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UQM - Q1 2018 UQM Technologies Inc Earnings Call

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CONFERENCE CALL PARTICIPANTS

Randall Hough

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the UQM Technologies, Inc. Conference Call. My name is Rob, and I will be your coordinator for today. (Operator Instructions). As a reminder, this conference call is being recorded for webcast replay purposes.

I would now like to turn the presentation over to Mr. David Rosenthal, CFO of UQM Technologies.

David I. Rosenthal - *UQM Technologies, Inc. - Treasurer, Secretary & CFO*

Good afternoon. Thank you for joining us on UQM's conference call to discuss results for the quarter ended March 31, 2018 and provide an update on key business topics. On the call with me today is Joe Mitchell, President and CEO.

Before we get started, I would like to review our safe harbor statement with you. This conference call may contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. These may include statements regarding our plans, beliefs or current expectations, including those plans, beliefs and expectations of our officers and directors with respect to, among other things, gaining access to global markets, gaining required certifications, new product developments, future orders to be received from our customers, sales of products from inventory, future financial results, liquidity and the continued growth of the electric-powered vehicle industry.

Important risk factors that could cause actual results to differ from those contained in the forward-looking statements are contained in our Form 10-Q filed today and our Form 10-K, which are both available on our website at www.uqm.com or at www.sec.gov.

Now I'm going to present the highlights of the results for the quarter ended March 31, 2018. Revenue for the quarter was \$1.6 million compared to \$1 million in the same period last year, a growth of 59%. Total gross margins were 19% for the quarter, which is much lower than we have seen in the past, where margins have been in the range of 30% to 35%. While our contribution margins remained fairly stable, we saw higher indirect cost in the quarter, as we began to ramp up production for anticipated higher revenues this year. We believe that margins should return to their historical levels for the remainder of the year. Total operating expenses for the quarter were \$2.2 million, consistent with last quarter and about \$300,000 higher than the same quarter last year.

Net loss for the quarter was \$1.9 million or \$0.04 per common share compared with a net loss of \$1.6 million or \$0.03 per common share for the same quarter last year.

Our operating cash balance at March 31, 2018, was \$5.5 million, and our working capital was \$3.2 million.

As of quarter-end, we had borrowed \$3.1 million on our bank line of credit and still had \$2.5 million available on the line. In summary, we continue to see a lot of momentum in the market. Our current customers' are growing in their respective markets, and we are gaining new customers. Our plant floor is busier than it has been in many years.



With the shipments in the first quarter and the orders we already have on the books for the remainder of the year, 2018 is looking to be a solid growth year for UQM. We are excited about the many opportunities that lie ahead of us. Now I'd like to turn the call over to Joe. Joe?

Joseph R. Mitchell - *UQM Technologies, Inc. - President, CEO & Director*

Thank you, David, and good afternoon, everyone, and welcome to our quarterly earnings conference call.

In today's conference call, I will provide you with an update on key developments for the quarter, together with an overview of our business segments, including propulsion systems, auxiliary products and engineering services. I would like to start by mentioning a few of the key highlights for the quarter.

We continued to expand our customer base and sales, and I'm glad to once again share that the results of our efforts are being demonstrated.

As mentioned during the last call, we started off 2018 with more business booked than all of last year's revenue. And then -- and this increase is growing as we continue to book new business and find new customers and opportunities. We had a strong quarter compared with last year but more importantly is the upward growth in our sales and new business wins.

In order to facilitate our growth through 2018 and to support our growing demand for delivery later this year, we have made some investments during the quarter.

These investments include bringing on new employees and building subcomponents, as David mentioned earlier. These investments have had an effect on our margins. However, we anticipate a return to more traditional margins as volumes ramp up later this year.

Also, I would like to reaffirm that our relationship with CNHTC remains strong, and the China market remains a key strategic focus for UQM.

As mentioned in our last call, we shipped a number of sample systems to Sinotruk for their vehicle certification, and we are pleased that everything is moving along according to plan.

Sinotruk is working on integrating our motors to local Chinese transmission solutions and certifying the systems in China with a focus on qualifying the systems in their vehicles. These certifications are a key milestone to reach before moving to any commercial production and for a successful launch of our joint venture. We continue to work closely with CNHTC's senior leadership team on our long-term relationship and execution of our shared initiatives and business plan.

As we announced earlier this week, the CFIUS committee has informed us that our current stock purchase agreement with CNHTC will not be approved in its current form, and we have not been able to come up with a resolution that satisfies the committee's concerns regarding the second-stage investment in UQM.

As previously reported and is still the case, our relationship with CNHTC remains very strong, and we continue to dialogue with CNHTC executives to discuss the status and alternatives to accomplishing our mutual goals.

Again, as a reminder, the CFIUS process approval only applies to the proposed foreign investment in UQM and has no jurisdiction over the other programs and business relationships that we are currently working on with CNHTC.

Equally important is that we continue to work closely with Meritor to develop the full-electric E-axle systems.

Last week, we attended the Advanced Clean Transportation Expo in Long Beach, California, where Jay Craig, CEO and President of Meritor was the keynote speaker. During his speech, Jay made 2 major announcements. First, was the introduction of their new brand with a wide range of electrification options of axles called Blue Horizon.

Along with the initial launch of their 14Xe axle, which is an electric axle, the 14Xe is the electrification of the Meritor's leading traditional axle. And of course, this axle has the UQM traction motor components and inverter included, and we're excited to partner with Meritor on the design and development of this exciting new system. The new Blue Horizon advanced technology brand will cover Meritor's full complement on electric offerings.

The second important announcement of Jay's speech was Meritor identifying Peterbilt as their first major customer and application for electrification. Peterbilt will electrify a number of Class 8 transport and refuse trucks as first adopters working with the Meritor E-axle. This was the first of what we believe to be many more customers and applications that Meritor will identify around the globe. Also, Meritor specifically announced UQM as one of their 2 strategic partners in this product line.

The other partner announced was Transpower, who is assisting Meritor and their customers in the system integration and electrification application of the vehicle, which is another important step in enabling potential customers to move to this technology.

Meritor and their E-axle was the highlight of the show, with Jay's speech and their E-axle on prime display clearly showing UQM as a key component for this product. Additionally, the UQM product was evident in a number of other current customers displays throughout the show, and we had the opportunity to meet with many new potential customers and to take full advantage of our increasing presence in this market.

We also had the opportunity to meet with several research analysts at the conference. And as a result of our growing interest from the investment community, we have received many compliments on our positioning and progress.

Another upcoming event that I want to highlight for the quarter is the Electric & Hybrid Vehicle Show in Hanover, Germany next week. As previously mentioned, we will jointly display our DT system with Eaton and Pi Innovate. We have received a lot of interest for our DT system so far, and we look forward to the conference and its feedback.

A subsequent key area for update is the Indian EV and our previously announced sales of our DT systems to Ashok Leyland. Ashok's executive team members have made a number of visits to our headquarters in Longmont, and we are very excited about this new partnership in our recently announced Indian EV market entry. We have started the initial shipments of our DT systems to Ashok for their pilot build -- bus builds, and we expect these shipments to continue over the next few months.

Based on the performance and success of this initial trial, Ashok and the India EV market has the potential to lead another significant business win for us in this emerging market, and we are very excited about this partnership.

Now I would like to talk about some of the highlights of the quarter for our propulsion systems and auxiliary product sector along with our engineering services sector.

Let's start with propulsion systems. We continue to see strong sales growth from several new and existing customers. As I just mentioned, we are very excited about our new partnership of the Ashok Leyland in our Indian EV market entry and all of the opportunities that lay ahead.

Shipments of the DT systems to Ashok Leyland have commenced, and we continue the dialogue at the highest levels of Ashok Leyland on furthering our partnership, as we continue to work on our expansion into the India EV market, a market that is just on the cusp of a major shift to electrification.

Ashok Leyland is one of the largest commercial vehicle manufacturers in the world, with a global sales presence and world-class product. The fact that Ashok Leyland has selected UQM and our DT system for their first fleet of full-size electric buses is a major testament to our technology, and we are very excited about this partnership and market.

For an update on another recently announced new customer, Lightning Systems. We have started shipments for their electrification of the Ford Transit Van under Ford's eQVM program. Lightning Systems recently completed the North American Road Show demonstrating this vehicle with our powertrain, and they also had it on display at the ACT Expo in Long Beach last week. Lightning's recent testing demonstrated 61 miles per gallon equivalent in town and 66 miles per gallon equivalent highway for the all-electric vehicle fleet package offered for the Ford heavy-duty

Transit. They will soon introduce a 200-plus mile range hydrogen fuel cell version, expected to be available later this summer, all with UQM's drive systems.

The feedback has been very positive, and we believe that this is another key growth customer and market for UQM. I also want to mention that our longtime partners Proterra and Zenith will continue to be strong customers with a steady flow of follow-on orders. Both Proterra and Zenith continue to win new business and are key elements of our revenue growth and positive long-term outlook.

Another customer that has kept our plant very busy over the past few months is KESHI with their electric mining vehicle application. As previously reported, KESHI placed their first production order with us, and we are in the full launch and build mode for this product line, and we will begin shipping the initial systems to KESHI in China during this quarter.

Now moving on to our auxiliary product sector. Our auxiliary product sector, specifically our fuel cell compressor systems, continues to be an important part of our strategy. As you may recall last quarter, we received a new follow-on order from our major OEM customer in China. Deliveries of this order will start late this quarter. With major -- with this major OEM as a customer, we strongly believe that their demonstration fleet of fuel cell vehicles would be a great opportunity for UQM and potentially lead to additional business in the region.

As a result, we are glad to report that during the last few months, we have brought on several new fuel cell customers around the globe with the majority being in China. All of them have the opportunity to go to volume production and our proving compressor technology as a major element in the performance of the fuel cell system.

As previously reported, China has made a major commitment to the fuel cell technology, and we have definitely made this a key part of our strategy. We are actively working on our performance-improved and cost-optimized system to take full advantage of this growth market and maintain our competitive technical advantage.

There will be more to come in the coming months as we look to introduce these improvements to the market.

And now I'm moving on to our engineering services sector. The vast majority of our externally funded engineering resources have been focused on supporting Meritor and the E-axle program. Internally, we have a number of programs in the works, such as completing the work on our new inverters and working on the fuel cell compressor system modifications.

We continue to remain focused on obtaining funded R&D projects that support our technology road map. And another key win in the sector was our recently announced contract with Ballard Power Systems to provide contract manufacturing, purchasing and operational support for assembly of their fuel cell systems.

We have been working with Ballard on this project for quite some time now, and this recent order is the first of what we hope will be many more orders where we can support each other and make better utilization of our plant capacity here in the U.S.

As is evident from this update, much progress has been made since our last conference call just a few months ago. The market trends are positive, and UQM is definitely playing a big part in this growth. At this point, I would like to turn the call back to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of [Michael Mamula] from -- who's a shareholder.



Unidentified Shareholder

I just had a question about the percentage of the Proterra sales of late that had included the UQM motor versus the DuoPower system that they have chosen to go with, it sounds like, for maybe their extended-range buses. Do you have any sense of...

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes. Actually, we have a very good sense. I don't want to speak for Proterra, but we were there at Proterra last week when we were actually at the ACT Expo and went to their plant in just outside of Los Angeles. And my understanding is I think they've shipped one of the extended range so far. And it's still very early. I know there's a few applications, such as the mountainous regions around Park City and that where this system make more sense. But we envision and what they told us is the vast majority of the systems will still be UQM.

Unidentified Shareholder

Okay, great. And a follow-up question, I saw that Lightning Systems is going to be involved with converting some bus -- some diesel buses to electric. And it looks like it was a 220-kilowatt motor, so I'm assuming that would be with a UQM system. Is that a fair assessment?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes, that's accurate. It'll have the DT system in there. We're working with Lighting. They announced that they won that contract, actually very close to here, at city of Boulder to convert a number of their buses from the traditional diesel to electric. And it's our understanding and plan that they'll all be with our systems as well.

Unidentified Shareholder

Okay, excellent. And so I know you guys had a -- you guys had a patent for a non-rare earth metal motor. Have you guys marketed that system at all? Or are any of the motors that you guys are making utilizing that technology? And is there any interest from companies in going that route with some of the complications that might be there with China having a control of most of those rare earth metals?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes. The -- yes, you're correct. We do have a patent on non-rare earth, and that development work was done couple of years ago. We completed it and completed a number of functional prototypes. And the main reason behind that, it was done as a hedge against magnet prices taking off as they did a few years back. Currently, with where magnet prices are, it's not economical to go forward with that new [Magna] material, but it's something that -- as we talk to a number of various stakeholders, there's obviously, a lot of interest in, but currently, there's just not a business case to use that.

Operator

Your next question comes from the line of Randy Hough from ProEquities.

Randall Hough

I want to go back to where you ended your remarks, Joe, on fuel cells. It's almost as if we don't talk about lithium-ion batteries anymore as a power source. Though -- and I don't know how excited to get, frankly, about the fuel cell industry potential or the use of fuel cells in commercial vehicles or cars for that matter. Can you give us -- I mean, it's been developing for a couple of years now, and you've worked closely with Ballard as you pointed out mention. Can you give us more color on the trends that you see and the potential for UQM to participate either -- directly by making

the compressor motors and the compressor assembly and then this new production line for added components for the fuel cell system? Number one. And number two, we're dealing with a lot of customers that are building electric vehicles. Does it give us an opportunity for selling our traction system into those same customers?

Joseph R. Mitchell - *UQM Technologies, Inc. - President, CEO & Director*

Yes. Thanks, Randy. I'm just really commenting on the fuel cell market, yes, as we've announced the vast majority of our sales recently have been in China. This week, we also announced that we brought on a number of new customers, and I think that there's 5 more new ones in China beyond the major OEM that we're dealing with. So by far, the hottest market in the world for fuel cells is China. And a couple of facts on that market of what they've targeted is between 5,000 and 10,000 fuel cell vehicles being on the road by 2020 and having 100 fueling stations and then going up to 50,000 vehicles and 1,000 fueling stations by 2025. So again, a big commitment to fuel cells in China. Going back against one of the reasons that we are very excited about this market is we started this compressor business as a Tier 2 with Eaton and Ballard a number of years ago. And a lot of people are aware of the history that we have taken over the Tier 1 position with Eaton as a supplier to us and now with the growth and our proven technology that compressor is a key item to making these fuel cell engine works. So as people are going in and moving and trying to take advantage of this market, we're very, very well-positioned and have made it a key part of our strategy. As we -- we've got a number of actions taking place right now to optimize the design, to tool it up, to reduce the cost, so that as these volumes pick up we're in a great position to take advantage of it. So that's something that's working out quite well. And obviously, our relationship with Ballard that we mentioned with our contract manufacturing is -- due to some regulatory requirements, Ballard needed some assistance here in the U.S. to help them, and we're providing a lot of services. And people are aware we've got some open capacity in our plant so we're able to fill a lot of that capacity by supporting Ballard, and it's just a nice supplemental business for us. So again, we're happy to take full advantage. And on the traction side, as you mentioned, what this does is it introduces us to a number of other customers, again, mainly in China, that had been using traditional Chinese E-drives. As we expand, we're going to have the opportunity to get -- find additional customers for our traction systems as well.

Randall Hough

How do we stack up then, to follow-up on that? How do we stack up in China now that we've been somewhat on the radar scope over there if not pretty well known? How -- do we remain competitive? It's hard to keep up with the number of suppliers of traction systems into that market. How do you assess our position in light of our work with some big names over there in the work -- in the form of the work we are already doing and how we've been recognized as a quality producer over there?

Joseph R. Mitchell - *UQM Technologies, Inc. - President, CEO & Director*

Yes. I think, a little different than the fuel cell market -- or the fuel cell compressor market, there's not a lot of competitors. So we're in a good position. On the traction drive, hence, the reason we need to get into China and execute on the JV with Sinotruk and CNHTC is to get into that market, because technically we have a number of advantages. And as I've stated many times, we've got to be localized in that market to get beyond the prototype stage. And that's where we'll be able to take full advantage of our technical advantages.

Randall Hough

Okay. Well, if I'm able to ask, I just wanted to ask for some clarification on India if I could. But again, we're sitting here watching and listening to the good news and the potential and all rest of it. Can you give us some sense of potential in India? I -- we can all imagine huge numbers, but realistically, over the next a year or 2 or 3, assuming all the prototype in introductory and certification works gets done satisfactorily, where we could see this market grow and how fast can we ramp? I mean, could the takeover be as competitive -- as the large as China for example?



Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

I think it's going to be very similar to China. When you hear the commitment the Indian government has made and the environmental needs to move to this type of technology, there's number of drivers behind it. And when you see a company like Ashok, one of the largest commercial vehicle manufacturers in the world, stepping in and putting their first fleet on, and we're expecting that it should grow in the not-too-distant future. What the ultimate potential is, I think everybody has seen those numbers, and they're huge. They're in the thousands and thousands of units. And I think the question that no one can really answer today is how quickly they're going to get there. But we know that there's, again, a major commitment and big investment coming in. We couldn't be happier than to be on the ground floor with a company like Ashok and this drive system.

Operator

Your next question comes from the line of [W. Williams], a shareholder.

Unidentified Shareholder

The announcements you made so far this afternoon sound very encouraging, very promising. I'm wondering what type of a time frame that any of these or all of these different initiatives might require for moving forward and becoming either cash flow positive or profitable.

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes. And I think that's the question a lot of people ask on this market. One of the things -- the challenges for us is how quickly our customers are going to evolve into volume. You see really right now beyond China, everything else is in the low-volume stages, in the hundreds. But we are incredibly well-positioned with bringing on these customers like Ashok, having Meritor and that pedigree of customer, working with Eaton and a number of other major Tier 1s that we have not been able to disclose that are all using our E-drives. We expect some of the things that Meritor have stated that, by '19 -- we don't know exact timing. Is going to be late '19 that they're starting to go into production. And a lot of it's going to be based on the success of these trials. So that is the very good question. But we are seeing the momentum, again, us booking more business almost at the beginning of this year, than we did all of last year and that continuing to grow. We're definitely seeing the trends. And the big question is how fast this is going to ramp up into the -- for the volumes are going to move us into a very profitable position.

Unidentified Shareholder

As a follow-up -- I really have a lot of questions, but I think the one that's -- some of the most important is the CNHTC not able to move forward with the partnership. How does the company see what's going to happen going forward? How is this all going to work out?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes. Well, as far as the partnership -- and again, there's a couple of elements, I want to make sure people understand they're not directly connected. Our partnership as far as putting the joint venture together and supporting each other, that is all still in place. What our -- the government has blocked, in essence, is the direct investment in UQM. So them going -- they are, again, today our largest shareholder at 9.9%. But the way the agreement was written they were going to 34%, and anything over 10% requires CFIUS approval. And with all the related activities, that's highly, highly unlikely, not going to happen, and we're going to look at other options. We're going to be visiting with their executives in the very near future to sit down and discuss what are the other options, because a lot of the capital that was going to come in was going to be for us to fund our portion of the JV. Luckily, with -- I wouldn't say luckily, really by plan, with all of the new customers and the better -- the Ashoks and the Meritors and that, we're in a much stronger position that however we're going to capitalize to support our JV into China and to look at these other markets, those are the things that are going to have to be determined in the next few weeks to months. But in the not-too-distant future, we've got to determine that. But again, we're in a very strong position, and our cash balance is very strong, even as we sit here today, orders growing. So not concerned, and we've got many good options, and we'll do what's in the best interest of the company to execute on this growth strategy.



Operator

Your next question comes from the line of [Patrick Attard], a shareholder.

Unidentified Shareholder

The question I got is, since this first quarter, your expenses were higher because of ramping up production and getting ready for orders that have been coming in. Would that be fair to indicate that in the second quarter or third or fourth we may end up breaking even or even making a slight profit since we're incurring expenses now for stuff that's going to be delivered later on this year?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

I think, part of the key metric -- we don't want to get into the profitability forecast and that on it, is the revenues will be much, much better. And we probably, I have to say, almost doubled in our production staff here in the last month or 2, getting people trained and ready, and again, building up the subcomponents for what we've already committed to, to deliver and that order backlog continuing to increase as they -- as we bring in new orders. I really don't want to get in the position of forecasting what that's going to impact on the breakeven or when we go profitable. But I think, revenue's definitely going to be much improved.

Unidentified Shareholder

Like can you give us an indication as to how much more improvement it's going to be, as far as the revenue?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes, I think, we've given -- was much better than last year is we think where we want to come in now right now. Because it's so volatile with the number of orders and that coming in, it just wouldn't be prudent to provide guidance at this point.

Operator

Your next question comes from the line of [Thurman Willis], a shareholder.

Unidentified Shareholder

I think that The Street has viewed demise of CFIUS, which those of us that follow it realized would never get approved as there's been one approval since the beginning of the year, and it was only \$5 million (sic) [\$15 million]. So I'm not trying to play cheerleader, and I'm not trying to play devil's advocate, but to me, instead of Sinotruk or CNHTC owning 34% of us and only owning 9.9%, I would think that we would have many additional options of financing, partnerships, et cetera, that could be more advantageous and even be better for our stock than a 34% ownership by Sinotruk. Now that may be an awkward question for you, Joe, relative to the fact that Sinotruk is our partner and going to play a key role in China. But I think you stated on a previous call that there's many, many ways to get into China. And I'd like for you to talk about the possibilities of other partners, other partnerships, and the fact that this could work out to be a positive instead of a negative. I'd like for you to expound as much as you could, because I think that's what driven, the price of the stock down, which affect all of us that have been long-term shareholders. So I really see this as a positive not a negative. Can you comment on that? And then I had a follow-up.



Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes, definitely. I mean, I think there's definitely a view out there, [Thurman]. A lot of people agree that not having the major foreign shareholder could be a positive. And as I stated earlier, with all of the new business that we've won, things have even improved for us when we did this deal originally with Sinotruk. So there are many, many options open. Obviously, I can't speak to what might happen. And we will definitely keep everyone posted as we continue to execute on the plan. And one thing I can assure you is that we are going to do that what's in the best interest of all the stakeholders, because our shareholders and our customers and our employees, to continue with this growth strategy. And the company has never been better positioned from a customer base, macro position in what's happening in the market. So we're definitely poised to go on to much bigger things here.

Unidentified Shareholder

Well, to follow-up on that, realizing that there are other potential investors. Could we not assume that even today there are those that would like to become a partner and/or help fund us in the JV that, there are -- in other words, you don't have to go find those or search for them, that they're there now in the midst, waiting, and you had to get a final denial from CFIUS before you could pursue those according to the agreement. Would that not be a correct statement?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Well, I think you've thrown out things that I don't know if we can state right now or not. All I can go back and say is that there's a lot of options available, and we'll definitely keep everyone posted as these things come to fruition.

Unidentified Shareholder

And there was an unearned revenue of \$1.8 million that I don't think Dave mentioned in -- \$1.8 million in unearned revenue, could that be expounded on, please?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes. That is -- well, when you look at how we structured many of our contracts now, looking back on the CODA business is a lot of these contracts require significant deposits before we commit to cover materials. So most of that is deposits on product that's going to be delivered in the coming months.

Unidentified Shareholder

So that's not necessarily a liability. That can be an asset going forward?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

I'll let David expand on how we would classify that.

David I. Rosenthal - UQM Technologies, Inc. - Treasurer, Secretary & CFO

[Thurman], from an accounting point of view, it is technically a liability because the customer has given us cash in advance of us shipping product. So -- but we do that because it helps our cash flow. It helps us to purchase the inventory that's required for making the products in advance of the shipments. And it's a very good credit policy for us.

Unidentified Shareholder

Dave, I think you explained that very well. So it is not revenue that we have taken in as revenue and booked as revenue that has yet -- that will yet have to be written off. It is receipts we have taken in anticipation of revenue. Did I understand you correctly?

David I. Rosenthal - UQM Technologies, Inc. - Treasurer, Secretary & CFO

You understand that correctly. That number on the balance sheet represents future revenue for us.

Unidentified Shareholder

Okay, good, Dave. And again, I would just say that I think the stocks overreacted relative to the CFIUS. I think it's good news. I think we got other people out there that would love to make a 9.9%. And I, as one, would like to say, if you need to raise money, I own a substantial number of shares. And let's -- don't forget a rights offering that allow investors the potential to enjoy the ride up on the stock as we look for other partners.

Operator

Your next question comes from the line of [Mark Bartow], a private investor.

Unidentified Shareholder

I just had a question, if you could give us an update on what's going on with ITL?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

ITL, (inaudible) continues to contact us. And looking at other ways to execute on their business plan, we have not given up on them. But for the last while, since we've shipped the prototypes, they've been struggling to get their business going. So again, we'll keep everybody posted. And we hear from them pretty regularly, and I know they've got prototypes running, but that's really the extent of where they are right now.

Unidentified Shareholder

Okay. And I think part of the initial agreement was on that production would start in 2018. So obviously, that's going to be pushed to the right. Are you guys talking about -- I guess you guys renegotiating that or are you still waiting until they ramp up their production?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes, the unfortunate part is that's in their control to launch their powertrain. And again, they're responsible for a number of other components besides ours. The area that I think has hurt them very badly is the transmission. And we've got other solutions but it didn't fit into their vehicle classes. I know they're working that as really there are major issue that they've got to overcome before they can launch. So as soon as they're ready, we're ready to support them.

Operator

Your next question comes from the line of Randy Hough from ProEquities.



Randall Hough

Another question on Meritor, guys, if you would. When we first got involved with Meritor, there was talk about testing the idea out in the field and showing it off at trade shows and what have you, like the one at ACT that you mentioned. And that management would make a decision to go forward, depending on the level of customer -- their customer interest at these different shows. I judge from what you mentioned before about this new branding and all of that, that it must be pretty significant in that, in fact, they are moving ahead with optimism based on good customer indications. How do we weigh that -- how should we weight that in terms of assuming that the E-axle is actual proven to be workable, it meets expectations from a technological standpoint? Is there any sense when working with them that you've developed about how their customers would react in terms of volumes over time, given the broad customer base that they have?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Again, the actual volumes, Randy, I mean, I think that's the question that everyone has as to where that's going to be. There's all kinds of numbers out there, and they're all very encouraging, but we'll be very pleased to see, again, a fraction of what they're proposing to come into reality. There were -- where they are today, I think this is important to note is -- I think, in our last call, we told everyone that we were working on the functional prototypes. There are functional prototypes today. They run across the dynos. They have -- they're getting their first vehicle up and running to be able to demonstrate to various customers. And then, obviously, when you bring in customers like a Peterbilt as first adopters, they've been able to demonstrate that this is going to be a successful product and be there on time to launch, to support whatever production volumes they would be looking at. And I think another thing that I want to mention that I'd have to give Meritor great credit on having the foreseeability and vision to make that investment in Transpower as their other partner. What Transpower is, is an integrator. They've done a number of heavy-duty electric vehicles in the past. So they bring the engineering expertise to integrate these systems, being the battery system, the battery management and the vehicle control unit. So you combine that with the axle, which is electrified with our powertrain, and Peterbilt will -- or Meritor will provide those services to companies like the Peterbilt or any other commercial vehicle manufacturer that needs support on integrating these systems. So they're at the show last week. There was a number of heavy-duty vehicles on display that Transpower had done previously that will all be converted into electric axles as they move forward.

Randall Hough

So just to understand, the key benefit of using Transpower in the chain, if you will, of components winding up in final vehicles, for any given user of those vehicles, by using Transpower over against developing their own internal manufacturing apparatus and testing facilities, all the rest of it...

Operator

(Operator Instructions) We will take the next caller, who is [Dan Schmidt], a shareholder.

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

I just wanted to respond to Randy. I don't think we wanted to cut that off. Randy, I think I know where you were going with that is -- the benefits of Transpower is speed to market because if you look at a company like Peterbilt or others that are in the traditional vehicle market, they don't have that electrification experience. And with that services that they can now provide, they're able to bring these vehicles to -- in the prototype stage 2 market, much, much quicker than what you would have if they had to go out and find their own engineers to do all that work to development -- develop the control systems and so on. So I say it was an excellent vision for Meritor to go out and make that investment to help them and, really, help us to get to market much quicker. I apologize for cutting you off there.



Operator

[Mr. Dan Schmidt], a shareholder.

Unidentified Shareholder

Real quick. I was wondering how many employees have you hired? And is your manufacturing facility in Colorado still up for sale? Are you still looking to sell the building? Or with all of the prospective business we've been talking about, it looks like you might be able to fill it up?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Dan, we've hired -- we probably hired another 10-or-so productions. So we really doubled our production staff from where it was. So we're definitely growing in that area. Yes, the building is still up for sale. Even with this added volume, there's still an awful lot of empty floor space. But again, I don't have concerns over us having the space. Again, we're not actively -- we're not going to take a bad price on this. If somebody offers us the asking price, we'll definitely entertain it, but we're not in any need to sell it quickly.

Unidentified Shareholder

Good, good because it sounds like with all the potential business you guys are talking about, the challenge in a year or 2, you might fill that up completely. But that's just my thoughts.

Operator

And our next question comes from the line of [Brad Allen], a stockholder.

Unidentified Shareholder

Actually, the guy right before me asked my question gets, so I'll pass, but I would like to thank you for the good news and the number of customers you're talking about. Great news.

Operator

And next question comes from the line of [W. Williams], shareholder.

Unidentified Shareholder

Just another question. With all the business that you're anticipating, will the company have to raise capital? Or do you have enough capital to build all the requirements for meeting what they're going to want?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes. I think, the big question there is our overseas expansion where the capital will be needed. Again, we've got everything we need here in North America. We're making some incremental investments, but to make those major expansions, that's where a lot of the cash from the Sinotruk or CNHTC investment was going to -- be going to fund the JV and to get into those much larger markets. So as I mentioned earlier, we're heading the China very soon. We'll be having discussions with the CNHTC executives, including their Chairman. And looking at what plans and what are going

to be the alternatives or the options to -- for us to fund the joint venture and to support that expansion in the -- mainly in the Asia market. A little bit...

Unidentified Shareholder

Okay. And just for a follow-up...

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

(inaudible) what's going to be needed until those meetings take place, and we jointly discuss what the impact of CFIUS holding up the investment from Sinotruk is going to have and how they would like to approach it as well? And then I can -- we'll know much better after those meetings.

Unidentified Shareholder

Yes, that sounds like it's going to be very important, and good luck with that. But one follow-up question. Will the same type of partnership be required to work in India as well? Because I would imagine you're going to have to do the manufacturing over there as well, would you not?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes, it's -- it is similar in many ways. One of the options -- or I wouldn't say options, but one of the benefits of teaming up with companies like Meritor that already have presences in China and in India, that we can work with them to support how we go into those places or even working with Ashok. But we've been looking at many different options of how we would enter these emerging markets. So that's going to be key and, again, a lot more to come as we finalize those plans.

Operator

Your next question comes from the line of [Thurman Willis], a shareholder.

Unidentified Shareholder

I take it, with the decision of CFIUS, if Sinotruk, CNHTC wanted to loan us the money as a debt obligation, that they could do that to fund the joint venture. Would that not be correct, Joe?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

I could say, [Thurman], there are many, many options out there you can go through and rattle off. And that is -- that's another one though. And we've got to sit down and have discussions with them. And again, we'll be doing that here very soon.

Unidentified Shareholder

Okay. All right. And well, I'm glad to know that we have those options and that the government can't control the fact if they wanted to do it as a debt obligation instead of ownership, that we could do that also.

Operator

(Operator Instructions) Your next question comes from the line of [Michael Mamula], a shareholder.

Unidentified Shareholder

Just wanted to do another follow-up question. With the kind of expansion that we're seeing with the applications of electric motors in a lot of different sectors within automotive and industrial, have you of late, say within the last quarter, had any follow-up discussions with either Audi or John Deere or some other the customers that you guys have worked with, previously, that have kind of seem to have fallen off? Can you give us an update on those, too, at least?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes. With Audi, we have not talked to them in quite some time. And we've very shifted our focus into the commercial market. Because with the passenger car, as I've stated in an earlier call, it's a much different market with different margins, and they're looking for suppliers that have more of a global presence. But what we would do is, again, try to position ourselves more as a Tier 2 for those types of markets. John Deere and that market, we're really not seeing much happen in the -- say, in agricultural or heavy-duty market. There's a little talk of electrification but nothing really substantial in that area.

Unidentified Shareholder

Do you have any idea of why is that sector, particularly, is lagging? Say, like the buses and things like that. It seems like that would be kind of a good market to save some cash with being able to go out into the fields, come back in and recharge somewhat quickly and get back out to the field or have multiple machines that you're able to switch back and forth or whatever you would need to do. But any ideas on your part as to why that...

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Sorry. I think that's like -- any one in these markets, it comes down to battery cost, infrastructure and where the incentives are. Again, a lot of this market and business feel very much incentive driven, and a lot of the current incentives are going into the transportation market, into the buses and the municipalities that are applying for the grants and subsidies. I'm not aware. There may be stuff out there in the agriculture market and so on. But we're just not seeing a lot of interest from that side of it.

Operator

Your next question comes from the line of [Dick Sargent] from [NTB Financial].

Unidentified Analyst

My question is a little bit different and that is I got a phone call from another stockholder this morning. He said, "Well, the good news is out, so the stock is probably going down." And here we are. But the thing that surprises me is that there's a difference between a press release and investor relations, if you will. Any English major can write a press release, but it takes a salesman to be able to contact companies and brokers, in particular. And the thing they never see -- we've talked about this, Joe, and I just don't understand that there's enough money in the Denver market, which is your homeboy here, to take this stock to \$100 a share. I mean that the money is here if the story told, and I just don't see that the story is being told. You're talking to us, and we get the thing on a conference call and all that. But who's out there hustling the story? And we don't really have to be hyped but just a matter of there's some good news coming up. I've never wavered in my support of the company, buying the stock. And yet, that's my question is, what are we doing to purposely make investors aware of the opportunity? And I do believe the opportunity is there. But I



hear the same voices on this call that I've heard on past calls. So it's really like we have a little family meeting here. But that's a question. What are we doing to be aggressive and taking the story to The Street? Let them know what we're doing. The new people. Here we go. That's it.

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Thanks, [Dick]. And like I've mentioned to you many times, we've got a lot of interest out there. We're heading to a number of conferences, talking to analysts. We have thousands and thousands of shareholders. So I can't say it's a very high retail base. But as we grow as a company, the real key is going to be starting to bring the institutional shareholders in. And that is going to be a key. And as we talk with a number of the larger analysts that our IR firm has put us in front of, they definitely laid out what our challenges are and have been very complimentary of where we're going. And I think the key is to keep the business moving forward, and that is going to -- what's going to bring in the incremental investors.

Operator

Your next question comes from the line of [Charles Bayton], from a private investor.

Unidentified Shareholder

I just wanted to pin you down a little bit more on some information about your Colorado manufacturing facility. Remind me whether that's something that you got into a facility that large back in the day when you were anticipating that CODA was going to be a source of a lot of sales. And I gather from what you've already said here that your manufacturing headcount currently must be about 20. You can go to 40 or 80 or what? How big can you go in the facility that you have now? What fraction is actually busy, what fraction of your floor?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

I'll give you a couple of examples of this plant. It was -- we don't have a huge direct labor content. We do assembly here. This facility was originally an electronics plant and has capacity for roughly 300 to 400 production workers per shift and then probably 200-or-so office workers. A very, very large workforce that it could support. We've got 130,000 square feet. In my experience from other products, we -- even at full capacity, what we'd be doing here in North America, we would utilize a roughly about half of that floor space. So we -- again, we're just trying to be prudent. We own the building outright, no rapid requirement to sell it, but we also have to look at utilization of assets. So that's something we're going to constantly look at, is the best utilization of our assets to maximizing our value.

Operator

There are no more questions. Mr. Mitchell, would you like to make any closing remarks?

Joseph R. Mitchell - UQM Technologies, Inc. - President, CEO & Director

Yes, definitely. I just want to say in summary, I mean, obviously, we're continuing to improve our business with the growing sales and our expanded global customer base.

Our future continues to look very bright for UQM as the commercial electrical vehicle market is continuing increase in its market adoption. And I want to thank, everyone, again, for your ongoing support, and we look forward to another exciting quarter. Thank you, and have a good day.



MAY 10, 2018 / 8:30PM, UQM - Q1 2018 UQM Technologies Inc Earnings Call

Operator

Thank you, Mr. Mitchell. A webcast audio replay will be available starting today, May 10, 2018, at 7:30 p.m. Eastern. The link can be found on the UQM website at www.uqm.com. Click on Investors then on Earnings Webcast. This concludes today's conference call.

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