

**Cyngn, Inc.**  
**Second Quarter 2023 Earnings Call**  
**August 9, 2023**

---

**Presenters**

**Ben Mimmack, Head of Investor Relations**  
**Lior Tal, Chairman and Chief Executive Officer**  
**Don Alvarez, Chief Financial Officer**  
**Ben Landen, VP of Business Development**

**Q&A Participants**

**Theodore O'Neill - Litchfield Research**  
**Rommel Dionisio - Aegis Capital**

**Operator**

Greetings, and welcome to the Cyngn Second Quarter 2023 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press “\*”, “0” on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference to your host, Ben Mimmack, Head of Investor Relations. Thank you. 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 second quarter ended June 30th, 2023, is available at the Investors section of the company’s website at [investors.cyngn.com](http://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/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.

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 Cyngn'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 second 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. During the second quarter, we made significant progress in all areas of the business but, particularly, on our plan to sign-up new commercial customers and deployments.

In a moment, I'll talk in more detail about the major announcements we've made over the past few weeks. But first, for those new to our story, I want to give a brief overview of Cyngn and the significant opportunity we're delivering on.

We're an autonomous vehicle solution company that's focused on addressing industrial uses for autonomous vehicles. Our vehicle agnostic software enables industrial enterprises to harness autonomous driving to overcome labor shortages, increase safety, and reduce the costs associated with labor. Our Enterprise Autonomy Suite, or EAS, enables vehicles to use artificial intelligence to navigate the world around it.

And as one of the pioneering AI development companies, we have been excited to see the increasing proliferation of AI into all aspects of life. The use of AI to improve safety, productivity, and efficiency in manufacturing, logistics and other industrial sectors is on the cusp of transforming the way work gets done, and Cyngn is in the vanguard of the effort.

Industrial firms today continue to experience significant labor shortages, which are destined to remain a bottleneck as demographic changes and worker sentiment impact the pool of available workers. In fact, in the July Jobs Report for National Federation of Independent

Business, 92% of business owners surveyed reported few or no applications for positions they were trying to fill, a two-point increase from June.

Companies are also focused on improving the safety of the workplace environment, while improving efficiency to compete with peers who are deploying the latest automation technologies.

Given these needs and based on the number of industrial vehicles in operation in the world today, we conservatively estimate that the addressable market for self-driving industrial vehicles is over \$200 billion, today.

Cyngn's flexible vehicle agnostic solutions are perfectly designed to penetrate this market, a process we have already started with our initial commercial stock chaser deployment in the first quarter.

During the second quarter, we continued to meet milestones and make progress on our paid NRE contract to adapt drive more proprietary localization technology to a major global heavy industry OEM.

In April, we announced that we had, successfully, completed Phase 2 of this multiphase project, which implemented autonomy technology not currently used in the mining industry and would allow an increase in uptime for autonomous mining vehicles with the potential to drive significant operational improvement.

More recently, we also announced that we partnered with Motrec, a manufacturer of electric industrial vehicles, to integrate Cyngn's Autonomy Technology into Motrec's MT-160 Tugger. The MT-160 is a robust vehicle offering 6,000 pounds of towing capacity and with the addition of Cyngn's Technology, will soon be capable of autonomously and safely hauling goods, through various industrial environments.

Motrec Tuggers operate around the globe, for notable customers such as GM, FedEx, Tesla and Walmart. We're very excited to extend our DriveMod Autonomy System to another popular vehicle type and offer an even more compelling solution to potential customers who own sizable fleets of multiple industrial vehicle types.

Turning now to our DriveMod stock chaser product.

At the end of July, we announced an agreement with a Fortune 100 Heavy Equipment Manufacturer to use our DriveMod enabled stock chaser in one of their many facilities.

This customer uses hundreds of stock chasers in facilities across the globe, and the initial deployment, our second commercial stock chaser deployment, has the potential to grow significantly in the future as we prove out the flexibility and capability of our DriveMod stock chaser solution.

This further confirmation of demand for the Autonomous stock chaser is testament to the market need for a flexible and innovative approach to industrial vehicle autonomy offered by Cyngn. I look forward to updating you on additional deployments, through the remainder of the year.

Our biggest recent news occurred just yesterday when we shared the significant development from our Autonomous Forklift Project and announced that we have secured a pre-order of 100 DriveMod enabled Autonomous Forklifts from Arauco.

Arauco is a \$7 billion global wood supplier, a leader in the furniture and construction industries and the sponsor of the Autonomous Forklifts Development Project we announced, last year. Arauco's order resulted from the successful development work will need to adapt BYD Forklifts to enable self-driving capabilities.

We'll now show a short video that highlights the capabilities of the Autonomous DriveMod Forklifts and demonstrates why Arauco placed the order and why we're already securing firm orders for the product that will be available in 2024.

[Video Presentation]

As you saw in that video, by leveraging Cyngn's proprietary computer vision and AI algorithms, we have already successfully addressed the challenges of automating heavy loads with non-standard pallet pockets, a task which was previously unmet by other industrial autonomy providers.

In addition to improving efficiency, these autonomous forklifts are expected to enhance safety wherever they are utilized, a benefit that is front of mind for the majority of customers and potential customers.

The progress we have made on commercialization for all our products over the past few months has been transformative to Cyngn. Since I last updated you, we have also seen significant and growing interest in all our current and future commercial products, including requests for pallets for major brands in the automotive and defense industries, and we anticipate being able to announce further commercial success in the second half of the year.

So next year, we will meet the new requirements stemming from the success of this focus on commercialization.

We brought on two new leaders during the second quarter. Sean Stetson, our VP of Engineering and Felix Singh, our VP of Engineering Services, each has over 20 years of experience of commercializing emerging technologies.

Between them, they will be responsible for overseeing hardware and software development, continued commercialization of EAS and the development of our customer success and support functions. Since their appointment in the second quarter, both Felix and Sean have had significant impact on our development progress and customer offering.

We intend to continue funding Cyngn in a way that benefits our stakeholders. We keep a close eye on the macro financial situation and seek to balance growth opportunities with a conservative use of cash to ensure long-term success of the company and its shareholders.

As part of that process, we filed an S-3 with the SEC, which includes an ATM with Virtu. We did not utilize the ATM during the second quarter.

We're often asked what our pathway to profitability and cash flow generation looks like. And while we are not giving any current forecast at the moment, I think it can be illuminating to lay out the broad stroke circulation. At a current cash burn of approximately \$2 million per month, it would require 500 EAS licenses at \$4,000 a month to approximately cash flow breakeven.

Obviously, this calculation doesn't factor in additional cost of supporting these licenses, but for many of the customers and potential customers we're working with today, operate hundreds of industrial vehicles worldwide, we think the path to profitability is identifiable and achievable for Cyngn.

Given the traction we're seeing with our DriveMod stock chaser solution, the availability of the new Motrec Tugger, and considering the firm order of 100 DriveMod forklifts in 2024, which represents only a fraction of the forecast of Arauco's fleet, we are confident in achieving profitability in a reasonable time frame has only increased in recent weeks.

There's one more thing I would like to mention before I hand over to Don to go through the financial results. We value the views of our shareholders, and we want to answer any questions you may have.

You are welcome to reach out to [investors@cyngn.com](mailto:investors@cyngn.com) at any time. But we have also set up a page at [sequirecommunity.com](https://sequirecommunity.com), where verified shareholders will be able to post questions for management. Any that we can't cover during this call, we will answer in the next few days. We look forward to engaging with you all.

And with that, I'll turn it over to Don.

### **Don Alvarez**

Thanks, Lior. Turning to our financial results for the second quarter and first six months of 2023, we booked \$551,000 and \$1.4 million in revenue, respectively. The Q2 revenue represents our third consecutive revenue-generating quarter as a public company.

Substantially all of the revenue we recorded for the second quarter and the first six months of 2023 was related to the two non-recurring engineering contracts that we signed with Arauco and a global heavy industrial equipment OEM to bring new autonomous vehicles to the market.

Total costs and expenses in the second quarter were \$7 million, as compared to \$4.6 million in the corresponding quarter of 2022. The increase was due, in part, to cost of revenue totaling \$463,000 in the second quarter, compared to zero in the second quarter of 2022.

Costs and expenses were also higher as a result of a \$1.5 million increase in research and development expenses related to an increase in personnel added over the past 12 months to support the development of our technology. We anticipate that R&D expenses will continue to increase for the remainder of 2023.

Second quarter G&A expenses were also higher, year-over-year, as a result of an increase in personnel-related costs, additional marketing and advertising expenses, higher legal and professional fees and increase in other G&A to support growth in the company.

Our second quarter net loss was \$6.4 million, or \$0.19 per basic and diluted share. This compares to a net loss of \$4.6 million, or \$0.15 per basic and diluted share for the second quarter of 2022.

Cyngn ended the first half of the year with unrestricted cash and short-term investments, totaling approximately \$12.1 million. Working capital at the end of the quarter was \$11.6 million, with stockholders' equity of \$13.9 million. Additional detail on these numbers can be found in our earnings press release that we issued earlier today and the 10-Q, which we anticipate filing with the SEC, later this week.

That concludes our financial commentary, and now I'd like to turn it back to Lior for his final remarks. Lior.

### **Lior Tal**

The last few months have seen some very exciting developments for Cyngn. On our last call, we said that we were focused on commercialization of our product, and we have delivered.

Since we spoke to you last, we have announced a partnership with BYD on our autonomous forklift project, launched a new vehicle type following our partnership with Motrec, announced an order for autonomous stock chasers with a household name in the heavy equipment manufacturing industry to be delivered this summer, and announced an order for autonomous forklift with our order to be delivered next year.

It is the hard work of everyone at Cyngn that is allowing us to meet our commitment to the market, and I would like to thank everyone at the company for their effort so far this year. We

intend to keep delivering on the opportunities we have created and I look forward to updating you on our future successes.

Now, I would like to open the call up for analyst questions.

### **Operator**

Thank you. At this time we'll be conducting a question and answer session. If you'd like to ask a question, please press "\*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "\*", "2" 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.

Our first question is from Theodore O'Neill with Litchfield Hills Research. Please proceed with your question.

### **Theodore O'Neill**

Thank you, and congratulations on the good quarter. I first have a sort of a general question just about one of the challenges of the autonomous EV business in general is the cost and number of sensors needed to operate safely. And I was wondering if you could compare sort of that versus the cost and number of sensors you require to run inside a factory?

### **Ben Landen**

Hey, Theodore, this is Ben Landen here, thanks for the question. The--when you compare to the EV, and I think largely this is driven by the automotive space and the cost associated with driving at lower speeds and dealing with everything that needs to be dealt with out in the world, by design, we chose the domains that we work in because they limit a lot of the problem space, which does a few things.

One is it lets us have an earlier horizon to having finished products for our customers, which we're seeing now. Very different from a situation where you need to be able to pick up anywhere in some city and drop off anywhere in some city. So that goes--that speaks to the product readiness and having a shorter horizon there.

And the byproduct of that is since we're operating at lower speeds, since we're operating around trained personnel, not the general public that can do anything and surprise you out on the open road. But that means we don't need to, for example, see 200 meters out in front of us so that we can see an object when we're traveling at 65, 70 miles per hour.

We have, let's call it, the luxury of being able to enter into failsafe maneuvers because we know the manufacturing facility that we're in. We know that there's not high traffic scenarios. If there is a situation where the break needs to be slammed, we can usually do that, which you can't do with a long-haul truck traveling 70 miles per hour, for example.

And what that means is less sensors on the vehicle to cover all of the views that we need to operate safely. It means not as intensive of computing required because you're analyzing a smaller space in the 3D world. And so, the bottom line ultimately comes back with if you look at the labor cost to human on vehicle and have them drive it around a warehouse.

When you include the sensor kit, when you include the subscription cost of our EAS licenses, that still offers substantial savings to our customers compared to the old way of doing it, which was the only way to get work done was to have people sitting on the vehicles and doing mundane work.

**Theodore O'Neill**

Okay. About the announcement with Arauco, in the August 8 press release, you say it could represent 20% of monthly cash burn which, by my math, works out the \$4 million or \$5 million annually and targeting to start June 2024.

So the two questions are, one, is my math right? And the second one is about the build plan. Is this sort of all 100 units go out at once or does this go out over a longer time period, say, for a year or more?

**Don Alvarez**

I'll start backwards, so, with the second question and then work to the first. We don't--we haven't shared guidance as to what the ramp-up will look like for those hundred. We, as well as our customer in signing that preorder, have a joint mutual interest in getting those vehicles ramped up and delivering value.

So, we'll be working as closely as we can with our OEM partners, with the supply chain and with everything that we need to get in place to reach that first order ramp as quickly as it makes sense to do.

And that only captures a portion of the fleet, there's quite a lot of room to grow beyond that, which we expect to be a process that will take time to saturate as much of their fleet with automation as we can, presents a very exciting opportunity there.

And then, in terms of the numbers and your calculation, yes, you're roughly on the right page. That is where that 20% number derives from. So, it's based roughly around the current burn rate that we have that's been publicly shared. And so, where we see the opportunity, and we're excited at the opportunity to grow far beyond that, but to even have the initial order be as meaningful of a chunk as it is into our operating expenses.

**Theodore O'Neill**

Okay. So if it ramps up, it could be 100% of the cash burn.

**Don Alvarez**

Yeah, without going as far as providing numbers that we are not minded to provide, the initial order represents a, let's say, a very small portion of the total opportunity with Arauco in that yes, I expect that that would be a potential future that we would reach where we far surpass 20% and even the current burn rate with just that customer.

Which is true from--as you can see from some of the numbers that were provided in Lior's statements, as well ,on the order of 500 vehicles when you consider a \$4,000 blended average of license prices, which we're already taking a substantial chunk out of with Arauco's initial order alone and that there are precedents from other automation providers who have already surpassed those kinds of volumes. We're quite positive on that momentum.

**Theodore O'Neill**

Thank you very much.

**Operator**

Our next question is from Rommel Dionisio with Aegis Capital. Please proceed with your question.

**Rommel Dionisio**

Yes. Thanks. good afternoon. You guys have had a really impressive flurry of press releases and contract signing recently. And I wonder, Lior, if you could just give us a little color on what is kind of driving this huge flurry. I mean, are you seeing a technological leap? Is it some new personnel on the marketing front that's really brought a lot of success here, near term. I wonder if you could just give us a little more color in terms of how you're seeing such success in a rapid amount of time. Congratulations on that. Thanks.

**Lior Tal**

Rommel, good to hear from you again. So, the one is what you alluded to, we grew the team. We brought in some very important key functions, including engineering leadership, both on development and customer support success. We started building a very experienced sales team with years of experience in selling robotic solutions, industrial automation solutions.

So, a lot of that momentum you're seeing is based on the impact that that new team that has been added in the last quarter or so have made on our operation. But also a lot of it is just the recognition of the market and the opportunity that Industrial Automation brings to their flexibility, cost structure and ability to compete with other companies.

And a lot of it is coming as inbound into the company. The more people see these announcements, the more we're getting interest from new prospective customers.

**Rommel Dionisio**

Great. And just a quick follow-up. I know in prior calls, you've talked about the opportunity in the mining industry, specifically. And I wonder if you could just give us some of your updated thoughts there. Thanks.

**Lior Tal**

Yes, of course. So, the main focus of the company remains material handling for predominantly logistics, manufacturing facilities. These are usually very large warehouses or industrial complexes. And there, you see vehicles like are readily available to stock chaser, the upcoming Tugger and next year's forklift. That still remains the main focus of the company.

This is the one that is closest to scaled commercial deployment. Other applications, including heavy industry or the mining are more in R&D phase, and these are the ones that contribute to the--in a rebased revenue. But clearly, where the company focuses on generating license-based recurring revenues, and this is where the sales team is focused on lining up these additional preorders like Arauco for 2024 and onwards.

**Rommel Dionisio**

Great. Okay. Thanks very much.

**Operator**

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.