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# EDITED TRANSCRIPT

UQM - Q2 2018 UQM Technologies Inc Earnings Call

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**Randall Hough**

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the UQM Technologies, Inc. Conference Call. My name is Mike, 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.

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

Good morning. Thank you for joining us on UQM's conference call to discuss the quarter ended June 30, 2018 results 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'd 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 yesterday and our Form 10-K, both of which are available on our website at [www.uqm.com](http://www.uqm.com) or at [www.sec.gov](http://www.sec.gov).

Now I'm going to present the highlights of the results for the quarter ended June 30, 2018. As we previously reported, the orders we received during the first quarter had already exceeded the total revenues of 2017, and we continue to get new orders. We are on track to have an excellent year.

We spent much of the first quarter getting prepared for the ramp up of shipments, and revenue in the second quarter showed the beginning of this ramp.

Revenue for the quarter ended June 30, 2018 was \$2.7 million compared to \$1.8 million in the same period last year, an increase of 51%. Revenue for this quarter was one of the highest we have seen in at least the last 5 years.



Total gross margins were 27% for the quarter, moving back towards expected values and definitely higher than last quarter as we anticipated. Margins in the same quarter last year were 39%, and the decrease is related to a change in product mix.

Total operating expenses for the quarter were \$3.1 million compared to \$2 million in the same quarter last year. The increase year-over-year is primarily related to a timing change in the payment of variable compensation in the second quarter this year versus the payment in the third quarter last year and an increase in support cost to support our growth.

The timing change related to variable compensation was done to reflect the change in our fiscal year to December 31. Without the impact of the variable compensation, operating expenses would have been about \$2.4 million.

Net loss for the quarter was \$2.5 million or \$0.05 per common share compared with a net loss of \$1.3 million or \$0.03 per common share for the same quarter last year.

Our operating cash balance at June 30, 2018 was \$2.6 million, and we had \$1.2 million of accounts receivable, reflecting shipments made near the end of the quarter.

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. If we see the need to raise additional capital to support our global growth strategy, we have a number of options available to us. And of course, we will select the option that will be in the best interest of all of our stakeholders.

Based on our anticipated sales growth and receivables balance, we are under no immediate timing pressure to make any financing decisions.

In summary, the second quarter was an excellent quarter for us. 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 plan forward continues to be extremely busy as we prepare for shipments for the second half of the year. We continue to expect that 2018 will be a solid year of growth 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?

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

Great. And 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.

First, I would like to add some more color on our announcement of our actions to open up a service center in establishing our WFOE, wholly owned foreign entity, in Shanghai, China. This has been in the works for some time and with the significant growth in the fuel cell market, it is critical that we establish a formal organization and facility where we can quickly service our customers' needs from the region.

This facility and organizational structure will allow us to service all of our customers in the region with quicker turnaround on service and spare parts and eventually, assemble the fuel cell compressor systems in this market as the volumes continue to increase.

With expansion into this market, we are continuously questioned by our customers as to when we're going to localize to support them. And now, we are fulfilling this commitment. Although we are just starting with the service center, our long-term plan is to be able to manufacture the fuel cell compressor systems on this site and also use the WFOE structure to support our other ventures into China, such as the JV and sourcing or purchasing of key components.

Now I would like to talk about a few of the key highlights for the quarter. We experienced a very solid quarter as beginning to demonstrate growth through the execution of our previously announced orders to many of our new and existing customers, and our plant has never been busier.



E-deliverables in the quarter included shipping samples of the E-axle hardware and continuing the development work with Meritor, shipments of the fuel cell compressors to a number of new customers, as mentioned in previous news releases. Shipment of their first PowerPhase DT systems to Ashok Leyland in India, bringing on a new DT customer in Taiwan, shipment of the first mining production systems to KESHI in China for their application, shipping the first deliveries to G4U and Lightning Systems and of course, continuing to work very closely with Sinotruk on commissioning on a number of vehicles in China utilizing our drive systems.

I will provide additional details on the CNHTC Sinotruk relationship a little later in the call. For the most part, the customers mentioned our all new customers and applications and of course, we continue to produce and ship products to our existing customers, such as Proterra, Zenith and others, who are all contributing to our growing revenue.

We have been ramping up production operations to support the increased demand by hiring a number of production employees and some additional support staff to facilitate delivering on our outstanding orders and look forward to continued revenue growth in the coming months.

One other interesting development I would like to comment on is our engagement with the U.S. government on evaluating business opportunities. With the CFIUS position, in view of the critical nature of our technology, the government has indicated an interest in working with us, and we are exploring opportunities from a number of perspectives, and we'll keep everyone posted as or if these opportunities develop further.

Now I would like to provide you with an update on our continued relationship with CNHTC and Sinotruk. As a reminder, CNHTC is and continues to be our largest shareholder, holding 9.9% of UQM stock. Even with the CFIUS setback on completing the second tranche investment, CNHTC remains committed to UQM in our joint goals of bringing our powertrain technology to China and supporting their electrification strategy.

As I previously mentioned, Sinotruk has procured a number of both HD and Pro systems from us and is in the process of commissioning these systems with Sinotruk-supplied transmissions on a number of vehicles. Work on the JV continues, and we are looking at alternative financial structures based on the second tranche investment setback, but we are committed to be manufacturing in China in 2019.

We were in China meeting with the CNHTC executives this past May, discussing alternative JV structure ideas. And the Chairman of CNHTC was here in Colorado in June, and he again reiterated his support of UQM and our joint goals. We will keep everyone posted on further updates on the JV progression.

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

This was obviously a very busy quarter supporting new business and existing customers in the propulsion sector of the business. Our team visited Ashok Leyland in India for the commissioning of its first PowerPhase DT systems in Ashok Leyland bus. We continue to move forward with ongoing shipments of our DT systems with the 2-speed transmission to Ashok.

As previously mentioned, India is on the cusp of a major shift to electrification and 0-emission vehicles and to be on the ground floor with a customer like Ashok Leyland is a major accomplishment for UQM.

Based on the results of the success of these initial trials, Ashok could be moving to higher volume next year, and we continue to work with them discussing localization strategies in India to support this market.

Our E-axle entry with Meritor is another major strong point for us in the propulsion sector. Meritor continues to promote its Blue Horizon brand and has their first demo vehicle running with the E-axle with the UQM propulsion system on board, along with a number of test systems and progress.

Additionally, we are continuing with a number of development programs with Meritor for new applications and future deliveries. As Meritor has announced, they have a number of road trials scheduled with major customers and anticipate going into production next year.



We also previously announced that our Chinese mining vehicle customer, KESHI, placed a large order with us for a fleet of explosion-proof electric drive systems for their all-electric underground mining vehicle application, and production of these systems fully commenced this past quarter.

Our engineers from both the U.S. and China were at the KESHI plant to support their commissioning and is doing extremely well. The fully electric mining vehicles are running, and all reports from KESHI are very positive. And we hope this is the first of many production orders for this application.

As I mentioned earlier, Sinotruk is in the process of commissioning a number of vehicles with both our PowerPhase 135 and PowerPhase HD systems with Sinotruk source transmissions.

On the PowerPhase 135, we are working on a single-speed gearbox that Sinotruk will be supplying for a midsize delivery van that has huge market potential.

On the HD systems, they have a 4-speed transmission that has targeted for a city bus and port vehicle application. Our team in China is working very closely on the installation and commissioning of these vehicles, and these applications are targeted to be the lead products for the JV.

I also want to expand on a few of our other new customers that are starting to work with UQM systems. Chung Shing, a major Taiwanese bus company has chosen UQM and our DT system for their first entry into electrification and expect to see this bus operational later this year.

Lightning Systems right here in Colorado is using our DT system for a full-sized bus program that they're working on and are also using our Pro system, our PowerPhase Pro system for their forward transit project.

Another new and very exciting customer is G4U, who is also installing a PowerPhase Pro system with a UQM-supplied gearbox further initial midsize utility vehicle applications.

And of course, we continue to supply Proterra with our HD systems, and Proterra continues to win new contracts throughout North America. And we are very pleased to participate in their growth.

There a number of other customers who have purchased systems -- (inaudible) propulsion system globally. With all the customers I have just mentioned and potential new ones, you can see how well positioned we are to take full advantage of this growing market.

And now moving on to our auxiliary product sector. Our auxiliary sector continues to be a strong area of business for us, particularly with the fuel cell compressor business in China. We have brought on a number of new customers around the globe, with the majority being in China. And our major Chinese OEM continues to order new systems from us for their production program. And for all of the new customers who are selling samples to, each and every one of them has the potential to go to volume production.

As discussed previously, China has made a major commitment to fuel cell technology, and UQM is very well positioned to take full advantage of this market. And this has become a key part of our strategy. We are actively working on improved performance and cost-reduced versions of this product to further expand into this market.

Our announcement of establishing our fuel cell compressor service center and formal formation of our China operation is a major step in supporting this market and demonstrating to our customers that we are in this for the long run and dedicated to serving their needs.

Ultimately and consistent with our strategy, we need to be manufacturing in the major markets we serve, and our long-term plan is to be building the fuel cell compressor systems in China for this market. And we have now begun to build a formal organization to support the strategy.

And finally, I'd like to move on to our services sector. As previously stated, our externally funded engineering resources have been focused on supporting the E-axle program. E-axle funded engineering from Meritor is an excellent revenue source.



Our fuel cell system contract manufacturing also kicked off this quarter, anticipated to continue through the remainder of the year. Additionally, internally funded programs for cost and performance improvements were initiated, mainly in the inverter and fuel cell compressor area. We continue to remain focused on obtaining funded R&D projects that support our technology road map.

As you can see from this update, we continue to make significant progress on all fronts, and the efforts are now starting to show up in our results. We are definitely on the right track of realizing our potential and very excited what the future holds for UQM.

At this point, I would like to turn the call back to the operator for questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from Sameer Joshi with H.C. Wainwright.

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**Sameer S. Joshi** - *H.C. Wainwright & Co, LLC, Research Division - Associate*

The first question relates to the second half revenue ramp and in fact, the next 12 months. Do you expect similar growth that you saw from 1Q to Q2 going forward, based on all the activity that you're looking -- seeing in the space?

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

Yes, I think that's a very good analogy. I mean, as we've announced earlier, we -- coming into the year, we had more orders on the books than we had all of last year and that continues to grow. So the number is definitely getting better and as we've said earlier, the plant has never been busier. There was a slight increase in our inventory, and we have been purchasing a number of components to be able to support these future orders. So I would say that's definitely a good analysis from your end.

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**Sameer S. Joshi** - *H.C. Wainwright & Co, LLC, Research Division - Associate*

Okay. Good. And so in terms of composition between the 3 sectors you classified that have any potential, which -- can you give us a breakdown of your backlog between the propulsion, auxiliary and engineering services? Or you don't disclose that?

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

We really don't disclose that and then there's a lot of volatility around it because with each one of these customers that we're serving, most of them are in still in discreet batch orders. So we do see -- like for instance, the fuel cell could have a big boost as we get or receive orders from that -- the major Chinese OEM and then we'll get another big order from Sino or Ashok. So it does show a level of volatility. But I think if we look back historically over the last year or so, fuel cells have jumped up I think probably in the 40% -- 30%, 40% of our revenue. And the service side, we're seeing some growth in that area. And again, a lot of that on the funded side, through Meritor and some other smaller projects that we've been working on, and it's also another area we want to focus on. The nice part, I think, if you also look at the 8-K, is there is a -- last quarter, we -- a lot of times you'll see revenue focused in on 1 or 2 customers. We were very evenly split between like our top 5 that we designated, so we're seeing a nice diversification of the customer base as well.



**Sameer S. Joshi** - H.C. Wainwright & Co, LLC, Research Division - Associate

Yes. In terms of the relationship with Ashok, it's a big company. It has a huge presence in India. How do you see the ramp up? You gave some color, but if could just provide some details, that would be great.

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

Yes, again, they're doing their first trials. As I mentioned, we had a couple of our guys in India, a month or so back, commissioning the first bus, working very closely with them, got it up and running. We're shipping the first orders today. And like many of these customers, a lot of the future is going to be determined on the success of these trials. We're spending a lot of time with Ashok. They've had -- previously, as I mentioned, their top -- their CEO and a number of their other executives have been here to UQM. We continue to talk about -- as the volumes still increase, how we would localize, so that's going to be very critical for the growth in the India market. And there's still a lot of, I think, items to be determined in that area. And so it would be difficult for me really to put any concrete information on there because a lot of it would still be speculation.

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**Sameer S. Joshi** - H.C. Wainwright & Co, LLC, Research Division - Associate

Right. So it's a good mid- to long-term opportunity for you.

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

Definitely, and this is a prime example of how important Ashok is looking at -- at UQM, they sent their Director of Supplier Quality here for a 5-day quality audit that we actually passed. And we'll continue -- there's a few items that we've got to work on to meet their standards, but they've spent an entire week here working with us, just looking at our overall quality system and operating system to be able to support them. So yes, this market is very, very important. And as I mentioned earlier, they searched the globe looking for who is going to be their propulsion system supplier and our power density and performance and experience, mainly with the 5-million-plus miles that Proterra has on their drive systems right now showed that we were chosen for that application so -- very, very excited of what's going to happen or their future could go with Ashok.

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**Sameer S. Joshi** - H.C. Wainwright & Co, LLC, Research Division - Associate

Okay. One last one, and it's sort of a long question, but is there any input or relationship from Sinotruk as far as the wholly owned foreign-owned entity that you are setting up in China? Is there any relationship? Are there synergies there?

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

No, other than they're aware of it and fully supported it. We presented that to them. Again, their Chairman is actually a board observer for us, and we've discussed the concept. And it was a very important to give us a chance to elaborate on why we had to put that in place. The fuel cell business is just growing exponentially in China, and we're seeing future growth, and as I've mentioned in my comments, we're asked regularly how we are going to localize? Because not having the ability to service the customers, have spare parts, be able to do transactions directly in China was critical that we've set that up. Also, the fuel cell business is not part of the JV or anything was negotiated, so we really did not want to give up any of the profitability of that product into the JV. So it's essential that we set up our own independent organization. And also to be able to do any type of transactions in China, whether that be through the JV and the revenue recognition, working on sourcing, other things that we'll be able to work in that region, we needed to have that entity in place. I have to say it was a long bureaucratic process, and we've got our lease signed. We've got the building identified. We're in Shanghai where the vast majority of our customers are for the fuel cell business. And there's still work to be done in getting the WFOE established. But I think the first steps are in place and moving forward. David, anything else you want to add on the WFOE?

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

Only to say that we know that the process to get the WFOE fully established will take a -- some months due to the bureaucracy of the country. But as Joe mentioned, we've taken the first steps, and we're underway now.

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**Operator**

Your next question comes from Joe Vidich of Manalapan Oracle Advisers.

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**Joseph Vidich**

A lot of great progress, I have to admit. There's -- it seems like things are really rolling your way. My first question really is, given the issue surrounding the investment from Sinotruk, have you -- you have so many tremendous partners you're working with, including Ashok Leyland. Are you considering any other potential partnerships like that?

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

Yes, Joe, I mean that's one of the reasons that we're really leaving it open because you're absolutely right. I mean, there so much going on in this industry right now, and we're not in any urgent nature to have to raise capital. We are looking at our growth. We are looking at what type of structures need to be established because this is a global business. So we're keeping all of those doors opened. And as you mentioned with these other customers that a strategic investment is one of the options we would definitely consider.

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**Joseph Vidich**

Okay. I would think so. The other question I have is, with the trade work going on with China, have you seen any impact on what's going on in China with regard to their rollout of the electric vehicle and the fuel cell vehicles? Is that impacting what they're doing or...

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

I've to say I've seen 0 impact as far as our relationships with our Chinese customers and -- in that side of it. We've said even long before this started that we had to localize to support that market. Obviously, we're very large, somewhat expensive systems and to be shipping them halfway around the world when you're in volume is just not viable. And that's why, again, we're getting the WFOE in place and after the service center, the next step would be to localize the production because we anticipate, again, a lot of these products going into much higher volumes than they're at today. And then also, having that financial structure, we can then realize the profits and be able to repatriate. And it's a long complicated process how it works between China to our headquarters in Hong Kong and back to the headquarters here in the U.S., but all those steps are being put in place. But getting back, I'm not seeing any direct impact on the relationships, but we'll have to see where the next step is going.

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**Operator**

Your next question comes from Randy Hough, a shareholder.

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**Randall Hough**

Let me get a housekeeping question taken clear up first. I'll ask you, David. Given your comments, David, earlier about the options available to the company for financing it's growth, what's the status of the sale of the building, not only in regards to that supply -- potential supply of working capital, but in light of the fact that you're ramping up and using a lot more space, which when you put the building on the market, you didn't have on the books. I'm referring to the manufacturing of more and more fuel cell components.



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

Yes, Randy. Clearly, things have changed since we've put the building on the market. The status is the building is still on the market. We continue to get some interest of people who are looking, but we don't have anything specific or anything firm in terms of any sale opportunities. And there's no doubt that with the business having picked up as it has and the amount of activity that's going on in the building, we're actually using a lot more of the space now than we had previously. So we're considering other options. The sale may not be the right -- exactly the right thing for us at this moment in time. But we're considering other opportunities such as may be a sale in leaseback transaction to benefit from the value of the asset that we have in this building. But to move at this point in time would be a very difficult thing for us to do. So we're looking at other things at the moment.

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**Randall Hough**

Okay. Great. Yes, that's why I asked the question. It would be tough to break up production and then replant it down the street in terms of interrupting production flow, so thank you for that. To Joe, Joe, I'm putting some of my questions I had in mind, offer a second, to get a little more clarification on your mention of the U.S. government in your opening remarks. With respect to CFIUS, would you clear that up? Are you saying you're trying to work with them and getting a better outcome on our application to go forward with Phase 2 with [CHCK]? Or some other opportunity of business brought to us because of government need as a customer, for example?

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

I think it's the latter, Randy. Obviously, we spent a lot of time working with the government through the CFIUS process. And some of the things in the discussions with them are reasons of not wanting us to move forward with the major Chinese investors as they look at our technology and future plans as being very critical to a lot of things that are going on here in the nation. So we're in the very early stages, but there is a commitment from them to work with us. And hence, some of the reasons that we're looking at many of the different alternatives. Because I don't know where this was going to go, but I'm very pleased to be engaged with them. And that's a whole area that we looked at, the government applications and electrification and why they deemed us as being very important and not wanting to see any loss of this technology as there's obviously things far bigger than what we're aware of going on behind the scenes, and we'll continue to work with them. And like I said, where it goes, we're not sure right now, and we'll keep everybody posted as developments occur but...

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**Randall Hough**

Okay. But I mean, thinking about the history of the company, we had significant engagements with different tier ones, the military applications. So military applications could be a potential area too as well, right?

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

Definitely. That is one of the areas. Again, this is at the very high level of discussion, but I want people to be aware of it, again, the government is not giving up on us and just block the transaction. They wanted to make sure that they're supporting us, they just did not walk away from it.

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**Randall Hough**

Yes, they have made a major investment in the company in the past. That's for sure, right?

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

That's some of the things we're looking at is through the (inaudible) of energy and investment. And that's going on again, not just with UQM, but a lot of companies. But a lot of that has moved onto China through other guys that have done joint ventures. So when you look at again some of our technology and where there may be applications, so we'll continue to work with them and it's a slow process. It's not something that's going to happen overnight, but it is definitely good to be engaged with them.

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**Randall Hough**

Okay. And my second question then is regards to the fuel cell opportunity in China. Clearly, opening up your service center is -- gives us hope that this business and your other comments are sufficiently enticing, that you want to have a footprint there. But we really don't have -- so far, a kind of an idea, and I know it's early on with the Chinese. But could you give us what they're -- what your customers are thinking in terms of where that market's going to be over the next 2 to 3 years in terms of potential revenue to us?

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

Yes. I think I could probably give a lot more color on the size of the market. Is -- there's numbers that China are putting out. It's roughly 10,000 fuel cell vehicles by 2020. They made a big, big commitment. And a lot of their incentive structure is moving away from battery vehicles to fuel cell vehicles. And there were some recent changes in their incentive structure that they want the fuel cells to be a much higher percentage of the power that's on the vehicle where previously, if you put 30 kilowatts of fuel cell power on a vehicle, you got the full incentives. Now they're requiring that you need to have 50% of the powertrain has got to be fuel-cell driven to apply -- or to qualify for the minimal amount of incentives. So if you look at a bus, with got, say 200 to 250 kilowatts drivetrain on it, it's going to need 100 to 125 kilowatts minimally of fuel cell. But it's a pretty large fuel cell, and that's where our compressor systems fit very well in. And when they were developed years ago with Ballard and their bus applications. So when you look at those numbers, our proven technology, a lot of the technical advantages that we have, attends to reason that we've got 5 or 6 right now. I mean, the numbers keep changing if we get new orders of sample customers that are running our products. And again, the one customer that we've working with for a number of years has got hundreds of these on the road, and they're looking at even higher volumes as we move forward. So that's what drove us to say, look, this market is real. We're seeing there's enough revenue to justify making that investment, and we also are seeing that to serve these customers is the first fleet is up and running. It's just not practical if we've got to do a return or service to ship it. Back here, look and troubleshoot the units and not have that capability right on site locally for these customers. So again, where that market's going and from a revenue, it's probably too early to say any type of exact numbers. But it's definitely -- it's very, very high potential for us.

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**Operator**

Your next question comes from [Mark Cummings], shareholder.

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**Unidentified Shareholder**

Yes. I read a couple of weeks ago that UPS just ordered 950 electric delivery vehicles. Are your components -- will your components be a part of that?

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

Right now, we don't have any direct orders with UPS. I think I've seen a couple of their different announcements of where they're going, but we're not on the UPS programs that I'm aware of.



**Unidentified Shareholder**

Okay. I'm assuming then there are other orders from other companies? Are there seemed to be an increased interest for electric vehicles stateside?

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

Oh, definitely, I mean, when you look in the customers that we have that are the vehicle suppliers like Zenith, Lightning, G4U, Proterra, that are all using UQM drives. They've got a very big portion of the domestic market here in the U.S. today. So we're on a -- 3 of those customers alone, we're on a large percentage of the pure electric vehicles that are running here domestically.

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**Operator**

Your next question comes from [Richard Glenn], shareholder.

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**Unidentified Shareholder**

A number of my questions have been answered. I just wanted to ask again about the Shanghai plant. And just to clarify when you expect that to be up and running and when you're able to actually do manufacturing a product?

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

Yes, so Richard, we've signed the lease. And again, it's not a big facility. It's roughly about 3,000 square feet, but it's enough to start on the servicing side of things. So we've got a little bit improvement. By early fall, we'll have that service center set up. Probably the longest thing in lead time is going to get the WFOE structure in place. But we've got a company, a consulting company, that does this all the time for international companies to set up that organization. So I would anticipate that the service center is up and running by early to mid to fall. The manufacturing, there's really going to be a couple decision points that have got to come in on that. There's one, to secure contracts that are going to be large enough to put that infrastructure in place. And it's not a major infrastructure, but there'll be more investment to put that in and duplicate what we have here. And secondly, it's going to be getting the supply chain in place, because we've moved a portion of it to China. But the idea is to do more value add with the suppliers as far as the motor and some of the power electronics assembly through contract manufacturers and do more of a minimal final assembly in that plant. So there's probably a little more, but that would be -- I think in early '19 would be our target at the -- these orders, and customers do what they say they're going to do that we can be running very early in '19.

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**Unidentified Shareholder**

Okay, great. And putting a plant in China, it makes a lot of sense just for logistics. Was that strictly a UQM decision? Or was this something that was agreed upon with say, Sinotruk, to say "hey, listen, we want to see you guys in China before you're going to see any kind of significant commercial orders on behalf of us?"

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

No, they're really 2 separate items because Sinotruk focus on the JV is on the propulsion systems, on the larger drives. This is -- main focus being the fuel cell compressor systems and the number of customers and that's what this product is focused in on. And we made it very clear when we sign the JV that it was around propulsion, and I'm sure Sinotruk would love to have us to give a big percentage of that product to them. They would say they'd be happy to bring it in the JV. But from our end, why give up 50% or more of the profits? So we're going to keep that, 100% internal to UQM.

**Operator**

Your next question comes from [Frank Bachman], shareholder.

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**Unidentified Shareholder**

Good quarter. It sounds like we're starting to expand real well. I've got a couple questions. Where is all the selling coming from?

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

If I follow you, you mean, who is doing the selling or regionalize...

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**Unidentified Shareholder**

Every time the stock is up around \$1, you see 20,000, 30,000.

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

Okay. You're talking about stock selling. I really don't know, Frank. I don't...

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**Unidentified Shareholder**

You guys don't get to (inaudible)

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

It comes in later on but we don't (inaudible)

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**Unidentified Shareholder**

My God, somebody out there just doesn't like our company. Just -- and everything I heard today, it seems like you also see a lot more insider buying, which would be a real boost to for everybody.

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

We have a little bit of restrictions on that as well.

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**Unidentified Shareholder**

Restrictions on inside buying?

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

Yes, timing wise and things that go on with (inaudible)



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**Unidentified Shareholder**

Timing wise, yes. I understand that. I've been -- I was a stock broker for 38 years, I understand that. And my last question is, what -- how much revenue we're going to have to breakeven or make money?

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

Again, we've really not given that guidance, but if you look at our contribution margins so people could calculate it, it doesn't take a big turnaround to get us to a profitable position. And that is my main goal. I'm not into -- I really don't like into being in this losing cash burning position. So that's our goal to get the profitability as quickly as possible and...

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

And to Joe's point, I mean, we have talked about the fact that we generate about 50% contribution margins. So you can calculate that and come up with a number.

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**Unidentified Shareholder**

Okay, where do you see our company's volume a year from now? [20 mil a year?]

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

That's a great question, and I don't have the crystal ball. It's taken a lot of it as we've mentioned many times, it's going to depend on how quickly or how successful our customers are. And ultimately, the adoption of these vehicles to move to a higher percentage of electrification and timing for that. But again, our long-term forecast is a much bigger number than that but how quickly it's going to come is the big question.

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**Unidentified Shareholder**

All right, one last question. What -- are our products patented? Nobody (inaudible)

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

Yes, we have a number of patents, Frank, that protect our intellectual property. And we're very strategic of what we patent, and we also have a number of trade secrets that we have chosen not to patent because once you patent something, it still is exposed. People can work around that. So a few other key areas we don't patent, and we just maintain the trade secrets.

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**Unidentified Shareholder**

And the Chinese have no way of stealing it?

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

That's something that we structured very carefully and a lot of it is around our software. And if you look at the way that JV is structured and any other entity that we talked about is, we will sell the control board with our software being fully encrypted so that it would be -- can't say impossible but very, very difficult to get at.

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**Operator**

Your next question comes from [Frank Hayden], shareholder.

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**Unidentified Shareholder**

So my question is around the foreign investment risk review modernization act that's working its way through. I understand that in the Senate Banking Committee back in May, they removed language that would have given CFIUS the authority to review JVs with foreign companies, I mean U.S. and foreign companies. I'm kind of curious if you guys have done any analysis around that? And if this law passes, what in fact it means to UQM?

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

Yes, we're watching that very closely because I know there is a lot around JV discussion. And obviously, that's working with CFIUS. One of the things we pointed out was all of the major companies, the car companies and major Tier 1 suppliers that all have JVs in China. And I see that they did back off on that because I would have -- I think, had a lot of negative effects of companies of doing business and going after this market. Because unfortunately, all the Europeans are in there as well and not being restricted. So I'm not seeing anything right now that would be holding us up. And again, it's also the reason we're working so closely with the government is to make sure that as we take these steps, one of the things they want to make sure is that we're protecting our intellectual property. And that's -- again, the discussions are going on. They've been supportive of the steps we've taken so far on the WFOE. They were aware of it, and there was no objections nor they have the ability or right to object to setting up that entity. But again, it's something we're to keep an eye on and make sure that if there's anything that's going to affect us, we're going to take the right steps to mitigate it.

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**Unidentified Shareholder**

But outright, the passing of that act or being signed into law, you don't view that as adversely negative or positive?

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

Right now, I don't see an impact either way of...

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**Operator**

Your next question comes from [Thurman Willis], shareholder.

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**Unidentified Shareholder**

And following up on one of the previous caller's questions, I noticed that inventories jumped from 2.3 million to 4 million. And if you do a "back of the envelope" calculation on that plus the (inaudible) income in the liability section, I come up with some \$10 million the last 2 quarters in potential revenue. My question is not so much as what the revenue would be, but if we have the orders, can we push \$5 million, \$6 million, \$7 million out of our plant with the staff that we have if we have the orders? And could you respond a little bit to the inventory increase in the big channel?



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

Yes, Thurman, definitely. As far as capacity, obviously, we've been ramping up, bringing new employees on. It takes a little time to get them trained, but we're there and the staff is larger than it was and we've got the people and place to produce. That's obviously the ramp up and increase in inventory is -- was not bought on speculation that was bought on firm orders that we have in place. Timing of those, again, we're going to be trying to move that out to what the customer schedules are and I think the numbers you're putting out there all went in the realm of realism of what would be going on this year.

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**Unidentified Shareholder**

And follow-up based on what you and Dave say as far as breakeven, it appears using that -- using a 40% margin that's in this \$14 million, \$15 million category, we could possibly breakeven. Can you just (inaudible)? And then I have one other brief question. Don't you think I'm in the realm of reality there?

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

Yes, as long as we, again, maintain our margins. There's areas that we've got -- we've watched very closely our fixed costs and not trying to add in, make this business be as variable cost based as possible. And again, breakeven is not all that far away as long as we are able to continue to bring the orders in and then there's always going to be pricing pressure as volumes increase, that's why we're doing a lot of the engineering work we are right now is to be able to put designs and tooling strategies in place. We're going to reduce those cost that would allow us to meet what customers are looking for in these higher volume prices.

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**Unidentified Shareholder**

That really sounds great. My other question was, are there opportunities for finding a U.S. strategic partner? I think I calculate some 21 potential customers we have. And in another words, is there someone domestically that could be like a relationship of UQM has developing with Sinotruk? And could you elaborate on that, please?

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

Yes, as I mentioned in the call earlier, that's one of the areas that we're always open to strategic investors and whether that be domestic or international, we're willing to talk to anyone if it makes sense for us, but really not much more I can say on that end.

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**Operator**

Your next question comes from [Jim Carter], shareholder.

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**Unidentified Shareholder**

I want to congratulate you on the orders you've been doing, the new orders and the proposed businesses that you've been talking about. Sounds very exciting. I was curious, though, if some or all, or hopefully, all of this new business come to fruition, how will the company respond as far as capital -- raising capital? Or how would you get the funds? Will cash flow support these businesses you're talking about?

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

Yes, as we've mentioned in the beginning of the call, Jim, that if we've got to go out and raise capital, there's a number of options available to us. And we're going to do whatever it makes the most sense for all of the stakeholders, from the shareholders and the customers and the employees

of how we would structure that. And the nice part from a fixed cost and infrastructure, there's most of that here in the Colorado location. And then a big part of that goes to what's going to go on internationally, and that's where a lot of these different sectors, whether that be JV or licensing or other options that we would look at because if you look at where the vast majority of the near-term growth is, it is international. It's going to be China and India is where these 2 big markets are today. So that's one of the reasons we're talking with Sinotruk is when the second tranche didn't come through, we're going to be required to put a \$6 million cash investment into that JV. So that's obviously not feasible without getting that second investment. So we're talking about a number of different options of how we would still participate in that JV without having to put that type of capital in place. A lot of those are still on the early discussion stages.

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**Unidentified Shareholder**

Right. I was just wondering, if the capital is needed, it sounds as though you're making plans now to find sources so that you can get it rapidly if the situation demands it?

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

Yes, definitely. We've -- again, we've got a number of different options and things in place and we're not just sitting back saying, "boy, if we got to go raise it, we just start from a base of 0."

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**Operator**

Your next question comes from Irving Reifman of Reifman and Altman.

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**Irving Reifman**

I noticed that the balance of the real estate loan has now been moved to current liability. Is that the most likely source of new capital would be to refinance that loan?

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

Of course, we move that loan to current liability or because technically, it's due next March, so that's a requirement, of course, on how we classify it. And one of the things that we are talking to our bank about is the lease extending the term of that loan and maybe renegotiating other terms of it as well. So it is absolutely something that we're already in discussions with our bank about.

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**Irving Reifman**

Okay. My other question or comment is that, obviously, our stock is probably grossly undervalued and very dormant. And sometimes, I think maybe, 8 weeks goes before there's any news out of the company. And a lot of us has had this discussion with your management and prior management. Can't you be much more proactive? Couldn't you do a one page monthly report? You've got so many customers now. Just announcing the KESHI management visiting. I mean, I think the company has an attitude of bearing its head in the sand for some reason and probably, the least proactive company I've ever seen. Can you discuss PR at all?

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

Yes, Irv, message well taken and received. And as you probably see that 8 weeks is a lot of times, it's probably longer than most. I mean we try to get as many news releases out as they come due. And your point of getting other updates on that, we'll definitely look at that and see how we can



get information out to the investor public of what's happening because there's a lot of good things going on. And we'll take your critique seriously, and we will look at what we can do to get more information out to you.

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**Irving Reifman**

It's not a critique, it's a suggestion. And thanks for getting the report out yesterday, that was very helpful.

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**Operator**

Our last question at this time comes from Joe Vidich of Manalapan Oracle Advisers.

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**Joseph Vidich**

I just had one more question regarding the cost of your products. In the past, you've talked about your ability to lower the cost of goods. And I'm just wondering if you've had any further comment about recent status on that?

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

Hey, Joe, that is obviously something that we're looking at all the time because as we move into these higher volumes and move into these international markets, we're competing on a global basis. So cost is -- well, from their view, price is important and obviously, we want our cost to be significantly less than the price or we're going to do very well. So we've got -- and a lot of where our engineering is going is redesigning products to be mass produced and tooled properly. One of the things I mentioned in the fuel cell development that we are working on a number, and we've already instituted a number of enhancements and improvements and changes to our tooling strategy to significantly drive the cost of this product down as it moves from the prototype to production stage. So that we know our designs from a power density standpoint, we're very, very competitive. But then it's all the ability to scale. And that is the key area of -- that we're looking at. And the nice part is with the types of orders that are starting to come in and forecast that you've got customers like Meriters and others giving us that we can look at making those types of investments. So that, again, is something that we're looking at all the time.

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**Operator**

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

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

Yes, definitely. I want to thank everyone for taking the time to listen to our call today and the update on the business. But in summary, we're making or continuing to improve our business with the growing sales and expanded global customer base. It's something I want to point out is the quality of the customers and where we are around the globe is definitely a very positive statement of where UQM. Future looks and continues to look very bright for us as the commercial electric vehicle market continues to increase with its market adoption.

Again, I want to thank everyone for your ongoing support, and we look forward to another exciting quarter. Thank you, everyone, and have a good day.

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**Operator**

Thank you, Mr. Mitchell. A webcast audio replay will be available starting today, August 2, 2018 at 1:30 p.m. Eastern time. The link can be found on the UQM website at [www.uqm.com](http://www.uqm.com). Click on Investors, then on Earnings Webcast. This concludes today's conference call.

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