

INVESTOR'S REPORT

# ONBOARD INTELLIGENCE

*Cashing in on the  
11,900% Augmented  
Reality Revolution*



File Number

0 3 2 5 4 6 1 2 2 5

File Type



Confidential



Open Access



# Onboard Intelligence

## *Cashing in on the 11,900% Augmented Reality Revolution*

Today I want to share with you one of the biggest technology breakthroughs I've ever seen.

I'm talking about a technology that's part **virtual reality**, part **Big Data** analytics, and part **artificial intelligence** (AI).

I call it "**Onboard Intelligence**" and the potential uses for it are unfathomable.

Onboard intelligence has the potential to do to manufacturing what **Uber** has done to the cab industry: completely revolutionize it.

In fact, this is a technology that's about to disrupt every major industry.

Like virtual reality, the primary device in onboard intelligence is a headset, or a pair of high-tech glasses.

But unlike virtual reality which immerses you in an artificial landscape, this technology overlaps virtual images onto the real world.

That means, by simply by wearing specialized headgear, engineers can beam 3D blueprints, charts, specs, or "how-to" manuals onto a physical object, zooming in on critical instructions and accessing the Internet as they work – all without ever touching a computer.

In some ways, it's even making computers obsolete.

That's because, at its core, this technology utilizes **augmented reality** or **AR** technology.

A recent study from **Digi-Capital** shows a phenomenal 11,900% revenue surge on the horizon for this technology.

To put that into perspective...

In the iPhone's first five years, Apple's sales grew by 5,101% – that's less than half of the growth we're talking about here.

My point is: There is not a single doubt in my mind the Onboard IQ market will make investors huge money in 2016.

And there's one specialized tech company at the center of it all.

This little company is barely mentioned in the mainstream press.

But as it hits critical mass, it could potentially grow your money eight-fold... maybe more.

To help you better understand the enormous potential this market has, and why this one company stands to benefit, let's take a closer look at the technology itself.

## Real Life, But Better

The idea behind augmented reality is straightforward enough: take a real-life scene and add some explanatory data to it so you can project things like a map, a calendar, or a phone with 3D virtual graphics directly in your field of vision.

Augmented reality is often presented as a kind of futuristic technology, but it's actually been around in one form or another for years.

In fact, AR technology took its first lumbering steps into the public eye fourteen years ago. *Popular Science* magazine wrote about AR technology in 2002 – but the idea of being permanently connected to the internet hadn't quite jelled at that point.

The true potential for AR has only just started to come to light in the past two years.

Much like augmented reality's counterpart, **virtual reality** (VR), the primary device in AR is a headset, or a pair of high-tech glasses.

## Augmented Vs Virtual Reality – Conquering the \$120 Billion Onboard Intelligence Market

### Virtual Reality

**What It Is:** Virtual reality, through hardware (usually a headset) completely immerses you in a realistic, 3D simulation of an environment.

**Where You'll Find It:** Industries from mining to healthcare are using VR for training and emergency simulations. And beginning this holiday season, it's poised to become the next big video-gaming platform. See, for example, Vuzix's iWear. VR will also train athletes, rehabilitate those suffering from injuries, treat posttraumatic stress disorder (PTSD), take a jurors to crime scenes and even reduce dental procedure pain.

**How Big It Will Get:** Digi-Capital forecasts that VR revenue will hit \$30 billion in 2020, up from just \$1.4 billion expected in 2015.



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### Augmented Reality

**What It Is:** Augmented reality (AR) technology embeds opaque holograms directly into the user's field of vision. It places new information on top of your existing field of vision. Unlike VR, you can still see your surroundings while using AR.

**Where You'll Find It:** AR technology has rapidly advanced to be more than just a gadget to check your social network updates and email. Developers have quickly found uses for smart glasses like Vuzix's M100 in areas like construction, manufacturing, GPS navigation and even in hospitals, where doctors are using AR during surgery.

**How Big It Will Get:** Digi-Capital forecasts that AR revenue will hit \$120 billion in 2020, growing at a CAGR of 88.5% between now and 2020.



Sources: *Money Morning* Staff Research



AR is also creating a huge wave in the automotive sector. A mechanic wearing an augmented device can see a 3D hologram blueprint overlapped onto the car –with exact specifications of what needs to be fixed and how to fix it step by step. There’s no need for a manual, computer or assistance from a supervisor.

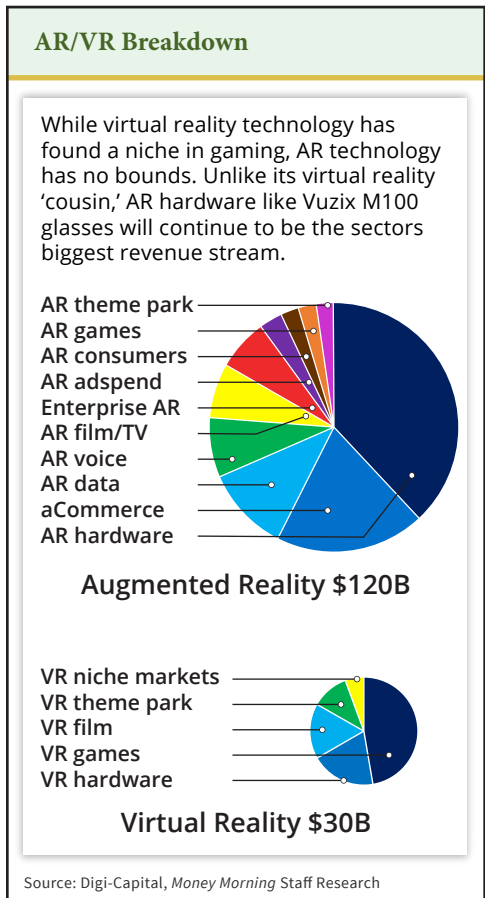
That’s why every car manufacturer in the world from **Hyundai Motor Co. (KRX: 005380)** to **General Motors Co. (NYSE: GM)** is getting ready to roll out AR technology to design, test and build their fleets.

**Mercedes-Benz** is the latest brand to get in on augmented reality bandwagon with the launch of not one but two augmented reality applications for **iOS** and **Android**.

According to **Digi-Capital** AR companies will generate \$120 billion in revenue by 2020, compared to the \$30 billion revenue expected for their ‘cousin’ companies in virtual reality.

But what investors need to remember is that, with a sector this colossal, it will take more than a popular headset to control the market. It will take a way to maintain control over the core technology.

In other words, for a technology company’s most valuable resource is often not its talent, its cash on hand or even its product.



It's the company's *patents*.

After all, a tech company's patents often act as the "economic moat" that prevents other companies from merely duplicating its products. Patents represent a tech company's competitive advantage – they help the company protect its long-term profits and market share from its rivals.

## All Aboard

Not only did **Vuzix Corp. (Nasdaq: VUZI)** release the world's first augmented-reality glasses for consumers it also controls 41 patents for this technology, with 10 more pending.

Those patents ensure that, when any company in the world uses its patented technology to create an augmented reality device, they have to pay a royalty to Vuzix.

Vuzix's specialty **iWear** "smart glasses" look like wraparound sunglasses, except you can't see directly through the lenses. Instead, small cameras centered on the outside of each lens feed continuous video through a mobile computer (say, an iPhone) to an LCD screen mounted inside each lens. So you look at the world indirectly, through the two tiny cameras' feed.

When connected to an iPhone, an iPod, or a PC, the glasses combine computer input with the live video, creating a single field of view on the LCD, where computer graphics merge with the real world.



At the recent Consumer Electronics Show (CES) in Las Vegas, the company showed off the various configurations of its headset trio – **iWear Wireless Video Headphones**, **VidWear B3000 Waveguide Sunglasses** and **M3000 Monocular Waveguide Smart Glasses**. This display proved that Vuzix can stand up to the "name" players in the AR/

VR industry, such as **Facebook Inc. (Nasdaq: FB)** and **Alphabet Inc. (Nasdaq: GOOGL)**.

“Augmented and virtual reality are no longer concepts from science fiction movies, and we are at the forefront of bringing that technology to the world,” said Travers. “Our award-winning lineup of AR/VR solutions and patented technologies reflect our extensive experience and unmatched experience in the field. Our latest **M300** and **M3000 Smart Glasses** take enterprise wearable computing into the next generation.”

No paper, no tablets, no computers – a multitask procedure reduced to essentially one step. It’s a technology that will take over many of the functions of our smartphones, video game consoles and PCs. And it will disrupt all kinds of sectors, from healthcare and logistics to architecture, and retail. Even the U.S. military wants to get its hands on Vuzix’s patented technology.

## Huge New Markets

In 2013, the **U.S. Defense Department’s** innovation factory – the **Defense Advanced Research Projects Agency (DARPA)** – asked to take a look at Vuzix’s first-generation smart glasses. DARPA wanted to see if it was possible to give U.S. troops the best possible battlefield intelligence.

In other words, some of the U.S. military’s brightest minds think Vuzix’s onboard-IQ devices are a true breakthrough.

Despite its ongoing dalliance with the Pentagon, Vuzix’s remains focused on the corporate market.

According to **ABI Research**, the wearable tech market will grow to 485 million annual shipments by 2018. More than 75 million of these will be smart glasses, a market ABI’s analysts value at \$15 billion.

Despite the whole **Google Glass** debacle, Travers insists that eyeglasses are the best way to deliver AR technology and to gain ground in the marketplace.



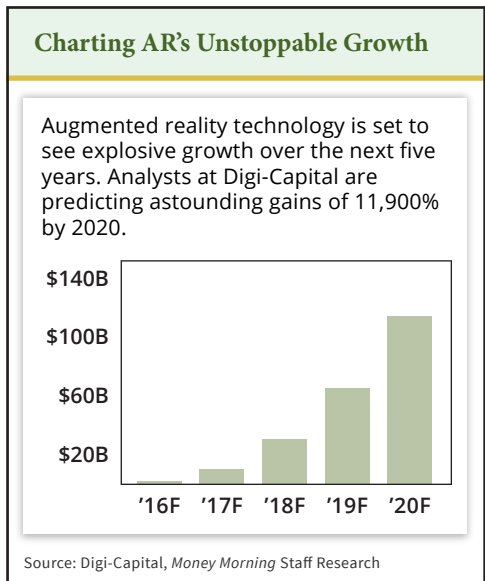
I think that Travers – who started Vuzix in 1997 and has 25 years of experience in consumer electronics – is on the money with his analysis.

To get around the fashion issue that doomed the Google ‘geek glasses,’ Vuzix is focusing on the corporate market, which according to **Deloitte** and other analysts, will far surpass the consumer market. After all, fashion isn’t a factor when you’re driving a delivery truck, manning an oil rig or checking merchandise in a warehouse. The goal there is improved efficiency. And that’s what smart glasses do.

The scenarios are really exciting.

Engineers can beam blueprints or how-to manuals up onto their smart glasses, zooming in on illustrations and accessing the Internet as they work. Technical employees can collaborate with colleagues remotely, saving their companies the cost of flying them to distant locations. And surgeons can consult with experts in different locales or look up details on complex medical procedures. Soon, doctors wearing smart glasses will be able to access their patients’ digitized medical records using facial-recognition technology .

As its partnerships with the Pentagon and more show, Vuzix understands that – as a small company – it can achieve its goals faster through partnerships.



## Intel’s Inside

One believer is **Intel Corp. (Nasdaq: INTC)**, which invested \$24.8 million in Vuzix in 2015, enough to give it both a 24% ownership stake... and a good future market for its semiconductors.

Intel wants to help Vuzix tackle the consumer market by introducing “fashion-based wearable display products.” These will likely feature one of Intel’s latest inventions – the **Curie** chip, a wearable computer small enough to fit into rings, pendants and even jacket buttons.

**DHL**, a subsidiary of German postal and logistics brand **Deutsche Post AG (OTC ADR: DPSGY)**, is another Vuzix partner. The delivery service introduced “operational IQ” to its warehouse operations earlier this year.

DHL employees wearing Vuzix’s M100 smart glasses achieved a 25% efficiency gain for customer **Ricoh Co. Ltd. (OTC ADR: RICOY)**, a **Japanese** multinational imaging and electronics company. As a result of the trial run, both DHL and Ricoh plan to use Vuzix’s glasses in other operations.

And in July 2014, Vuzix partnered with **Lenovo Group Ltd. (OTC ADR: LNGVY)**, the world’s largest PC manufacturer, to introduce M100s to enterprise customers in **China**.

Vuzix recently trounced earnings forecasts. Revenue for the quarter came in at \$970,000, beating the consensus estimate of \$700,000 by 38.5%. That represented a 46% gain from the year-ago period and a doubling of sales compared with the second quarter.

That earnings report also showed that the company continues to improve operations. During the quarter, it lost 17 cents a share. But that was nearly half of the year-ago losses of 31 cents.

Sales of its M100 Smart Glasses were up 38% compared to a year ago.

The bottom line is that Vuzix is an aggressive small-cap with a lot of upside.

Vuzix is getting ready for its next phase – growth.

**CCS Insights** projects that shipments of augmented reality devices will increase between 10 and 16 times between now and 2018 – and sales will increase from their current \$900 million to \$4 billion in 2018.

The game plan calls for the company to recruit more R&D staff and move into a bigger plant – one with five times the clean-room space – so the firm can finally ramp up production.

Vuzix also wants to deliver where Google Glass fizzled – and turn out smart glasses that consumers will buy, wear and use. These new “smart specs” could hit the market next year.

Expect Vuzix to ramp up its virtual-reality game as well.

For instance, the **Vuzix Wrap 1200DX-VR**, not only has VR-tracking sensors, but an optional augmented-reality camera, too.

This product is already available for purchase by consumers at a competitive price of \$599 – which beat the **Oculus Rift** and other VR headsets to the market by several months – pushing the stock to new heights.

## Forecasting Gains

I've seen it time and again what happens when a small under-the-radar company starts having growth like this...

Wall Street begins to take notice.

Right now Vuzix has a market cap of \$88 million with over \$3.1 million in revenue.

Now, remember that the global augmented reality market is expected to hit \$120 billion by 2020.

If Vuzix gets even 1% of that, this small-cap company could see its revenue spike to \$1.2 billion.

And that's being conservative.

I've already shown that that as far as augmented reality is concerned, Vuzix is king and could easily stand to get 10%.

Given that, I see Vuzix's share price trading between \$37 to \$47. If we conservatively take the midpoint, \$42, which would give us gains of nearly 707% in less than five years.

And here's one other development – a new one – that really bolsters my interest in the stock.

I'm talking about insider buying.

In September, Travers, the CEO, picked up 2,750 shares.

**Grant Russell**, the chief financial officer, bought 3,500 shares – spending \$16,750 to do so.

In August, **Director William Lee** bought 6,000 shares at \$4 each, for a total outlay of \$24,000. Following that transaction, Lee now owns 44,250 total shares – worth \$243,000.

This buying is a signal that we can expect to see big upsides to come.

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