Lightning eMotors, Inc.
Third Quarter 2022 Earnings Results Call
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Presenters
Brian Smith – Vice President, Investor Relations
Tim Reeser – Co-Founder and Chief Executive Officer
Kash Sethi – Chief Revenue Officer
David Agatston – Chief Financial Officer

Q&A Participants
Michael Shlisky - D.A. Davidson & Co.
Sherif El Sabbahy - Bank of America Merrill Lynch
Colin Rusch - Oppenheimer & Co.
Abhishek Sinha - Northland Capital Markets

Operator
Greetings and welcome to the Lightning eMotors Third Quarter 2022 Earnings Results Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad.

As a reminder, this conference is being recorded.

I would now like to turn the call over to Brian Smith, Vice President of Investor Relations. Thank you. You may begin.

Brian Smith
Thank you, Darryl, and thank you, all, for joining us. Hosting the call today are Lightening's Co-Founder and CEO, Tim Reeser; Chief Revenue Officer, Kash Sethi; and CFO, David Agatston.

Ahead of this call, Lightning issued its third quarter 2022 earnings press release and presentation deck, which we will reference, today. These can be found on the Investor Relations section of our website at lightningemotors.com.

On this call, management will be making statements based on current expectations and assumptions, which are subject to certain risks and uncertainties. Actual results could differ, materially, from these forward-looking statements due to risk factors that are listed in today's earnings release and in our filings with the SEC, which can also be found on our website. We assume no duty to update any forward-looking statements, except as required by law.

Today's presentation also includes non-GAAP financial measures, please refer to the information contained in today's earnings press release for definitional information and reconciliations of non-GAAP measures to the comparable GAAP measures.

With that, let me turn it over to Tim.

Tim Reeser
Thank you, Brian, and thanks to everyone for joining us, today. I'll start off on Slide 4 with today's agenda. I'll begin with an overview of Lightning, some highlights from the quarter, a discussion of our progress on managing our supply chain and a discussion of our focus on gross margin improvements.

Kash will then provide an update on products and markets, including an example of how the new incentive landscape stacks up to drive accelerated sales and business development initiatives. And David will wrap up with a financial overview.

Moving to Slide 6, a summary of the quarter. At $11.1 million, our Q3 revenue was a record and was 78% higher than our previous record from one year ago.

Our production team executed very well in the quarter, producing 104 vehicles, which is more than double our production from a year ago.

We have focused from our inception on attracting and hiring top talent, and we are excited that David Agatston has joined us as Chief Financial Officer.

David is an experienced technology finance executive, and he's already making an impact by building on the solid financial systems and disciplines that Teresa, our former CFO, instituted, and he is now augmenting that with the talented infrastructure to support accelerated organic and inorganic growth in 2023.

Moving to Slide 7. We believe Lightning eMotors continues to be the only full range manufacturer of Class 3 through 7 zero-emission vehicles in the market, including ambulances, shuttle buses, utility trucks, school buses and motor coaches.

We are the only company currently shipping products in all of these classes, today.

We started in 2008 with commercial vehicle hybrid solutions and have now shipped over 430 zero-emission vehicles with over 2.8 million zero-emission miles driven by our customers.

Our strategy to start by electrifying ICE chassis has allowed us to produce in-volume earlier than our peers, advancing our experience with designing, manufacturing and selling a wide range of commercial ZEVs and powertrains and giving us a competitive lead, as we now move to

designing and building our own ground-up ZEVs, alongside our current vehicle and power train offerings.

We continue to invest, heavily, in R&D and engineering to develop and perfect new commercial vehicle platforms and powertrains and improve our reliability, reduce the cost of our current offerings and expand our service and support capabilities.

Moving to Slides 8 and 9. We have built a modular software and hardware architecture that allows us to serve a highly segmented and customized market with cost-effective solutions.

Our high level of software and hardware customization that is required for commercial electric vehicles is something that legacy OEMs have not, historically, offered and are not well suited for.

You can see from Slide 8 the full suite of Lightning's electrification solutions, enabled by our deep software vehicle integration and full ecosystem expertise.

Slide 9 shows our broad range of vehicle and powertrain platforms, either already in production or expected to be in production in 2023.

Moving to Slide 10. Since our last earnings call, we have announced a strong lineup of new products and partnerships, including 170-vehicle deal with Go Bolt, as sustainable fulfillment and last-mile delivery company, based in Canada for delivery vehicles in the U.S. and Canada.

We also announced a second-generation repowering offer for large motor coaches, which builds on our successful, single and double-decker motor coach demonstration vehicles we built and tested, over the last two years.

This Class 7 and 8 powertrain, designed for repower applications, extends the life of the buses at less than half the cost of a new bus and turns a highly polluting vehicle into a zero-emission masterpiece.

And just last week, we announced that Transport Canada, a federal institution promoting environmentally responsible transportation, has registered Lightning eMotors creating additional opportunities for customers to leverage Canadian incentive and funding programs for our entire portfolio.

Moving to Slide 11, let's discuss the supply chain landscape. As we stated previously, batteries, which were supply limited last year, are in much better shape, due to new battery partnership agreements, and we have inventory on hand, today.

The situation remains dynamic, however, as new platforms may require and/or benefit from new battery configurations, both to support more range on a given platform, as well as reduce the price and improve quality and safety.

We are working on both, 400-volt and 800-volt configurations with both nickel manganese cobalt-based batteries, which have begun to see price stabilization after a large price increase, mid-year, and lithium iron phosphate pack options.

We are pleased to have long-term supply agreements for both battery chemistries with some proprietary safety technology built into our LFP battery systems offerings.

On chassis, we now have much better availability for Q4 and Q1 with our new platform partnerships and agreements with over 270 chassis currently on our lot.

Our manufacturing and engineering teams are readying the production line to produce our first GM Class 4 platforms, which we expect to deliver to customers, this quarter.

In addition, our Lightning eChassis and Blue Bird eChassis powertrains are on target for production in the second half of 2023.

Beyond chassis and batteries, we continue to work to diversify our supply chain with new higher production and lower cost suppliers to help reduce the cost and lead times we are seeing for components such as high voltage heaters, high voltage air conditioners, and heat pumps and thermal management parts.

Turning to Slide 12. We are again now seeing an increase in momentum towards the electrification of commercial vehicles after a brief pause in new orders, while customers waited for the EPA and FTA incentives past last year to hit the market.

In addition to these new programs funded by the 2021 Infrastructure Act, which are now close to being awarded, we believe the passing of the Inflation Reduction Act during Q3 with its $40,000 federal tax credit for zero emission commercial vehicles in Class 4 and larger is motivating customers to accelerate their efforts to transition to zero emission trucks and buses.

We believe the IRA scope will benefit Lightning more than other vehicle manufacturers given the alignment of the IRA's incentives with our wide vehicle portfolio.

Turning to Slide 13. Let's discuss our business model and the progress we are making toward reaching positive gross margin. Our growing sales and production volumes are enabling both, supplier cost reductions and labor efficiencies.

Our engineering and manufacturing teams are making material progress in unit cost reductions via manufacturing automation and engineering cost down work. We have said in the past that

we need to approach our single shift annual production capacity of 1,500 units to fully absorb our overhead and our sales growth--to fully absorb our overhead, and our sales growth continues progressing toward that goal, reducing our overhead allocation, per unit.

Finally, Lightning has increased our prices across our product lines, some of which will be absorbed by government grants and incentives rather than by customers, directly. With these changes, we expect to reach positive gross margin, during the second half of 2023.

And now I'll turn it to Kash to provide an update of our products, markets, sales momentum and a look at how the incentives now stack up to drive market acceleration.

Kash Sethi
Thanks, Tim. I'll begin on Slide 15. First, I'm glad to report that, unlike many of our peers who are still in early prototype development and testing, we continue to deploy zero emission vehicles in real world environments across multiple market verticals and commercial vehicle applications.

Our deployed fleet of over 400 vehicles recently crossed a collective 2.8 million miles on the road, a number growing rapidly, every week.

We continue to sign new orders, new customers, receive repeat orders and generate strong demand for our core products and market verticals shown on Slide 15, zero emission cargo vans, delivery trucks, passenger vans, shuttle buses and school buses.

Our sales pipeline, as of October 31, 2022 was approximately $1.8 billion, and backlog was around $164 million.

Our dealer network is expanding and our strategic partnerships with market leading OEMs and specialty vehicle builders like Forest River and Collins have enabled us to engage with a wide range of customers, by leveraging our partners' brand reputation and extensive distribution networks.

On Slide 17, we show some new and expanding vehicle applications and partnerships, step vans, ambulances, RVs, transit bus, and motorcoach repowers. We expect to see strong growth in these market segments, over the next 12 to 18 months.

We also continue to explore additional vehicle partnerships and look forward to sharing those details in the near future.

Now, I'll turn to Slide 18 to provide an update on forces that continue to drive adoption of zero emission commercial vehicles.

First, government regulations and mandates across the U.S. and Canada continue to grow in scope and ambition. California's Act Regulation, Transit Rule, Airport Shuttle Rule, and a 15-state MOU on zero emission vehicles are all delivering a strong message to the market-the future must be zero emissions.

Next, grants and incentives from both state and federal governments are now providing more funding to accelerate the adoption of zero emission vehicles. Programs like the Federal Transit Authority's Low or No Mission Vehicle program and California's HVIP program are providing significantly more money this year than they ever have.

New mechanisms like the EPA's Clean School Bus program and Canada's new federal programs are all helping to expedite the industry's drive towards electrification.

We have been able to leverage these programs to develop projects with several new customers. These projects are expected to result in orders in the next six to 12 months, due to the lengthy grant cycles and timelines.

Last but not least, many fleets continue their march towards electrification motivated by corporate and societal sustainability goals. We see this pattern across various industries, last mile logistics, public transit and school transportation.

We applaud these companies' ambitions and look forward to working with many of them to help meet their carbon and emissions reductions goals.

On Slide 19, you will see how our products can leverage multiple state and federal grants that are stackable with each other, including the $40,000 IRA tax credit mentioned by Tim.

Combining these grants can completely offset the upfront cost of going electric, in many cases, fully paying for the vehicle. We look forward to working with our customers and helping them leverage these grant programs in the coming months.

And with that, I'll turn it over to David to provide an update on Lightning's financial results and outlook.

David Agatston
Thanks, Kash. I will now provide some commentary on our third quarter results, followed by our fourth quarter outlook.

Beginning on Slide 22. For the third quarter, we generated revenues of $11.1 million, which increased 78% from the year-ago period and $7.6 million, sequentially.

In the quarter, Lightning produced 104 vehicles and sold 93. The gross margin percentage was 700 basis points better than last quarter, due to higher volume and better factory utilization.

As Tim highlighted, we remain focused on driving towards a positive gross margin through higher prices, fixed cost leverage on labor and overhead, material cost reductions, and operational efficiency, as we ramp production.

The adjusted EBITDA loss for the second quarter was $17 million, compared to a $9.3 million loss in the prior year period. The change is primarily related to higher operating expenses in the current period. A reconciliation of net income to the adjusted EBITDA loss can be found on Slide 25.

Turning to Slide 23. Lightning ended the third quarter with $95.8 million in cash and cash equivalence, which we believe is sufficient to fund our operations for the next 12 months.

We gave ourselves a bit more cushion by implementing a $50 million equity line of credit in the quarter. We have not yet drawn on it, but we have the ability to do so, if needed. Net inventory at the end of the third quarter was $36.8 million.

The higher inventory level stems primarily from the larger number of chassis and batteries we purchased to support future growth and also about $6.5 million of finished goods.

On Slide 24, I will summarize our outlook for the fourth quarter. While our battery supply issues have mostly been mitigated in the near-term, we continue to experience supply chain challenges with certain chassis and other components. Delays associated with any of these components may impact the timing of revenue.

Based on current conditions, we expect for the quarter ending December 31, 2022, revenues to be in the range of $13 million to $18 million, vehicle and powertrain system sales to be in the range of a 100 to 130 units, vehicle and powertrain production to be in the range of 130 to 140 units.

Now, I will turn it back over to Tim for closing remarks.

Timothy Reeser
Thank you, David. I remain very excited about the outlook for Lightning eMotors, as we continue to execute our strategy. While many of our peers are still working on their first U.S. manufacturing facilities or working to build their first production vehicles, we have put more medium duty zero emission commercial vehicles in customers' hands and on the road, than anyone else.

We are accelerating our production scale and introducing new products, pushing towards positive gross margin. Our industry is transforming, which is presenting us with opportunities through investments and acquisitions to achieve critical scale.

We have a clear vision, a solid near and long-term strategy, and a path to growth and profitability.

The Lightning team is energized, passionate and focused, moving with velocity towards a strong future. With each day that passes the barriers to widespread EV adoption in the commercial vehicle space are falling and government incentive programs are growing.

Although these programs--most of which have at least a five-year horizon--provide an accelerated inflection point for commercial EVs, the fact is that, today, our products provide a very compelling return on investment versus their ICE counterparts, even without these subsidies.

This gives us confidence that, regardless of future elections or politics, we expect to see many years of strong growth, ahead.

I would like to finish by thanking all of our customers for their confidence in Lightning, our partners for their contributions to our company's success and our shareholders for their support. I especially want to thank our employees who are executing at a high level, through a challenging operating environment.

And with that, thank you, everyone. I appreciate your time, today. Operator, we are now ready to open the lines for questions.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2” if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

One moment, please, while we pull for your questions.

Our first question comes from the line of Mike Shlisky with D.A. Davidson. Please proceed with your questions.

Michael Shlisky
Hello. Good afternoon and thank you for taking my questions. Could you tell me if there were any appreciable non-truck revenues in the third quarter, such as like charging, parts, data services, etc., and whether we should start to model any of that-any appreciable numbers for 2023, at this point?

David Agatston

We have very minimal revenues, Mike--thanks for the question--in the quarter. But we certainly see some of those revenue streams picking up, certainly into first half of next year.

Michael Shlisky
Okay, okay. And then, also looking at 2023, just trying to triangulate some of your comments earlier, Tim, about gross margin and how and the kind of alliance that it takes to get to a positive gross margin.

As we go through the year, is it appropriate to expect a very steady progression of sales sequentially from quarter-to-quarter, or is there some kind of starter's gun that goes off where we'll start to see really shipments accelerate in any kind of major way, either a large contract or something else that happens where things will kick into a much higher gear at some point, during next year?

Timothy Reeser
Thanks, Mike. And one of the advantages we have is, I know you've covered industrials and commercial vehicles for a long time, so you're accustomed to the very cyclical nature of new model gears coming out.

And historically, most of the revenue, a lot of the revenue tends to be shifted, especially pre-COVID and pre-supply chain issues that the tradition was, an awful lot of revenue was shifted Q3 and Q4, as new model years came out.

I think we'll start to return a bit to that. Some of it is a function of new platform availability that we see going forward, as we release some new products that are very attractive in the market, today. Some of it is a function of as these grants, and incentives take a little while to hit the ground and they tend to be cyclical.

So, the EPA grants and the FTA grants are typically awarded twice a year and then following the awards, some three to six months after that, is when the customers actually place their orders. So, I think moving forward we will see a pretty cyclical order bank and delivery bank around both the incentive cycles and on the new platform offerings.

So, I think returning a bit to more backend loaded years is what I would expect.

Michael Shlisky
Okay. Got it. Turning to cash burn real quick. Can you give us a feel for the, what the cash burn rate might look, like over the next couple of quarters?

David Agatston
Obviously, it's dependent on volumes. I would think it would look average of the last two quarters, probably be pretty close. We're seeing some benefit in terms of cost downs and labor

efficiencies but will be hard to see whether the volumes will be equivalent to this quarter or not.

Michael Shlisky
All right. I'll just squeeze one last one in here. As I talk with people who are actually driving Lightning vehicles, everyone seems happy with them, no complaints. But could you give us a sense of any kind like, how has uptime performance for your vehicles compared to either previous year models or just the ICE vehicles that they're taking the place of?

Have you by any chance that you've got a lot of high warranty costs here or have they been relatively reliable from what you've heard from customers, recently?

Timothy Reeser
Yeah, something--and I mentioned it in my prepared remarks that we are actively building bigger and bigger service organizations to ensure a high customer touch model. So, it's something I'm passionate about and our team's passionate about.

We have seen significant improvements, over time. As you can imagine, lower volume, early production products that we made in 2017 and 2018 aren't as reliable as the products we're producing, today.

And certainly over the last year since going public, when we've been able to make very large and significant investments in quality assurance, people and teams and frankly better suppliers who have better quality, we are seeing market improvement in our quality over the last 12 months versus what we saw previously before we had made these kind of sequential and very significant investments.

So we remain--we don't have--from a warranty cost, we're pretty traditional in the way we look at warranty reserves, a little more than a legacy OEM, but not crazy, and we're certainly seeing ourselves in that path. But we see a path to very low warranty in the long-term, given both our improvements and investments we're making in supply chain and higher quality suppliers, as well as the investment we're making in our (INAUDIBLE) teams.

Michael Shlisky
Great. I'll leave it there, Tim. I appreciate the discussion.

David Agatston
Thanks for the questions, Mike.

Operator
Thank you. Our next question comes from the line of Sherif El Sabbahy with Bank of America. Please proceed with your questions.

Sherif El Sabbahy
Hi. Good evening, everyone. So, I just wanted to touch on some of the cyclicality you mentioned. So, looking at backlog, it's been fairly flat for a few quarters. You've mentioned an expectation of a return to some cyclicality.

So, is there anything that's beginning to weigh on demand that we're seeing with some of the delays in sales versus production, or is there any cancellations that are coming up or are customers changing their purchasing behaviors that might be offsetting some of the structural drivers of EV adoption there?

Kash Sethi
Yeah, hey, Sherif, this is Kash. You kind of touched it, right. The cyclical nature of the grants really drives the timing of when customers firm up their purchase orders and when they want deliveries. EPA and FTA and some of the other programs, they're providing some very meaningful funding. I mean, 20% to 100% of the vehicle cost, not just a 5%, 6% sweetener.

This is the bulk of the rationale to make the purchase decision. So given that, we are expecting an increase in orders over the next six months or so, due to the various efforts we've put in, in the last six months to help some of these customers apply for these grants. It's just the cycles that dictate the timing of when we go from a demo to a quote, to a purchase order, to a delivery.

Timothy Reeser
And if you put it in perspective--Sherif, this is Tim, I think kind of an interesting dollars I saw the other day. We've never seen anything really in the history other than certainly worldwide what China has put down. But if you look at the pure dollar volumes, we're talking about here billions of dollars in EPA, billions of dollars in FTA, $5 billion or approximately that for both.

Now, on the same order of magnitude for this IRA commercial vehicle funding, it dwarfs anything we've ever seen in the past. Certainly, dwarfs, traditionally, we were all very dependent and on pins and needles around HVIP, and this dwarfs it.

But what we see happening is this creating the catalyst we need to get past the supply and demand, the cost versus volume curve we've faced, which is, we all needed the demand increase to get the cost down, and we all needed the cost to go down to get the demand increase.

And this very significant subsidy grant funding really solves that problem and gets the snowball over the top of the hill and down moving forward and collecting its own momentum, such that this business is sustainable, even post these grants.

But in the meantime, these grants do--you can imagine if you're a CFO, even if you said, hey, I don't need these grants to justify this investment in going electric because the vehicles have a compelling return on investment, without the grants.

Nonetheless, if you can get a grant for 80%, you're going to hold off until you get that grant, even if you don't have to have it to make it a compelling case. So, that's why you see a lot of pent-up kind of demand until these get awarded and kind of a cycle to go with that.

But obviously, in the out years, we won't need that anymore, and it won't be part of the cycle. But for the next, certainly, 12 to 36 months, I think you'll see all of us in the business kind of at the mercy of the cycles because it's such a significant amount of money.

Sherif El Sabbahy
Understood. And then touching on the cash burn a bit more, you've got cash on hand of just under $96 million now. Just given the cash burn annualized over the last few quarters has been about $97 million. Do you expect to take any other actions besides the established equity line of credit?

David Agatston
This is David. Thanks for the question. Obviously, we're looking constantly, opportunistically, to see what we can do. We're certainly aware of when the debt comes due in May of 2024, and we're certainly actively looking for opportunities that can help us there.

Sherif El Sabbahy
Understood. Thank you very much.

Timothy Reeser
Thank you, Sherif.

Operator
Thank you. Our next question comes from the line of Colin Rusch with Oppenheimer. Please proceed with your questions.

Colin Rusch
Thanks so much, guys. As you guys are out in competitive bidding situations, can you talk a little bit about the evolution of the competitive landscape and if you're seeing any new players there, and then also the trend line on your win rate?

Kash Sethi
Yeah, hey, Colin, this is Kash. Thanks for the question. So, one thing unique about us is that, you'll notice in one of Tim's slides, we have a lot of different products. Some competitors are only active in one or two of those products.

So our competitive situation varies, based on which market vertical you're talking about. Cargo vans is different than shuttle buses different than school buses. But I'll bucket them in three different buckets, right.

Our Class 3 cargo vans are slightly bigger than the Class 2 vans offered by legacy OEMs like Ford and GM. They're not the same product as ours, but they're kind of similar enough that it creates conversation with a customer.

Do I buy a much cheaper Class 2 van from Ford that doesn't go as far, but is cheap enough to maybe modify my operations, or do I spend a bit more money to get a higher payload, higher range vehicle from Lightning?

We see customers go 50/50 that way. Some customers opt for the cheaper Class 2 vehicle. Some customers realize that they need that extra range, especially in cold weather climates. In our Medium Duty segments, we don't really compete with traditional legacy OEMs, our competitors or other EV companies similar to our scale.

They come int two categories and flavors. One of them are somewhat similar to ours, where they have been in this space for four or five years, they may have few products in the road, and they are real competitors. We compete with them on specs and on pricing.

But the second and last category is where a lot of our competitors live with. These are competitors with very good-looking websites and great presence at trade shows and press releases, but not a whole lot of products to offer.

This one is probably the hardest to deal with because it becomes a distraction with every customer. They'll see a lower price or they'll see a range claim that defies the logic of physics provide calculations, but certainly becomes a conversation. Over time, we win the business by just delivering product, running demos.

Pretty much most of our customers today take a demo from us, and when they cannot get a demo from a competitor, well, that solves a problem right then and there. So, sorry for the long- winded answer, but it's different and it's complicated, based on which market we're talking about.

Colin Rusch
I appreciate the detail on that. And then in terms of the build schedule, obviously, some of this is being driven by the chassis availability, but how are you guys making decisions on what to build and what to push off? Because it looks like you're building a pipeline and demand well in excess of the production right at this point.

Timothy Reeser

Yeah, as you can imagine--Colin, it's great to hear from you--and you've followed our business a while, so you've kind of seen our evolution in terms of how we look at this. Obviously, like anyone, we look at the backlog and we look at what we can make and we look at where the profit margins are, and then we look what we have available on supply chain. And so, all of that goes into the bucket to come up with an answer.

And twice a week, Kash and Brian Barron and our team are sitting down, really analyzing each of those variables and coming up with an answer on the best thing to make for the quarter, the week, the quarter, the months, etc.

And I think the team does a great job at it, but it is complicated because, as you can imagine, on any given week some new obstacle or opportunity arises, and so the team has to manage to that on a very dynamic basis.

So, margin is a big key. As we said, we're very focused on getting to positive gross margin, as soon as possible. And so, we spend a lot of time looking at where that is, but also spend a lot of time when you've got your first customers in this market, it's a lot about getting the first customer because you want them to be a repeat customer, and they need some time with the product.

So, Kash mentioned in the sales cycle, sometimes these customers will take a demo or sometimes they'll buy their first one or their first five or their first 10. We want to get those done quickly so that they can buy their next 100 in a – as fast a time and as fast a turnaround as we can get there. So, all of those play into the mix and the calculation to come up with what we sell, today.

But the biggest one, as you mentioned, is what we have on hand because that's--especially on chassis, that's been one of the biggest challenges.

So, it usually starts there, looks at where the demand is, and sometimes then we mix that, sometimes we go to a customer and say that, I don't have a red one, I've got a white one, or I don't have a truck, but I've got a bus or I don't have a Class 4, but I've got a Class 3.

And sometimes we have the opportunity to make that work, other times, the customer says, hey, I'll wait till exactly what I want is available.

Colin Rusch
Okay. And then the last one for me is just really around the OpEx. As you guys scale, are there particular areas where you feel like you need to augment the team here and see some incremental spending, as we carry forward here?

David Agatston

I mean, some in engineering and research and development to keep the product pipeline. And the engineering team also helps with the cost downsides. So, not only helping with new products, but they help working with manufacturing and manufacturing engineers to help us identify ways to take cost out of the business.

Colin Rusch
Okay. I'll take the rest of that offline. Thanks a lot guys.

Timothy Reeser
Thank you, Colin.

Operator
Thank you. Our next question comes from the line of Abhishek Sinha with Northland Financials. Please proceed with your questions.

Abhishek Sinha
Yeah, hi, thanks for taking the question. Quickly wanted to understand if you could just give us some idea like how to think about the IRA impact on sale of vehicles versus powertrain sales. I mean, what you had earlier in mind prior to IRA versus now the way that things are trending.

Timothy Reeser
Thank you, Abhi, great to hear from you. I think we see as we look out and we're constantly evaluating that mix. Keep in mind, sometimes when we just sell a powertrain, it still turns out to be a vehicle, we'll sell that powertrain to a partner like Collins School Bus who puts it in a school bus vehicle, and they then--that vehicle then gets both IRA and is available for EPA and, potentially, state grant money on top of it.

As you could see from Kash's example, it could potentially lead to a free vehicle. So, even though we've just built the powertrain, the customer still benefits from that. And ultimately, we get some pricing power from that all the way back to our side because that grant money doesn't exist, without our electric powertrain. So, both a powertrain and a vehicle benefit.

But as we look out, we're constantly evaluating are there some cases where we should be in the vehicle side of the business and obviously picking up more top-end. Where do we maximize margin?

Historically, we've talked that sometimes in the--when we're selling a chassis EV that dilutes our margin. In other cases, as we move forward with deeper partnerships on the chassis side, like Blue Bird, and like what we're doing with our own eChassis, we think we can--rather than having the chassis dilute our margin, we can improve our margin.

So, those are all things we're evaluating, but I think with the incentive landscape, it's neutral in terms of which one we do. It's really a broader question for our business of what's available, how good are the partnerships out there, where can we maximize our margin?

Abhishek Sinha
Right. Sure. And then just to follow-up, how much impact do you think you have in the supply chain in the guidance? Or is it already baked in the guidance the range that you have? Or I mean, if there was no supply chain impact, if we are pre-COVID levels, you still think the guidance would've been same and how much impact would have been there?

Timothy Reeser
It's still an impact for a couple of reasons. One of them is what I'd call the ongoing golden screw challenge that I think you hear from everybody else in any kind of business where you're putting systems together. It's not just EVs, obviously. Any time where you're putting systems together, as you know, you only need to be missing one part.

And we're still in a world today where, frankly, you read about it and it's still very real. China has not come back to normal and even indirectly, most people are getting some parts from China, whether it's direct or indirect, and we are no exception to that.

So certainly that--the cautiousness around can we get parts and the second cautiousness around is can we get chassis. And we continue to hear from all the legacy OEM manufacturers that have some fashion and other chassis are constrained and chassis parts are constrained, everything from axles to the infotainment screens that are in the vehicle.

So, it's hard to put a number on it because I think, it's just become so much a part of our business that we don't play an additive or subtractive. But if I were to just place an off the cuff number, I'd say probably 30% to 50% of--we could be at 30% or 50% higher numbers, if we didn't have some of the constraints we have today on chassis and other systems.

Abhishek Sinha
Okay. Perfect. Thank you very much. That's all I have.

Operator
Thank you. There are no further questions at this time. And with that, this does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.