



eMagin Q2 2023 Earnings Call Transcript

August 10, 2023

Mark Koch – eMagin Chief Financial Officer

Thank you, and good morning everyone. Welcome to eMagin's second-quarter 2023 earnings conference call. Before we begin, I would like to remind you that in the following prepared remarks we will be making statements about expected future results that may be forward-looking for the purposes of federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on the Company's current expectations, estimates and projections about the expected date of closing of the proposed transaction and the



potential benefits thereof, its business and industry, management's beliefs and certain assumptions made by the Company and Samsung Display Company, Limited, all of which are subject to change. These forward-looking statements should be considered only in conjunction with the detailed information contained in our SEC filings, including the risk factors described in our 2022 Annual Report on Form 10-K, and the definitive proxy statement related to our proposed merger agreement with Samsung Display.

During this call, we will also refer to adjusted EBITDA, a non-GAAP financial measure, to provide additional information to investors. A reconciliation of adjusted EBITDA to net income, which is the most directly comparable GAAP financial measure, is provided in the press release that we issued this morning. Non-GAAP financial measures such as adjusted EBITDA are not meant to be considered in isolation or as a substitute for our GAAP financial measures and financial statements.



With that, I will turn the call over to our CEO, Andrew Sculley.

Andrew Sculley – eMagin Chief Executive Officer

Thanks Mark, and good morning, everyone.

As I'm sure you've seen by now, eMagin has entered into a definitive merger agreement with Samsung Display Company, which is a subsidiary of Samsung Electronics and a leading manufacturer and distributor of display products. Under the terms of the agreement, all shares of eMagin stock would be acquired by Samsung for \$2.08 per share in an all-cash transaction. We will hold a virtual Special Meeting of shareholders on August 31st, at which time eMagin's shareholders will be asked to vote on the adoption of the merger agreement.

This merger represents a significant moment for eMagin and we believe it is in the best interests of our shareholders. Our decision to enter into the agreement was reached only after



careful consideration by our Board of Directors, including a formal and thorough review of strategic alternatives to maximize shareholder value. That process included the solicitation of competing offers among eight strategic counterparties but did not yield any actionable alternatives.

It is worth noting that a significant expenditure of several hundred million dollars would be required by such a strategic counterparty to build a dPd OLED microdisplay line capable of serving the AR/VR consumer market. In addition, such a line would take a number of years to design and build. As such, even if a strategic partner were available today and willing to make the required investment, it would likely be several years before eMagin could begin to realize meaningful and sustainable revenues from licensing its dPd technology.

The Board's unanimous decision was also based on a number of critical factors, including a recognition that eMagin



would need to raise significant capital in the near term, and that such a capital-raise would be dilutive for existing shareholders.

In what were extensive negotiations with Samsung, our Board sought a transaction price that would provide certainty and immediate value to eMagin shareholders. As detailed in our definitive proxy statement, the proposed price represents a premium relative to eMagin's pre-announcement share price, as well as to a range of historical market prices.

In the unanimous opinion of the Board, and on a risk-adjusted and time-adjusted basis, this merger is more favorable to our shareholders than any other alternative reasonably available to us. That includes the continued operation of eMagin as a standalone company and the pursuit of other potential strategic or financial transactions. In fact, we had explored the possibility of a commercial partnership with Samsung Display prior to discussing a potential sale transaction.



The Board had to consider eMagin's assets and cash position, business prospects and competitive position, projected financial performance, and a number of operational factors, including the significant capital expenditures that will be needed to manufacture eMagin's products at a large scale.

In our final analysis, it became clear to both the Board and the management team that our proposed merger with Samsung Display represents the best available outcome for eMagin and its shareholders.

I remain tremendously proud of eMagin's accomplishments to date and appreciative of the support of our loyal shareholders. I am also grateful to everyone at the Company for their hard work in meeting the challenges we have endured by operating independently for so long. I would like to thank all of you for your support. I will now turn the call over to Mark, who will review our Q2 financials.



Mark Koch – eMagin Chief Financial Officer

Thank you, Andrew, and hello everyone.

Total revenues for the second quarter of 2023 decreased 31% to \$5.0 million, compared with \$7.2 million reported in the prior-year period. Total revenue consists of both product revenue and contract revenue. As of June 30, our sales backlog totaled \$22.7 million, compared with \$16.7 million at the end of Q4 2022.

Our Q2 product revenues of \$4.9 million compare negatively to the \$7.0 million realized in the year-ago period. The \$2.1 million decrease was driven by unexpected production downtime and lower than expected production yields. Contract revenues were \$0.1 million, flat year-over-year. eMagin continues to work under the U.S. Army's Program Executive Office for Simulation Training and Instrumentation (PEO STRI) contract, as well as on a high-brightness display design and proof-of-concept for a consumer company. Contract revenues are based on accomplishing specific



milestones and are not uniformly distributed through the project's duration.

Total gross margin for the second quarter decreased to negative 10%, resulting in a gross profit of negative \$0.5 million, compared with a gross margin of 22%, which resulted in a gross profit of \$1.6 million in the prior-year period. The gross margin decline was primarily due to production downtime, which resulted in a lower volume of displays produced, reduced shipments, lower yields and higher average product costs as fixed costs were spread over less finished and work-in-process displays.

Operating expenses for the second quarter of 2023, including R&D expenses, were \$10.7 million, compared with \$3.4 million in the prior-year period. Operating expenses as a percentage of sales were 215% in the second quarter of 2023, compared with 47% in the second quarter of 2022. Our operating expenses increased year-over-year primarily due to legal and investment banking costs



related to the negotiation and signing of the merger agreement with Samsung Display.

Operating loss for the second quarter of 2023 was \$11.2 million, compared with an operating loss of \$1.8 million in the prior-year period.

Net loss for the second quarter of 2023 was \$11.2 million, or a loss of \$0.13 per share, compared with a net loss of \$1.4 million, or a loss of \$0.02 per share, in the prior-year period.

Adjusted EBITDA for the second quarter of 2023, which excludes expenses related to the merger agreement, was negative \$2.6 million. This compares with the negative \$0.3 million in the prior-year period, which did not include any merger related expenses.

As of June 30, the Company had cash and cash equivalents of \$3.3 million and working capital of \$10.6 million. During the second quarter, the Company did not repay any borrowings under its asset-based lending facility. As of June 30, there was \$0.8 million of available borrowings under the facility. In Q2, eMagin



borrowed \$5.0 million from Samsung Display under a loan and security agreement entered into concurrently with the May 17th signing of the merger agreement.

The merger is expected to close in the second half of 2023, subject to the approval by eMagin's stockholders and other customary closing conditions and regulatory approvals. On July 3, the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act expired. On July 18, the Committee for Foreign Investment in the US, also known as CFIUS, acknowledged receipt of the joint Samsung Display/eMagin filing and notified eMagin that the initial review period would conclude no later than August 31. CFIUS may, at its discretion, commence a subsequent investigation, which would start on September 1 and end on October 16.

As Andrew mentioned, a Special Meeting of eMagin stockholders will be held virtually on August 31. Until the closing of the transaction, eMagin and Samsung Display will remain separate and independent companies.



With that, I'll turn the call back over to Andrew for his closing remarks, Andrew?

Andrew Sculley – eMagin Chief Executive Officer

Thank you, Mark. Given the timing of our Special Meeting of the shareholders, we will not take questions at this time. If you have not already done so, I encourage you to review the definitive proxy statement related to the merger, which is available on our investor relations website. The proxy statement contains detailed information concerning the Special Meeting and the Merger Agreement, including the reasons for the proposed merger and the Board's recommendations.

Please know that your vote is important. Whether or not you plan to attend the Special Meeting virtually, please submit your proxy as soon as possible, whether over the Internet, by telephone or by returning your proxy card by mail. You may



revoke your proxy or change your vote at any time before it is voted at the Special Meeting.

Thank you again for your support of eMagin.