

Cyngn
Fourth Quarter and Full Year 2022 Earnings Call
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Presenters

Ben Mimmack - Head of Investor Relations
Lior Tal - Chairman & CEO
Donald Alvarez - CFO & Director
Ben Landen - VP, Business Development

Q&A Participants

Theodore O'Neill - Litchfield Hills Research
Rommel Dionisio - Aegis Capital Corporation
Darin Tuttle - Singular Research
Brian Dobson - Chardan Capital Markets

Operator

Greetings, and welcome to the Cyngn Fourth Quarter and Full Year 2022 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. And as a reminder, this conference is being recorded.

It is now my pleasure to introduce to you, Ben Mimmack, Head of Investor Relations. Thank you, Ben. 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's results for the fourth quarter and fiscal year ended December 31, 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 with 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 these 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 fourth quarter and fiscal year 2022. Lior will then return to make a few concluding remarks before opening the floor for questions.

With that, I'll turn the call over to Lior.

Lior Tal

Thanks, Ben, and good afternoon, everyone. Thank you for joining us. This is a very special earnings call for all of us here at Cyngn as we report our first quarterly revenue since going public in October 2021. We're delighted to move out of the pre-revenue stage and celebrate another landmark in our company's journey. I know many of you listening in are very familiar with our company, but I would like to take a moment to outline our mission and the opportunity we are targeting for investors new to Cyngn.

Cyngn is focused on solving the global industry challenges associated with the high cost of labor, labor shortages and the cost of accidents arising from human error. Our proprietary software solution, the Enterprise Autonomy Suite, enables industrial organizations that operate fleets of vehicles to redeploy their workforce to high-value tasks while our self-driving solution, DriveMod, handles the driving. Thus, companies can improve safety, reduce variability and achieve the productivity they need to compete in today's economy.

We offer customers the option to retrofit existing industrial fleets using our turnkey hardware solution, the DriveMod Kit, or buy new vehicles from our OEM partners, which will arrive with our solution integrated off the line. Unlike many AV companies, we are focused on the automation of industrial vehicles using non-public spaces, which is a huge market today and growing every year, further fueled by the growth of e-commerce -- vehicles are the backbone of all major industrial enterprises, and our aim is to help customers throughout the industrial space automate their fleets, increasing productivity, lowering their cost of doing business and improving safety.

During 2022, we made significant strides towards introducing EAS to the market and putting it in the hands of customers, and a list of achievements during the year surpassed our own expectations. We're going to play a short video that presents how the significant milestones and impactful events, both commercial and technological, can provide the opportunity to see our products at work.

[Video Presentation]

Lior Tal

I hope that the video got you excited about what we've done so far. Now I'd like to take a few minutes to give a little bit more context into some of the achievements you just saw in the video. Early in the year, we announced the collaboration with Columbia Vehicle Group to equip their Stockchasers, which is a popular material handling vehicle, with Cyngn's autonomous driving capability. Customers who use Columbia's Stockchasers can now opt to equip them with autonomous functionality, either as an option on new vehicle deliveries or via retrofit on their existing fleet. By working together, Cyngn and Columbia make it easier for firms to integrate autonomous vehicles into their existing processes.

We are first and foremost a developer of self-driving software, but in order to enable companies to operate existing fleets autonomously, we developed DriveMod Kit that can be integrated into new and existing fleets, enabling legacy vehicles to process our software. Our patent-pending DriveMod Kit is an important component in our go-to-market infrastructure and allows us for scalable deployment for existing or new vehicles.

By developing a fast economical retrofit package for existing vehicles, our DriveMod Kit can simplify the transition to autonomous vehicles for companies that would otherwise have to undergo the complication and expense of integrating a new vehicle fleet into their operation. We continuously improve and upgrade our software solutions and harness the data that we receive from our fleets to enhance our artificial intelligence, develop new features and support innovations in vehicle computing and sensing technologies.

In July, we launched Version 8.0 of our Enterprise Autonomy Suite, the package of autonomous driving tools that manages customer fleet. While Version 8 of EAS delivers 138 new features and 75% reduction in cloud computing costs, we have continued to innovate, and our customers can expect further improvement in EAS in 2023.

In the third quarter, we expanded Cyngn's reach to include a second vehicle type, an electric forklift, when we signed a multiphase contract to develop our Enterprise Autonomy Suite for a multibillion-dollar building material manufacturer that uses thousands of forklifts in their global operations. Forklifts are the most commonly used material handling vehicles across the globe, and we're excited to enable this customer to operate their forklift fleet autonomously and add autonomous forklift capabilities to our EAS portfolio.

Moving to the fourth quarter, we announced our first commercial contract in November, an agreement to deploy autonomous vehicles to U.S. Continental's facility in Southern California. Finally, just last month, we announced another multiphase development contract to deploy our AV technology for the third vehicle types through our engagement with a Global 1,000 manufacturer of heavy machinery to harness the capabilities of Cyngn's DriveMod, a machine used in the mining sector.

Our three engagements cover a full range of industrial applications, from industrial material handling, in logistics or manufacturing to heavy industrial solutions in mining. This multi-traction is a testament to the flexibility and adaptability of our EAS and DriveMod solutions and positions us to continue pursuing opportunities to broaden the capabilities of our technology.

From manufacturing to logistics, to mining and construction, companies across the globe rely on their vehicles to operate their business and serve their customers. And in the vast majority of cases today, each of these vehicles relies on the presence of one or more employees for its operation. However, reliance on people to carry out these tasks comes at a significant cost. The first and most pressing of these is a critical shortage of people to fill these positions. It is estimated that, by 2030, labor shortage will cost the U.S. economy \$1 trillion in the manufacturing industry alone.

Secondly, as a result of labor shortages and the macroeconomic environment, the cost to employ people is increasing. According to the Bureau of Labor and Statistics, compensation costs for civilian workers increased by 5.1% for the year ending December 2022 on top of a 4% increase in the prior year period. This growth in wages and benefits is making the cost of operating a vehicle ever higher year-over-year.

Finally, industrial sites, by their nature, are a high-risk working environment. And while everyone seeks to keep accidents at an absolute minimum, they are a fact of life for many companies. Every workplace incident has the potential to be devastating for the employee and extremely costly for the employers with preventable workplace accidents estimated to have cost businesses more than \$170 billion in 2019.

In addition, with the growing focus on the social element of ESG, the steps a company takes to safeguard its employees are getting more and more attention from investors. Therefore, we are seeing a huge amount of interest from companies for autonomous solutions that allow them to be more efficient, allow them to reallocate employees to more high-value tasks and can keep their employees and environment safe. The industrial space is a perfect candidate for early AV adoption. Speeds are lower, so decision-making is easier for autonomous vehicles. Environments are more defined, with less weather and environmental variability, which creates more repeatable automated solutions. Employees are trained to work alongside vehicles, instead of being exposed to the whims of the general public. These are just three of the reasons we think autonomous vehicle solutions will start in industrial environments.

In addition to being well positioned to take advantage of the fourth industrial revolution, Cyngn's technology is ideally suited for large-scale adoption by our customers. Our initial focus on developing technology on public roads has resulted in a flexible, adaptable solution that overachieves the requirement of an autonomous system when applied to industrial settings.

As I mentioned earlier, our DriveMod Kit built by our contract manufacturer allows firms to implement our technology on all vehicles in their existing fleet as well as new vehicles they acquire. Our sophisticated Cyngn Insight software enables the company to control their vehicle through a single system. Therefore, we are very excited in the position we find ourselves in today and possibilities for the future.

During 2023, we will advance our initial commercial success from 2022, building on our initial Stockchaser deployment and further customer engagements. In order to best position ourselves to do this, we recently appointed Chris Wright as our first Head of Sales in December. Chris has an excellent pedigree, having previously worked at Brain Corp, where he secured partnerships with notable customers and OEM manufacturers to deploy thousands of automated robots, leading to a landmark of over 100 billion square feet covered autonomously in 2021.

The second of our aims for the year is to continue to meet our development milestones on our forklift project, targeting mass market release of DriveMod Kit enabled electric forklift to follow our lead customer engagement. Feedback from our customer has been extremely positive so far, and we're very excited by the potential of expansion into forklift automation.

Finally, we continue to work to meet the requirements of the multi-stage development contract on heavy industrial vehicles. This engagement is at an early stage where we aim to prove out the suitability of our technology for use in mining and heavy industrial environments during this year with the ambition of releasing the commercial products in the space some time next year.

With that, I'll turn the call over to Don.

Donald Alvarez

Thanks, Lior. I'll now take you through a brief summary of our financials. But first, because we've had several questions about it over the past few days, I'd like to confirm that Cyngn's banking relationship is with Bank of America.

Now with that out of the way, I'll turn to the financials. As Lior mentioned in his remarks, I'm very pleased to report that, during the first quarter ended December 31, 2022, we reported our first revenue as a public company as we booked \$262,000 in revenue. \$250,000 of this amount was related to the completion of the first phase of one of two multiphase nonrecurring engineering development contracts signed in 2022. These NRE contracts with commercial partners will bring new vehicle types to the market and have a total contract value of \$1.6 million.

Total operating expenses for the fourth quarter were \$5.8 million compared to \$3.6 million in the same period of 2021. The increase was due in part to higher general and administrative expenses, stemming from company expansion and increased costs related to the requirements of operating as a public company.

Research and development expenses were also higher in the fourth quarter of 2022 compared to the fourth quarter of 2021 as we incurred additional expenses related to the continued hiring of high-quality engineers and other expenses related to managing a larger team. For the full year 2022, total operating expenses were \$19.5 million compared to \$9.4 million for 2021. The increase was due in part to a \$4.5 million increase in research and development expenses related to the increase in engineering personnel mentioned above. We expect to continue to increase the size of our R&D team, and therefore, we expect these expenses to be higher year-over-year during 2023.

General and administrative expenses were higher by \$5.6 million in 2022 compared to the prior year due to the company expansion and additional compliance costs mentioned earlier as well as an increase in noncash stock-based compensation expense and additional costs related to the renewal of a lease that included the expansion of our facilities. Fourth quarter net loss was \$5.5 million or \$0.16 per basic and diluted share compared to \$2.1 million or \$0.10 per basic and diluted share in the fourth quarter of 2021. On a full year basis, net loss was \$19.2 million or \$0.62 per share compared to a net loss of \$7.8 million or \$1.33 per basic and diluted share in 2021.

Turning to the balance sheet, we ended the year with unrestricted cash and short-term investments totaling approximately \$22.6 million, an increase from 2021 year-end cash balance of \$21.9 million due to the private placement offering we completed in April of last year. Working capital at year-end was \$22.4 million, up slightly from \$22.1 million at the end of 2021. And 2022 year-end stockholders' equity was \$24.1 million compared to \$22.3 million at the end of 2021. Additional detail on these numbers can be found in our earnings press release that was issued earlier today and the 10-K that we anticipate filing with the SEC later this week.

With that, I'll turn it back to Lior for his final remarks. Lior?

Lior Tal

2022 was a transformational year for Cyngn and all of us who work here. We made amazing progress on our mission to bring autonomous vehicles into use across the industrial space and met or exceeded all the milestone we set ourselves at the end of 2021, and we're not slowing down. During 2023, we'll work tirelessly to introduce our Stockchasers in as many locations as possible while also bringing to market our autonomous forklift solution and developing our heavy industrial products. I look forward to keeping you updated on all of these projects throughout the year.

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 poll for questions.

And our first question from the line of Theodore O'Neill with Litchfield Hills Research. Please proceed with your question.

Theodore O'Neill

Thank you very much. So you guys have -- you have multiple paths to commercialization for the DriveMod stack. You've got the Stockchaser, the forklift, the mining equipment, and it can come as a retrofit or OEM product. And I was wondering is it too early to tell us which one looks most promising for 2023 or 2024? And a follow-up to that is are you discovering any interesting pricing information as you explore these multiple paths?

Lior Tal

Hi, Theo. This is Lior. So they might look like different paths, but what our product really is -- EAS, it's a software, right? It's a software that allows us to automate these vehicles and replace the human on the vehicle. It's a management tool that allow the customer to observe the fleet and manage it and even take over the fleet. These different applications, whether it's inside the warehouse on a Stockchaser or out in the mine or to support construction material, logistics are different implementation of that software in different vehicles through our partnerships with these OEMs.

If you sort of follow the milestones that we've been releasing throughout the year, you will see that the Stockchasers and the focus on logistics and manufacturing is the most advanced in its readiness for commercialization. And this is where Chris Wright, our new Head of Sales, is going to focus most of his efforts in really taking that one across the line to customers with our ability to manufacture and integrate at, like you said, either new vehicles off the line using our contract manufacturer.

The other two initiatives that you announced, both in the mining and the heavy industry, are in research and development phase. They're both paid projects that over time will evolve into the same stage the Stockchasers are today, which will allow us to then commercialize them. So one of the things that we talked about earlier is, with the market conditions, we accelerated some of the initiatives that otherwise we would have been planning to do in '24 and '25 and pulled them forward, and that's what created these three threads, but their timeline is slightly

different. The Stockchasers are in sales mode at the moment, and the other two are in development, probably going to become available next year (inaudible).

Theodore O'Neill

Okay. That makes sense. And are you seeing anything interesting in terms of pricing on this?

Ben Landen

Yeah. We've announced the first commercial win that we have. And this has Ben Landen, by the way, Theodore. Hello?

Theodore O'Neill

Yeah.

Ben Landen

So we did announce that first commercial win with U.S. Continental. So that was certainly a great validator of the pricing that we had established through a lot of the data that we shared through our IPO and essentially building that market opportunity based on the cost of human labor that sits on these vehicles to operate them. So we are getting validation there in the form of that initial conversion, and we expect and are seeing further validation from the ongoing customers that Chris Wright and the sales team are having to continue deploying that commercially available Stockchaser solution.

Theodore O'Neill

Okay, thank you very much.

Operator

And our next question comes from the line of Rommel Dionisio with Aegis Capital. Please proceed with your question.

Rommel Dionisio

Good afternoon. Thanks for taking my question. I just wanted to follow up on something you had said earlier, Lior. You delved a little into the opportunity in the mining and materials handling sector. Obviously, a lot of that industry occurs overseas. So I just wondered, do you feel that that could be a significant opportunity for you to expand internationally? And how do you guys think about the preparing or building an international sales force to be able to address those opportunities, specifically in the mining and materials handling sector? Thanks.

Lior Tal

Hi, Rommel, thank you for joining us today. Being a software company and working in collaboration with the OEMs is really what allows us to take advantage of the fact that they have the footprint close to the customers, they have the relations and they have the entire support system for -- to have in their vehicles and whatever is installed on top of them where we can remain a smaller, more leveraged company as a software company.

The other important component is our focus on the industrial applications and our insisting on staying away from public roads means that the regulatory space is much more accommodating and the implications of working as cross-borders is less of a consideration for us. So the combination of these two, working with the OEMs that have the global presence and our ability to remain in private spaces, really allows us to expand globally through these relationships and throughout their own deployment. And we're less impacted than anything on the road, anything automotive, be it robotaxi or truck that has to go through the local DMVs (sp) or equivalent through the complicated regulatory hurdles.

Rommel Dionisio

Okay. And just on the revenue front -- first of all, congratulations on those initial revenues. Wonderful to see that. To what extent does Infinitracker playing a part in that? And maybe just an update on the outlook for that business, incorporating that into your -- as part of your sales strategy going into 2023? Yeah, thank you.

Ben Landen

Sure. This is Ben, Rommel. That's an excellent question. Yeah, we fairly -- have been fairly consistent in terms of the EAS offering that we have been touting since the IPO. To Lior's point earlier, to really see EAS as that umbrella that captures all of the value that we bring to customers, ranging from vehicles that drive themselves to various assets throughout their business that give them additional data insight, let them see more about the work that they're doing, learn more, automate that and provide the types of value propositions that would be expected from this data revolution and automation.

So we see Infinitracker as a natural fit into that much more than as its own standalone product. It's an opportunity to cross-sell when the vehicles are working alongside assets that need to be tracked. And so we see -- we expect to the effort to remain let's say consistent, to have its overlap. And really, Infinitracker is an additional peripheral, additional opportunity to create value for customers that dovetails in with EAS.

Rommel Dionisio

Great. Okay. Thanks very much.

Ben Landen

Absolutely.

Operator

And our next question comes from the line of Darin Tuttle with Singular Research. Please proceed with your question.

Darin Tuttle

Hey, thanks. Congrats on great quarter, guys. I think just a question I have related to the non-engineering contract -- non-reoccurring engineering contract revenues forecasted of around \$1.6 million. Is that related to pilot vehicles, or would that include a full fleet of vehicles for some of these latest partners that you have? Thanks.

Ben Landen

The reason that we are categorizing that as NRE is that those contracts specifically, the work that is under contract is engineering development work. It is a precursor, as Lior described, to bringing vehicles to a commercial-ready state so that they can be offered as a general release, general availability on the EAS platform. So this -- we're really seeing come to fruition what I would say is the flywheel between R&D and deployment and sales, which is to find a lead customer or customers that can help to be sponsor customers to justify the work that we do for a new opportunity.

Oftentimes, that opportunity is driven by the type of vehicle that's needed to do a certain type of work. And then through landing that validation customer, generating revenues along the way, we share that cost burden and validate what one of our leading customers would be so that, when we reach that commercial release, we transition from NRE, from engineering development into a saleable commercially ready solution as we have done to this point with the Stockchaser. So what you're seeing play out is the first steps in what we expect to largely be a repeatable process that generates revenues while we prepare other vehicles for commercial readiness to be offered on EAS.

Darin Tuttle

Okay. I got you. I got you. And then in terms of the mining contract, so for that one, is that a specific location? Is that indoor or outdoor? Or will that be like multiuse for a vehicle that is working in that mining sector? Just trying to determine a scope of the potential for the specific use case of those vehicles.

Ben Landen

Sure. I'm somewhat constrained in the amount of information that I am allowed to share here. But I can say that this first application is targeting outdoor, so primarily open pit type of mining applications. That's about as much as I can share at this stage.

Darin Tuttle

Got it. Okay. Thank you. And then just last question for me - any guidance or expectation on cash to end the first quarter here of 2023, any guidance on just existing cash balances? I know that banking relationship with Bank of America, but any guidance on cash left over at the end of this quarter?

Donald Alvarez

Yeah, sure. Nice to have you on the call, Darin. So we had -- we ended the year with about \$22.6 million. And without getting into quarterly -- quarter specific cash guidance, we're pretty

comfortable that that's enough cash for the year. So you can probably do the math there and see what the quarterly amounts would look like. Our burn rate for the first quarter is not going to be dramatically different from the fourth quarter.

Operator

And the next question comes from the line of Brian Dobson with Chardan Capital Markets. Please proceed with your question.

Brian Dobson

Yes, good afternoon. Congratulations on the contract with U.S. Continental. I suppose, as you're spreading that news around, what's the feedback been like from potential customers that you're speaking with? And would you expect similar announcements later this year.

Ben Landen

We have definitely gotten positive response. Of course, you have a whole swath in the adoption curve of customers ranging from your early adopters who are excited about being the first to use a technology like our friends at USC and to those who are slightly more risk averse and like to see that a brand they know or somebody in their domain is using and then want to be a quick second mover and all the way into people who are going to be late to adopt. So we're now making our way through that adoption curve. We're finding our early adopters.

We've knocked over that first domino, per se, with USC, and we are seeing that absolutely have a positive impact from the feedback that we're getting, from the request to come on site and see demos. And we're setting up hopefully more exciting opportunities to enable customers, certainly all over the United States, potential customers to have streamlined and easier opportunities to come see the vehicles at work at various facilities. And, yes, what -- our focus for sales for the commercially available Stockchaser is to hopefully be sharing additional success stories along the lines of USC with you throughout this year.

Brian Dobson

Yeah, great. Thanks for the color. So there's been discussion in the industry about the use of vehicle automation to replace or supplement conveyor belt technology. I guess as you're thinking about the coming years, do you see this as a key area of opportunity for Cyngn?

Lior Tal

One of the things that the Stockchasers were implemented on a manufacturing line or a large logistics facility can deliver that's difficult for a conveyor is the flexibility and configurability. Sometimes during the day, the workflow changes. Sometimes at peak times, you need to change the workflow in a way, and it's very difficult when you have the large conveyor that's bolted to the facility doing those changes. So one of the things that we think autonomy in these large industrial settings really brings is that flexibility. It's the ability to adapt to an ever-changing facility needs and be responsive and be able to do so without additional investment.

Ben Landen

And just to add a little bit of additional color to that, it's also not necessarily an either/or type of situation, which I think is a little bit -- I read into your question. And we have had multiple conversations with customers who run very large -- potential customers who run very large facilities in which they utilize miles of conveyor belts. And a primary use case for a vehicle like a Stockchaser there is actually to help streamline the conveyor belt repair process and bringing parts out and/or shuttling the right people, the maintenance people out to areas of the conveyor belt that break down and need maintenance.

And as you might imagine, that then becomes a very time-critical type of operation. And it's being -- definitely being brought to our attention and doing that with autonomous vehicles can cut down that downtime significantly. So we're also seeing some supplementary opportunities stemming from both of those solutions.

Brian Dobson

Yeah, very good. Thanks very much.

Operator

There are no further questions at this time. And this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.