

Mobileye NV (MBLY) Earnings Report: Q4 2014 Conference Call Transcript

The following Mobileye NV conference call took place on February 26, 2015, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Yonah Lloyd; Mobileye N.V.; Chief Communications Officer, SVP - Business Development
- Ziv Aviram; Mobileye N.V.; Co-founder, President, CEO
- Amnon Shashua; Mobileye N.V.; Co-founder, Chairman, CTO
- Ofer Maharshak; Mobileye N.V.; CFO, SVP

Other Participants

- Ravi Shanker; Morgan Stanley; Analyst
- Rod Lache; Deutsche Bank; Analyst
- Brian Drab; William Blair & Company; Analyst
- Tavis McCourt; Raymond James; Analyst
- Rich Kwas; Wells Fargo; Analyst
- Joe Spak; RBC Capital Markets; Analyst
- Andrea James; Dougherty & Co.; Analyst
- Itay Michaeli; Citi; Analyst
- Brian Johnson; Barclays; Analyst
- Joe Vruwink; Baird; Analyst
- Alex Duval; Goldman Sachs; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the Mobileye Q4 and Fiscal Year End 2014 Financial Results Conference Call.

During the call, all participants will be in a listen-only mode. After the presentation, we will conduct a question-and-answer session. (Operator Instructions) Please note that this call is being recorded today, Thursday, February 26, 2014 at 8:00 AM Eastern Time.

I would like to now turn the meeting over to the host for today's call, Yonah Lloyd, Chief Communications Officer and Senior VP of Business Development. Please go ahead.

Yonah Lloyd (Chief Communications Officer, SVP - Business Development):

Thank you. Good morning and welcome to Mobileye's fourth quarter and fiscal year 2014 earnings call. Today's call will consist of prepared remarks from Ziv Aviram, Co-Founder, President and CEO; Prof. Amnon Shashua, Co-founder, Chairman and CTO; and Ofer Maharshak, CFO and Senior Vice President.

We filed the 6-K this morning with the SEC that includes the earnings press release and financial tables. These are also available on our IR website at ir.mobileye.com. Following our remarks, we will open the call for questions.

I would like to remind everyone that certain statements will be made during today's conference call that are forward-looking within the meaning of the United States Federal securities laws. Changes in business, competitive, technological, regulatory, and other factors, including changes in the general economy, could cause Mobileye's actual results to differ materially from those expressed or implied by the forward-looking statements made today.

Our historical results are not necessarily indicative of future performance; as such, we can give no assurance as to their accuracy and we assume no obligation to update them except as required by law.

In addition, we will make reference to certain non-GAAP financial measures, including non-GAAP net income. The reconciliation of these non-GAAP measures to the most directly comparable GAAP measures can be found in this morning's fourth quarter and fiscal year earnings press release.

For more detailed information about the factors and other risks that may impact our business, as well as the non-GAAP financial measures, please review the paragraphs in this morning's press release that are entitled Forward-Looking Statements and Non-GAAP Financial Measures. The release is posted on the Company's IR website, as well as available from the SEC's website.

And now, it is my pleasure to turn the call over to Ziv.

Ziv Aviram (Co-founder, President, CEO):

Thank you, Yonah. I would like to thank everyone for joining us on the call today.

2014 was an important year for Mobileye. We successfully completed our IPO providing us with the resources to execute our growth strategy and further expand our technology leadership position. We increased revenues year-over-year by 77% to approximately \$144 million, driven by continued market demand for our innovative ADAS solution.

We grew the number of OEMs to 23 up from 20 at the end of 2013, including Mazda which we won from a competitor. And we added several new Tier 1 relationships. We confirmed that it is Mobileye technology on the GM's Super Cruise feature, the Ford Mondeo pedestrian detection and ADAS technology on Tesla.

Our aftermarket sales increased during 2014 primarily due to regulatory impact. There are now well over 5 million cars on the road enjoying a safer driving experience through the use of our technology. In 2014, we shipped 2.7 million EyeQ chips, more than doubled from 2013.

Turning to key highlights for the fourth quarter. With the two new OEMs bringing us to total of 23. First, we added SAIC Motors, first Chinese OEM to adopt Mobileye technology through a new Tier-1 relationship with [Hi-Win] in China. Second, we added SsangYong, South Korean OEM in a program nominated with our South Korean Tier-1 partner, Mando.

Third, the French OEM, PSA, recently announced a partnership with TRW for lane keeping assist plus stop-and-go functionality. We can confirm that this is a camera/radar fusion system using Mobileye technology, launching with Peugeot and Citroen models starting in 2017.

In addition, we're pleased to add several new Tier 1 relationships around the world including [Ebich Ebiss] in Japan, Key Safety Systems in the US and [Hi-Win] in China which I mentioned before. We believe the addition of these new OEMs in Tier-1 channels further strengthen our position, which we expect to result in increased market share long-term.

Looking to 2015, we will amplify our momentum through multiple launches of the EyeQ3 system on chip. We have nine launches scheduled throughout 2015 with eight OEMs, which include the following functions. The first mono-camera full braking AEB is going to be launched on the Audi Q7 shortly, supplied by Kostal as a

Tier 1. This is the first time where a standalone camera is capable to supporting the full Euro NCAP requirements for collision avoidance and mitigation.

It is starting with Audi and later, we have multiple launches with this capability covering many of our OEMs customers, which positions us for growth in 2017 and beyond. Also the first animal detection with collision avoidance will be launched by Volvo supplied by our Tier -1 partner, Delphi. We will also be launching for the first time a traffic light detection feature in the US.

On the regulatory front, we are encouraged by the recent comments made by Nissan in the US, as they are supporting the inclusion of autonomous braking as part of their 5-star rating system, which validates what we have said in the past. An advanced feature leading to autonomous driving into the trifocal camera configuration in particular, we have witnessed strong traction in the past few months. We can confirm that the triple camera arrangement in Volvo's Drive Me project, that was recently announced, is coming from Mobileye .

Moreover, we are on track of two production programs with OEMs with 2016, 2017 launch dates. We are also engaged in the final phase of a major camera sourcing, that will be including trifocal running on EyeQ4 in 2018. I'd like to add that the high-end functions running on EyeQ4 are up to 3 times our normal ASPs.

As we have said, the new capabilities already on EyeQ3 and on EyeQ4 from 2018 position Mobileye to increase ASPs long-term. This is because our price is directly related to the complexity of the features being bundled for the program.

In regards to our aftermarket business, Q4 was our strongest quarter in 2014 with over \$7 million in revenue. During this quarter, we added new fleets customers such as Pepsi, Johnson & Johnson , Ericsson and others. We are also working on unique programs such as sophisticated lens for detection for buses and trucks called Vision Zero, aiming to reduce pedestrian and cyclist casualties.

This program will be available in major cities worldwide. For example, the London Council is now fitting their fleets of large vehicles with Mobileye after a successful trial. We continue our strong sales in regions where there are regulatory incentives and continue to be active in seeking such incentives in other countries. Specifically in the US where we are working closely with the relevant bodies on Capitol Hill. Over all, we expect all of these activities to enhance our aftermarket business going forward.

In summary, we are pleased with our fourth quarter performance, which contributed to a strong finish to the year. We entered 2015 with ongoing momentum in our business as the market continues to recognize the unique value of Mobileye's camera technology. As a result, I believe that we remain well positioned to grow market share and expand our technology leadership.

With that, I would like to turn the call over to my partner, Amnon.

Amnon Shashua (Co-founder, Chairman, CTO):

Thank you, Ziv.

The first technological challenge we successfully executed in 2014 was the preparation for the EyeQ3 programs. As mentioned earlier, we have nine launches this year starting with the Audi Q7, showcasing our most advanced capabilities. Specifically, the capability to perform full breaking collision avoidance, also known as AEB, to satisfy the maximum points for the European NCAP program.

In 2013, on the EyeQ2, we launched the industry's first partial braking AEB with BMW and Nissan, but with EyeQ3, we're able to support the entire scope of collision avoidance on the monocular camera processing. This is truly disruptive within the space of sensors for driving assist and solidifies the central role of the camera for the ADAS market segment.

The role of the monocular camera has been steadily increasing, and in a disruptive way compared to radar sensors. The transition year was 2011, where the first time the mono camera performed forward collision warning, then in 2013, partial braking AEB and adaptive cruise control, and now in 2015, the full breaking AEB.

For Mobileye, this kind of transition from a sensor performing limited functions and assisting a radar to a sensor that can carry the full weight of customer functions in its own right is strategic and we have invested a great deal of innovation and ingenuity to make this happen. The Audi Q7 is the industry's first mono AEB and many more are scheduled to launch in the 2015/2017 timeframe.

Our second and much more intensive challenge we successfully addressed through 2014 was and still is the preparation for automated driving launches slated for the 2016 timeframe. The challenge consists of adding new industry first customer functions, most notable is traffic light detection and actuation on red light crossing which will be launched in the US later this year by one of our OEM customers, and multiple additional functions that form a natural growth of our existing capabilities.

But most importantly is the introduction of a new set of algorithmic capabilities centered around deep learning networks that were designed to support two major new functions. One is the free space, where the system outputs the category label for every pixel in the image and determines where the host car is free to drive and the second is the holistic path planning feature, which provides the forward driving path in situations where the lane markings are non-existent or too weak to rely on.

Those two functions form the backbone of hands-free driving, where the steering control needs to know the location of the safe and unsafe zones to drive.

The initial launch of these functions will begin later this year in the US. Deep learning networks leverages two strong features of Mobileye. The first is that we have a very big and unbiased data base that can be used for training the networks and second is that our EyeQ3 chip has a very high utilization, above 90%, for the network operation. We spent much effort in designing compact networks and problem modeling to allow real-time performance at minimal chip capacity.

Our free space and holistic path planning together takes around 5% of the EyeQ3 capacity. We believe that Mobileye deployment of deep networks algorithms later this year will constitute the first deep networks running in production on an embedded platform in any industry, not only automotive.

Finally, we are on track with our fourth generation system-on-chip, the EyeQ4, with the engineering samples scheduled later this year, and which will come as a set of three chips, high, medium and low and cover the processing requirements for handling seven camera, the forward facing trifocal and four surround cameras.

The high version will have 10 times the computing capacity of an EyeQ3 and it'll have around 2.5 teraflops, but with a utilization for computer vision that rivals a 10-teraflop general purpose application processor. The chip is developed in collaboration with our partner, STMicroelectronics, as were the previous chip generations, EyeQ1 to EyeQ3.

And now, I'll turn the call over to Ofer.

Ofer Maharshak (CFO, SVP):

Thank you, Amnon.

I will now walk you through our financial performance for fiscal year 2014 and Q4 that we published earlier today, and then provide our guidance for 2015. Note that I will be discussing non-GAAP numbers, which exclude the impact of share-based compensation. Reconciliation of GAAP to non-GAAP results is available for your review in the press release issued earlier today.

During 2014, total revenue was \$143.6 million, an increase of 77% compared to 2013 and above our expectations. The growth was driven by a 92% increase in OEM revenue to \$121.8 million. EyeQ chip volume more than doubled in 2014 and sum to 2.7 million units compared to 1.3 million units in 2013. To date, Mobileye has sold over 5.2 million units.

Average selling price or ASP for our OEM business in 2014 came to approximately \$44, largely flat compared to 2013. Our ASPs are subject to the mix of deliveries among the multiple products. It is important to note that our ASPs are dependent upon the complexity of features.

While we expect ASPs to remain relatively flat in the short term, we continue to expect long-term annual ASP to grow. This is due to additional features to be introduced in programs we already run, including A, being both for vehicles and pedestrians, traffic light features, free space, road profile constructions, and many more customer requirements, some as part of standard fit programs, and some as optional packages.

We have already experienced a similar situation in our ASP growth from \$35 in 2011 to \$44 in the past two years. This was a result of adding vehicle detection to the bundle mix on top of road traffic signs and high beam assist.

The remainder of our 2014 revenue came from the aftermarket segment and sum to \$21.8 million compared to \$18 million in 2013. The increase in aftermarket revenue is the result of sales related to regulatory incentives in some regions, mainly in Israel, a proven practice that we are trying to encourage around the world.

Non-GAAP gross margins for 2014 was 74.2%, largely unchanged from 2013 and in line with our expectations. Non-GAAP gross margin in the OEM segment remained largely unchanged from 2013 at approximately 75%.

Our aftermarket segment non-GAAP gross margin decreased as a result of unfavorable sales channel mix in 2014, while most sales were generated through distributors. OEM segment revenue increased in 2014 to 85% of the total revenue compared to 78% in 2013, which masks the decrease in aftermarket non-GAAP gross margin. Thus our consolidated 2014 non-GAAP gross margin were largely unchanged from 2013.

Non-GAAP operating expenses were \$44.5 million, yielding a non-GAAP operating margin of 43.3% compared to 34.8% in 2013. Such an increase highlights our unique business model in our OEM segment where an increase in revenue does not require an increase in sales and marketing expenses, which allows for the increase in the profit margins.

Given the fact that 2013 we still had tax losses, which offset the income because more profit to look at pretax non-GAAP income when you compare between 2014 and 2013. In 2014, non-GAAP pretax income came to \$59 million compared to \$30.8 million in 2013, an increase of 91.5%. In 2014, our effective taxes was 20.8% resulting from our old tax structure and the transition to our new tax structure, and is unique for 2013. Our non-GAAP earnings per share or EPS was \$0.21 per share, which exceeded our expectations.

Now, for the results for our fourth quarter financial performance. Total revenue was \$39.7 million compared to \$31.4 million in the prior year period and above our expectations. Our OEM segment accounting for 82% of the total revenue and increased 43% on a year-over-year basis to \$32.3 million compared to \$22.6 million in Q4 of 2013. Aftermarket revenue contributed the remaining \$7.3 million of total revenue for the fourth quarter of 2014, up sequentially by 24% but decreased 18% compared to Q4 of last year. The decrease is the result of special transactions deliveries in Q4 of 2013.

It is important to note that the Company's quarter-over-quarter results can fluctuate due to the timing of orders for our products and the timing of the introduction of new vehicle models containing our products.

Drilling down further into some of the drivers of Q4 revenue, EyeQ chip volume increased 56% year-over-year

to [750,000] EyeQ units compared to 460,000 units during the fourth quarter of 2014. This increase resulted from sales of both new production programs, as well as the existing ones.

Our OEM ASP was \$43.1 compared to \$44.7 during the same period last year, and consistent with Q3 2014. The decrease in ASP in this quarter is the result of product mix and the unique fourth quarter of 2013 where we experienced a favorable mix resulting from pre-launch deliveries of programs that are officially launched in Q1 of 2014.

Turning to profitability on a non-GAAP basis which excludes share-based compensation expense, our total gross margin for Q4 was 73.2%, down from 73.8% last year but in line with our expectations. The decrease in gross margin was primarily related to aftermarket profitability, given the strength of the US dollar as it relates to sales in foreign currency as well as to specific product mix.

During the fourth quarter of 2014, total non-GAAP operating expenses increased 26% year-over-year to \$11.8 million compared to \$9.4 million during the fourth quarter of 2013. This increase represents our continued investment in research and development. The increase in total operating expenses was also due to the costs related to being a public company and given Q4 being the first full quarter of being the public company.

Our non-GAAP operating margin was 43.3% in the fourth quarter of 2014 compared to 44% in the same quarter last year. Non-GAAP net income came to \$13.3 million compared to \$16.8 million in the same quarter in 2014. The decrease is related to a unique tax benefit in Q4 of 2013 in the amount of \$2.8 million related to carry forward tax losses, which we fully utilized in 2014.

In Q4 of 2014, we experienced \$2.6 million in income tax expenses. Non-GAAP EPS in Q4 of 2014 was \$0.06 per share, which was above our expectations. This compares to non-GAAP EPS of \$0.08 per share in the fourth quarter of last year.

Turning to the balance sheet. As of December 31, 2014, we had approximately \$375 million in cash and short-term investments, up from approximately \$350 million at the end of the third quarter of 2014. This increase in cash is primarily due to the strong cash conversion characteristics of our model, given our limited capital expenditure requirements. We also had a unique non-cash expenses related to our old tax structure which will not reoccur in 2015.

During the fourth quarter, we generated \$16.9 million in net cash from operating activities and \$15.4 million in free cash flow which excludes capital expenditures. This compares to \$18.7 million and \$18.3 million respectively in the fourth quarter of 2013. Our ability to generate free cash flow is one of the strengths of our highly scalable business model. I would also like to reiterate that quarterly cash flow can vary due to the timing of working capital requirements, although our annual trends continue to be strong.

I'd like now to finish with some thoughts regarding our financial outlook, starting with the full year 2015. Given the ongoing market demand we see for our Mobileye technology, we currently estimate our total 2015 revenues will be in the range of \$217 million to \$218 million, which suggest an annual growth rate of approximately 51%. We believe this represents a strong growth outlook since it is still early in the year and isn't - of the over performance in 2014.

We expect full year non-GAAP net income, which excludes share-based compensation, to be in the range of \$92.6 million to \$93 million or approximately \$0.39 per share. This also assumes a full-year effective tax rate of approximately 10%, absent significant changes in currency and cash balances.

In terms of cadence for 2015, note that we view our business on an annual basis given that quarterly results can fluctuate due to the timing of orders and new launches. However, you would note that first quarter revenue will grow low double-digits sequentially from Q4 of 2014.

We don't expect the seasonality effect throughout the year, we believe there will be sequential growth with the second half being stronger, because we expect most of the financial effects of the 2015 launches to be in the second half of the year with the highest impact of new launches in Q4.

In summary, we are pleased with our strong execution during 2014 and specifically in our first full quarter as a public company, and believe that Mobileye remains well positioned to maintain its momentum for 2015 and beyond.

With that, I would like to turn the call back to Ziv.

Ziv Aviram (Co-founder, President, CEO):

In summary, we're pleased with our quarter's -- fourth quarter and full year 2014 results, which exceeded our expectations. We continue to expand our business with current and new OEMs. We also added new Tier 1 partners and remain confident that we are well positioned to maintain our momentum over the long-term.

In closing, I would like to thank Mobileye's employees, partners, customers and shareholders for their continued support for the Company, which contributed to our strong performance in 2014. With that, we're happy to take your questions. Operator?

QUESTIONS & ANSWERS

Operator:

Ravi Shanker, Morgan Stanley .

Ravi Shanker (Analyst - Morgan Stanley):

So just wanted to clarify you've previously said that you have content on 237 new models to be launched by 2016 with the new wins that you've got in 2014, do you have an update to that number?

Ziv Aviram (Co-founder, President, CEO):

Wait for our calculations. The figure for 2016 is about 244, if I got correctly.

Ravi Shanker (Analyst - Morgan Stanley):

244, okay. And do you have, again, rough estimate and you can do it in your head, feel free, of how much of annual global production is represented by those 244 models?

Ziv Aviram (Co-founder, President, CEO):

This is not something that historically we are providing.

Ofer Maharshak (CFO, SVP):

Let me remind you, Ravi, that the number of models and platforms is not a very accurate indication of our activity. Because it's matter of the signs of the platform and the depth of implementation within the platform and the model. So it's a nice number, but not a real indication. The real indication is number of chips that we sell annually and that grows within the years.

Ravi Shanker (Analyst - Morgan Stanley):

Understood. It's also very encouraging to see that you added your first, I believe your first Chinese OEM customer. Can you just give us your updated thoughts on the Chinese market and how you see the penetration for ADAS evolving there?

Ziv Aviram (Co-founder, President, CEO):

Yes. So the Chinese markets, again, just recently started to be interested in this kind of features and applications. We are in contacts with almost all the Chinese auto makers where I want to remind that there is two types of automakers in China. One type is don't say companies, the big joint ventures with the Chinese bodies, like European and US and Korean, they are car manufacturer and there is another industry which is original Chinese automakers.

So the first type was exposed to our technology earlier. Now we're started to be exposed also to the original Chinese automakers and SAIC, which is Shanghai Automotive, I think is the biggest and the most aggressive there.

It was very interesting because they came to us and said they know that Mobileye is the best technology and they approached us, and they said - sent Tier 1 which is (Hi-Win) that visited us several times and as everything was very quick and they put us in a fast track. I believe this is just the beginning of our penetration to Chinese automakers and it's just the first one.

Ravi Shanker (Analyst - Morgan Stanley):

Very good. And just lastly on the TRW/PSA contract, who does the fusion for that win?

Ziv Aviram (Co-founder, President, CEO):

It's TRW, its radar -- a new radar of TRW with our camera capabilities as they -- and the fusion you're asking could be the fusion, I don't remember. Actually I don't remember because some programs wit the fusions, some problems we don't want to do the fusions, we can get back to you on this.

Ravi Shanker (Analyst - Morgan Stanley):

No worries, thank you very much.

Ziv Aviram (Co-founder, President, CEO):

Thank you, Ravi.

Operator:

Rod Lache, Deutsche Bank.

Rod Lache (Analyst - Deutsche Bank):

I was hoping first, can you give us a little bit more on these contracts that were awarded over the course of 2014, if you -- you have this kind of visibility, what do you think was the win rate in 2014 and if there were contracts that you did not win what was the reason for those, the ones that you did not win?

Ziv Aviram (Co-founder, President, CEO):

So all the RFQs that we participated, we won. There are several RFQs -- no, there are several wins that there was not -- there was no RFQ out there like the Toyota , for example, because it was not out there and to be here that they plan something, but we don't know exactly the details. But beyond that, we don't know many programs which we lost which is beyond our usual rate of wins.

Rod Lache (Analyst - Deutsche Bank):

And based on the wins and your discussions with OEMs, do you have some preliminary visibility on what your chip volume, revenue might be as you look out to 2017 at this point?

Ziv Aviram (Co-founder, President, CEO):

What we've always said is that we have high revenue visibility by the fact that we win this business and we do have some estimates. But it's not something that is a commitment or not something that we really feel confident about sharing, but we are providing the 2015 for you.

Ofer Maharshak (CFO, SVP):

But let me say, now that we doubled the number of chips sold in [2010]. So, it was a very highly exponential growth compared to previous years.

Rod Lache (Analyst - Deutsche Bank):

Great. Just two other things, you mentioned that there are some significant contracts are up for grabs in 2015. Can you give us some context for what is out there in terms of autonomous emergency breaking, or semi-autonomous driving, how significant are those opportunities.

And lastly, it looks like the shekel weakened quite a bit versus the US dollar over the course of the fourth quarter and how should we think about that relative to projections for operating expenses in 2015?

Ziv Aviram (Co-founder, President, CEO):

With those two questions, I will address the first one and Ofer will [address] last part of the question. We announced already during our road show before the IPO that there are eight OEMs that already line up with our philosophy of how the autonomous technology should be presented in the markets.

And the progress with all of them is even better than what we expected when we announced [2000] before that, because the awareness around the autonomous technology was very high and the interest of the automakers to introduce this kind of technology as fast as possible is very high.

So we still have eight OEMs that -- two of them signed with us production agreement and others are in very advanced development, and one of them is 2016 and others 2017 and 2018.

And I believe some of the plans of those that already engage with us even maybe faster than what's we think today, and I believe that others will join as well as the first one we'll announce or they will be introduced on the roads.

Ofer Maharshak (CFO, SVP):

And to the foreign exchange question, when talking about foreign currency exposure we need to distinguish between balance sheet and P&L exposure. On the balance sheet exposure, in the past we had shekel balances in our balance sheet, which caused foreign exchange expenses. We no longer have this exposure. We are creating this kind of calling natural hedging by keeping the net shekel balances approximately as the same as the shekel liability.

On the P&L exposure -- P&L impact of the exposure is [Net T C] the revenue in foreign currency which largely offset expenses in the same currency leaving the net exposure -- net P&L exposure to be immaterial.

Rod Lache (Analyst - Deutsche Bank):

No operating expense increases or decreases based on this, just given your R&D presence in Jerusalem?

Ofer Maharshak (CFO, SVP):

We saw the shekel denominated expenses, as the shekel weakens, the kind of gain, and vice versa on the revenues. So the net P&L effect of the shekel balancing is that [developing] shekel revenue will offset once we run the other net P&L in terms of how immaterial the impact.

If you're asking about the line by line, then they're going depending on the currency movements, there is going to be any effect on the revenue, it's not going to be materially baked into the impact many of the aftermarket, if you only got aftermarket revenue. And operating expenses, the shekel -- the dollar strengthen against the shekel will benefit [those that are in].

Operator:

Itay Michaeli, Citi.

Itay Michaeli (Analyst - Citi):

Firstly, a technology question. You talked about the continued disruption of camera sensors relative to radars and others. I was curious, of the roughly nine EyeQ3 launches you have this year, what's the split between camera only and fusion?

And then as we look prospectively into the EyeQ4 model launch around 2018, our understanding is that the camera will also be able to support wider field of view, greater range, would you expect EyeQ4 to be yet another step-up in terms of mono or camera-only solutions for ADAS?

Ziv Aviram (Co-founder, President, CEO):

It's a complex, I'm thinking of (laughter). Majority of launches are in camera only, some of the OEMs for the beginning they want kind of additional redundancy by adding ADAS, and it also function both the level of application that we provided.

A sophisticated application is more sensors will be part of the offering and the solution. If you remember, we mentioned that the semi-autonomous and the autonomous configuration is going to have our trifocal configuration, which is three cameras and equipped for radars. So it depends on the level of sophistication of application as well.

The second question was about camera and trifocal, can you remind me exactly what the question?

Itay Michaeli (Analyst - Citi):

Yes. Just as you leap from EyeQ3 to EyeQ4, in 2018 will that -- you potentially increased the comfort level and willingness of automakers to use camera-only solutions to meet regulations, really just for ADAS away from autonomous.

Ziv Aviram (Co-founder, President, CEO):

We can solve any deal today with the existing accuracy. This is not a limitation. EyeQ4 is a big jump technologically-wise and performance-wise because EyeQ4 can deal with eight -- with seven cameras.

So we would like to think in a different configuration to have additional cameras beyond the three which we already plan to run in the trifocal -- trifocus set. And EyeQ4, as I mentioned, is about 10 times faster than EyeQ3 and much more efficient on technologies related to deploying, it is more efficient than EyeQ3. That's going to be a huge jump in performance as well into sophisticatedly developed applications.

Itay Michaeli (Analyst - Citi):

Great. And then just a question on trifocal. As you talk to automakers about the sensor, what would you say is

the most -- a sensor package that is competing with trifocal most.

It seems like some of your competitors are using stereo plus LIDAR which seems actually more expensive than trifocal, is that the main competitive set for level 3 automation right now that you're competing against, or there are other sensor packages that the people or companies are marketing out there to the OEMs?

Ziv Aviram (Co-founder, President, CEO):

From both perspective there is no new competition to trifocal configuration, it's a very strong. Let me remind you my view of how it's going to work. One camera will be with a very narrow field of view looking very far way for adaptive cruise control in very high speeds.

Another camera will cover a mid range of about 50 degrees field of view, then wide range of field of view, which will cover the crossing cars, pedestrians and city traffic situations. Camera -- and the camera is going to be -- that covers itself with higher resolution than what we use today.

So this is the most or reaches sensor exist today in the world. So the level of information that you can get from this configuration is enormous. Addition to that, because we have three cameras, we can use out of it also for very short distances, as stereo as well. So we are covering the full scope of all the necessity that needed in this kind of configuration.

When you talk about stereo configuration, there is a very big limitations there. First of them is cost effective, this is not the only the biggest issue, the biggest issue is the range that stereo set can be fixed vehicle, pedestrian and et cetera. It's the biggest imitation and accuracy of course. So I don't believe that it's a direct competition to what we do. It's going to be very difficult to beat our trifocal configuration.

Itay Michaeli (Analyst - Citi):

That's very helpful, Ziv. Thanks, everyone and congratulations.

Ziv Aviram (Co-founder, President, CEO):

Thank you, Itay.

Operator:

Brian Johnson, Barclays.

Brian Johnson (Analyst - Barclays):

Two questions sort of financial one for Ofer, then a more strategic one for either Ziv or Amnon. On the financials, can you give us some sense of the progression of ASPs through the year, given the launch cadence and launch features you're looking at?

Ofer Maharshak (CFO, SVP):

Question was where [are we going from 2015]?

Brian Johnson (Analyst - Barclays):

Yes, the progression of ASPs when they kind of, it was \$43, where they go over the course of 2015?

Ofer Maharshak (CFO, SVP):

So we don't see -- we always said that the quarterly cadence is really subject to product mix and timing of launches. ASP particular, I think we covered some time above that, it's a very long term trend which is

increase in ASP as the sophistication of the bundles becomes more and more complex.

It happened often in the past and move from the road traffic sign, (technical difficulty) and there is the increase from \$35 to \$44. We kind of track the ASPs on an annual basis, because really the quarterly, it is subject to the product mix of deliveries.

Amnon Shashua (Co-founder, Chairman, CTO):

We do say that the back half of the year is going to be where most of the new launches take place, Brian.

Brian Johnson (Analyst - Barclays):

Okay, and those would have where you can higher ASPs?

Amnon Shashua (Co-founder, Chairman, CTO):

It's possible, but again it's the beginning of the launches. So it's a little less relevant for 2015, it becomes more important in the longer term.

Ziv Aviram (Co-founder, President, CEO):

So the big picture I want to hit something small that we've also mentioned that, the bundle of applications is important. And in my opening, I mentioned that the semi-autonomous and the trifocal configuration is going to be up to 3 times of our ASPs today, which means then we have a configuration which is sophisticated applications bundles, the prices goes up.

So, of course, the average of our ASP will go even higher when we are going to introduce the more sophisticated bundles, the more sophisticated ones.

Brian Johnson (Analyst - Barclays):

Right. And so that sort of gets into my next more strategic question and thank you for the summary of kind of deep learning and EyeQ3. One of the claims made by proponents of deep learning is that it minimizes the role of domain expertise. They would cite for example, somebody who won a Merck prize for molecular science without prior knowledge of bioscience.

Can you maybe comment on sort of the kind of -- the head-start you have in deep learning, where you go with that, how easy or hard it will be for someone to -- come in with other kind of expertise in deep learning and sort of is it being fused, if you will, with traditional machine learning and domain expertise?

Ziv Aviram (Co-founder, President, CEO):

Look, when we started with the [optical] protection, it was a known technology in principle. But before we implemented it commercially was a big, big challenge, because to do optical object detection on huge computers with a lot of data and there was no limitation on real-time demand or performance, it's going to be done. The big trick here is implementation.

The same kind of the stat that's happening also with deep learning. Deep learning is not a new technology, the limitations was that the memory was not cheap enough, and then computation algorithms was strong enough. But even though the hardware to then was and the memory, are more suitable to run [DPO link] which is a very heavy computing demand, still there is a huge, huge challenge, how to implement it.

So we work with deep learning technology couple of years already, and we solved issues which we believe are very, very tricky and don't expect that it easy to do what we've done. And remember we are not -- we think that competitions will reach the performance that we have -- we want ahead and we'll be doing additional

development. I believe we have a very strong position with this technology.

Brian Johnson (Analyst - Barclays):

And is there any kind of thinking that since deep learning seems to making advances and you're right in the middle of it that somehow the advances in deep learning could maybe accelerate the onset of semi-autonomous or even fully autonomous driving?

Ziv Aviram (Co-founder, President, CEO):

You have to know, because part of the pace of the semi-autonomous, it's not our imitation, it's also the market imitation. The subject we came with the same approach due to the understanding that the world is not ready for too big leap and the automotive industry is very cautious, as you know. So we are not the bottleneck of the penetration of the semi-autonomous and autonomous technology. It's more the market that should pick it up and run with it.

And what I said earlier that what we witnessed recently that more and more automakers trying even to bring their plans earlier from what they planned before, because you started to see that others is already close to introduce a semi-autonomous applications and this trends will determine the pace of the penetration.

Operator:

Brian Drab, William Blair.

Brian Drab (Analyst - William Blair & Company):

Congratulations on such a nice quarter and the strong 2014. First question, I just wanted to focus a little bit more on the SAIC win. This seems like a potentially really great win, obviously it's a great win, but potentially a huge win.

And you mentioned before, what's key here is the size of the platform and the depth of implementation within the platform. Can you give us a little bit more granularity on just how deep the implementation is going to be here?

Ziv Aviram (Co-founder, President, CEO):

One of the sensitive things in the automotive industry is what kind of application and what time we are going to introduce it to the market. This is kind of strategic to the automakers and clearly we cannot reveal too much details around the win. The importance is by the fact that leading Chinese automakers have chosen our technology and I just gave a hint that it's not the last one. We are deeply -- we can go right into Chinese markets.

Brian Drab (Analyst - William Blair & Company):

Right, you certainly chose the right one to begin with. And if I could just ask one more question just on the model, it's really looking to 2015, which product segment -- not sure if you'd be willing to share this, which product segment do you expect to have the higher growth rate in 2015, the OEM or after-market?

Ziv Aviram (Co-founder, President, CEO):

We're not providing the specific details and exact split for 2015. But some of the issues that we covered in the call I think may suggest that we experienced recently this regulatory incentives that are boosting our aftermarket and I think the aftermarket growth is in line with our overall expectations.

And the long-term is that -- long-term being more than even some of them in 2016 and 2017 after that, the

overall split will be around 90% for OEM and 10% for the aftermarket. In the short run, we will then see some kind of fluctuations we've seen in 2013 it was 78%, 2014 it was 85%.

Brian Drab (Analyst - William Blair & Company):

Okay. And just one quick follow-up question on the guidance. It's very specific guidance for 2015, I'm wondering if something has changed in your guidance philosophy or just in your visibility overall that you're giving such specific guidance.

Ziv Aviram (Co-founder, President, CEO):

I think the guidance is kind of in line with the guidance -- it is robust and we are feeling very confident with the guidance.

Operator:

Tavis McCourt, Raymond James.

Tavis McCourt (Analyst - Raymond James):

Ziv, I want, if you could remind us, in terms of the RFQs you're looking at right now. Are there any significant global OEMs still out there that's in the process of making a decision on image processing camera sensor?

And then secondly, for -- I think coming of the IPO, you had mentioned, you would expect to see an increase in chip inventory as the demand increase and we haven't really seen that in the first couple of quarters, I'm wondering what you expect -- did you expect to be able to increase the chip inventory on your balance sheet as 2015 progresses and any sense on how big of an increase?

Ziv Aviram (Co-founder, President, CEO):

So we announced a moment ago that we expect nine launches during 2015. And we also said during the road show that there was two major OEMs that we still chasing. And I think you refer to what customers feel, we're trying to be - the ability of our customer.

So of course the Volkswagen Group is on the [path] for the works with us Audi and the Volkswagen is still in the process and struggling there. And Toyota, we do not have the improved connections there. I think the window is closed until at least 2018 and then beyond that we are in process with more than 90% of the automakers and the pace is just growing and growing.

Ofer Maharshak (CFO, SVP):

Let me take your question on the EyeQ inventory. So, we are increasing the inventory although probably not what we have increasing revenue in 2013, this came out of inventory. We are continuing to increase it -- the increase is not in line with exactly what we expected.

We think that we are going to end the six month [definitive] as we stated around middle of Q3. In the past, we've talked it's going to be end of Q3, but it's going to pace -- going to slow increase in inventory in Q1, Q2, eventually we'll end this in Q3.

Tavis McCourt (Analyst - Raymond James):

Ofer, can you repeat what you said again about ASPs in the fourth quarter versus the year-ago period?

Ofer Maharshak (CFO, SVP):

Yes. Q4 of 2013 was unique, it was unique for two reasons. First reason is that the aftermarket had some

specific deals uniquely for the Q4 2013, which did not happen here and had certain gross margin that we did not have here in this quarter in Q4 2014, and we're envisioning the aftermarket recently we started shipping more and more products based on the regulatory incentives in Israel and this is denominated in shekel and Q4 also weakening of the shekel against US dollar, which hurt us in Q4 of 2014 compared to Q4 of 2013.

In addition to that, we also mentioned that Q4 2013 we delivered a kind of a pre-production EyeQ chips to programs that were launched in Q1 of 2014.

And this also experienced a better gross margin than at that point in time and that was high gross margin, because there is a kind of a gap between the kind of the OEM actually announce what we call launch and usually we get revenue not significant, sometimes it goes up, certainly when you have a big amount of launches in the same quarter, which is not the case in 2014, but was the case in 2013 and then it gets a little bit more significant. So OEM, we usually announce in certain date, but we would deliver some pre-production a little bit earlier than that.

Operator:

Rich Kwas, Wells Fargo .

Rich Kwas (Analyst - Wells Fargo):

Ziv, could you just give us an update with the new program wins that you've announced here in the last quarter too and today. In terms of the capacity, your search for a second source and where are you with that, and should we expect that I think back in the fall you talked about that process being accelerated and it would seem like you'd have an announcement at some point, later this year. So I just want to get an update on how you're thinking about that right now.

Ziv Aviram (Co-founder, President, CEO):

Yes we are amid of the second source process as we announced. There is no uncertainty there, it's just a little [time of remedies]. We already signed all the -- let's say, we agreed on all the aspects of how to build it.

We built it through [SP], but it's completely different fab and different QA bodies and partners. So it's a completely different set of production. And it's in our interest that it will be, but it's also a matter of quantities of the cell and we still have time with it. So we are not rushing it beyond what's necessary.

Rich Kwas (Analyst - Wells Fargo):

Got it. And then on the aftermarket, Ofer, if I recall there were some Israeli regulations that helped 2014. I think, could you just give us an update on where that is right now, whether there is any negative impact on after-market, as you think about modeling the year?

Ofer Maharshak (CFO, SVP):

Just to remind you, our Israel market is -- the oldest market that we started, that was slight kind of two years and ahead of the rest of the markets that we operate in. And here is the most mature markets and our perspective has succeeded already to promote regulations which gives tax benefits to importers when they sell to the dealers to sell a new car, they gets almost full refund on tax that covers the cost of our system.

So it started last year, very successfully. It grew continuously until end of 2016, and we suspect that maybe after this, it's going to be mandatory [elsewhere]. So the quantities are beyond what we used to sell, especially Israel is a very small market, but it shows the importance of our efforts in different areas in the world to promote regulation.

We're very active to promote regulation in United States of course, it's the biggest market that we target, and

we also very active in China, yes, we are trying to promote regulation. Actually, they approached us, they announced the epidemic level of accident and they look for a very effective solution. So we had a few discussions, we kind of tell how much it will take, we don't -- I'm now sure that we know exactly how it was in China, but United States looks promising.

So it's just an example that when you reach a level in our business which is related to aftermarket to regulation, the quantities jams dramatically. In our numbers, we never took regulation as part of our numbers, so it's going to be benefits if we succeed in other places.

Rich Kwaz (Analyst - Wells Fargo):

Okay. Just a last clarification. Ziv, did you say the trifocals with mobile, did you confirm that, I just wanted to make sure because I couldn't hear it clearly?

Ziv Aviram (Co-founder, President, CEO):

Yes. They launched the program called Drive Me, and of course they use our trifocal system, they also announced it. So that's why we can mention it. And this is the first step of the semi-autonomous driving [phasing an our tee call it].

Operator:

Joe Spak, RBC.

Joe Spak (Analyst - RBC Capital Markets):

The first one just as you think about modeling coming out longer term should we -- you said 2015 ASPs are going be flat, so should we think about the gross margin expansion in the outer years getting towards your longer-term targets, be in conjunction with ASPs moving higher and that near term it's still more operating leverage such as the margin expansion?

Ziv Aviram (Co-founder, President, CEO):

We operate in -- the uniqueness of our business model is that we are leveraging [very not] operating leverage here. We always had that the ASP trends then higher is in the longer term, not the shorter term.

Longer term is 2017 and beyond. And you can expect longer term that the gross margin may increase, but also depending on the exact timing of the anticipated - sorry on these launches that [apparently] we already won and are going to launch in 2016, 2017 and beyond.

Joe Spak (Analyst - RBC Capital Markets):

Okay. And then maybe one on the technology and competition. One of the things your competitors or would be competitors point to is that there is just going be a lot of increasing amount of chips in the vehicle and there is going to be some excess processing power.

So particularly, and this is probably more relevant at the low end, some of that excess power can sort of handle some low end ADAS functionality and obviously your solution requires, it's own chip set so. How do you view that dynamic evolving and do you think that that view is correct that there will be chips at consolidation?

Ziv Aviram (Co-founder, President, CEO):

So the hardware is just one element for the system. In my view, we have a very strong configuration of hardware and software. It's bundled in one unit. And when we build our own hardware, we build it from a very

deep understanding how the algorithms should run on the software.

So we came up with a very efficient both cost-wise and performance-wise. And so far, this is the most powerful system in the car and the most cost-effective system in the car. So I can see the need for additional computation because this is not our limitation today and we generate every couple of years new generation of system-on-chip, which covers the full suite of applications which should run on this configuration.

The other point is that in the automotive industry, consolidation of all the applications in one unit is almost the key. So we have difficulties to see a situation where low level bundles will be done by other suppliers with the high level bundles will be done by companies like us, because no operator will wish to put the systems in the vehicle, not because of cost, and not because of space.

We are today the only supplier who have the full suite of applications and of course, the highest level of the sophisticated applications which also determine the position that we have and they're gathering all the rest of the application in one unit.

So if you see those two arguments, you can understand that additional chips is not a threat to us and you should be the [Hower] is just one part of the solution.

Operator:

David Leiker, Baird.

Joe Vruwink (Analyst - Baird):

Hello, this Joe Vruwink, I'm on the line for David.

Ziv Aviram (Co-founder, President, CEO):

Hello.

Joe Vruwink (Analyst - Baird):

Just wondering on your earlier comments about there being RFQs you didn't actually see during the year, how common place is that, do you have an estimate for how many that you don't bid on or just simply aren't aware of?

Ziv Aviram (Co-founder, President, CEO):

The only RFQs that I remember is very few that that it was [doubt] RFQ. It's not the regular process of automakers to choose suppliers. But the weakness during the years here and there one or two but not more, this is not the usual course of automakers to choose the right configuration. So I can remember only additional one occasion that this surfaced.

Joe Vruwink (Analyst - Baird):

In the instances when you win an RFQ, is it always the case that Mobileye is submitting themselves for the program or are there some instances where the Tier 1 partner immediately initiates Mobileye in the development process, and you might not be seeing an RFQ, it's more from your Tier 1 partner that you're winning business?

Ziv Aviram (Co-founder, President, CEO):

No. It works differently. We, as you probably know, are [attuned] to to this market. So we substitute for the Tier 1s and they do system around at you. But when RFQ is out there, the Tier 1s will approach us to get a RFQ from us and to get an offer A, what are we are excess capacity to support this project, B, what is going to be

the price of our component and what's scope of all the application that we can provide.

So usually, it cannot happen the Tier 1 will approach, specific RFQ that we are not -- let's say almost in the foam seat and aware of all the elements of this process.

Operator:

Andrea James, Dougherty & Co.

Andrea James (Analyst - Dougherty & Co.):

I appreciate the technological discussion earlier that was really helpful. I just want to make sure I understand what drives the launch of the timing of EyeQ4, is it the OEM demand and when they wanted, or is it your own internal R&D and when you believe the chip will be ready for the market?

Ziv Aviram (Co-founder, President, CEO):

It takes time for the chip is to be ready a (technical difficulty) generation. It's a huge effort and we believe that the first production agreement with our EyeQ4 will be not before 2018.

Andrea James (Analyst - Dougherty & Co.):

It's a combination of both, I guess if there's an automaker that wanted the technology say, next year, do you think it could be made available?

Ziv Aviram (Co-founder, President, CEO):

No. Not current prices (technical difficulty) from our end, but we never lost the program because of lack of competition power of our chip. So that I could [free] is a sales [part of the] chip until now, we don't see imitation becomes from the lack of [probably] new generation of project.

Andrea James (Analyst - Dougherty & Co.):

We see that. And then finally, are you familiar with Apple's autonomous driving plans and do you envision (multiple speakers)?

Ziv Aviram (Co-founder, President, CEO):

We do not [it]. Ofer, you want to add to the first question something.

Ofer Maharshak (CFO, SVP):

Just to confirm, this is -- practically such development takes about four years until it is launching, this is an intensive development and then you need to qualify for automotive quality and this takes time. And EyeQ4, we already said that the first samples of the EyeQ4 due at the end of this year, but the EyeQ4 will be available only in 2018, and it's not any of the OEM that really [max] some time.

Andrea James (Analyst - Dougherty & Co.):

How do you feel by your visibility into the EyeQ4 capabilities, it will be 10 times faster? You have good visibility into that goal in achieving it?

Ziv Aviram (Co-founder, President, CEO):

Yes. We have a missed dead line with our EyeQ chips and most probably -- in most of the occasions, we signed production agreement even before the EyeQ is fully approved and fully developed. It happens for us since the first generation and we've built already a very strong confidence with our customers that we are

capable to provide what we promise.

Andrea James (Analyst - Dougherty & Co.):

Thank you. And then just finally on the Apple question, are you familiar with their autonomous driving plans and do you think you'll have a relationship with Apple as they pursue it?

Ziv Aviram (Co-founder, President, CEO):

Yes, we've heard the announcement of Apple wants to do electric cars. Do you know something else beyond this?

Andrea James (Analyst - Dougherty & Co.):

It's just been chatted about in the market.

Ziv Aviram (Co-founder, President, CEO):

Okay, in any case, if they will be automaker, most probably, they will be our customers. So we're happy with this progress. Eventually, every car will need a camera technology and we believe that we will be in majority of the automakers in the future. And if not us, other cameras will so if we'll split some part of the market, but camera will be in every car, this is quite clear.

Operator:

Alex Duval, Goldman Sachs .

Alex Duval (Analyst - Goldman Sachs):

Congrats on a very strong quarter. Many of my questions have been answered already. Just wanted to clarify quickly there were some talk in the quarter about Nvidia's efforts in this space. I think you had talked about it being complementary, but wondered if you could just get -- just give a quick clarification on that.

Also just wondered if you could talk about developments on car-to-car communication, also the degree to which that can really enrich Mobileye solutions for autonomous driving. And in other words, what is the likely roll of car-to-car communication alongside the camera sensor longer term?

Ziv Aviram (Co-founder, President, CEO):

Okay. So we heard about the announcement of Nvidia and this is not a completed technology to us. They do - they are very good at processors, but not competing with our capabilities. Even if you ask them, they will tell you that they are not competing in our fields.

Because hardware is just one component of the products, you need a very strong algorithms and software to run on the hardware and this is big, big hurdle. And we have a configuration, a powerful -- a very powerful hardware with a very strong robust performance of algorithms. So all the hardwares that exist today in the markets are not completing, we're just not the only one.

From a V2V, it's a very good technology. We believe this is complementary technology for sophisticated applications, which will be high level of autonomous driving. For us, it's like additional sensor. It gives us additional information and so a V2V definitely from my understanding will be part of the offering in the future.

It will take time unfortunately because the logic of [7p2b] increased then you have it almost in every car or in every car, because if some of the cars don't have, the technologies we can trust with V2V alone can be the solution, but as more cars will be connected and give us information on movements of other cars, especially

those we don't see will be complementary technology to us and we embrace these developments in the markets.

Operator:

There are no further questions at this time.

Yonah Lloyd (Chief Communications Officer, SVP - Business Development):

Hello, thank you everyone for joining us today. We look forward to speaking with you after next quarter.

Operator:

This concludes today's conference call.

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