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Lightning eMotors, Inc. (ZEV)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

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Analyst, D.A. Davidson Companies

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Lightning eMotors First Quarter 2023 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] Please note that this conference is being recorded.

At this time, I'll turn the conference over to Brian Smith, Vice President, Investor Relations. Brian, you may now begin.

Brian Smith

Vice President-Investor Relations, Lightning eMotors, Inc.

Thank you, operator, and thank you for joining us.

On the call today are Lightning's Co-Founder and CEO, Tim Reeser; Chief Revenue Officer, Kash Sethi; and CFO, David Agatston. Ahead of this call, Lightning issued its first quarter 2023 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. 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

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 a first quarter summary, followed by an overview of key products, supply chain progress and conclude with a short discussion on product positioning and the incentives landscape. Kash will then provide an update on products and markets, and David will wrap up with a financial summary and discuss the agreement we announced today with Yorkville Advisors to provide growth capital.

Moving to slide 5, first, the ZEV4 transition to the GM platform is now complete. The transition had to be expedited because the Romeo recall on the legacy ZEV4 product forced us to accelerate the sunset of our E-450 platform. While the gap in our product offerings during the transition period caused our financial results in the previous two quarters to be disappointing, the investment we made in this new platform was clearly the right decision. In the quarter, Lightning produced 53 vehicles and powertrains and of those 13 were ZEV4s on the new GM platform and the rest were ZEV3 vehicles. In addition to completing the manufacturing transition in Q1, we took steps to support our customers through this recall, which I will discuss in more detail.

The combination of not having enough new ZEV4 vehicles ready to replace the legacy vehicles in early Q1, plus the expense we are incurring to provide customer refunds and replacement vehicles for impacted customers muted revenue. The relatively complex accounting to correctly reflect the recall transaction in our financial statements is what caused the delay in our 10-Q filing and earnings release.

Now that this transition to the new platform is in our rearview mirror, we can look ahead. And I am pleased with the strong order book we've built for our ZEV4 school bus and public transit shuttle bus business. In many cases, the orders we have been receiving for the ZEV4 school buses and public transit shuttle buses have been the direct result of the new incentive landscape. As we previously highlighted, Class 4 electric school buses and public transit shuttle buses are uniquely positioned to receive the \$40,000 IRA incentives that's on top of EPA or FTA incentives that can then be added to state incentives.

In addition to the bus momentum, Kash will talk more about the new 126-unit order from Macnab EV Sales that we announced last Friday and that we expect to revenue in the second and third quarters of this year.

On the funding side, I'm pleased to announce a new agreement with Yorkville Advisors that we believe will help provide us the capital we need to continue our growth trajectory. David will provide more detail and discuss our commitment from Yorkville.

Moving to slide 6, I will provide more detail on the impact we experienced from Romeo's battery quality issues in Q4 2022 and Q1 2023. We were forced to recall all Romeo batteries due to defects we identified, but those fixes required Romeo's support, which we expected to receive. They've not agreed to provide support or honor their battery warranty, and we filed suit against Nikola and Romeo on March 9. We chose to do the right thing for our customers and we are buying back the full vehicles containing Romeo batteries.

As highlighted, this battery issue significantly impacted Q4 and Q1 sales. Furthermore, we booked the majority of the cost of the vehicle buyback against revenue in Q1. The relatively small remainder of the buyback cost will be amortized against future 2023 revenue in recognition of the commitment made by our customers to purchase new ZEV4 vehicles to replace the vehicles under the recall. In addition, we've been able to recover value from the vehicles we repurchased through sales of chassis and other components in the secondary market. This resale value was also factored into the net impact to our financials.

While the situation has certainly been difficult given the impact to Q4 2022 and Q1 2023, the good news is that our customers appreciated our support and holistic solution. We're working with them to convert their original orders from the legacy Class 4 platform with Romeo batteries to the new GM platform with Proterra batteries. Many of our customers have already made the switch, and some have already received their new ZEV4 vehicles.

Moving to slide 7, unlike many of our peers, we have mature offerings that include a full range of fleet electrification solutions from vehicles in service and powertrain technology, charging, finance and incentives, and finally our Lightning Insights telematics and analytics offerings which provide fleet intelligence, including driving efficiency, charging optimization and predictive maintenance. Lightning now has over 500 vehicles spread throughout the US and Canada supported by a spare parts and service infrastructure and talented service team already in place. Combined with our robust manufacturing capabilities, we are ready to scale.

Moving to slide 8, I want to elaborate on our new streamlined product development focus for 2023. Our near-term focus is on our ZEV4 vehicles, which include Class 4 school and shuttle buses and Class 4 trucks built on the GM platform, plus our Mobile DC Fast Charger and best-in-class telematics and charging systems. We shipped [ph] GM-based platform (00:07:12) vehicles in Q1 and are delivering our first revenue units of the Mobile DC Fast Charger in Q2.

Although we don't know what the sales cycle will be on the DC Fast Charger, given the newness of the product and the high ASP, we are working to accelerate it by helping customers rent or lease the product through our finance and lease partners. Customers are showing strong interest in our school buses, public transit shuttle buses, trucks and the Mobile DC Fast Charger, and we expect all four to drive strong revenue growth in the second half of this year.

Moving to slide 9, let's discuss the supply chain landscape. On the chassis side, our work with GM is providing a sufficient and consistent supply of chassis to serve our targeted markets, but exact timing of deliveries can still impact quarterly revenue. 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. We are continuing to work on our purpose-built Lightning eChassis and we expect to begin initial testing in the second half of this year and move into production next year. On the battery front, we have sufficient quantities of high-quality batteries from Proterra and CATL for our near-term needs.

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 of the lead times we are seeing for components such as electric power steering, high-voltage heaters, high-voltage air conditioners and thermal management parts.

Turning to slide 10, you can see how the new North American US incentive programs match our current product offerings and our customers are very excited to use these incentives to help fund a large portion of the purchase price of their vehicles. Most of these programs are launched recently, so we're beginning to see increased order activities. We help customers navigate the application process and obtain the needed approvals.

And now, I'll turn it to Kash to provide an update of our products, markets and sales momentum.

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

Thank you, Tim.

I'll begin on slide 12. I'm glad to share that we continue to deploy zero-emission vehicles with customers in real-world environments across multiple market verticals and commercial vehicle applications. Our deployed fleet of over 540 zero-emission vehicles has accumulated an impressive 4.2 million miles on the road, a number growing rapidly every week. Although deploying new technologies isn't easy and some bumps are expected, we continue to improve our product reliability and are receiving repeat orders from an expanding customer base. This positions us nicely in a marketplace where many of our competitors are still in the prototype development and testing phase.

Moving on to slide 13 summarizes our current product lineup that we expect to drive our business in 2023, zero-emission cargo vans, delivery trucks, passenger vans, shuttle buses, school buses, and the second generation Lightning Mobile DC Fast Charger. We have strong distribution partners in place for these products. Additionally, we're exploring new partnerships that have strong growth potential in 2024 and beyond.

Moving to slide 14, I want to highlight our next generation ZEV4 platform built in collaboration with General Motors. As a reminder, we signed an agreement with GM last year, which gives us direct access to GM chassis supply and facilitates strong technical collaboration between our engineering teams. This includes software development, testing and validation and data gathering from a GM-specified crash test. The depth of this effort helps ensure we deploy OEM-level quality product. Lightning is the only commercial EV company to have such a relationship with General Motors as of today.

The ZEV4 comes with high-quality, thermally managed Proterra batteries. Thanks to the versatile nature of this platform, we'll be building a wide variety of vehicles on the ZEV4, including school buses, public transit shuttle buses, delivery trucks and work trucks. Deployments have already begun and we expect to ramp up in the coming quarters.

Now, turning to slide 15, we're excited about the tremendous response that our second generation Lightning Mobile DC Fast Charger has received, which is now operational and in production. We've developed this product based on over two years of testing and customer feedback on our first generation Lightning Mobile. It can pack up to 420 kilowatt-hours of energy and can fast charge up to five vehicles at a time.

The impressive array of use cases range from fleet managers needing short to medium-term charging solutions as they wait for their long-term charging infrastructure [ph] that waits (00:12:15) to be done, to event planners who want to provide passenger car charging at concerts, sporting events and music festivals, to toll truck companies who would use it to rescue EVs that may be stranded after running out of juice.

To showcase this product, we demonstrated a working unit at the recent ACT Expo in Southern California, where the Lightning Mobile charged a wide variety of electric vehicles at the show's Ride & Drive section. We also displayed a unit at our booth where over 100 potential customers engaged with us and feedback was very positive. We already have orders on the books and are on track to deliver the first units this quarter.

Turning to slide 16, I'm pleased to report that we received a large order for 126 zero-emission vehicles from Macnab EV Sales, a leading distributor in trucks and buses in Canada. The order is for a mix of ZEV3 and ZEV4

cargo vans, passenger vans and shuttle buses. Deliveries have already begun and we expect to fulfill the order across Q2 and Q3.

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 first quarter results, followed by our 2023 outlook.

Beginning on slide 18, for the first quarter, we generated GAAP revenues of \$1.3 million. On an adjusted basis, our revenue was \$3.6 million on sales of 29 units. The difference between adjusted and GAAP revenue is the charge we took for buying back some vehicles with Romeo batteries, as Tim explained previously. In the quarter, Lightning produced 53 vehicles and powertrains. The adjusted EBITDA loss for the first quarter was \$19.7 million compared to a \$14.8 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 23 and the revenue reconciliation can be found on slide 24.

Turning to slide 19, we have been upfront about our need to raise additional capital to fund our operations until we reach cash flow positive. We are pleased that despite extremely challenging market conditions, we have options. First, we have an existing equity line of credit with Lincoln Park, which is currently untapped and could provide us additional capital. Today, we announced an agreement with Yorkville Advisors to provide up to \$50 million through a prepaid advance agreement. We are excited about this agreement and partnership with Yorkville, which should help us accelerate our growth.

Turning to slide 20, here are some more details about the deal with Yorkville. The prepaid advances will come in \$2 million tranches and will be used for general corporate purposes. The agreement provides us great flexibility in terms of the timing and number of advances over the 18-month term of the agreement. And Yorkville is willing to increase tranche sizes, if market conditions improve.

Turning to slide 21, Lightning ended the first quarter with \$35 million in cash and cash equivalents. And we believe this cash plus initial tranches drawn against the Yorkville facility is sufficient to fund our operations for the next several quarters. Additionally, we have yet to draw on our equity line of credit, but we have the ability to do so, if needed. We continue to explore additional opportunities to raise sufficient capital to fund operations to free cash flow positive, and we remain confident we will succeed.

Net inventory at the end of the first quarter was \$47 million, about flat with last quarter. We expect to draw down our inventory over the course of the next several quarters, which will help improve our cash flow. The deal with Macnab, that Kash highlighted will be fulfilled in large part with existing finished goods inventory and generate cash. Early in Q2, we took actions to reduce our expenses. Despite the capital we can raise with the Yorkville agreement, we may still take further actions to reduce expenditures, if we feel they are warranted to further preserve cash.

Turning to slide 22, I will reiterate our outlook for the year. Based on current business conditions, we continue to expect for 2023 revenues to be in the range of \$35 million to \$50 million, vehicle and powertrain system sales to be in the range of 300 to 400 units, vehicle and powertrain production to be in the range of 400 to 450 units.

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

Tim 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 we are certainly disappointed with the results of the last two quarters, we feel we're now through the issues resulting from the Romeo recall and see significant opportunity to leverage the tailwinds created by the alignment of our new products with the incentive and mandate landscape. The order momentum we see gives us confidence that we will realize the sales volumes and mix required to achieve positive gross margin within the next 12 months. The commitment from Yorkville provides a new source of funding to help us achieve the goals we have for the business.

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. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. Thank you. And our first question is from the line of Colin Rusch with Oppenheimer. Please proceed with your question.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Thanks so much, guys. Could you just talk a little bit about the customer dynamics? I mean, obviously, having trucks on the road is a huge deal relative to a lot of peers. But working through some of these service issues, can you just speak to the tone of the relationships and what you're seeing beyond the orders with those customers?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

I can take that.

Tim Reeser

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

Thank you, Colin. Yes, thank you, Kash. Go ahead.

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

Good. So, Colin, obviously, when we had the quality issues with Romeo batteries, it's not a good situation because our ideal method is people buy 5 vehicles, 10 vehicles, and that leads to hundreds. And if the

deployment of 5 or 10 stumbles because of a battery quality issue, that delays them buying hundreds. So, it's painful for the customer and it's painful for us.

Having said that, the resolutions we've offered have got us a lot of goodwill with customers. So, broadly speaking, most of our customers are understanding that technology is new and some bumps are expected and they're very appreciative of the solutions we've given them. Combined with that, we have a very strong service network that covers across US and Canada, including a combination of our own technicians and our partners. And on many levels, customers really appreciate having a service team that shows up to site when something goes wrong and help troubleshoot them instead of some other EV companies that we've heard about, where if an issue happens, it's weeks and weeks before they even see anybody.

So, the customer dynamic generally is positive and given the amount of funding that's coming in, it's getting positive every week. Tim, please feel free to add to that.

Tim Reeser

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

That was great, Kash. Thank you.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Thanks, guys. And then from a cash management position, I guess have you thought through and can you communicate just kind of what your expected cash use is for the year as you work through this ramp into some of these bigger numbers as the supply becomes available to build more vehicles?

David Agatston

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

Yeah, I mean, I think, Colin, we expect the cash burn to drop from kind of current levels just especially because of the inventory we're working through. So, we've got a lot of the inventory, whether it's in finished goods or in raw materials that we need to build what we're forecasting in terms of the order book. And so, that's going to be helpful. Then we built up inventory in Q4 last year and Q1 of this year and a lot of batteries have chassis, have some finished goods inventory that we're going to use to fulfill this Macnab order that Kash talked about. So, we expect that to help us [ph] particularly (00:20:54) in terms of cash burn. And from a net perspective, obviously, having this Yorkville cash is also incredibly helpful.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Okay. Yeah. Actually, that makes a lot of sense. All right. Thanks so much, guys.

David Agatston

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

Thank you, Colin.

Tim Reeser

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

Thank you, Colin.

Operator: The next question is from the line of Mike Shlisky with D.A. Davidson. Please proceed with your question.

Michael Shlisky

Analyst, D.A. Davidson Companies

Q

Good morning and thanks for taking my question. I want to ask about the Class 4 market and kind of where things stand right now with respect to that market going electric. There are other players trying to go into Class 4 right now over the next couple of years, most of them seems to be looking at the EV cargo space, not necessarily the shuttle buses and school bus part of that market. But I always thought that, school bus, shuttle bus are basically the – almost the entire Class 4 market. There's a small cargo space, but it still is entirely shuttle bus and school bus. So, can you maybe just give us a feel for how important the shuttle and school bus is to your Class 4 business and at this point, are you pursuing that smaller cargo piece as well and how that piece is going for you right now?

Tim Reeser

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

A

Kash, do you want to take that one?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Yeah, sure. So, Mike, you're right that you look at Class 4, there's multiple segments, there's cargos, delivery trucks, work trucks, there are school buses and there is shuttle buses, public transit shuttle buses. The cargo space is sizable, but when you look at the incentive landscape, it does not have the same incentives. It's got some state incentives. It's got some of the IRA money, but school buses and shuttle buses have FTA and EPA money, a lot of money that's been reserved for many years to come.

So, while in the gasoline space, the Class 4 cargo market is sizable, when you look at EV adoption and EV markets, we strongly believe that school buses and transit buses will lead the way. And we are very nicely positioned there with already products on the road and more importantly, vehicle body partnerships in place. We do think the cargo space will get some adoption, especially as time goes on, cost drops and more mandates kick in that require customers to go electric. And that's the beauty of our ZEV4 platform. It's the same underlying platform that goes underneath multiple vehicle types and we can take our investment and look for return across multiple markets. So, we believe in our strategy. I agree with you. If you only went after the cargo van space, ignoring the bus space within Class 4, I would make that business case a little hard to justify.

Michael Shlisky

Analyst, D.A. Davidson Companies

Q

Great. That's great color. And I want to follow up on what you've just commented on about mandates. We are starting to hear about the California Advanced Clean Fleet rules that are coming out here and it looks like you have to be 10% EV by the end of next year. That's what it seems like for most fleets, that's what will have to be next year. Are you already selling in California? Certainly we've seen some of your shuttle buses out there and other vehicles. You discussed the 2024 opportunity in California, just that one state alone for your business. Is that a sizable number that could easily [ph] be it (00:24:07) this year?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Yeah, I believe so. Historically, California has led the way anyway. Going forward, we see a lot of zero-emission vehicles going across the country and across Canada as well. But California will continue being a sizable chunk of the EV market for both reasons, the carrot and the stick. They've got a lot of incentives that can stack on top of the federal incentives and they've got the stick coming, as you described. So, we are already talking with customers who are eager to learn about what the stick means to them next year and how should they start deploying a small number of units now, so they can ramp up as the mandates ramp up. So, we do believe it's a sizable market opportunity for us in 2024, 2025 and beyond.

David Agatston

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

A

And I would say, Mike, anecdotally, just sitting at the ACT booth for a little bit, a couple of weeks ago, there were a lot of folks that came by from California government agencies, which I think is part of that, and other companies that were located in California because of that mandate.

Michael Shlisky

Analyst, D.A. Davidson Companies

Q

But I guess I'm trying to get more of a feel for do you feel better about 2024 now than you did on April 27 before the rules were kind of released, or were you already feeling it? It was going to be strong next year because of just California in general. Kind of wanted to get a feel for your pipeline and your sentiment.

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Yeah, I think marginally better, but only because we already knew the rule was coming. This rule has been in development for many years, right? It started with the rule that manufacturers must sell EVs into California and we knew they were going to match it up with the rule that fleets must purchase EVs. So, we had baked in some of the opportunity into our plans, but it's certainly promising to see the rule coming into play and plans actually being executed by the government.

Michael Shlisky

Analyst, D.A. Davidson Companies

Q

Great. One last one for me. Are you currently pursuing any platforms other than GM and your own eChassis, other brands out there that we maybe haven't heard much about in recent quarters?

Tim Reeser

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

A

At the moment...

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

We are exploring...

Tim Reeser

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

A

...Mike, it's – yeah, go ahead, Kash.

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

...yeah, I was going to say, we are exploring and we're focused a lot on the ZEV4 on the GM and our own eChassis. I think that will lead the way for us. But we're always looking out for new opportunities, whether in our core markets today or adjacent markets like off-road, where there could be a good fit for us.

Michael Shlisky

Analyst, D.A. Davidson Companies

Q

Off-road. Great. Interesting. Thank you so much. I appreciate it.

Brian Smith

Vice President-Investor Relations, Lightning eMotors, Inc.

A

Thank you, Mike.

Operator: Our next question is from the line of Abhi Sinha with Northland Capital. Please proceed with your questions.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Yeah, hi. Thanks for taking my question. The financial support that you guys got from Yorkville, that's certainly [ph] address to the (00:26:50) Street that Lightning is here to stay. But if you could provide any color like how you guys thought internally about various other options you had on the table, the dilution and everything that came with it, and why this made the most sense.

David Agatston

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

A

Sure. Abhi, I mean, obviously, in this market, it's not like there were tons of awesome opportunities. And so, you know that our convert prevents us from any additional debt. So, we really had to look at equity. And so, anything was going to be somewhat dilutive. What we really like about the way Yorkville was able to structure this facility is that we have these small tranches that -in that we control when we take them, how many we take, when we need them, et cetera. And so, it gave us, we thought, the most flexibility in terms of matching our cash needs with the way they were structuring the facility.

Tim Reeser

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

A

And Abhi, I'd add to that a couple of things. One of them is they are – it's a very covenant light agreement. So, we felt that was key, obviously, to give us a lot of flexibility. The second thing you'll notice, it doesn't have a lot of overhangs. It doesn't have warrants, that sort of thing. So, we do feel it's clean capital and is a great option for us for all the reasons we're talking about here.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Got it. Sure. And then if you could remind us how many units were recalled. And if I look at the non-GAAP sales, the delta between the production and the sales are still high. So, what else is going on there?

Tim Reeser

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

David, I'm thinking – correct me if you remember more. I think the recall affected 15 to 20 vehicles. Is that accurate?

A

David Agatston

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

I think a little more than that, probably 20 to 30.

A

Tim Reeser

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

Okay. So in that range, we were still – on the other side, to your question, are we still in the quarter building some inventory and knowing that we were working on this Macnab deal and a few others that by having that, those vehicles on the ground ready to go gave us a leg-up in the sales process with those customers because, as you can imagine, if you're a customer looking for a vehicle right now, if you have a choice of buying a vehicle that you have to wait a long time for, or one that's ready to go right now, you often will choose the one you can get right now. So, we did continue as you look at the last several quarters, we built more than we sold. And now, we have an opportunity to reverse that trend here with this large order with Macnab.

A

Abhishek Sinha

Analyst, Northland Securities, Inc.

Got it. Sure. That's all I had. Thank you very much.

Q

Operator: Thank you.

Brian Smith

Vice President-Investor Relations, Lightning eMotors, Inc.

Thanks, Abhi.

A

Operator: The next question is from the line of Sherif El-Sabbahy with Bank America. Please proceed with your question.

Sherif El-Sabbahy

Analyst, Bank of America Merrill Lynch

Hi. Good morning. Just to touch on...

Q

Tim Reeser

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

Good morning, Sherif.

A

Sherif El-Sabbahy

Analyst, Bank of America Merrill Lynch

...on that recall impact, just taking the difference of vehicles produced versus vehicles sold, at the end of Q1, it looks like differential was about 187 units. So, with that 20 or 30 units that you mentioned being the impact, would that be stripped out of that 187? Is that how we should think about units on hand?

Q

David Agatston

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

I'm not sure I'm following the math. So, sorry. You're saying, so you – based on your math, we have 180 or so what – units on in inventory...

[indiscernible] (00:30:31)

Sherif El-Sabbahy

Analyst, Bank of America Merrill Lynch

...taking the difference between the vehicles produced and vehicles sold?

David Agatston

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

Yeah. And then what was it tied to the recall, sorry?

Sherif El-Sabbahy

Analyst, Bank of America Merrill Lynch

I believe you said it was 20 or 30 units.

David Agatston

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

Yeah. I'm sorry. I'm missing your question around what the...

Sherif El-Sabbahy

Analyst, Bank of America Merrill Lynch

My question would be, those 20 to 30, would that be coming out of that 187 that are on hand, or were some of them sold and kind of bought back and wouldn't be kind of in the units on hand?

David Agatston

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

Yeah, no. I mean, so we bought the vehicles back, we're kind of taking them into inventory and reselling components from them. So, those would not be part of the units on hand that we would now have to resell, because obviously we had outstripped the batteries which are no longer working out of them. So they're not working vehicles and we didn't have other batteries that we could put into those Ford chassis.

Sherif El-Sabbahy

Analyst, Bank of America Merrill Lynch

Thank you. And then just looking at average selling price, it dipped a little bit sequentially. Is that mostly just mix or is there sort of a changeover in pricing when we think about the ZEV3 and ZEV4 products?

David Agatston

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

Yeah, it's mix. We certainly like the – the pricing on the ZEV4 is certainly stronger, especially because they are qualified for more incentives. So, you can keep the prices a little higher with customers because they're getting the discount via the incentives where they're much smaller in the ZEV3s.

Sherif El-Sabbahy

Analyst, Bank of America Merrill Lynch

Got it. Thank you.

Q

Operator: Thank you. [Operator Instructions] The next question is from the line of Michael Ward with Benchmark. Please proceed with your questions.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Thank you. Good morning. Just to follow up a little bit more on the Yorkville agreement. So, this is a straight equity agreement and it goes out for 18 months and then you have \$2 million tranches. Is the price determined, is there a minimum, how is it going to work?

Q

David Agatston

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

Yeah, we filed the docs that have all the details. It's a bit complicated, but they're certainly out there. With each tranche, there's a price that's set with a bit of a discount that determines how the shares convert. But all the details are in the docs that were filed.

A

Michael P. Ward

Analyst, The Benchmark Co. LLC

Okay. So, the price has already been set upfront though.

Q

David Agatston

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

With each tranche, yeah.

A

Michael P. Ward

Analyst, The Benchmark Co. LLC

With each tranche. Okay. Is it accumulative. So, if you don't exercise a tranche, do you still have the ability to exercise that tranche?

Q

David Agatston

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

Yeah. I mean, it's the \$50 million over the 18 months and we choose kind of how we take those, would be up to 25 tranches.

A

Michael P. Ward

Analyst, The Benchmark Co. LLC

Okay. Is there a minimum you have to take?

Q

David Agatston

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

No.

A

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. David, on one of your charts, you talked about cost cutting and just was that, you said cost actions to reduce expenses by \$5 million to \$10 million. And is that operating cash or is that capital?

David Agatston

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

A

Combination.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. Can you give some color on that?

David Agatston

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

A

Yeah. I mean, in terms of operating, we've reduced head count. Obviously, we're taking a look across consulting, travel, we've reduced you can – pretty much any category you can find. We just renewed our D&O insurance and got a lower cost on that, and then have really scrubbed any CapEx projects that we were doing this year and only doing the things that were most critical for the business. And then, we'll keep looking at those as we go each month to see if there are other things that we should cut further.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. So, what are you looking at for CapEx for the year?

David Agatston

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

A

We would expect it to be around \$5 million.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Wow. Okay. And so, then the rest of the – and then so, you've about \$5 million in operating cost reduction. That's what we're looking at.

David Agatston

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

A

Yeah, yeah.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Perfect. Thanks very much.

Operator: Thank you. At this time, I show no additional questions. And thank you, ladies and gentlemen, for joining us today. This will conclude today's conference. You may disconnect your lines at this time. And we thank you for your participation.

David Agatston

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

Thanks, everyone.

Tim Reeser

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

Thank you, everyone.

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