has been a very busy and productive quarter for CYNGN, with a focus on accelerating our go to market plan, generating revenues and expanding our product offering inside the warehouse to include autonomous forklifts and beyond into the heavy industry and mining sectors. This progress is possible due to the great people we have assembled here, and I'd like to thank the CYNGN team for all their hard work. Now I'd like to open the call up for analyst questions.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we pull for questions.

Thank you. And our first question is from Theodora O'Neil with Litchfield Research. Please proceed with your question.

Theodora O'Neil

Thank you very much and congratulations on the good quarter. My first question is about AI, and obviously a lot has changed in the world of AI in the last year. I was wondering, does this present more problems or opportunities? And how might it impact product development?

Lior Tal

Hi, Theo. Good to see you here. It's Lior. We think about AI from two perspectives. One is, as part of the product offering, how can we make our system more intelligent? How can it become more productive? And how can it take advantage of all the data that our vehicles are seeing when deployed? And the other the other side of it is how do we use AI based tools for our own development, things like copilot for code development and other more recent systems?

We think about AI as being a positive driver on both sides. I think that tools that are being developed help us build faster and offer faster turnaround solutions to the customer. And at the same time, the tools that allow us to develop the perception models or the decision making or anything else in the system that helps us achieve the level of driving that only people could before, also take advantage of development of tools and hardware, better GPUs, better infrastructure by the company. So we see both -- both these things as positive trends.

Theodora O'Neil

Okay. And as you mentioned here on the call, as you seek additional and larger stock chaser deployments, how much of this is, you know, a retrofit installing a drive mod on an existing stock chaser versus brand new stock chasers?

Lior Tal

It's a transition. I think it's a transition phase. If you look at the lifespan of these vehicles, stock chasers would usually be in service 4 to 7 years. Companies that invested and some of our OEM partners, customers have hundreds of these vehicles that invested in those fleets. It would be a shame for them to just throw them away and buy a completely new vehicle for automation, so there's a big opportunity for retrofit of these vehicles. And over the next several years, as new vehicle purchases come through, they're going to come off the line with our system, so there is a transition phase. From our perspective, we're agnostic. The third-party manufacturer that does the integration of the drive mode kit for us on the vehicles, it's the same effort for them, whether it's an existing vehicle or a new one.

Theodore O'Neil

Okay, Good point. Thanks very much.

Operator

Thank you. Our next question is from Poe Fratt with Alliance Global Partners. Please proceed with your question.

Poe Fratt

Yeah. Good afternoon. The last update on the EAS system, you talked about, you know, higher functionality, lower component complexity and also reducing computing costs. And you actually gave some metrics associated with those improvements. Do you have any metrics associated with the latest update on EAS?

Lior Tal

Not off the top of my head. We can follow up on that and share whatever is readily available for that. I think the release of the 9.0 was focused on other types of features, more that are customer facing that facilitate scalable deployment and integration to customer operations and less about increasing efficiency. That was a bigger need with the previous one. It wasn't such a big need this time. Other things took the helm and were at the front of the deployment. But like I said, we can follow up with metrics if we have them.

Poe Fratt

That'd be great. And then, you talked about significant new interest. And can you maybe give us an idea of sort of where you're seeing it and anything that, you know, maybe if there -- like, is your ROI calculator on your website generating leads or what sort of what -- what's the nature of the significant new interest?

Ben Landen

Hey, it's Ben Landen here. So I think that the new interest is really a byproduct of our readiness to both go outbound and generate that new interest as well as accept new interest. So we're not doing anything profoundly different in terms of our lead generation and creating interest. You mentioned the ROI calculator is one tool that we have. We have -- we've had presence at trade shows recently that have been successful.

We've got both inbound and outbound campaigns with marketing that are essentially always on. So, I wouldn't say that there has been a profound shift there. It's that we really have pushed through into the next, let's call it, phase of commercial readiness with the stock chaser. You know, when we IPO'd, we were very clear about it was a product that was what we called a beta release at the time. We would only pursue select customers through 2022, which is exactly what we did. It was a short list of customers by design, and the reality of that is that those constraints are now effectively removed.

So we're going after a wider swath of customers, we're going after larger customers, we're leveraging the partnerships that we have with Columbia and otherwise in the industry. And so I think it's really just seeing that -- that commercial readiness come to fruition more than a shift in our behavior.

Poe Fratt

Great. And then when you look at your operating expenses for the quarter with 6.1, you back out stock comp and get to about 5.1, is that a reasonable run rate for the rest of the year?

Don Alvarez

Hi, this is Don speaking. Yeah, I think actually the current trajectory of our cash burn, essentially what you're alluding to here is fairly -- will fairly be fairly consistent through the remainder of the year. We did make a few key hires in in the first quarter throughout the quarter, so not necessarily a full impact of those hires in all of Q1. So, there's potentially a bit of an uptick just for, you know, full quarter effect of some of these investments that we've made. But for the most part, I think we're directionally, you know, where we are with respect -- have been with respect to run rate.

Poe Fratt

Great. Thanks for your time.

Operator

Thank you. As a reminder, if you would like to ask a question, it is star one on your telephone keypad. Our next question comes from Darren Tuttle with Singular Research. Please proceed with your question.

Darren Tuttle

Hi. Yeah, thanks for -- thanks for taking my question here. The first one I just have is related to commercialization, so I think you had mentioned that 2024 is kind of the timeline that you're looking for, forklift commercialization. And then potentially having the mining commercialization

happening after that. Would the expectation be based off of what you're seeing on the forklift space, maybe that's looking at 2025 or beyond for the mining commercialization? Just -- maybe just some context behind some of the prioritization that you're thinking on that.

Lior Tal

Hi, this is Lior. The stock chaser, the material moving vehicle stock chasers and their variants like tow tractors and tuggers, that family that moves things on the vehicle and Jack make and tows them on carts work usually in a workflow in warehouse environments, logistics, manufacturing in tandem with forklifts. So, when you think about a lot of these customers, whether we start with one of these stock chasers, tuggers, and then they -- they add forklifts or happen the other way around, it's a penetration and then expansion inside that account to expand our offering to the customer, the value to them and then the efficiency of these vehicles working together.

So, you can think about the stock chasers as the first product in a material handling inside warehouse, a larger offering. Now in the mining, it's a slightly different situation where the scope of the project is upgrading software of an existing automation solution. So, it's more streamlined because there's already a company that manufactures these solutions and is looking to upgrade them.

So the go to market is different. It's more scalable because it is software only and it's directly through the partner that will take it to the market. So at the moment we think about these as two separate threads and based on the information we have now, both the mining and the forklifts are designed to be productized in 2024.

Darren Tuttle

Got it. Okay. And then, you know, just going back to that question on the cash burn from before, I know last quarter we had talked about this -- this cash burn rate. It looks like it was a little bit higher from previous quarter from those hires. And then I'm just looking at this now. It looks like there was some proceeds from the maturity of some of the short-term investments. And then a reinvestment of those. Is -- is the shelf offering, is that being factored in with the cash burn? Does the shelf registration -- you know, can we look at that and say, hey, that -- that might bridge the gap with some of the cash burn later on towards the later half of 2023? Or is expectation that potentially that could be sooner?

Ben Landon

We honestly don't have any sort of expectations with -- with respect to when we're going to raise additional capital. The filing of the S-3 was, you know, very much a housekeeping exercise just to make sure that we have the vehicle in place such that if there is movement in the market, we can very efficiently take advantage of that movement. It's not -- it's not factored into our cash burn, but it is clearly a vehicle that is in place or will be in place shortly here that will, you know, afford us the opportunity to, you know, go to the market very effectively and very efficiently in response to hopefully what will be positive, you know, market trends.

Darren Tuttle

Got it. Okay. And when you say market fluctuations, what do you mean by that exactly?

Ben Landon

Well, hopefully increase in stock price where we can raise money at, you know, kind of cheaper rates, essentially.

Darren Tuttle

Got it. Okay.

Operator

Thank you. Our next question comes from Rommel Dionisio with Aegis Capital. Please proceed with your question.

Rommel Dionisio

Thank you very much. Lior, I wonder if you could just discuss kind of the overall marketplace and the pace at which you think potential customers are looking to adopt new technologies such as your own. Would you say overall over the last few years, the pace has been, you know, in line with what you have expected, maybe trailing behind or maybe accelerated? I wonder if you could just give us your perspective on that. Thank you.

Lior Tal

Sure. Hi, Rommel. Good to hear from you. If you really, really track the recent milestone in the announcement, we practically just hired the sales team a couple of months ago, right, so I'm very happy with the progress. The team is ramping up. They're starting to build the distribution channels, the sales channels, the funnel, the material, working with the marketing team. We're seeing both inbound and we're selectively going outbound for key accounts with our OEM partners. So, I'm happy with the progress, but of course, there's always more we can do. We're always trying to get faster to revenues and to broader deployment, so hopefully we'll have more news to share in the coming months. But to your question, yes, I'm satisfied with the pace of progress.

Rommel Dionisio

Hey, good, thanks very much, Lior.

Operator

Thank you. There are no further questions at this time. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.