

14-Aug-2023

Lightning eMotors, Inc. (ZEV)

Q2 2023 Earnings Call

CORPORATE PARTICIPANTS

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

Kash Sethi

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OTHER PARTICIPANTS

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Lightning eMotors Second Quarter 2023 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Brian Smith, Vice President of Investor Relations. Please go ahead.

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 our second 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'll begin with a second quarter summary, followed by an overview of key products, an update of our Lightning eChassis development, supply chain progress; and conclude with an overview of the incentives landscape and the 2024 California Advanced Clean Fleets Regulation. Kash will then provide an update on products, markets, and customer success. And David will wrap up with a financial summary.

Moving to slide 5, a summary of the quarter. First, Q2 was a strong quarter, with the second highest quarterly revenue in our company's history. You'll recall that our prior two quarters were constrained by issues related to the recall of Romeo batteries. With that behind us, I'm pleased with the solid order book we have built for our ZEV4 school bus and shuttle bus vehicles. We have sufficient inventory and the orders in hand to convert that inventory into cash during Q3 and Q4 and are maintaining the lower end of our 2023 revenue guidance. As we turn inventory into cash and reduce our outgoing cash outlays, we continue to explore all options that have been working with financial advisors to support a recapitalization and/or sale of the business.

Moving to slide 6, I want to elaborate on our continued 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, plus our mobile DC fast charger, while our longer-term focus is on the Lightning eChassis. We ramped production of our ZEV4 platform vehicles in Q2 and I'm pleased to say the customer response has been very positive and customers are already responding with repeat orders.

In addition to the ZEV4 ramp-up, we delivered our first customer units of the mobile DC fast charger in the quarter. The mobile fast charger is a one-of-a-kind product with an attractive sales price. We expect the sales pipeline to continue to grow as potential customers complete successful trials and demonstrations, and we expect these to result in multi-unit purchases or leases. While the sales ramp may take time, initial customer reaction is extremely positive and over a wide range of real-world use cases.

Turning to slide 7, the development of our Lightning eChassis is progressing well, with prototype development, and testing is scheduled later this year. We expect to have two chassis initially one for Class 3 and one for Class 4, which share many common components. They both will provide improved range and payload versus our current ZEV3 and ZEV4 vehicles. Lightning's current ZEV3 passenger van is the only electric passenger van in the market in North America today for Class 2 or Class 3. And we expect our new ZEV3 eChassis will allow us to continue our leadership in the medium duty Passenger Van segment.

Our new ZEV4 Cutaway chassis, eChassis will support multiple vehicle applications such as buses, trucks and ambulances, and come with a modern single or dual cab with safety features not available today on current medium duty cutaway platforms. We continue to stay true to our capital-light model and are collaborating closely with a chassis partner, who already has the manufacturing capability to support our requirements.

Moving to slide 8. Let's discuss the supply chain landscape. I am certain that I am as tired of talking about supply chain as our investors [ph] are and hearing (00:05:13) about it but there's no denying that the EV supply chain continues to be dynamic and still in a very early state relative to the traditional automotive supply chain.

On the chassis side, supply has improved materially and we have sufficient supply to meet our revenue guidance. But inconsistent lead times and timing of deliveries can still impact quarterly revenue and result in temporary inventory spikes like we saw in Q2. The GM chassis is preferred by most Type A school bus OEMs and we are currently the only EV manufacturer with an electrified solution on this platform.

On the battery front, we have sufficient quantities of high quality batteries from Proterra and CATL to meet our Q3 and Q4 build plans. The dynamics of the battery supplier landscape over the last few years led us to adopt a multi-source strategy and that will serve us well, given the most recent news from Proterra. We are in discussions with Proterra and expect to be able to purchase batteries from them as needed for 2024.

As we look to the future, we are engaged with all major battery suppliers and technologies to identify other lower cost, high quality battery solutions. Beyond chassis and batteries, we continue to work to diversify our supply chain and to find higher quality components from reputable suppliers. We are managing through such transitions for components including motors, vehicle upfits and power steering pumps.

Turning to slide 9, this chart shows how new US and Canadian incentive programs purposefully align with our current product offerings. And our customers have been using these incentives to help fund a portion of the purchase price of our vehicles. We are beginning to see increased order activity as we help customers navigate the application process and obtain needed approvals. These new incentives and the associated cumbersome application and [ph] award practices have (00:07:00) elongated the sales cycle due to lack of definition and extended award timing, but we are now seeing some steady flow and expect the pipeline and backlog to continue to accelerate as customers become more familiar with the incentive processes.

Turning to slide 10, I want to highlight that incentives are not the only demand driver. States are also implementing mandates to further drive adoption. The most eminent and impactful new mandate is the Advanced Clean Fleets Regulation that California Air Resource Board (sic) [California Air Resources Board] (00:07:30) approved in April 2023. The regulation requires a phased-in transition for California fleets towards zero emissions, medium and heavy duty vehicles starting in 2024. The adopted rule is meant to enforce a large scale transition of zero emission, medium and heavy duty vehicles in California. Starting this January, commercial fleets of 50 or more trucks, as well as federal government agency fleets with vehicles in California, will be required to add zero emission vehicles to their fleets. And from 2024 to 2026, 50% of state and local government purchases must also be zero emission vehicle or near zero emission vehicles.

As of the 2021 census, there were over 55,000 Class 4 through Class 6 vehicles in California with five- to seven-year replacement cycles that will be immediately impacted by this regulation. In addition, there are 14 other states who are adopting or considering adopting similar mandates.

And now, I'll turn it to Kash to provide an update on products, markets, and customer success.

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

Thank you, Tim. I'll begin on slide 12 with an update on our Class 4 EVs. Earlier this year, we launched our next generation ZEV4, a flexible platform that allows us to build a variety of commercial vehicles, like school buses, public transit shuttle buses and various kinds of delivery trucks and work trucks. A strategy of leveraging the industry's existing bus and [ph] truck upfitter (00:08:56) network is working, and we continue to explore partnerships with additional vehicle builders. As Tim mentioned, we successfully ramped up ZEV4 production in Q2 and customer feedback has been positive so far.

Moving on to slide 13 for an update on our second generation Lightning Mobile DC Fast Charger. I'm pleased to report that we have delivered the first customer units in Q2. Additionally, we showcased the product at the Dallas Fort Worth Airport where we provided mobile charging to airport staff and customers in a variety of airport locations. We developed this product based on over two years of testing and customer feedback on our first

generation Lightning Mobile. It is designed to support up to 420 kilowatt hours of energy and can fast charge over five vehicles – 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 solutions to be upgraded. To event planners who want to provide passenger car charging at concerts, sporting events and music festivals, to tow truck companies who would use it to rescue EVs that may have been stranded after running out of juice. We look forward to sharing more updates on this exciting product in the near future.

Turning to slide 14, we summarize here our current lineup of products that are driving our business this year. Zero emission cargo vans, delivery, and work trucks, passenger vans, shuttle buses, school buses and the Lightning Mobile DC Fast Charger. These are real products on the road with customers today, and we continue to receive repeat orders from an expanding customer base. We will continue exploring new products and new vehicle partnerships that have strong growth potential in 2024 and beyond.

Moving to slide 15 for an update on the large order we previously announced from Macnab EV Sales. This contract includes a 126 zero emission vehicles, a mix of ZEV3 and ZEV4 cargo vans, passenger vans and shuttle buses. Initial deliveries occurred in Q2 and we expect to deliver the balance of the order across Q3 and Q4.

Turning to slide 16, I want to highlight the success of our ZEV4 school bus product so far. We're building this in partnership with Collins, a REV Group company. Collins has over 50 years of experience building school buses with tens of thousands of buses on the road today. We're able to leverage not only their bus manufacturing expertise, but also their nationwide network of school bus dealers, who make for a great sales and service partner. Nearly 40 electric school buses have been deployed this year, and we have a significant number of confirmed orders for additional buses to be built in Q3 and Q4.

Moving on to slide 17, let's look at some numbers from the field. We have now deployed over 600 zero emission commercial vehicles, that have accumulated an impressive 4.9 million miles on the road, a number growing rapidly every week. This includes over 10 unique vehicle types, demonstrating the variety of market verticals our core EV technology can be commercialized in. With real products and customer success stories, we are positioned nicely in the marketplace, where many of our competitors are still in the prototype development and testing phase years behind us on real world experience.

And with that, I will 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 second quarter results, followed by our 2023 outlook. Beginning on slide 19. For the second quarter, we generated GAAP revenue of \$7.9 million, our second highest revenue quarter ever, driven by the initial success of our recently launched ZEV4 school bus product and continued sales of our ZEV3 inventory.

On an adjusted basis, our revenue was \$8.2 million on sales of 70 units. The difference between adjusted and GAAP revenue is the pro-rated charge we took for buying back some vehicles with Romeo batteries, the impact of which we recorded mostly in Q1. In the quarter, Lightning produced 46 units, including vehicles, power trains and mobile DC fast chargers. The adjusted EBITDA loss for the first quarter was \$17.1 million, compared to a \$13.9 million loss in the prior-year period. The change is primarily related to a larger gross loss on higher cost of

revenues. 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 20, Lightning ended the second quarter with \$12.6 million in cash and cash equivalents. We believe that this cash plus the Yorkville facility and the cash we will collect from the sales of our existing inventory is sufficient to fund our operations in the near future. We have seen a material uptick in cash inflow recently as we collect on the revenue – booked in Q2 and early Q3 and recently received material cash proceeds from a legal settlement. We obviously know that we still need to secure additional funding and we are actively exploring all avenues to raise the capital needed to support operations.

Net inventory at the end of the first quarter was \$57 million, up from last quarter on chassis purchases required to meet our second half 2023 order demand. We expect to draw down on 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 exclusively with inventory on hand and therefore provide material cash into the business. As with any growing company, inventory and accounts receivable have been cash streams for us over the past couple of years, but in the upcoming quarters, we expect that trend to reverse. As noted on the Q1 earnings call, we took actions in early Q2 to reduce our expenses. While those steps have had the intended impact, we continue to identify further opportunities to reduce expenditures and conserve cash.

Turning to slide 21, we have been upfront about our need to raise additional capital to fund operations. We are pleased that despite extremely challenging market conditions, we have options. We have the existing equity line of credit with Lincoln Park and a prepaid advance agreement with Yorkville. However, our ability to raise funds through these instruments can be constrained by our current market capitalization and daily trading volumes. In addition, in order to further leverage the Yorkville PPA, we require a successful outcome from the shareholder vote on August 24. If the vote is successful, we expect to begin drawing on the PPA again immediately to bring additional cash into the business.

As a reminder, we still have approximately \$47 million left on the original commitment with Yorkville. Furthermore, we have been actively working with advisors and including an investment bank to approach parties interested in helping us scale the business via additional financing, recapitalization and/or strategic partnerships, and also to explore the sale of the company. We're considering all structural and strategic options available to us to maximize liquidity and returns to stakeholders and hope to have a positive outcome from this process by year-end.

Turning to slide 22, our outlook for the year. Based on current business conditions, we expect for 2023 revenue to be in the range of \$35 million to \$45 million. Vehicle and powertrain system sales to be in the range of 300 units to 350 units, vehicle and powertrain production to be in the range of 200 units to 230 units. We have reduced the top-end of our annual revenue guidance from \$50 million to \$45 million, and also lowered the top end of the unit sale range accordingly.

We reduced the top end of the revenue and unit sales to reflect a change made to conserve cash. We are now only purchasing inventory if needed for firm orders. While we will likely receive additional firm orders during the second half of this year, that could have allowed us to hit the original top end of guidance, we may not be able to obtain the inventory needed to complete those builds in time to book revenue in 2023.

We also lowered the unit production range to reflect both the change to a built the order model and because we still have a material amount of finished goods inventory available to sell to meet our revenue guidance.

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 optimistic about the outlook for Lightning eMotors as we continue to execute our strategic and operating plans. Our team has managed through more challenges than [indiscernible] (00:17:35) over the past two years. As we make progress on our new platforms, as the government incentives and mandates gain further traction and as customer adoption grows, I see a bright future for commercial electric vehicles and for Lightning eMotors.

I would like to finish by thanking all of our customers for their confidence in Lightning, our partners for the contributions to our company's progress, 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 line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Colin Rusch with Oppenheimer. Please go ahead.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Q

Hey, guys. Thanks so much for having me on. So can you talk a little bit about the mix of vehicle types that you're seeing as you've gone through this year and look at kind of where the sweet spot is on incentives and where there's real demand and sell-through? What can you say about the vehicle types you guys have in the backlog at this point?

Tim Reeser

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

A

Thank you, Colin. Great to hear from you again. I think one of the reasons we spend a lot of time focusing on Class 4 – well, there's two reasons, one of them is the incentives landscape with both IRA, and FTA, and EPA all combining together for that Class 4 product. The other thing is our Class 4 product is quite utilitarian in the sense that it can be a school bus, it can be a shuttle bus and it can be a work truck. So it's a unique product in that sense. And so that is certainly where we see demand. And we've talked a lot about school buses picking up but also shuttle buses and work trucks in those areas.

We've continued to see good demand on our ZEV3 product as well and set the – a lot in the passenger space, as I said, we're the only people who have a Class 3 passenger van available today as an electric vehicle, so we have some unique parts. So not only do we see the demand in places where very clearly there are incentives and now mandates, as I mentioned, but also where that we don't have a lot of competition. So in both those areas, we don't have much competition in many of the applications and use cases we have. And that's where we see the scaling and the demand happening.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Q

Perfect. And then, there's been some changes in the battery landscape. Can you talk a little bit about the supply chain and how you're navigating that? Obviously, there's a lot of puts and takes around that, but just want to understand some of the resilience in your own supplier base?

Tim Reeser

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

A

Yeah. We decided after lots of challenges five years ago that we had to have a dual source plan. And so since really early on, we've maintained multiple battery sources for and frankly have had lots of challenges with those sources along the way, with different battery suppliers struggling to deliver, struggling with quality, different battery suppliers struggling with availability, some going out of business. So that landscape is obviously not evolving in a positive way at this point. I think, it still remains challenging and so our goal has been to be multi-sourced in the battery space. And so as you've seen today, we have both CATL and Proterra batteries in inventory, in stock. We're able to make, many different of our variants of products with different batteries. And our commitment remains stronger than ever to continue that multi-source strategy. So we do – I think, on the other side of multi-source, we've maintained a lot of inventory and obviously that's been a tough drain on cash, but it's paying off at this point in the sense that we have inventory to build these next two quarters. And that's been huge as well.

So we – it's an area where we think our experience is paying off in the sense that we understood the value multi-source and have executed on that. And the money we spent and the investments we've made, both from a technology standpoint and an inventory, are paying off, too. So we do – we feel good about it, but certainly we know we have to remain vigilant and we're going to have to continue to have multi source options to succeed.

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Q

Perfect. And one last one for me. You went through a fairly robust and thorough design out of cost on your manufacturing. And you – and separate from that, you have invested in the chassis production. Can we just get an update on how all of that flowing through in terms of your cost structure and how we should think about some of that evolving over the next two to three quarters?

Tim Reeser

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

A

Yeah. I think there's two parts to what evolves. One of them is, are we selling through inventory that was made in the past, so it may not have taken advantage of some of those cost reductions. And the second one, of course, is where the volume ends up. So we are benefiting as you look forward and look at our guidance from significant improvements in volumes, which is significantly improves how we allocate or the allocation cost per vehicle of overhead and fixed assets. So, that's one of the cases that the volume is improving.

And then as you point out, we've reduced, for example, labor costs per vehicle has gone down and continues to go down. And especially when you're building in the case of ZEV4, we're still within the first 100 units. There's a tremendous amount of optimization and learning that goes on in those [ph] first 100 units (00:23:30) in terms of making it more efficiently. So that's going very well as well. So we do continue to see and are very optimistic about the – where we see the costs going, and we can see it firsthand. But the other thing is we're seeing the volumes improve firsthand. So, we really want both of those to occur in order to really see the efficiencies and ultimately hit positive gross margin. Did I miss anything, David?

David Agatston

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

A

Just cost downs for batteries over time.

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

Yes, it will be another big one.

A

Tim Reeser

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

And motors. So, we've got both matters, batteries and motors coming down in cost significantly too over the next couple of years.

A

Colin Rusch

Analyst, Oppenheimer & Co., Inc.

Perfect. Thanks so much, guys.

Q

Tim Reeser

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

Thank you, Colin.

A

Operator: Our next question comes from Sherif El-Sabbahy with Bank of America. Please go ahead.

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

Hi. Good afternoon. So I understand, you have batteries on hand and we've discussed the issue with a battery supplier, but just concerning customers. Are they expressing any concerns about taking products with a supplier that's currently under Chapter 11, issues with warranties or so forth? Are they looking to change out maybe what products they're looking out based on the battery supplier front?

Q

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

Hey, Sherif this is Kash. So yeah, I mean, we're certainly getting questions from customers, existing customers and dealer partners on what happened, what does it mean, what are our options, and I think as Tim alluded to us having a multi-source battery strategy really comes in handy here now, just so we have more options based on how in the next three to six months plays out with that one specific company. So, it is a conversation with customers. We are still building products with the battery. We're going to be building more products with that battery. And so far it hasn't resulted in any cancelled deals or lost orders. But certainly, the industry and us we're keeping an eye on how that situation evolves. It might have an impact in the future, but I think because we will be able to come to the plate with another battery option available that can go into production right away, not in two years, I'm assuming the impact will be minimal for us versus another OEM where the only battery they had that it was that specific battery where there's a bit of a risk now.

A

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

And just to follow up on that, with the CATL batteries, are those designed into each of your products and exchangeable versus a Proterra battery? Or is there any redesign work needed to use a CATL on any particular models?

Q

Tim Reeser

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

A

We've been in process of designing these CATL and some models are native, for example, our mobile battery MBVC product is CATL native, so we don't have to change anything there. Some products are native and so the backup plan is either already in place or in process. In the case of ZEV4, the backup to CATL has been in process for quite some time. So that's why Kash is saying we can pivot fairly quickly because it was always already underway, meaning we already have inventory of the product, we already have of the specific batteries, we already have used the batteries in other applications, so we know the software well, we know the integration well and et cetera. So it is something that we're able to pivot very quickly.

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

Q

Understood. And just lastly, with the volumes, unit volumes picking up in the second half, should we expect to see gross margin inflect positively?

David Agatston

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

A

Wouldn't expect to get to positive gross margin this year, we think it'd be, first half of next year, but we would certainly expect to see gross margin improve as we migrate more towards the ZEV4, which has higher ASPs and slightly a better gross margin than we have on our ZEV3s.

Sherif El-Sabbahy

Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Our next question comes from Michael Ward with The Benchmark Company. Please go ahead.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Thanks. Good afternoon, everyone. First off, on page 10 with these new California regulations. Is – do the regulations apply to just companies or fleets registered in California or to anyone doing business in California?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Hey, Mike. This is Kash. If anybody operating and needs the vehicle registered in California.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay...

[indiscernible] (00:28:05)

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

So the company's headquarter, could be somewhere else.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. So that fleet of about 370,000 units, does that include the other 14 states that are going to adhere to those regulations? And if not, do you have any idea of the size that could add?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

No. That number is only for California. I don't have a good estimate on the top of my head. I mean, it could be all 14, it could be combined to be something similar. But I don't know for sure, Mike.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. It's substantial. Okay. And do any of your partners listed on page 14, do they have a sizeable fleet in California? And have they talked to you yet about how they're going to [indiscernible (00:28:43) some of them started as early as January 1, 2024, correct?

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Correct. That is correct. Yes, we are having those conversations with our truck partners who are having conversations with fleet operators in California on what the regulation means, how do they plan for it? Can they do it in stages? What vehicle types? Those conversations are happening.

Tim Reeser

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

A

And there's kind of a second part, we didn't want to get into the complexity. But when you look at the opportunity, it's kind of to your question specifically, Mike, the regulation not only applies to customers being required to buy zero emission vehicles, but it also applies to OEMs required to build a certain percentage of their fleet, be zero emission vehicles or they pay a fine. And so we've been accumulating these heavy duty zero emission vehicle credits for the last year and a half, and there's a lot of interest in that as well. So to your point, we – many of these OEMs we work with have to have a plan because not only do they need to be able to meet the customer demands that are really taking off, but they also need to be able to meet their own demands or else they get heavy fines.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. And then David, when you look at the cash inflows on the second half, excluding operations, from what I could tell, there are three sources. You have the inventory rundown and that could be meaningful, right? From a working capital standpoint, \$5 million to \$10 million, is that a reasonable assumption for the second half positive?

David Agatston

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

A

Just – you mean seeing just from the revenue, the cash we collect from the revenue that we expect to book in the second half?

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Yeah. Well if you have – you've had this working capital use now pretty consistently. So at some point that should start to turn positive. Inventory run down, whatever it's going to be. Is it safe to assume that \$5 million to \$10 million positive in the second half?

David Agatston

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

A

Well, I look at it as all positive. In other words, whatever we get in from selling down the inventory, there will be no expense against that because we've already paid for the inventory from a cash perspective, if that makes sense.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay, yes, but how much?

David Agatston

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

A

We have payroll and other things, so it doesn't net...

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

No, no, no, I understand. But if you have \$57 million in inventory, how much of that is finished goods that can be sold off?

David Agatston

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

A

\$20 million to \$25 million.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. And then you have the Linamar settlement, \$3 million that cash will come in in the second half?

David Agatston

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

A

Correct.

Michael P. Ward

Analyst, The Benchmark Co. LLC

Q

Okay. And then the equity line. So, I assume you'll tap some of the equity line in the second half as well. So, that should get you through into from a cash perspective into the...

David Agatston

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

A

Yorkville, we also have Yorkville, which is as large...

Michael P. Ward

Analyst, The Benchmark Co. LLC

New Yorkville? Okay.

Q

David Agatston

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

[indiscernible] (00:31:33) \$47 million, yeah \$47 million left on the Yorkville.

A

Michael P. Ward

Analyst, The Benchmark Co. LLC

Okay. So you've plenty liquidity to get you into 2024 and then you look for something more permanent. Is that what you're thinking?

Q

David Agatston

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

Absolutely. And it's not like we're waiting to 2024 to look for that. We're looking for it now.

A

Michael P. Ward

Analyst, The Benchmark Co. LLC

Right, no. No, absolutely. Absolutely. All right. Thank you. Thank you very much.

Q

Tim Reeser

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

Thank you, Mike.

A

Operator: Our next question comes from Abhi Sinha with Northland Financial. Please go ahead.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Yeah. Hi. Thanks for taking my question. Just quick one, what kind of contract do you have with CATL for the batteries? And I mean, would they be able to pick up your entire load? And second, if you could compare that to margins that you get with CATL versus Proterra batteries?

Q

Tim Reeser

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

Yeah. So I think a few things, we have a – I'd say the CATL contract is actually being renegotiated as we speak. But yes, they have committed to-date that they can meet our volumes even the entire load. As we said, we remain committed to multisource. So we don't expect to put all of our load over on to them, but they can if we need to. We have – they have the capacity, as you can imagine, given being that they are the largest battery supplier in the world. From a margin standpoint, I'll position it a little differently in that as we look at what are the batteries cost us because we sell a complete powertrain that includes the batteries. And as you can imagine, the CATL batteries are a less expensive chemistries, so the chemistry is lithium-ion phosphate rather than NMC. And so consequently, the chemistry makes them significantly cheaper on the order of 30% or 40%. So it's a material amount. So yes, there are margin improvement opportunities from us in cases where we do use CATL instead of Proterra.

A

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Got it. Thank you. And then out of the 200 units, 250 units that you're going to sell in the next two quarters, can you talk about the cadence of that? So it's like 116 coming from Macnab. And so what do we look at third quarter versus fourth quarter and is there any other bigger order just like Macnab or is it more of a – more very well segregated diversified ones?

David Agatston

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

A

So you're asking over what period of time do you expect us to put the revenue in cash from Macnab and where else we're getting orders? Sorry, I didn't quite follow, Abhi.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Right. So you have 200 units, 250 units sold coming out from the next two quarters, right? So...

David Agatston

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

A

Yeah.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

... I'm trying to first – just trying to understand how many third quarter versus fourth quarter, which one is more heavy?

David Agatston

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

A

Yeah. I mean, so, so, yeah, one of the reasons we've moved away from quarterly guidance is because that timing can be really tricky in terms of when things hit. And so you can obviously back into what our second half is in total and that – but how that flows, I mean, is a little unclear at this point. I would think the good news is they're both higher than Q1 and Q2.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

Sure. And the second is kind of...

Tim Reeser

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

A

Yeah, maybe expanding and then – and maybe this hits sort of maybe you have another one. I think the other question is kind of where they come from. There's a big customer in Macnab, but I think it's safe to say, Kash, the rest of the order book is much more diversified in terms of a lot of customers buying \$0.5 million or \$1 million worth of vehicles rather than all concentrated with that.

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Yeah, we have a lot of customers buying anywhere from 5 to 25 vehicles for the rest of the year. That's the mix.

David Agatston

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

A

And we still expect school buses to be strong in the second half of the year also.

Tim Reeser

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

A

Yeah.

Kash Sethi

Chief Revenue Officer, Lightning eMotors, Inc.

A

Yeah. Absolutely. So the school bus number combined will be a very nice number. So it'll be split between various school districts across the country.

Abhishek Sinha

Analyst, Northland Securities, Inc.

Q

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

David Agatston

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

A

Thank you, Abhi.

Tim Reeser

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

A

Thank you, Abhi.

Operator: There are no further questions at this time. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation and have a good day.

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