November 13, 2024 – 3Q2024 Earnings call

00:00:37 Jeff O'Dowd

Today we'll discuss our performance in the third quarter followed by a Q and A session. Joining us today are Sue Ozdemir, our CEO and Darryl Bishop, our CFO. During this call, we'll make forward-looking statements.
[Disclaimers cut]

With that, I will now turn over our call to our CEO.

00:02:24 Sue Ozdemir

Thank you, Jeff.
Thank you everyone for joining us today.
We are proud of the operational and financial results we achieved this quarter and excited by our momentum heading into next year. We continue to deliver against our core strategy and make progress towards our key milestones of revenue growth, profitability and technology integration.

Our diligence and focus on execution drove revenue growth of 108% while also reducing cost. This revenue was driven by delivery of a company record of 74 E-propulsion systems to bluechip OEM customers, 106 percent increase over our Q2 2024 results.

While we still have a way to go, we are moving closer to the future we all envision.

I'm going to take a little bit to talk about where we're living today.

We are living in an era where electrification is the now.

But the world is still grappling with this transition, and the math adoption of electric vehicles.

From grid inadequacies to electric vehicle adoption, the quest for energy efficiency is paramount.

The barriers to electrification are many, but we can group them really into three key buckets that continue to challenge everyone, including EXRO in the industry from large legacy OEMs, to emerging companies like ours, to motivated fleet owners that want to go green.

These are some of the top challenges:
Cost:

Commercial vehicles are company assets

They are needed to deliver and aid a company's business outcomes.
Beyond being energy efficient, these trucks need to have a total cost of ownership that makes sense.

Within the passenger vehicle sector the reasons are slightly different, but cost still remains the issue.

This is a key challenge that we see OEMs striving for trying to get to profitability through vehicle platforms that are affordable with most global passenger automotive OEMs trying to aim for a sub 25,000 price point.

Later, **Darrell** will delve into issues like this, the cost, and we'll discuss how our success is continuing to drive down costs on a unit level without compromising performance.

The second issue: Performance

Now, going beyond the driving itself, but being able to achieve the outcome that's needed of that vehicle.

A garbage truck that can pick up the same number of routes or an urban delivery truck that can tackle the heavy bulky loads with the same ease of intercity light loads

The variability of driving conditions and in particular fleet (lagroots?), needs to be considered.

00:05:22 Sue Ozdemir

This is how we at EXRO talk about performance. There is no single solution as everyone drives differently. From the roads we climb on to the weather we navigate the ability to tackle all conditions is how we achieve true mass adoption.

And finally range.

Now I know when we all think about range, we think about range anxiety, charging station, but that is actually progressing in the right direction.

There's a lot of work left to do, but we are overcoming this.

We have many more chargers across North America today than just a year ago, but in fleet, there is still some work to go from a charging position and we need to think about that impact on our grid and what we're going to face in the months and years to come.

Central to the electric transformation is innovation. and in particular, innovation in power electronics.

It is through power electronics that we control electrical energy and energy efficiency.

This capability is where EXRO shines. Our technology optimizing electric vehicle propulsion systems by expanding their capabilities of electric motors and batteries, which are two of the foundational elements of the electric transition.

With our innovative technology, we have demonstrated that we can achieve performance without compromising price.

EXRO patented technology provides the solution to achieving powertrains with less complex systems that can deliver unprecedented real world driving and cost-effective solutions.

Our system utilizes power electronics to bring fast charging on board the vehicle inside the inverter itself.

The end result is charging infrastructure costs that are 10 to 20% of the cost of the DC fast charging stations in the market today.

Our technology demonstrates the difference that real innovation makes.

The transition to electrification is underway and innovation is the key to our future. While we are proud of our progress and the accomplishments, we believe that there is still a significant potential to drive further improvement in both performance and cost efficiency.

00:07:51 Sue Ozdemir

So now let's dig into our Q3 financial performance. The past six months have been dedicated to execution on our core pillars that were part of our strategy for merging with SEA Electric in April of this year.
I'm going to spend a few minutes discussing where we stand with each of those core pillars and why we are proud of the progress.

Our first pillar was around consistent growth and how we demonstrate building that foundation towards that growth. In Q3, we were able to deliver 74 propulsion systems; double what we did last quarter.

While lower than what we had anticipated at the deal closing in April, this represents significant progress, especially given the challenge that we highlighted in Q2.

This quarter we course-corrected and implemented key quality metrics, improved processes and doubled down on our strategic supplier agreement.

The quarter highlights not only our ability to deliver consistently, but also our commitment to ensuring that this momentum continues.

Backed by our blue chip OEMs, we are now poised to ramp up production, which will in turn drive growth and scale.

The second core pillar is our path to profitability.

Delivering a record number of systems to top OEMs is not an easy task.

Our team not only delivered, but also drove substantial cost savings that exceeded our initial goal of billing material cost reductions of 5%. We have achieved over 18% savings on our systems since April 5th and remain focused on our path to profitability. As we talked about at the start of today's call, this is a core objective as this is key to the transition, its performance, without compromising price.

Innovating great technology is hard, but innovating great technology that is affordable is exponentially harder.

EXRO has long been committed to innovating while growing revenue and achieving profitability.

Now as we continue with full commercialization, we are focusing on programs that have visibility to profitability.

Darrell's going to discuss our progress in more detail, but I will note that we improved our unit cost of goods sold by more than 20% over the past over last quarter.

And finally, our technology disruption.

As I said, innovation is the answer to an electrified future, regardless of the sector.

Passenger vehicles, commercial vehicles, the answer lies in our ability to deliver solutions to solve our customers challenges.

Improved energy efficiency and performance while driving down costs.

Our patented technology has been integrated with our OEM partners and it continues to progress.

We not only are able to produce more systems at a lower cost, but we're improving the technology as well.

The integration of our coil driver into all EXRO propulsion systems remains on track for second-half of 2025.

We will provide more detail on our technology road map tomorrow at our inaugural Analyst Day.

Before turning it over to Darrell to go over our financial summary, Let's go over an operational update.

I wanted to take a minute to address some items as we continue to progress and evolve our organization.

To do this, I'm going to walk through our progress from April when we closed the merger until now. At the time of closing, we had five strategic goals for 2024.

The first was delivering on 250 units in our first six months post close. [Editors note: This was not the initial goal as stated during the merger]

In Q2, we discussed certain integration challenges and their impact on our business and forecast.

We have worked hard to overcome these challenges, and while we cannot make up these units in the short term, our performance in Q3 should speak for itself in our commitment to delivering consistent quarter over quarter growth.

With year to date revenue of 16.3 million and after six months of execution, we are now delivering against orders, backlog, and future demand.

Our future is bright.

The second was our cost savings of 20% across the business.

Again, we've long been committed to the foundational processes and systems that deliver efficiency in operational execution.

These initiatives are not always visible externally, but they are the foundation of how we've been able to overcome many of the challenges post-merger.

These behind the scenes efforts have allowed us to recognize on a quarterly basis the growth that we've seen quarter over quarter.

It will become more evident as we continue to progress the business.

The third was our first joint integrations.

Our Hino platform was committed as our first integration partner, which we announced in August. This work continues to progress and we are pleased to announce that the vehicle is on site here in Mesa for our Analyst Day tomorrow with coil driver inside.

That allows featured EXRO patented charging solution. Our guys have enjoyed being out and driving the vehicle today and really being able to not only see the coil driver, but see it charging and really in full position in addition to our Hino integration, we have targeted a Mac integration for the fourth quarter, which remains on track.

Supply chain efficiencies with a 5% reduction in Bill of material.

This is one of our big steps forward.

It was an aggressive challenge, although it may not seem that way with 5%.

We continue to make progress on our efforts to reduce costs.

We focused to reaching this profitability target and with the support of our partners, we exceeded our expectations and delivered over 18% reduction in our bill of material in the past six months.

Will provide more detail on this goal on our Analyst Day tomorrow.

These cost out have been driven by strategic sourcing within our supply chain, efficient ordering and efficient logistics.

And finally, our new innovation program, the STELLANTIS program announced in late Q3 provides some monumental step forward in our developments in the passenger vehicle segment.

This program has pushed us to develop our cost position and improve performance without compromising price.
As we develop our work within the passenger vehicle segment, we continue to stay on focused with our two key partnerships in mid and late-stage discussions and have an additional partnership in commercial trucking that is progressing through commercialization as well.

These top pipeline positionings are progressing as we had hoped for this time of year.

Overall, while we recognize the frustrations experienced over the past year, I'd like to take a moment to say thank you to our shareholders and to remind all of our stakeholders that we cannot control the pace of the broader transition.

But we can control the aspects within our reach.

Our patented technology is fully de-risked, is demonstrating best in class performance, and is integrated into top OEMs in electrification. We continue to control our cost, developing ongoing cost reduction and we control the partnerships we select; in which we enter into ensuring we collaborate with market leaders who share our commitment to excellence.

I recognize all of the challenges, and I acknowledge the misses that we've experienced. However, our vision of being best in class supplier for power electronics remains the same.

We are ready to scale and grow alongside the ongoing transition. Thank you and with that, I'm going to pass it over to Darrell.

00:16:24 Darrell Bishop

Thanks Sue.

Good afternoon everyone. As we dive into the financial aspects of the core, I want to ground everyone in and that the story around the quarter is that we demonstrated a steady improvement over Q2.

So first we are beginning to recognize the benefits of the SEA Electric acquisition that closed in April of this year.

2nd in our operations are beginning to stabilize and 3rd we continue to drive down costs to demonstrate a focus on profitability.

As Sue highlighted, in Q3, we achieved a record revenue milestone of $11 million, more than double the 5.3 million posted in Q2.

This revenue was primarily recognized from the delivery of 74 electric propulsion systems to OEMs during the quarter; a more than two fold increase on a sequential basis.

Importantly, we also demonstrated our ability to drive down costs on our bill of material and across the business. We were able to achieve these results while also addressing the many challenges to our supply chain, which we highlighted on our Q2 earnings call.

In Q3, we successfully reduced costs on a per unit basis, while also doubling our deliveries. Our cost of goods sold for the quarter was $12.6 million, resulting in a gross profit/loss excluding a non cash provision for inventory of $1.7 million, this is compared to a $2.7 million loss in Q2.

On a per unit basis, cost decreased by approximately 20% quarter over quarter as we improved supply chain efficiency, we minimized air freighting of materials and ensured on time delivery of parts.

We continue to drive down that bill of materials, as Sue highlighted and we are targeting an additional 20% reduction by the end of Q2 2025.

Turning to notable operating expenses.

Payroll and SG&A accounted for $8.1 million and $3.4 million respectively showing reductions of 7% and 35% quarter over quarter.

Following the close of Q3, we implemented additional cost-cutting measures which included further reduction payroll and SG&A as part of our ongoing efforts to streamline operations.

Since April 5th, We've reduced our headcount by approximately 35%, and annual payroll by more than US $10 million.

Other items worth noting, accounts payable stood at 31.3 million at the end of the quarter, which was up slightly from just over 29 million in Q2 as we continued to work through the Legacy SEA acquisition payables in conjunction with ramping up our working capital purchases to support the growth that you saw in Q4 and going into 2025.

Offsetting this was an inventory value of 27.9 million, down from 32 million in Q2 as we advanced the conversion of inventory into revenue in Q3. The main components of this inventory of September 30th included raw materials which were valued at just over 20 million dollars.

This includes batteries, motors, you know the components that make up our e-propulsion system in addition to a work in progress inventory of $7.1 million.

Moving to goodwill and intangibles and given the decline in our share price through Q3 and the decrease volume outlook since April 5th, we were obligated by accounting standards to complete an impairment test.

This test resulted in a write down of all goodwill and a portion of intangible assets related to the SEA Electric acquisition.

This is a $211 million non-cash adjustment to the carrying value of these assets.

From a cash perspective, we closed the quarter with cash and cash equivalents of just above $14.0 million.

This was supported by a $25 million equity financing which we completed in Q3, which was backed predominantly by existing shareholders who are aligned with our long term vision.

As we continue our path to profitability, we are also actively engaged to secure additional non-dilutive capital. We believe our execution in Q3 has positioned us well to secure the necessary bridge to profitability with the goal of achieving self-sustainability in the second-half of 2025.

I want to take a few minutes to further highlight that path to profitability. I want to emphasize that we remain laser focused on our revenue growth in parallel with our cost out efforts.

So just want to dive into the progress that we've made on a couple of key initiatives.

First, our bill of material cost reductions. As Sue highlighted when we closed the acquisition of SEA Electric in April, we were targeting a 5% reduction in our bill of material on our propulsion systems for 2024.
Building on the progress made in Q2, the team continued to drive down costs and implement continuous improvements. As a result, we've achieved more than 18% in savings on our bill of material and are on track to further exceed our 2024 goals through Q4.

Second, cross business cost outs.

In the first six months, we've achieved roughly $15 million US in annualized savings against the 2024 target of $10 million US. These cost reductions have been primarily driven by headcount reductions, facilities optimization and operational efficiencies.
While much of these savings are annualized, they underscore the strength of our CapEx lite business model and are focused on efficient processes and supply chain management.

3rd will be a design evolution.

We continue to make progress in R&D. While we've seen success in reducing cost, it has been driven by the foundational work we've done over the past few years.

Our initial mission, which was set five years ago, was to build a technology platform that was both scalable and flexible.

Our current R&D spend alongside partnerships with world class OEMs like Stellantis, Mack, Linamar and Hino and others position us for continued innovation and cost reduction.

And this all coincides with our plan to continue to demonstrate quarter over quarter growth and deliveries of our technologies with bluechip OEM customers through efficient execution.

Before we turn it back to Sue and we open it up for questions, I just want to echo Sue's sentiment that innovation is the key to our electrified future. Over the first six months after we closed the merger, our organization has undergone a transformation shift, overcoming numerous challenges and delivering record results quarter over quarter.

While the journey thus far has not been without its hurdles, we are making progress in the key drivers of our business: Consistent growth, cost reduction, and a clear path to cash flow profitability.

With that, I'll turn it back over to Sue for some closing remarks and questions.

00:23:52 Sue Ozdemir

Thank you, Darrell.

First off, I want to say thank you to all of the EXRO team for your dedication to our progress.

Tomorrow marks our first inaugural Analyst Day in Mesa.

We will launch our integrated coil driver propulsion system with a ride-n-drive event that allows the opportunity to see the differentiation first hand.

And we will provide guidance towards our 2025 business plan.

Thank you to all of our shareholders for all of your continued support.

We greatly appreciate it. And with that I'll open it for questions.

00:24:42 Operator

We will move first to Chris Murray with ATB Capital Markets.

00:24:47 Chris Murray

Yeah. Thanks, folks. Good, good evening.

So just to, I guess, the first question is just looking at kind of production rates and the ramp:
I think Sue, as you talked about, you know initial expectations was well for 250 you've done you know, call it maybe half of that, a little bit less than half of that.

Can talk about how the ramp is progressing as Q4 into 2025 and I know that you had mentioned, I think last quarter there were things around some software issues and things like that that were holding back some, some inventory and delivery. If you can just maybe address kind of where we're at in terms of that cadence that would be helpful.

00:25:26 Sue Ozdemir

Yeah, sure Chris and tomorrow we'll be providing kind of the details around it. But what I would say is the software issues have been fully dealt with. They’re not any type of barrier for us right now and we continue to see that growth continuing into the quarters to come.

We're well set up, right now, we're expecting shipments in to continue to set us up to the first quarter and we see that ability to continue the growth quarter over quarter.

00:25:53 Chris Murray

OK. All right.

And then and then just maybe just thinking about the SEA write down and I appreciate there was some accounting requirements in this, but in going through the notes and thinking about, you know what it kind of implies about kind of longer term revenue growth from SEA, can you maybe address kind of puts and takes around the combination and you know what's really changed in the expectations since you've done the transaction and as well, I'm sure we're going to get this question, but in terms of the compensation that EXRO provided to SEA, is there anything that offsets some of those changes even at this point?

00:26:40 Darrell Bishop

Yeah, maybe I'll jump in a little bit on the on the impairment first, Chris. And I kind I think you kind of hit it with the beginning part of your question in terms of you know this, I want to identify this as a non cash write-down in goodwill and intangible assets, a lot of it was driven by the share price; the depreciation that we've seen as well as the forecasts that were lower today than what we anticipated you know at the beginning of the year when we announced the merger with SEA Electric We'll give some additional color to that tomorrow when we go through the guidance and the outlook on the analyst day but for the for the most part, this was driven by the bigger part of it would have been the depreciation of our share price from you know approximately a dollar a share when we announced the acquisition of SEA Electric earlier this year and we were around 85 cents on April 5th when we closed and then at the end of the quarter, we were sub $0.30 a share and so that would have been the bigger, the bigger driver in there.

00:27:43 Chris Murray

OK. And then you know just one quick question just in more detail, but you had it in previous quarters and even as part of the combination talked about doing kind of a reverse split or share consolidation. Any thoughts around that at this point with where the shares are trading.

00:28:00 Darrell Bishop

Yeah, I think it's always something that's been out there, Chris. I would say it's not a topic of conversation right now and anything that we're speaking with from a board level and a management perspective to be to be quite frank, we are laser focused on the operations. We are focused on rebuilding the value that we see, and I think that we're starting to recognize from the execution within the business and kind of really put our head down on making sense of that first.

00:28:31 Chris Murray

All right. Sounds good. OK.

I look forward to seeing you guys tomorrow.

I'll pass over the link.

00:28:37 Sue Ozdemir

Thank you Chris, see you tomorrow.

00:28:40 Operator

We will move next to Jeff Graham with Alliance Global Partners.

00:28:50 Jeff Graham

Good evening.

I was curious Darryl, kind of the trajectory of those 74 systems throughout the quarter or even better if you have anything post quarter in terms of the shipment cadence. Just wondering either the distribution of those shipments throughout the quarter, was there kind of an accelerating pace maybe exiting into September and maybe how shipments have trended into Q4?

Anything along those lines that you could share would be great.

00:29:18 Sue Ozdemir

Yeah. Thanks, Jeff and great question

So yeah, there's definitely kind of an acceleration, I would say, you know, we're not quite at that full ramp of week over week is exactly growth. But I would say you definitely see the ramp month over month where we kind of came out stronger at the end of the month as those efficiencies really started to take effect and kind of inventory started to catch up with supply chain and kind of really positioned us well as we go into the fourth quarter. You know we've got some holidays, so that's good. You know we're navigating that, but from a delivery and execution perspective we’re really well set up coming out of the quarter and expect that ramp to continue week over week.

00:29:57 Jeff Graham

OK.

Great. I appreciate those details and for my follow up on the cost side of things, appreciate all the you know efforts you guys have made on that front. Would you say Q3 OpEx is kind of a good representation of where you guys would like to keep things going forward or have there been some either cuts made in the quarter that you didn't get a full, you know benefit from or anything kind of forthcoming that can further benefit the OpEx side of things?

00:30:24 Darrell Bishop

Yeah, Great question [Greg or Chris? Not Greg or Chris regardless, Jeff is the right name]
I would say we are continuing our cost out efforts across the business including OpEx. When you look at the payroll numbers quarter over quarter, you know we made some progress there.
There were some additional cuts that were made subsequent to the quarter through the month of October you will see play out with our Q4 results and certainly on an annualized basis as we look into 2025. Now when we are optimizing the business from that perspective, of course that plays over into an SG&A perspective as well. Your direct headcount impact from an SG&A standpoint.
And so we would anticipate to see that those costs continue to decrease across the business.

00:31:13 Sue Ozdemir

And you know, Chris [Again, not Chris, it is Jeff], I'll add on a little bit on that one just to say it kind of goes to what we were talking about with the foundational systems that we have in place and that ability to get more efficient as we go. So as we continue to ramp where a lot of companies have to do the investment at that point, That's investment that we've made over the past years that we're now recognizing and so we can do those cost reductions but still ramp up the units that we need to do.

00:31:40 Jeff Graham

Great. I appreciate those details. Thank you guys.

00:31:44 Sue Ozdemir

Thank you.

00:31:59 Operator

And with no other questions holding, I'll now turn the conference back to Sue Ozdemir for any additional or closing remarks.

00:32:07 Sue Ozdemir

But thank you once again to our shareholders, keep an eye on our website on our Investor Center where we'll be sharing all the highlights of our Analyst Day tomorrow and we look forward to having everybody enjoy in our guidance and our innovation. Thank you so much.

00:32:27 Operator

Ladies and gentlemen, we'll conclude today's call.