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Lightning eMotors, Inc. (ZEV)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Welcome to Lightning eMotors Fourth Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Brian Smith, Vice President, Investor Relations for Lightning eMotors. Thank you. You may begin.

Brian Smith

Vice President-Investor Relations, Lightning eMotors, Inc.

Thank you, operator and thanks for joining us. On the call today our Lightning's Co-Founder and CEO, Tim Reeser; Chief Revenue Officer, Kash Sethi; and CFO, David Agatston. Ahead of this call, Lightning issued its fourth 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.

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

Thank you, Brian, and thanks to everyone for joining us today. I'll start off on slide 4 with today's agenda. I will 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 the narrowing of our product focus. Kash will then provide an update on products, markets and incentives. And David will wrap up with a financial overview.

Moving to slide 5, a summary of the quarter. Lightning produced a record 128 vehicles and power trains in the fourth quarter, 23% higher than our previous record of 104 achieved in Q3. As we announced in January, revenue in the quarter was impacted by quality issues with Romeo batteries; plus customer financing delays and the timing of incentives. Next, we will discuss our view of market forces in momentum and our refined product development focus on certain segments and applications most favored by government incentives and where we currently have a competitive advantage.

Specifically, Class 4 trucks and buses, plus the Lightning Mobile DC fast charger we just introduced. And finally, we'll discuss how this narrowing of our focus will allow us to reduce our expenses and cash burn.

Moving to slide 6, we offer a full range of fleet electrification solutions from vehicles in service to powertrain technology, repowering of pre-owned ice vehicles, energy solutions for fixed and mobile charging, including installation and support. And finally, our Lightning Insights' Telematics and Analytics offering, which provides fleet intelligence, including driving efficiency, charging optimization and predictive maintenance.

Moving to slide 7, let's discuss the supply chain landscape. On the chassis side, our work with GM is providing a sufficient and predictable supply of chassis to serve our targeted market segment of Class 4 trucks and buses. The GM chassis is preferred by most Type A school bus providers, and we are currently the only OEM with an electrified solution on this platform. Plus, our progress on our purpose-built Lightning eChassis is very exciting as we will begin initial testing in the first half of this year and volume production next year.

On the battery front, we have sufficient quantities of high-quality batteries from Proterra and CATL for our near-term needs. I will discuss the Romeo battery issue shortly.

Beyond chassis and battery – 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 8, Lightning has been working closely with multiple battery pack suppliers for the last six years, as our broad range of applications and customizations require multiple battery suppliers, configurations and technical specifications. Many early battery pack suppliers struggled with quality and availability and vehicle OEMs, and their customers have had to work our way through that. Lightning has built a significant field service team both internally and through partners, to manage the early challenges. We're having excellent success now with our current battery suppliers Proterra and CATL and in fact, have built a proprietary safety system on CATL packs in partnership with CATL for commercial vehicle applications. We're actively analyzing, testing and validating new battery suppliers to meet our requirements, which include best-in-class safety systems by America compliance, modular support and fit for a wide variety of chassis configurations and best-in-class, energy and power density.

Turning to slide 9, in January, we announced revenue constraints in Q4 due primarily to defects we identified in the Romeo batteries. While we expected Romeo and its parent company, Nikola, to support us and our customers

and honor the warranty obligations as they publicly stated they would, they are not. We filed suit against Nikola and Romeo on March 9.

This battery issue directly and significantly impacted Q4 revenue and is expected to impact our revenues in Q1 and Q2 of this year as we lost planned sales of our legacy Class 4 Ford E-450-based platform. Looking forward, our new lineup of products, including all our GM-based Class 4 products and our Lightning Mobile DC fast vehicle charger, all use high-quality batteries from Proterra and CATL, of which we have more than ample supply. We are working with customers to convert our backlog of orders for the legacy Class 4 platform that had Romeo batteries to the new GM platform with Proterra batteries.

While we are having some success and are optimistic given what we are currently seeing with the performance of the platform, we may not be able to replace all these orders and this process is likely to impact the amount and timing of our revenue for the first half of the year.

Turning to slide 10, early on, our product development strategy prioritized optionality as we waited for more clarity on the market and the regulatory landscape. That clarity has arrived, and fortunately, the landscape now favors a market segment where we have an advantage in terms of both experience and the investments we've recently made. The Inflation Reduction Act is driving market momentum for Class 4 vehicles. The \$40,000 IRA incentive on Class 4 and above is leading to strong demand for Class 4 school buses, shuttle buses and work trucks.

School buses are seeing particularly strong momentum in terms of both incentives and public sentiment. We will continue to participate in the Class 3 business with a focus on passenger vans and ambulances and focusing less on last mile delivery. Our Class 3 platforms are already designed and where it makes sense, we will produce vehicles and capitalize on the investments we've made. We will also focus on our Lightning Mobile DC fast charger, which we unveiled last month and for which we are already taking orders. This can be a game-changing product, especially for customers wishing to electrify their fleet, but who are experiencing delays in getting fixed charging installed.

With this more focused product development and market strategy, we believe we can now lean out our expense base without sacrificing growth potential, which David will go into a little later.

Turning to slide 11, which summarizes our product development focus for this year, Class 4 buses and trucks built on the GM platform with Proterra batteries and an optimized next-generation powertrain, plus the mobile charger I spoke of. While the supply chain environment remains dynamic, we are not currently supply limited for components to build these products. We have delivered our first GM Class 4 vehicles to customers and the customer response has been positive. The platform rollout should continue in Q2 with a strong expected ramp in the second half of the year.

Initial customer response to our mobile charger has also been positive. I'm excited about this product and its prospects and proud of our development team for the job they've done. Because this product can be an electrification bridge for our customers as they build out or procure fixed charging capability to meet their charging needs. Although we expect the sales cycle to be a little slower given the newness of the product and the high ASP, we're working to accelerate it by helping customers rent or lease the product through our finance and lease partners.

Turning to slide 12, you can see how the new North America and US incentive programs stack up to provide very significant opportunities for customers to buy lightning electric commercial vehicles at a much lower investment. De-risking the purchase and allowing them to electrify their fleets at a much faster pace. Most of these programs

have launched in the last six months, so we believe the ability to stack these incentives will result in a demand inflection in the near term as customers align their purchasing plans with these new incentives.

Turning to slide 13, you can see the current competitive landscape. Although there's been a lot of noise we show here that there's little actual competition in the key markets we are focusing on. It is also important to note that many of the products listed from competitors are likely not design complete or on the road yet. We believe that we are well ahead of the competition with our completed designs and real world miles. Note that we believe we are the only EVM to – EV OEM today with an electrification solution for ambulances and Class 3 passenger shuttles.

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

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

Thank you, Tim. I'll begin on slide 15. First off, we continue to be strongly positioned in our target markets, because many of our peers are still in early prototype development and testing, while we continue to deploy our zero-emission vehicles and real-world environments across multiple market verticals and commercial vehicle applications. Our deployed fleet of over 450 vehicles recently across a collective 3.7 million miles on the road, a number growing rapidly every week.

Based on our data and estimates, our vehicles have spent more than 50,000 hours on the road, moving goods and people without emissions. Although deploying new technologies isn't easy and some bumps are expected, we continue to improve our product's reliability and are receiving repeat orders from an expanding customer base.

Turning to slide 16, I'd like to highlight our new-generation Class 4 offering built on the GM 4500 platform. This product has been developed in close partnership with GM over the last two years and has gone through a rigorous testing, including a crash test to validate battery, disengagement and airbag deployment.

We're using batteries, we've already deployed on our ZEV 3 cargo vans and ZEV 3 passenger vans over the last year and a half. And we've packaged these batteries between chase frame rails for higher safety and ease of manufacturing. This platform will be leveraged across several market applications, including zero-emission school buses, shuttle buses, box trucks, work trucks and ambulances.

Moving on to slide 17, we see here a summary of our most mature products that we expect to drive our business in 2023. We have strong vehicle body partnerships and distribution channels in place for all of these products. We're continuing to mature other vehicle partnerships we've talked about in the past, and we are actively exploring new partnerships with OEMs and vehicle builders that have a strong growth potential in 2024 and beyond.

Turning to slide 18 and 19, you'll see how the combination of incentives, grants and mandates continue to drive demand for zero-emission commercial vehicles and 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 dramatically offset the upfront cost of going electric, in some cases fully paying for the vehicle. We're working very closely with our customers to help them leverage these programs and get ready for the upcoming mandates.

Moving on to slide 20, I'm excited to report that our second-generation Lightning Mobile DC fast charger is now in production. We've developed this product based on over two years of testing and feedback from a first-generation

Lightning Mobile. Now available in multiple sizes and configurations, this product can help solve several charging infrastructure hurdles faced by the wider EV industry, both passenger cars and commercial EVs. We already have orders for this product and are on track to deploy customer units in the first half of Q2. And with that, I'll turn it over to David to provide an update on Lightning's financial results and outlook.

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

Thank you, Kash. I'll now provide some commentary on our fourth quarter results, followed by our 2023 outlook. Beginning on slide 2022. For the fourth quarter, we generated revenues of \$4.3 million, which increased 3% from the year-ago period. In the quarter, Lightning produced a record 128 vehicles and powertrains and sold 31. The adjusted EBITDA loss for the fourth quarter was \$20 million compared to a \$16 million loss in the prior-year period. The change is primarily related to higher operating expenses in the current period. Full-year revenue increased by 16% versus 2021. A reconciliation of net income to the adjusted EBITDA loss can be found on slide 2026.

Turning to slide 23. Lightning ended the fourth quarter with \$56 million in cash and cash equivalents, which we believe is sufficient to fund our operations for the next several quarters. We have yet to draw on our equity line of credit, but we have the ability to do so if needed. We are working to raise sufficient capital in the first half of this year to fund operations to free cash flow positive, and we are confident we will succeed. Net inventory at the end of the third quarter was \$47 million. The higher inventory level stems primarily from the larger number of chassis and batteries we purchase to support future growth and almost \$13 million of finished goods. We expect to draw down on our inventory over the course of the next several quarters, which will help materially slow our cash burn.

Tim and Kash discussed the narrowing of our product focus onto the products that are most attractive in terms of market opportunity, incentive support and Lightning's experience and competitive advantage. This focus will allow us to run the business in a more streamlined manner and we've begun taking actions to reduce expenses, improve gross margin and lower our cash burn rate.

Turning to slide 24. Earlier today, we announced that we took another step in strengthening our balance sheet by agreeing to exchange \$10.5 million of debt for common stock with certain holders of our 2024 convertible notes. Since the end of the third quarter of 2022, we have reduced the principal on these notes by almost \$30 million, which, in turn, lowers our annual interest expense by over \$2 million. We are constantly evaluating opportunities to strengthen the balance sheet and reduce Lightning's cost of capital to facilitate our growth.

Turning to slide 25, I will summarize our outlook for the year. As Tim highlighted, the issues related to the Romeo batteries and the timing of our GM-based Class 4 ramp is likely to constrain our first-half revenue. Based on current business conditions we expect, for 2023, revenues to be in the range of \$35 million to \$50 million, the high-end of that range would represent a doubling of revenue versus 2022. Vehicle and powertrain systems sales to be in the range of 300 units to 400 units and vehicle and powertrain production to be in the range of 400 units to 450 units.

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

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

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 US 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 in the US than anyone else. We've introduced new products that benefit from the incentive landscape and remain focused on getting to positive gross margin.

Our industry is transforming and we continue to pursue opportunities through our strategic acquisition to achieve critical scale. We have a clear vision, a differentiated strategy and tailwinds that we believe will accelerate our 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 adoption in the commercial vehicle space are falling and the 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. 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 and I appreciate your time today. Operator, we are now ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Our first question comes from the line of Colin Rusch with Oppenheimer & Company. Please proceed with your question.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Q

Thanks so much, guys. If you look at the supply chain situation, all the changes that you've made in terms of qualifying incremental suppliers and optimizing operations. Can you talk a little bit about seasonality within the guarantee provided for the full year and when you're expecting to reach gross margin positive on production?

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

Thank you, Colin. I'll start it and then let David finish on the gross margin question. Great to hear from you again so I appreciate all of your engagement and the research you're doing. Broadly, seasonality in the commercial vehicle space is usually been last-half, as you know, focused, primarily because when a new vehicle model years hit, supply chain and certainly chassis supply has changed that over the last 18 to 24 months. But we still expect the business to return a bit to a last-half seasonality based on primarily on chassis availability.

But certainly some of the challenges we've had in the past around battery supply, et cetera, have not been seasonal, they've just been ad-hoc. So do expect it to even out. But as I look at it, I think most commercial vehicles will move back towards the second-half weighted seasonality at some level. And, David, you want to talk a little bit?

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

A

Yeah. Hey, Colin. We think probably now moving into early 2024, first half of 2024, given the impacts we've had from the Class 4, the Romeo batteries and the ramp of our GM's, a lot of it has to do with obviously volume. We've talked about before that if we get to 100 vehicles a month, we get towards gross margin positive. And so, it could happen towards the back end of this year if depending on some of the seasonality that Tim talked about and the cost down initiatives that we're implementing, but more likely first half of 2024. Okay.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Q

That's super helpful. And then, just in terms of the sales cycle, obviously, this can be a fairly long sales cycle for folks. But can you just give us an update on what you're seeing both in terms of the Class 4 market as well as the school bus market, in terms of the cadence of orders coming in. And then also about your win rate, just curious about the number of things you're bidding on and how that's moving into the backlog for you guys?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Hey, Colin, this is Kash. So, in gasoline vehicles for Class 4, whether that's school buses or shuttle buses. On the school bus side, it's heavier on the late summer. Schools usually like to get ready with their buses before the next year starts. But when it comes to electric buses, it's really more timed with timelines. So, school districts using HVIP in California are going to buy it throughout the year, but they will try to get most deliveries towards the end of the summer. But nationwide, now that the EPA program is available, we're still learning what that the cycle looks like. But I predict it'll be heavier towards the summer and Q4 again.

On your question on win rates, in – so we are already in the Class 4 shuttle bus and school bus space, we were addressing it with the Ford E-450 platform now, we have the GM 4500 platform. Both those platforms also existed in the space already. But when it comes to win rates, we use the win more than 50% of actual bids in the space.

Now I'm talking about bids when a customer is trying to award a bid to someone to place a purchase order. I'm not talking about contracts, which basically everybody can get a contract and become eligible option for a state agency to buy something. But when there's an actual bid, when they try to win and buy one product over the other, we're winning more than 50% of the over time.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Q

That's incredibly helpful. Thanks so much, guys.

Operator: Thank you. Our next question comes from the line of Mike Shlisky with D. A. Davidson. Please proceed with your question.

Michael Shlisky

Analyst, D.A. Davidson & Co.

Q

Good morning and thanks for taking my question. I guess I wanted to start with the lawsuit you filed against Romeo. Another player has taken their claim to arbitration, may be contractual. I'm curious if you could just tell us, is your claim also going to go to arbitration or are you planning to stick it in for the long haul for a trial if you have.

And just the kind of thoughts as to how this may turn out without any, obviously, [indiscernible] (00:23:38) confidential, but how this thing might progress over the next couple of quarters here.

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

We do expect it to go to court, obviously very few I think when I was reading the other day in terms of actual civil litigation that actually ends up at a trial, most of them, a large, large percentage of them do not. So who knows where that's going to go. But it is we aren't at this point planning an arbitration, we are planning on – it is headed court.

Michael Shlisky

Analyst, D.A. Davidson & Co.

Q

And as far as the timeline goes, like what would be the next step? It was just filed last week, correct?

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

Yeah, exactly. It was just filed last week. So I think we'll see where the courts take it from a timeline, et cetera.

Michael Shlisky

Analyst, D.A. Davidson & Co.

Q

Okay. I guess my other question we just wanted to ask about the last week's NTA show. I guess I'd be curious how it went for Lightning? And we saw a new Ford E-Transit passenger van come from Ford directly. I wonder if you could just, give us, is that Class 2 or Class 3 that can compete much with your vehicle with a much shorter range? Or is that supposed to be something that's very close to the wheelhouse that you're working with your GM product?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Yeah. So, the show was a success for us. We showcased our GM 4500, a lot of our customers and our vehicle partners because that show was excellent, not just to meet truck fleets, but also to meet vehicle builders; second stage vehicle builders, people putting box trucks, work trucks and buses on top of platform. So, we were able to show our product to fleets and to our vehicle partners, chassis up in the air, they could see the neatly package Proterra batteries. So, it was a success.

Specific to that bus you're talking about, that is built by a bus company; not by Ford itself. The underlying platform seems to be a Class 2 Ford E-Transit cutaway product. But I don't believe it was a certified roadworthy product, it seems to be an early-stage prototype. And as you hinted, it is a lower payload, a lower-range version. I think the battery size is 67-kilowatt hours and we've got almost twice as much and we have a lot more payload. So I think if it – if that product hits the road, it'll be a very different application. You're carrying 8 or 9 kids for 40 miles versus we're in the 16 to 20 kids over 100 miles. So, it's good to see more people enter the market. And it proves that we are in the right space electric school bus is worth focusing at. But I believe it's a very different product that you're talking about.

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

And I think also important to note, because it's not a Class 2 or because it is a Class 2, it's not a Class 4, the incentive offerings are very, very different for that product than they are for ours. And that, again, is part of the reason we've stepped up into the Class 4 product.

Michael Shlisky

Analyst, D.A. Davidson & Co.

Q

Okay. Great. That's great color. I'll pass it along. Thank you.

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

Thank you, Mike.

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

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

Q

Hi. Good morning. So I just wanted to ask a bit more on the inventory wind-down. You said you expected that to help your cash burn somewhat. But do you foresee customers potentially not wanting some of those older platforms just given some of the headwinds with Romeo or some of those headlines? And if so, do you expect to see any potential inventory write-downs from those units that have been produced but not sold?

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

So at this point, the units that have been produced and not sold today are on a Class 3 product, not our Romeo-based product, so they are Proterra's. And we do expect to sell those, we don't expect to write those down on inventory. We do know customers want them. So we're not that worried about product and it's been a very, very good product for us.

Again, our focus is moving up a level just because of the higher grant money, but there's still state money for specifically HVIP in the State of Colorado and California and New York money as well for the Class 3. So we do expect to continue on that. With the Romeo-based products that, at this point, we're working on how to convert, all of those customers to running GM. So, we'll see where that plays off in terms of inventory write-down, et cetera.

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

Q

And then are you able to give us what backlogs stood at on a dollar and unit basis at the end of the year?

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

A

Yeah, we've stopped reporting backlog. Sure we just at the moment, because of some of these transitions, we don't feel it's – as meaningful as we would like it to be as an indicator for the business. So, we have a bunch of these Romeo Ford products sitting in backlog, they were trying to convert into GM products. And so, we just felt like at this time it wasn't meaningful to provide that as a indicator for the business.

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

Q

Understood. And just one last one. You mentioned you have several quarters' enough cash to fund the next several quarters and expect to raise capital in the first half. Should we expect the capital raise in the first half to be dilutive to equity as we've seen with some of these share raises?

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

A

We would expect it to be via equity, yes.

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

Q

Got it. Thank you.

Operator: Thank you. Our next question comes from the line of Abhi Sinha with Northland Securities. Please proceed with your question.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Yeah. Hi. Thanks for taking the question. And I apologize in advance, I dropped out of the calls for some reason twice. So maybe one of the questions that I ask might have been already asked. So, the first thing I want to understand, what options and how much time do you have for the advance – the delisting over hand that you have [indiscernible] (00:29:35)

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

A

We had six months, so we have through June of this year to address and get back into compliance.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

And how do you try them in terms of like options you have as a reverse split as an option? I'm just trying to understand like what options do you guys have in terms of trying to do that?

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

A

[indiscernible] (00:30:03) fortunately, if the business conditions could change and the stock could increase. But certainly a reverse split is one of the obvious options.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Sure. And in terms of percentage of orders that you are able to convert from Romeo to Proterra. Can you just – I know, you'll not be able to complete all of them, but what percentage shall we think that you should be able to safely assume that can be converted?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

It's hard to say the number that's safe to assume, but we I'm hoping more than 75%.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Sure. Thank you. Perfect. And then last one, if you could just elaborate more on the difference in operating and financial aspect when we compare, in contrast, the two batteries were from Romeo to Proterra, I mean, just trying to understand, like, in terms of what benefits you're getting through the operating and the financial aspect?

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

Yeah, obviously multiple ones. And we've been running Proterra batteries now for a year and five months on the road, in other words, and validating and testing them for a year before that. So we have a lot of experience at this point with the Proterra batteries. The biggest thing is, frankly, reliability and consistency. And that's why we standardized on them over a year ago. And rather than Romeo, because it was they were higher quality battery, more consistent manufacturing.

Historically, they have been less expensive as well. So, obviously, that has been a benefit on the other side. And I think our relationship with Proterra has been deep and we've on the other side. And I think our relationship with Proterra has been deep and we've we found them from an engineering standpoint to be a capable engineered product that we work with. So, in the end with batteries, you look at reliability, safety and cost and Proterra certainly has consistently won on all three of those by a long shot versus Romeo and that's why we switched over a year ago.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Got it. Sure. Thank you. That's all I have. Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from line of Michael Ward with The Benchmark Company. Please proceed with your question.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Thanks. Good morning, everyone. I wonder if I could just clarify the order production/revenue process. So, there were 130,000 or 130 units produced in the Q4, but only roughly 30 units got counted as revenue, is that correct?

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

Correct.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. Were those units produced to a customer order?

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

Some were, so to the case of the complexity of this, some were produced to a customer order that had Romeo batteries. So those are being rebuilt, reallocated for those customers that still that are now willing, as Kash said, the three quarters of them we expect are willing to switch to a GM-based product with Proterra batteries. So some were that others of them were built either speculatively or for customers who in the end delayed getting their financing. So a combination of all three scenarios.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. So, those 100 units that were produced but not delivered are expected to be delivered countless revenue in the first half, is that what you're thinking?

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

That I think some of them will be.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay depending on when they get resolved. Okay.

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

Yeah.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

And then so that has implications for cash flow and that's part of the unwind you see in that working capital, correct, in the revenue. And then when I'm looking at the outlook for this year, so the production rate you're going from the 128, whatever was in the fourth quarter, it's – and for the full year next year, you're looking at a lower rate in the first half. Is that because of these retrofits?

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

Yes. It's because of having to resolve the issues around the Romeo battery rebuilds. Yes.

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

A

And the transition.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay, okay.

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

A

And the transition. Well stated, David. Yeah, we are – the transition to a whole new product in terms of the GM does have – it created a time lag.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

So in Q1 to Q2 we can expect lower year-over-year production, but then the second half – look at it to expect higher production and accelerate as the full transition takes place?

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

A

Correct.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Beautiful. Thank you very much.

David Agatston

Chief Financial Officer & Senior Vice President, Lightning eMotors, Inc.

A

Sure, Mike.

Operator: Thank you. Ladies and gentlemen, that concludes our time allowed for questions. I'll turn the floor back to Mr. Reeser for final comments.

Timothy Reeser

Co-Founder, Chief Executive Officer & Director, Lightning eMotors, Inc.

Thank you, operator. And thank you, everyone, for the time. This now concludes our call.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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