

Trickle Research

Every raging river, every great lake, every
deep blue sea starts ... with a trickle



Q3 Fiscal 2018 Earnings Update

Summit Wireless Technologies, Inc.

(Nasdaq Stock Symbol - WISA)



Report Date: 12/03/18

12- 24 month Price Target: \$9.25

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 09/28/2018): \$4.30

Closing Stock Price at This Report (Closing Px: 11/30/2018): \$4.40

Prepared By:

David L. Lavigne

Senior Analyst, Managing Partner

Trickle Research

Disclosure: Portions of this report are excerpted from Summit Semiconductor Inc.'s filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

There is not a great deal to update here since we just initiated the coverage near the end of this reporting period. As we noted in the initial coverage, we are not expecting much from the numbers for the second half, which of course includes this reporting period and the one we are currently in. For what it is worth, the numbers were largely in line. SG&A was a bit higher than we anticipated, but given the IPO in the quarter, as well as several other restructuring items (debt conversions etc.), we suspect that line item was particularly extraordinary. Further, the conversions created a few typical (non-cash) interest and associated accrual items that we simply didn't attempt to guess at. Again, we don't view those as particularly germane to the story. On a similar note, we made some adjustments to share counts given some capitalization clarity, and we have added a fully diluted figure as a result of derivative additions surrounding the cumulative restructurings. We think we have those reasonable reflected going forward. We have also beefed up some spending projections for R&D and selling expenses. As we suggested in the initial coverage, it's a bit difficult to get our arms around some of these numbers as the company transitions to commercialization. While we will fine tune numbers as we learn more about the minutia of the business, we continue to see the big picture as one of Summit establishing and building momentum in the business in 2019 and resulting profitability in 2020.

Looking ahead, as we provided in some prior notes, the Company continues to gain traction amongst additional CE players, and our expectation is that they will continue to do so. Keep in mind, the upcoming (January 2019) annual Consumer Electronics Show ("CES") in Las Vegas, Nevada, is perhaps the single most important event for the Company in terms of providing us some visibility in terms of CE companies adding WiSA enabled functionality to their products. We should learn quite a lot from that event. Secondly, as a side note, we did a bit of channel checking over the "Black Friday" shopping blitz and focused on the pricing for (reasonable quality) soundbars. Recall, part of our thesis here is that we believe WiSA enabled immersive sound products will arrest market share from the growing soundbar market, because we think they represent a better solution for many consumers who are choosing soundbars to upgrade their television audio experience largely by default due to lack of a better alternative. We think WiSA enabled products will represent an elegant substitute, and we remain convinced they will become available at very competitive price points relative to comparable soundbar options.

We continue to view 2019 as a breakout year for Summit and its technology on multiple fronts. We believe they will continue to add major CE players to the WiSA family, and those companies will begin providing WiSA enabled products to their offerings. We think the year should be quite revealing, starting with CES in January. We reiterate our allocation of 4 and our 12-24 month price target of \$9.25.

Projected Operating Model

Summit Wireless Technologies, Inc.							
Projected Operating Model							
By: Trickle Research LLC							
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<u>3/31/18</u>	<u>6/30/18</u>	<u>9/30/18</u>	<u>12/31/18</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u>	<u>Fiscal 2020</u>
Revenue, net	\$ 281,795	\$ 379,819	\$ 384,740	\$ 378,000	\$ 1,424,354	\$ 11,880,000	\$ 34,400,000
Cost of revenue	\$ 398,447	\$ 433,185	\$ 412,453	\$ 380,820	\$ 1,624,905	\$ 8,677,200	\$ 24,216,000
Gross profit	\$ (116,652)	\$ (53,366)	\$ (27,713)	\$ (2,820)	\$ (200,551)	\$ 3,202,800	\$ 10,184,000
Operating Expenses:							
Research and development	\$ 1,604,807	\$ 992,999	\$ 1,042,206	\$ 1,030,240	\$ 4,670,252	\$ 4,150,400	\$ 3,376,000
Sales and marketing	\$ 912,080	\$ 469,287	\$ 679,594	\$ 703,780	\$ 2,764,741	\$ 2,618,800	\$ 2,744,000
General and administrative	\$ 1,230,631	\$ 418,069	\$ 1,211,518	\$ 511,425	\$ 3,371,643	\$ 2,260,316	\$ 2,726,480
Total operating expenses	\$ 3,747,518	\$ 1,880,355	\$ 2,933,318	\$ 2,245,445	\$ 10,806,636	\$ 9,029,516	\$ 8,846,480
Loss from operations	\$ (3,864,170)	\$ (1,933,721)	\$ (2,961,031)	\$ (2,248,265)	\$ (11,007,187)	\$ (5,826,716)	\$ 1,337,520
Interest expense	\$ (8,737,900)	\$ 10,592,693	\$ 14,171,499	\$ -	\$ 16,026,292	\$ -	\$ -
Change in fair value of warrant liability	\$ 109,000	\$ 4,358,000	\$ 3,878,196	\$ -	\$ 8,345,196	\$ -	\$ -
Change in fair value of derivative liability	\$ (814,000)	\$ 2,572,000	\$ 10,907,963	\$ -	\$ 12,665,963	\$ -	\$ -
Gain on extinguishment of convertible notes payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income (expense), net	\$ 684	\$ 579	\$ -	\$ -	\$ 1,263	\$ -	\$ -
Loss before provision for income taxes	\$ (13,306,386)	\$ (19,456,993)	\$ (31,918,689)	\$ (2,248,265)	\$ (66,930,333)	\$ (5,826,716)	\$ 1,337,520
Provision for income taxes	\$ 2,000	\$ -	\$ -	\$ -	\$ 2,000	\$ -	\$ -
Net loss	\$ (13,308,386)	\$ (19,456,993)	\$ (31,918,689)	\$ (2,248,265)	\$ (66,932,333)	\$ (5,826,716)	\$ 1,337,520
Net loss per common unit/share - basic and diluted	\$ (40.96)	\$ (7.04)	\$ (2.89)	\$ (0.15)	\$ (4.36)	\$ (0.38)	\$ 0.09
Weighted average number of basic common units/shares used in computing net loss per common unit/share	324,934	2,762,594	11,028,602	15,366,327	15,366,327	15,366,327	15,366,327
	3,087,742	-	-	17,519,858	17,519,858	18,406,842	20,057,907

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ($\$250 * 4$). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.