

**FLUX POWER HOLDINGS, INC. (NASDAQ: FLUX)
EDITED TRANSCRIPT OF THIRD QUARTER FISCAL YEAR 2021 FINANCIAL
RESULTS AND COMPANY UPDATE CALL**

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**Speaker: Ron Dutt
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4:30 p.m. ET**

OPERATOR: This is Conference # 7359227.

Operator: Good day and thank you for standing by. Welcome to the Quarter Three 2021 Financial Results and Company Update.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask the question during the session, you need to press star 1 on your telephone. And please be advised that today's conference is being recorded. If you require any further assistance, please press star 0.

I would like to hand the conference over to speaker today, Mr. Justin Forbes, Director of Marketing and Investor Relations. Sir, you may begin.

Justin Forbes: Thank you. Good afternoon and welcome to Flux Power's financial results call. This is Justin Forbes, Director of Marketing and Investor Relations for Flux Power. Ron Dutt, CEO, and Chuck Scheiwe, CFO, will present results of our operations for our third quarter of fiscal year 2021, ended March 31st. I'll now read our Safe Harbor statement.

Our discussions may include predictions, estimates or other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, they are

subject to risks and uncertainties that could cause actual results to differ materially.

You are cautioned not to place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this presentation. Please keep in mind, we are not obligating ourselves to revise or publicly release the results of a new revision to these forward-looking statements, in light of new information or future events.

Throughout today's discussion, we'll attempt to present some important factors relating to our business that may affect our predictions. You should also review our most recent Form 10-K and Form 10-Q for more complete discussion of these factors and other risks, particularly under the heading Risk Factors. A copy of our press release and financial tables can be viewed and downloaded on the Flux Power Investor Relations website at Fluxpower.com/investors.

And with that, I will now turn it over to Ron Dutt.

Ron Dutt: Good afternoon and thanks, Justin, for the introduction. As we complete a full year of COVID-19 as of the quarter ended March 31st and amidst the ongoing impacts of the COVID-19 pandemic, we're pleased to announce our 11th consecutive quarter of year-over-year revenue growth.

Revenue momentum continues from our current customers as they buy new forklifts with Flux Power lithium-ion battery packs. Our new customer acquisition efforts are making good progress, reflecting the growing awareness and trend of lithium-ion value proposition and adoption; lower lifecycle costs, higher operational productivity from longer run times, and the environmental impact of saving tons of carbon dioxide versus lead acid or propane power sources.

The fiscal year '21 Q3 revenue increased by 38 percent to a record \$7.0 million, compared to \$5.1 million for the same quarter last year. This quarterly increase continues our trajectory of 11 consecutive quarters of year-over-year revenue increases, reflecting our pacing of increased penetration of both current customers and the addition of new customers.

The ground support equipment sector is reengaging as air travel is recovering. We have received new orders and further indications of increased activity from one of our customers, who is a leading global airline.

We launched our next generation M24 lithium-ion battery pack for the high volume end rider and center rider forklift category, with initial orders and strong interest from customers. This new battery pack incorporates innovative features and advanced design to meet the demands of large fleets.

At work here is our past eight years of pioneering lithium-ion battery packs for industrial and commercial applications. As I've mentioned in the past, our strategy has been to develop what we call natural product extensions that can be produced on our assembly lines to help us meet one of our objectives, building scale.

These natural product extensions typically require modest design efforts of our modular pack designs. We have confidence in our capability and prior success in working with our OEMs and customers to fit our energy storage systems for applications to deliver transformational improvements to cost, productivity, and the environment.

Our goal is to be the provider of choice for large fleets, which requires building full capability and scale. Our experience providing packs to Beam Global this past year for their mobile EV charging stations has strengthened our capabilities. And we are also evaluating other sectors, such as robotic equipment and stationary power for applications of our battery packs.

We continue to acquire new customers. And as mentioned in a prior press release, we received orders for two large customers, a global packaging company, and a paper and chemicals manufacturer.

Now, turning to gross margins, we have a high priority to expanding gross margin, and an increase from 12.8 percent in Q3 fiscal year '20 to 24.1 percent this past quarter Q3 fiscal year '21. This improvement in gross margins reflects our ongoing efforts this fiscal year to improve vendor pricing through our growth and our implementation of design improvements.

We have over 9,000 battery packs in the field, which has provided a broad range of both technical and customer-driven experience. Our strategy has always been to maintain the core competency of our technology, quality, and service. In fact, not only core competency, but we aim to be the leader in technology, quality, and service.

As currently highlighted in the media, supply chain challenges are widespread as we all know, and they impact us as well. We are closely monitoring the sourcing of parts, such as lithium cells, steel parts, and electric components, including circuit boards.

And shipping times have improved over the quarter, but there remains more to go to return to normalcy, and shipping costs have increased as well during the COVID period, reflecting stress on logistics, resources, and infrastructure.

Now to comment about the COVID-19 pandemic. As widely reported restrictions arising from the COVID-19 pandemic continue to recede, although the effects of the past year do linger stemming from customer caution, labor shortages, and supply chain challenges.

We have observed some customers exercising caution on ordering patterns. But the current economic recovery is showing positive signs, and we continue to address procurement and production challenges, which by the way, does drive assessment and improvements to our processes.

I will now hand it over to Chuck Scheiwe, our CFO, to provide an update on our financials and our capital structure, including improvements to our balance sheet achieved during the quarter. Chuck?

Chuck Scheiwe: Thank you, Ron. Our operating expenses increased to \$3.1 million during Q3 '21 from \$2.6 million in Q3 '20. That's primarily due to increases in personnel to support growth, significant increased insurance premiums, premiums after the uplisting, and higher freight expenses that Ron mentioned.

Our R&D expenses remain unchanged during the quarter, compared with a year ago and our net loss for the quarter decreased to \$1.7 million from a loss

of \$4 million in Q3 '20. This was reflecting increased gross margin. We had other income due to the PPP loan forgiveness and decreased interest expense.

We made further progress in strengthening our balance sheet during the quarter, converting all of our remaining short term line of credit debt of \$2.4 million to equity. And with the PPP loan forgiveness, we now carry no debt at all.

We did raise \$1.7 million under the ATM, the at-the-market facility during the quarter, giving us a cash balance of \$2.4 million at the March 31st quarter end. Our \$4 million line of credit with Silicon Valley Bank provides working capital, remains unutilized and available to support growth. The borrowing availability on the credit line is tied to Flux Power's outstanding accounts receivable and on hand inventory.

To add to Ron's mentioned progress with our gross margin initiative, including the current quarter reported at 24.1 percent, we do believe continued implementation of our cost improvements supporting higher gross margins, along with our revenue trajectory, will drive us to our goal of becoming cash flow breakeven.

Now I'll turn it back to Ron.

Ron Dutt:

Thanks, Chuck. To conclude our remarks, I'd like to mention that we are optimistic on the future of the economy, our business sector, and our own momentum. It's still early in our trajectory to give guidance in the current COVID-driven environment and adds its own complexity.

But we are excited by our customers' response to the value proposition of our packs to their business. And that's not to mention the typical tons of carbon dioxide they save versus alternative energy sources. We believe our cost-savings proposition, productivity enablers, and positive environmental impact all provide transformational changes to take fleets to the next level.

And that concludes our prepared remarks. Now I will turn it over to any questions.

Operator: As a reminder, to ask the question you will need to press star 1 on your telephone. To withdraw your question, press the pound key.

Again, if you would like to ask the question, press star then the number 1 on your telephone keypad. Please stand by while we compile the Q&A roster.

First question comes from the line of (Carl Williams). Your line is open.

(Carl Williams): Hi, gentlemen, thank you for your presentations. Good to hear we have a good quarter coming and continuing to head in the future.

I was just wondering, I heard you guys were doing or the company was doing some bidding with Amazon. And I just wondered if that was anything public you could share or not and the status of that. Thank you very much.

Ron Dutt: Yes. Thanks, (Carl), for the question. We get that one every once in a while, Amazon, being so omnipotent.

We can't disclose anything publicly on that. I will say what's I believe publicly available information. They announced plans to spend a ton of money on electrification and reducing carbon footprint. And, in fact, we have had discussions with them and understand that, they have quite a wide assortment of facilities, including new green facilities and existing facilities.

And, of course, as they've said, analysts have reported, they do have fuel cell facilities that they install in their new greenfield facilities. And we understand they're very interested in lithium as well.

So I think they're going down that path at their own speed and priorities. And – but we're very interested. Had great, great discussions with them. But nothing to announce. And I don't expect there'll be anything in the imminent future.

(Carl Williams): Thank you.

Operator: Again, if you would like to ask the question, press star, then the number 1 on your telephone keypad.

Your next question comes from the line of (Joe Smith). Your line is open.

(Joe Smith): Good afternoon, gentlemen. Thought it was very impressive quarter. I'm an independent shareholder. My understanding is that you've got extensive capacity in your existing facilities to grow.

In addition to just growing your own internal product lines, does that give you the ability to partner with other folks to build for them if they need additional capacity? And then I guess it leads into a broader question of strategic partnerships, and potential M&A type activity and whether that's something that you ever considered to look into or approached with. Thank you.

Ron Dutt: Yes. Thanks, (Joe). Thanks for the question. Yes, we've mentioned in the past our facility, we estimate we could do probably \$100 million annually revenue at here and, of course, we're still a ways from that. We do – we are growing very rapidly, and certainly hope to continue that. I'd say a couple things – couple remarks for you:

We don't have any plans to build products for other companies to get some kind of production revenue from them. We are fully engaged here with our plans. As we've reported, we entered a partnership with Beam Global last year as their exclusive lithium provider, they're a rapidly growing company.

Our current thinking is those kinds of partnerships are working well to our pacing and strategy and trajectory, particularly with natural product extensions. We build product here for that. We are currently looking at some other such-type partnerships right now. Nothing to announce at this point.

But I think to kind of state the obvious, that makes a lot of sense for us to continue to grow. We, of course, in this industry fully expect with the rapid growth that there could be consolidation, M&A strategic activity. And we, of course, certainly have an eye on that.

I've done a dozen or so acquisitions in the past and very sensitive to what can work and what can't. So I think we'll certainly be judicious in anything that we would do. And – but I think for now that that would probably be a second step to partnerships just in terms of how we currently think about it.

But the industry is moving fast and things can happen pretty quickly. So we're in our financial planning process right now. And considering all those matters positioning, what we have to do to grow and, as we said, we want to be a leader for large fleets, so that certainly does not mean not growing.

So looking at all that seriously. Hope that helps.

Operator: There are no further questions at this time. Presenters, you may continue.

Ron Dutt: OK. I understand there are no more questions.

So with that, we'd like to thank everybody for listening. Appreciate your interest, look forward to continued communication, including not only these calls but our website and newsletters we send out. If people are interested, please get in touch with us. We believe we see a very exciting future here for us and look forward to it.

So with that, I'll close it off and thank you for your time and attention today.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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