

Management Call Script

Company Participants

Kevin Mills - President and CEO

Lynn Zhao - CFO

Operator

Welcome to the Socket Mobile Fourth Quarter and Full-Year 2020 Conference Call. My name is Adrienne, and I will be your operator for today's call.

Before we begin, I'd like to remind everyone that this conference call may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities and Exchange Act of 1934 as amended. Such forward-looking statements include, but are not limited to, statements regarding mobile data collection and mobile data collection products, including details on timing, distribution and market acceptance of products and statements predicting the trends, sales and market conditions and opportunities in the markets in which Socket Mobile sells its products.

Such statements include risks and uncertainties and actual results could differ materially from the results anticipated in such forward-looking statements because of a number of factors, including, but not limited to, the risk that manufacture of Socket products may be delayed or not rolled out as predicted due to technological, market or financial factors, including the availability of product components and necessary working capital, the risk that market acceptance and sales opportunities may not happen as anticipated, and the risk that Socket application partners and current distribution channels may choose not to distribute the products or may not be successful in doing so, the risk that acceptance of Socket's products and vertical application markets may not happen as anticipated, as well as other risks described in Socket's most recent Form 10-K and 10-Q reports filed with the Securities and Exchange Commission. Socket does not undertake any obligation to update any such forward-looking statements.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the call over to Kevin Mills, President and CEO. Kevin Mills, you may begin.

Kevin Mills

Thank you, operator. Good afternoon, everyone, and thank you for joining us today.

I want to start with a quick review of 2020, then our Q4 results, and finally, our outlook for the year ahead.

2020 was an extraordinary year by any standard. Our revenue for the entire year of 2020 was \$15.7 million, compared to \$19.3 million in 2019, a 19% decrease. Despite all the challenges we

faced in 2020, we generated a small operating profit for the year and a positive EBITDA of approximately \$2.2 million. These results were achieved through a combination of aggressive cost reductions, a lot of hard work, and a solid rebound in our business in Q3 and Q4.

In 2020, we took a non-cash goodwill impairment charge of \$4.4 million and also had a cash gain of \$1.1 million related to PPP loan forgiveness. Our operating result for 2020 was a net loss of \$3.3 million or \$0.54 per fully diluted share, this compares to a net income of \$300,000 or \$0.05 per fully diluted share in 2019.

Our fourth quarter revenue was \$4.7 million compared to \$4.6 million in the fourth quarter of 2019. The fourth quarter's operating expenses were \$1.9 million compared to \$2.2 million in the fourth quarter of 2019.

Net income for the fourth quarter of 2020 was \$1.6 million, or \$0.23 per fully diluted share, compared to net income of \$60,000, or \$0.01 per fully diluted share for the same period last year. Net income for the fourth quarter of 2020 included a onetime gain of \$1.1 million related to the Company's PPP loan forgiveness.

To summarize 2020, it was a challenging year, but we got through it pretty well. We experienced substantial impact on our revenue in Q2, as the world ground to a halt. We saw solid recovery in Q3 and Q4, with Q4 revenue up on a year-over-year basis. We also raised \$1.5 million through convertible debt to provide additional resources, just in case.

Overall, we were very pleased with the robustness of our business, especially as most of our business is retail related. We were also thankful for all of our employees' hard work and sacrifice that made these results possible. Against all expectations, we exited 2020 in better shape than we entered.

So, looking forward to 2021. Our retail application centric partners like Shopify, Lightspeed, Square and Smart Reggie, [ph] remain the cornerstone of our revenue. We expect these companies to do well as the economy reopens, and their applications will drive our sales. Companies like Shopify help many traditional retailers get online as the pandemic began, and traditional shopping was impossible. These retailers are likely to maintain their online presence and therefore will need to decide if they consolidate the online and in-store systems, which if they do, would be a positive thing for Socket Mobile.

During 2020, we had the opportunity to better understand why the non-retail portion of our business was underperforming. And we made many significant improvements to better address these markets. We upgraded all our DuraScan products to support themed field-replaceable batteries, a significant improvement. We also increased the durability, and we added healthcare specific options. We expanded our DuraSled support for Apple devices, and now support the complete Apple range. We believe these improvements will be well-received and we expect our non-retail business to improve moving forward. We hope to see the benefit of these improvements in our revenue in the second half of 2021.

We also launched our S550 in 2020, a fully certified Apple and Google contactless reader/writer with support for wide range of popular contactless cards. When we launched this product, we knew we were early for the emerging market opportunity. But as a hardware manufacturer, you

need to be early, so the required software applications can be written and be available to service the market opportunity. However, the pandemic has accelerated the market acceptance of contactless. And we believe that this market will grow very quickly as the world reopens. We are well-positioned to benefit from this rapidly emerging market opportunity.

To summarize, 2020 was very difficult, but we reacted well, adjusted our costs, saw our revenue rebound and delivered an operating profit. We continued to invest in new products, substantially improved our portfolio and entered 2021 a significantly more substantial company.

We expect Q1 to be challenging, but profitable. And we expect to continue to strengthen our business in 2021 as the pandemic's impact is reduced, and the restrictions, particularly in retail and hospitality are lifted.

With that said, I'd now like to turn the call over to our CFO, Lynn Zhao. Lynn?

Lynn Zhao

Thank you, Kevin.

In addition to delivering solid revenue performance in Q4, we continued to manage our costs and gross margins, while investing actively in the development of industry-leading solutions. We reduced our operating expenses by 13% to \$8.3 million, compared to \$9.5 million in 2019. Although revenue for the full year of 2020 is lower than 2019, our margin contributions improved from 52.5% of revenue in 2019 to 53.1% in 2020.

For both the year and the fourth quarter, we achieved positive EBITDA results. Our liquidity has improved as a result of the profitable growth and the secured subordinated convertible note financing completed in August 2020. Our end of the year's current ratio was 1.9 compared to 1.38 on December 31, 2019, and we had over \$2 million of cash on hand. Our loans payable decreased to \$1.4 million from \$1.7 million at the end of 2019.

In December, we received a notification that the U.S. Small Business Administration forgave the \$1.06 million promissory note in full. The note was issued to us in April under the Paycheck Protection Program. At the end of January, we renewed our credit facilities with our bank and extended the maturity date to January 31, 2023. With the new agreement, the domestic line of credit increased to \$3 million from \$2 million. That includes \$2 million involving credit facility and the \$1 million non-formulary loan. The \$1 million non-formulary loan was enrolled in the California Capital Access Program, and was advanced on February 16th.

The Company will make a principal reduction payment of \$125,000 plus all accrued but unpaid interest on the 30th day of each April, July, October and January over the next two years. Our credit facilities and net profitability will provide the capital to support future growth and investments.

And investor recently inquired about our Board member and executive officers sales of stocks. The Company strongly suggests that all Board members and executives set up 10b5-1 plan during an open trading window with no awareness of material nonpublic information. The Company approved the 10b5-1 plan before the plans can be adopted, and the plans must specify

the amount, price and timing of the transaction. This practice ensures that we avoid all conflicts and we can focus our attention on running the business. Our most recent open trading window was last November.

Now, I will turn the call over to the operator for your questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] And we do have a question in the queue from Frank Petronas [ph]. Please go ahead. Your line is open.

Unidentified Analyst

I was wondering what the new scanner is going to cause for the industrial people versus just the regular layman as far as utilizing the new scanner.

Kevin Mills

Okay. So, we have generally two lines of scanners, our standard scanners, the prices range from an MSRP of around \$229 up to somewhere in the \$600 range. Generally speaking, our industrial units of equivalent scanning functionality are approximately \$50 more expensive, because they come with IP64 sealing as well as they're made with more robust plastics and designed to be dropped several 100 times or 1,000 times even. So, the range for the industrial scanners would be somewhere between 70 and 650.

Unidentified Analyst

Okay. I'm just leaving the dentist as we speak, ironically. And I was waiting and then I knew that you were going to have the call tonight. And how -- what's the -- is there a general application for the orthodontists, the dentists and so forth? Because I had to have a certain kind of scan for my upper teeth. They call it a CBD...

Kevin Mills

Yes. We're in the barcode scanning business not in the traditional scanning business. So, all of our products are used for various forms of track and trace related to barcoding and identification through 1D, 2D barcodes. We can read passports and other things. But, we don't scan objects or things that -- so we're not a scanner as in we don't do scanning associated with paper or objects. It's all barcode related. We also have added NFC, which is a type of electronic tag scanning. But we're not an object scanner.

Operator

[Operator Instructions] We take a question from Michael Miller [ph] from [indiscernible] Construction. Your line is open.

Unidentified Analyst

A quick question for you. I know you have a robust -- you have the scanning system, and you can drop the phone a bunch of times. Question with that is, have you considered making a case that could go with the phones with it?

Kevin Mills

Yes. We have a whole series of products we call DuraCases -- DuraSled, I beg your pardon, which consist of a case with an embedded scanner in it. And it connects to the phone over Bluetooth, and both protects the phone and the scanner, and recharges both of them with the single docking, if you will. So, this is the products that we feel are very suited for the transportation, logistics, delivery space. Because the applications are written for Android or iOS type devices. People want to bring their own device to work, and companies want to encourage that to happen. But then, they need the enterprise grade scanning. So yes, I think, we are building a quite good portfolio in this category. And we very much believe that this is a good market going forward.

Unidentified Analyst

Your product is genius. And I've invested money in it and will continue to invest money in it and the stock market. And congratulations, you guys, job well done. You continue to show growth and progress and the type of innovation that we like to see from this country. So, congratulations to you guys.

Kevin Mills

Thank you very much for those very kind words.

Unidentified Analyst

That's it for me.

Kevin Mills

Okay. Thanks again.

Operator

And we have no further questions in the queue. I'm going to turn the call back over to Kevin Mills for final remarks.

Kevin Mills

Yes. I'd just like to thank everyone again for participating in today's call, and wish you all a good afternoon. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.