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UQM - Q3 2018 UQM Technologies Inc Earnings Call

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Randy Hough

Chris Witty

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the UQM Technologies conference call. My name is Sheryl, 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. Chris Witty, the moderator for today's call. Please go ahead, sir.

Chris Witty

Good morning, and thank you for joining us for UQM's Third Quarter Earnings Conference Call. On the call with me is Joe Mitchell, President and CEO, and David Rosenthal, CFO.

Before getting started, I'd like to review our safe harbor statement with you. This call 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, the quiddity 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, which are both available on our website at www.uqm.com or at www.sec.gov.

I'd now like to turn the call over to David Rosenthal to review the company's fiscal third quarter financial results. David?

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

Thanks, Chris, and good morning, everyone. As Joe will review in a moment, we posted another great quarter of top line growth, reflecting higher shipments across a number of customers. We believe the fourth quarter similarly will be indicative of strong, sustained demand, and we remain optimistic about improving financial performance going forward.

Revenue for the quarter ended September 30, 2018 was \$4.4 million compared to \$2.8 million in the same period last year, an increase of 59%. Top line results were at record levels, and we've achieved sales of nearly \$9 million year-to-date, which tops 2017's revenue in total. Notably, we also posted service revenue of \$600,000 in the quarter, reflecting continued development work with our long-term partner Meritor along with several other customers.



Gross margin was 23.7% for the quarter versus 46.5% last year, with the decline reflecting product mix as well as ongoing investment in our operations. As Joe will review in a moment, we've roughly doubled our floor staff over the last four months and are preparing our facilities to handle higher-volume shipments. We firmly believe that the investments currently underway will result in higher margins once the benefits of operating leverage kick in as we ramp up production and increase asset utilization.

Operating expenses for the quarter were \$2.2 million compared to \$2.4 million in the same period last year. Notably, R&D was in line with the third quarter of 2017, and our SG&A was down versus the prior year period.

Our net loss for the quarter was \$1.1 million or \$0.02 per common share compared with a net loss of \$500,000, or \$0.01 per common share, last year. Note that the fiscal 2017 third quarter included a \$600,000 gain from the sale of vacant land.

Our operating cash balance as of September 30, 2018 was \$2.5 million, and we had \$1.3 million of accounts receivable outstanding, reflecting shipments made near the end of the period. As of quarter-end, we had borrowed \$3.1 million under our bank line of credit and still had \$2.5 million of availability. As I said last quarter, if we envision the need for additional capital to support our global growth strategy, we have a number of options available to us. N and we are exploring all of them with the interests of all stakeholders in mind.

In summary, the third quarter was another excellent one for UQM with record sales, including a strong service component and a positive outlook on order trends heading into 2019. We will continue to manage cash appropriately while investing in the business and ramping up production, which should lead to higher margins on our path to profitability. As we prepare for the future, including hiring and training employees to meet anticipated demand, we are in great shape to address the business opportunities in front of us and are positively positioned for improved performance going forward.

With that, I'll turn the call over to Joe for an in-depth review of our current operations and outlook. Joe?

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

Great. And thank you, David. Good morning, everyone, and welcome to our third quarter earnings conference call.

On today's call, I will provide you with an update on key developments for the quarter as well as an overview of our business sectors: propulsion systems, auxiliary products and engineering services. I'd like to start by emphasizing how pleased I am with the third quarter results. Our nearly 60% top line growth clearly demonstrates that the company is on track and executing to plan, continuing to win new business while delivering products in ever-increasing volumes.

Our operations have never been busier, and as David mentioned, our production staff has nearly doubled over the past few months to support our sizable growth objectives and operating requirements. This has put some pressure on margins, but we are laying the groundwork for higher throughput in the quarters come. In other words, investing for the future.

In terms of some of the more exciting key deliverables during the quarter, let me just name a few. We continued shipping our explosion-proof E-drive systems to KESHI, a Chinese manufacturer of commercial mining vehicles, and began delivery of fuel cell compressors to a major Chinese OEM along with delivery of the fuel cell compressor systems to a number of other new customers as was recently announced.

Additionally, Sinotruk vehicles are in the process of being commissioned, and we are working very closely with this strategic partner to advance our relationship going forward. We also continued deliveries of our PowerPhase DT electric drive trains to our Ashok Leyland in India as well as performing ongoing work with Meritor, Lightning Systems and Proterra.

In addition, as I mentioned last quarter, we are in the process of launching our service center in China and establishing a wholly owned foreign enterprise, also called a WFOE, in Shanghai, both to support our Chinese growth initiatives. As a reminder, this facility and structure will allow us to better serve our customers in the region and eventually will provide a base for assembly of fuel cell compressor systems. Our long-term plan is to be able to manufacture at this site and support our other operations that develop in China over time.



Lastly, we attended the IAA Commercial Vehicle Show in Hanover, Germany in September, which was a big success and attracted large crowds of interested patrons. There was a clear focus on electric vehicles at this event, and Meritor had a sizable display, which was a major highlight of the show. In addition, Eaton had UQM motors on display with their new transmission technology. So attendees from all over the globe saw our products firsthand in various applications.

We also showcased our new PowerPhase HD2 electric motor inverters at the Electric & Hybrid Vehicle Technology tradeshow in Michigan in September and will be introducing our fully integrated fuel cell compressor system at the upcoming Hydrogen Energy and Fuel Cell Technology Expo in Foshan, China. So it's a very busy time for us as we continue to focus on business development and demonstrate our unique technology to customers worldwide.

Now I'd like to talk about some of the highlights of our propulsion systems and auxiliary products sectors as well as engineering services. Let's start with propulsion systems, where once again, we posted a strong quarter, supporting our customers and growing the business.

Beginning with our work in India, we made further deliveries to Ashok Leyland, as I previously mentioned, where a UQM team has been dispatched to India for the commissioning of their first systems. Ashok Leyland supplier quality representatives were also here in Colorado for a detailed quality audit as a first step in moving forward to certify us as a production supplier. We are very optimistic about the potential for higher volumes in India next year. Depending on volume and timing, this may necessitate a localization strategy, as I mentioned last quarter, and we are reviewing all options to support our growth outlook there.

With Meritor, we continue to provide development samples of the company's E-axes while demonstration vehicles utilizing UQM technology are tested. As a reminder, Meritor has a number of additional road trials scheduled for its Blue Horizon brand, anticipated for a full-scale rollout next year.

Related to this, we had a good deal of engineering service work with a Meritor this quarter as well, which I'll review further in a moment. Meritor is doing an excellent job in promoting the E-axle technology all over the globe, and we are well positioned as their strategic partner and supplier of choice, to take full advantage of Meritor's global presence as this market and technology evolves.

As I mentioned earlier, we are working hand-in-hand with KESHI's electric mining vehicle launch in China. The first vehicles are being built at KESHI, and we continue to produce and ship drive systems for this very important, heavy-duty application.

We are also shipping to ongoing customers such as Proterra and Zenith as well as Lightning Systems with which we've won a number of new electric drivetrain orders, including the retrofit of a bus for Via Mobility in Boulder, Colorado. This is an exciting opportunity which ends up costing the customer roughly half of what a new EV bus would run. We are also working with Lightning on a Zeem electric class 6 truck that's utilizing the DT system. Awards such as these further solidify our leadership in the electric drive chain space and expand our presence across several core markets, which then leads to additional business as well as new customers.

With regards to Sinotruk, our relationship with Sinotruk and CNHTC remains a strong one such that our team in Asia is engaged with them on nearly a daily basis. As our largest shareholder, CNHTC is not just a customer, but a strategic partner and long-term advisor. While recent changes in senior management at Sinotruk have impacted the pace of decision-making, we're working with them across all levels and still plan to be producing in China next year to support anticipated volumes.

Sinotruk currently has three platforms in the testing and development phase using UQM drives with Sinotruk-sourced transmissions. One of the systems is utilizing our PowerPhase 135 for a light truck application, and two platforms are using our HD systems with a Sinotruk-sourced, four-speed transmission. One of the large platforms is an 8- to 12-meter electric bus and the other is a full-size fuel cell bus. Completing full commissioning of these systems will be a key milestone in us moving forward onto the next stages of our alliance with CNHTC and Sinotruk. We continue to assess the JV structure as part of this conversation, and as I noted last quarter, the CFIUS setback was unfortunate, but does not close the door on options which may be pursued.



In addition, geopolitical factors that impact U.S.-China relations including tariffs, are obviously beyond our control, but we're working and monitoring these developments closely and will react appropriately to protect our existing presence in China as well as the strong relationships that we have secured. Tariffs already impacted Q3 margin slightly, and we expect more of the same in Q4. Nevertheless, we are resilient and will respond to the market conditions accordingly. We look forward to reporting further progress with this key customer and partner in the next quarter.

The overall propulsion market remains very fluid and dynamic, with a high level of bidding activity across new and existing clients alike. It's an exciting time to be in this part of the industry, and our technology being demonstrated in numerous applications is becoming even better known the world over for its reliability, efficiency and durability.

Now moving on to our auxiliary products sector. This sector continues to provide a strong contribution to our product portfolio, particularly our fuel cell compressor business in China. Our recent announcement that we'd soon introduce an integrated motor inverter to this expanding market was greatly anticipated and represents a unique, customized solution suitable for many applications.

As a matter of fact, we've been in discussions with a number of customers this past year and designed the product to suit their needs. With various options covering voltage, pressure ratios and airflow, our systems will bring a high-performance, cost-effective solution that covers the vast majority of fuel cell requirements from 30 kilowatt to 150 kilowatt stacks. We look forward to showcasing our technology at the Hydrogen Energy and Fuel Cell Technology Expo next week in Foshan, China.

Here in North America, we continue to ship our aerospace HVAC compressor systems to our long-term customer Air Comm and are pursuing other aerospace and defense opportunities in various markets around the globe.

Moving on to our engineering services sector. This quarter we reported a nice increase in revenue from funded engineering programs, mainly to support Meritor along with a few other key customers. This area of our business is a major part of the company's growth plan and a further positive when the funded engineering furrows supports our product roadmap and has a high potential to lead to additional product sales.

For Meritor, the work we're doing with them on the E-axle provides an excellent source of revenue that then would develop into commercial business over time. In addition, engineering work increases our overall gross margin, improving overall bottom line results.

Also in the service area, our Ballard fuel cell system contract manufacturing is on schedule and will continue through the remainder of the year. It's a great way to help a major fuel cell innovator such as Ballard.

Before turning the call over to questions, let me just reiterate how pleased we are that product demand and contract wins are resulting in improved top line growth as exhibited this past quarter. We're executing to plan and solidifying customer relationships around the globe, laying the foundation for even stronger performance as development and prototype work transitions to long-term, high-volume production. Revenue on a quarterly basis may be volatile for a while, but we remain very upbeat about the outlook of our business and the industry as a whole.

At the same time, we're focused on margins, working capital management and improved bottom-line results. We also continue to invest in cost reductions and increased performance, particularly in the inverter area and in the integrated fuel cell compressor systems. We are well positioned on profitability and higher returns for investors. As always, we appreciate our loyal employees, steadfast customers and our passionate shareholders as we seek to transform the electric vehicle to market of tomorrow.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Amit Dayal from H.C. Wainwright.



Amit Dayal - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

Could you talk a little bit about the backlog in pipeline? I know you have multiple initiatives underway. If you could help just quantify what is in the backlog that could be recognized over the next 12 months, that would be very helpful.

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

Yes, Amit. One of the things for the backlog, I mean, that changes very regularly with us. I think one of the key items as we're going through this, we're finding the vast majority of our customers are all in the growth stage, but still in the trial and prototype stage. So one of the things we're working on right now is locking in all of next year's orders because one of the challenges we've had this year with the growth is having these orders trickle in fragments and the impact it's having on our supply chain to be bouncing around and continuing to up demand, which is a nice problem to have, but not the most efficient way to run the business. So really is one of the big things we're working on right now is locking in all of the customers into next year with much clearer forecasts and trying to get commitments so we can streamline our supply chain. So I really don't have a good answer I could give you right now of what that backlog number is, but I think once we get into next year a little bit better, I think we'll have a much better idea and be able to publish where that stands.

Amit Dayal - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

That's understandable. I appreciate that. Just a follow-up to that and then I'll get back in queue. The support -- this brand coming and you talked about putting in place hiring initiatives, et cetera. Is that completed or is that still underway in terms of just creating the resources to meet this demand?

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

I'm sorry. I missed -- what kind of initiative?

Amit Dayal - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Technology Analyst*

The ramp that is coming in production, the hiring initiatives you have started. Is that fully...

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

Oh, hiring initiatives. Yes. No, we're -- going through growth is always a challenge, and we've now, I think, stabilized our production staff that can support the growth going forward. So there still may be some incremental hiring, but that was a big part of the challenges of really doubling your capacity is getting people in and getting them trained, getting them up to speed and some of the inefficiencies that come with that. But I think in the last month or so our production staff has really stabilized, and we're quite pleased with the quality people that we've brought in. So obviously, it depends on, again, the production orders that are going to come in from a year and what those numbers are. And the next challenge really facing us that I did allude to in the comments is the fuel cell compressor business and the localization in China for that market. The numbers are very, very significant, and the volumes that these customers are talking about, and obviously with fuel cell, it's -- the question of timing is always going to be out there. But we've got a product right now that we feel is second to none with this compressor business. And once we really lock in on some of these numbers and timing and what the volume is going to be for China and then working towards localizing because that's going to be critical to hit the numbers that the customers are talking about in China.

Operator

Our next question comes from Randy Hough, Ashworth & Sullivan.

Randy Hough

Let me just start off by pointing out the great job your CFO is doing in keeping the lid on expenses and running the business at near breakeven. I've always been amazed at how you're able to do what you do, especially in ramping up of the revenues and still keep the costs well under control. I look forward to a near-term breakeven operation as the top line continues to grow.

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

Thank you, Randy.

Randy Hough

Sure. But my first question has to do with the -- sure -- with the fuel cell side of the business. I think it's important for us to understand that fuel cells are simply an alternative to battery packs, and we operate in both fields over in China and elsewhere in the globe, but mainly in China with respect to fuel cells. Could you explain, Joe, how China seems to see the competitive advantage of one source of power over the other? And where it's electric power, we seem to be -- have our motor systems already involved. For example, with Sinotruk, but as you put fuel cell systems for power into these other Chinese customers, what's the opportunity there to move over and provide the remaining components of the drive train, i.e. our motors and controllers?

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

Yes. Well, obviously, there's some synergy there, Randy, because every one of these fuel cell vehicles is going to use an electric drive. One of the, again, the challenges is the companies that are selling the fuel cells are typically not the drive companies, and they're selling, again, to the end item customers. Hence one of the reasons that we've been pushing for so long to get our propulsion business up and running and still working very hard with Sinotruk to finalize the JV, get these vehicles up and running and expand from there. The other one I'll talk about on the propulsion side, again, is Meritor and what they're doing with E-axles though. Us being a Tier 2 to Meritor and them already having a significant presence in China and China as a major part of their business plan of electrification, we are more than happy to ride along on the coattails of Meritor to get our E-drives, that being our motor components and inverters, into those products. So again, we've got many angles to get in on the E-drive side, but back to the fuel cell, China's made a huge commitment to fuel cell technology and a number of companies are investing. And like I mentioned earlier, we've sold to -- I think we're up to 10 different customers right now that have purchased fuel cell compressors from us. Our biggest customer, the one we can't name comes publicly, but the big Chinese OEM, has got a pretty significant fleet of vehicles, probably the largest in China running right now. And again, once we lock in their volumes of where they're going next, we'll be very well positioned to grow with them. But they came to us, I think, well over a year ago and said, we love your technology, but it's a little bit expensive, and it's really not optimized for this application. And that's why we made the investment internally to make a customized motor-inverter where we, in essence -- the inverter is going to be connected directly to the motor, so no more connectors, fully optimized for the power levels that are needed for fuel cells. We have a couple different options that we can scale depending on the size of the fuel cell stack. And that being introduced next week at this huge show in China all around fuel cell technology, we're expecting some very big things from this product line. And again, we've got the team in China. We've got our sales and applications engineering team very much focused on this product and the growth opportunities for us. So I'm, again, quite excited about what the future of that product line.

Randy Hough

As a follow up to that, Joe, would you judge that -- the history we've all gone through is that, going back 10 years ago, one of the impediments to going with battery packs over fossil-based fuel engines was the cost per kilowatt hour of the battery packs, but that's plummeted over the last 10 years and more recently in the last three or four years, as you've pointed out before. So would you say that the cost of a fuel cell system as a source of power is competitive now with the kilowatt hour cost of battery packs?



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

I mean, the data I've seen, it is. And again, I think the other big advantage where you have your fuel cell proponents is you don't have the range issues that you have with batteries.

Randy Hough

Oh, yes.

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

Obviously, one of the challenges you've got with fuel cells is you -- and this is where China is putting a big investment in. But timing is going to be critical of the whole hydrogen fueling infrastructure. And it's coming. There's forecasts out there of -- I think it's 50,000 fuel cell vehicles they want on the road by 2020 and the number growing even much higher in the out years. So there is a market there. And again, regardless of the macro factors that are coming into play and the timing, we're well positioned to take advantage of the fuel cell and the e-drive market.

Randy Hough

Okay. Well, if I could squeeze in a second follow-up. It's just on pricing -- and I don't want exact numbers -- but is the revenue per unit for a fuel cell system, especially with our new components on it, similar to the revenue per unit for an equivalent motor and converter system using a battery pack?

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

Well, no real good answer to that one because it really -- the answer is it depends on volume of where that customer is and there's a lot of other variables that go into that. So I really can't give you a direct answer on what the price and revenue is on a per unit basis. Obviously, the motor-inverter is much smaller than a traction drive, so there's some economy of scale there, but you also have a compressor that's attached to the end of it that's a pretty high value-add product that currently we get from Eaton. But we're also flexible. If there's other compressor technologies that can use our motor and inverter, we're happy to work with them.

Operator

Our next question comes from Joe Vidich from Manalapan Oracle.

Joseph Vidich - Manalapan Oracle Capital Management LLC - Managing Member

So I guess I have a lot of questions, but let's see. Start with what kind of volume do you think this -- in terms of the overall market size for the fuel cell compressors, I mean, on a yearly basis like a couple years out, what do you think the Chinese market might do in terms of need for compressors?

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

Yes. Well, again, Joe, the numbers that are being thrown out -- and that's why I'm hesitant to give you there because they're very large, but it would not be unrealistic to see volumes in the low- to mid-thousands very, very quickly. I don't want to get too carried away. Obviously, there's a lot of hype, and of course, all the companies we're dealing with are all telling us that they're going to be many, many thousands, and they use that as leverage against us on pricing. But we're realistic as well as what's truly going to happen there. But in the thousands is not an unrealistic a number



of where that market is going in the next few years, and that's why we're, again -- we're in a real nice position because we've been the first adopters on many of these programs, and with this cost-reduced, fully optimized system, we think we're in a great position to win the vast majority of that business because the compressor is the key part of the overall fuel cell.

Joseph Vidich - *Manalapan Oracle Capital Management Llc - Managing Member*

Right. Right. Now do you expect the same sort of gross margins on the compressors as your E-drives?

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

Those are our targets. We want to be there or even do better on them. I mean, that's one of the reasons we're doing these cost reductions is to make sure that we can maintain very healthy margins on this business.

Joseph Vidich - *Manalapan Oracle Capital Management Llc - Managing Member*

Okay. There was one thing you said. You said that Lightning Systems is converting an existing, I guess, truck or bus using your engine, your E-drive. And you said it would be half the -- I believe you said it would be half the cost of developing a new electric truck or bus.

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

Yes. That's something I talked a little at the annual meeting. We're very excited about. Again, Lightning has won a contract right here in Colorado with the city of Boulder to retrofit their entire fleet of buses -- I think there's 30 buses -- and all being converted from standard diesel to a full electric. And if you look on their website, I think they talk about that as they're finding the cost to do the retrofit is roughly about half of what a new bus would be, and that's with the batteries, the E-drive and all the auxiliary components that Lightning would provide to do that conversion. So I think that could be -- because again, we know pro Terra has got a many year backlog. Right now they're, I think, pretty much sold out as far as their capacity. You've got that big Chinese competitor that's here in North America, and a lot of available funding coming for electrification. So if they can do a bus for half the price of what a standard brand-new electric bus would be, I think it's a great market. And I'm very pleased to be working with Lightning on that. I think they're in trials right now with that first bus in Boulder. And I think they see that is a real nice business for them.

Joseph Vidich - *Manalapan Oracle Capital Management Llc - Managing Member*

Yes. That could be. Boy, I could see that being very big. My last question and then I'll turn it over is, you talked about, obviously, the CFIUS, but you said there's -- the options are still open. And you're now talking about possibly building manufacturing facilities in India as well as in China. I was just wondering if you could maybe just elaborate on what are some of the options you're considering if that's possible.

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

Yes. No, obviously, we spent a lot of time with the government discussing the Sinotruk investment in CFIUS, and we know where that ended up and the daily events that are going on there that sometimes create a more challenging environment for us. But again, us getting over localizing. I'll give you the first example is we've had unbelievable support from the City of Shanghai when they heard that we wanted to set up a facility there with the technology that we're bringing. So we've had -- I couldn't have asked for anything more to them helping us to get that facility up and running and getting that business entity set up. So that's the one option. And I never wanted to put that fuel cell as part of the JV because I'd much rather keep all of that revenue as part of UQM and not give up a portion of that to any partner. So then we get into the next phase with Sinotruk. As I mentioned, one of the challenges there is we're actually dealing right now with our third chairman in the last year. So there's been a lot of management changes at Sinotruk that -- it's slowed down the business or the decision-making somewhat. But again, they're going full speed ahead with these trials. There's a lot of work going on the engineering side. And we're continuing to talk with them and how we want to structure the JV



because now that they're a much smaller owner, the previous terms are really not the best for us, and we want to make sure we've got a better deal on the JV, and it makes the most sense for us going forward. And then you go to India, again, our overall strategy is we have to be -- with the size of the product and the value and what customers expect, we've got to be manufacturing in the region. We've learned that with the fuel cells that we can do that on low volume and prototypes for a while, but as the volume ramps up, you've got to be localized there. So it's going to be the same question that comes with India. And we've actually met with Ashok senior management -- we were over in Germany at the IAA show -- and they're figuring out where they're going to go volume and timing-wise. They know that these discussions have to take place of how we're going to localize. But the stage that we're in right now, it's not a driving factor that we've got to make a decision right away of what the India strategy is. We've got to get these trials up, running successful, and then we'll determine next phases and volume and all those things that go into finalizing that decision.

Operator

Our next question comes from [Thurman Willis], a private investor.

Unidentified Participant

Joe and Dave, I asked a question last time if you could ramp up on a quarterly basis to 4 million to 5 million, and so my congratulations is that you just didn't say you could, but you did it. So probably one of the best quarters UQM's ever had in its history as I've followed it for probably 15 years. So I can't congratulate you enough.

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

Thank you.

Unidentified Participant

Just tremendous, tremendous. Congratulations. On the slide presentation, which again was excellent, at the annual meeting on one of the slides, you had mentioned that there were two other companies that you were dealing with. You could not name them. I'm not asking you to name them. I'm wondering if they're Tier 1 companies similar to an Eaton, a Meritor or a Sinotruk, et cetera? Are they in that category?

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

Yes. I think that would be accurate synopsis of the quality of the companies that we're bringing in right now that we're working with. One of the challenges when you're working with that level of company, they're going to make sure they control their marketing and their message. So we're very restricted on what we can and can't say about those guys.

Unidentified Participant

No. And I appreciate and I understand it, but you're making good progress with them.

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

Definitely.

Unidentified Participant

And then my follow-up and last question is that on the last call, there was an investor that asked a question about promotion, and you mentioned that you would be doing more of that. And I'm sure and fully understand that you wanted to put some meat on the bone, which you have done. And so my question is -- I've discussed with Chris Whitty and find him to be excellent and wonder, from a promotions standpoint, if you can give us a little bit of information about any investor conferences, as investors like to hear as companies are beginning to really make a statement of which you are if you -- how you plan to deal with them with any upcoming conferences or additional promotion?

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

Yes. No, and again, I remember the question. And I think we really have gone -- taken steps to make sure that we are doing the right level of promotion. And we want to make sure, again, that it's credible. I think just putting out releases that don't say much and then people may really start -- you guys just putting news out there that's not really relative. So I think we've got to be very careful and prudent on how we manage the message. And secondly, bringing Chris on. We're in discussions of a number of investor conferences and investor reach out to continue with that process, so that's something we're going to be looking at. And there'll be more to come in the future on -- really on all of those points.

Unidentified Participant

Do you have any scheduled at the time being?

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

Yes. As soon as we get them finalized, we will make the announcements.

Operator

Our next question comes from [Dan Schmidt], a shareholder.

Unidentified Shareholder

My question concerns DaimlerChrysler invested \$190 million in Proterra to build school buses. I'm wondering, will UQM power systems be used in most if not all of those buses? And if you can give us a little color on that.

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

Yes. Well, I think, again, I'm not intimately familiar with every detail of what Proterra and Daimler have agreed or not agreed to. I think the first part of the focus of that investment was actually around the battery systems that Proterra's using. We've had some discussions with them. And if they move forward with their entire powertrain that Proterra uses, obviously we'll be a part of that. But again, I don't know of any firm plan one way or the other of the drive systems going into those Daimler buses. Again, I'm going to step back and continue to remind people as the drive system that's being developed with Meritor on the E-axle, their first trial even is on a school bus as well. So there's no reason that, as people are looking to put the best propulsion system on the market from both a performance and economic standpoint, that the decision wouldn't be to go with the E-axle with the Meritor-UQM combination. And that's one of the big advantages of being involved with Meritor is their outreach into all of the customers that they currently have. And if those guys are going to electrify, it's going to have that Meritor E-axle in there.

Unidentified Shareholder

Okay. Excellent. You mentioned an increase in the production workers. I was just wondering how many production assemblers were hired over the last quarter.

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

Well, we've probably bought on 20 more or so, in the neighborhood.

Unidentified Shareholder

Nice. Nice.

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

I haven't done a count in the last while, but I say that plant floor has never been busier. A tremendous amount of activity out there.

Unidentified Shareholder

Good. Good. The 600k that was mentioned with the land sale, is that the land adjacent to the current facility?

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

Yes. That's what we sold last year.

Unidentified Shareholder

Bummer. I was hoping you guys would expand on that land eventually.

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

We still have lots of room to expand.

Unidentified Shareholder

Okay. Is UQM the OEM for Lightning Systems now?

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

Yes. We are the Tier 1 supplier of all of their drives for Lightning.

Unidentified Shareholder

Excellent. Excellent. And last just a quick question on Ballard Power, are you getting new orders or are they all still in new testing phase?



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

Yes. Again, we've got a number of things going on with Ballard. One is the -- actually the contract manufacturing where we're actually sourcing a number of components for their stacks and doing the building of -- a vast majority of their US-based fuel cell stacks are taking place right here. So we work with Ballard at many, many different levels, and they're a very good partner for us.

Operator

Our next question comes from [Bruce Kerefsky], private investor.

Unidentified Participant

I'm one of those long-term, passionate investors looking for profitability.

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

Thank you.

Unidentified Participant

My question also was -- well, one question was about the Daimler investment, but I was also concerned that Volkswagen seems to have made some sort of affiliation with Sinotruk. And I wondered whether that would have an impact on the business we were doing with Sinotruk.

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

Well, Volkswagen owns MAN who has been a long-term partner with Sinotruk. And MAN is the big commercial vehicle company in Germany that's under the Volkswagen direction right now. So that is really the key part of that relationship. And if you look at the lot of the Sinotruk vehicles, they very much are MAN designs that are built in China. So that's where that key relationship is.

Unidentified Participant

I see. One other quick question. The new inverter, the improved inverter, there wasn't any figures given about the increase in efficiency. Can you provide anything on that?

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

Yes. You know, that is a good point. It's improved our overall system efficiency by close to 1 point, one percentage point, which is very significant as we already had very high efficiency. So it is definitely one of the selling points. And again, all of the Meritor and all of our new product heading into next year, that's where we're going to be pushing customers to move to the new inverter.

Operator

Our next question comes from [Steve Smith], shareholder.



Unidentified Shareholder

Oops. Sorry about that. My question concerns the expansion that UQM is currently involved in. It sounds like we have many exciting fronts. And with all of those new fronts, it seems as though we're going to have to have major investments in satisfying all those customers. And I know you mentioned a little bit about the cash that we have and the different ways that you might be able to make these things happen. I wonder if you could provide a little more color on that as far as whether or not more stock sales are one of the main components of that increase in cash. And then just how soon will all this new investment need to be made?

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

Yes. No, that's something, Steve, obviously, we're looking at all the time is to make sure we're keeping the balance sheet strong and managing the cash that's going to be needed to support this growth. And as I mentioned before, we've got a lot of options, and we want to do it's going to be in the best of all the stakeholders. One of the things you -- obviously, you've got other possible strategic investments or strategic investors that could be in place. We've got the -- again, our building that we own outright that we could actually leverage some of that. We could be taking on debt or we could be bringing in new -- other investors that are needed to support the growth. So those are the things that we are looking at, obviously, regularly. And we're going to do what's in the interests of the best decision and the best interest of all of the stakeholders. Timing-wise, there's really no firm time on it. It's going to depend on a lot of these things develop both India, China and here in North America.

Unidentified Shareholder

So how quickly do you think all of these things will develop? In other words, it sounds like there's a lot of demonstrations going on, but -- and you are making sales. But so you can't provide any more color about when...

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

That's the big question that's always faced this industry. It's still in the emerging stage, and it's obviously growing. The macro factors have never been better. Like I've mentioned previously, when you see now the companies like the Meritors that are making huge investments to step into this, they know that the volume is coming as well. And that's the question. I don't think anybody can truly say. Is it going to be volume production next year? Significant volume where it's in series production away from discrete prototype orders? Is it going to be 2020? But it is coming, and we've just got to be ready and well positioned to manage the growth. Having our product on so many different platforms, we're in a great position. And it's just a matter of -- it's not if anymore, it's when. And that's the thing that we're managing very, very closely.

Unidentified Shareholder

If I could, just one more follow-up. It sounds -- it seems as though the American and Chinese administrations are having a tough time with this tariffs and whatnot. And also whether or not the U.S. is going to allow any company, any American company, to merge or really have anything to do with a Chinese company as far as the IP that's involved. So can you ever see a scenario where we won't be able to have any sort of a coupling with a Chinese company due to those factors?

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

That's an interesting question. If I could just give you our experience, it really -- with public companies, anything over 10%, for the most part, is being blocked. So you've got that challenge that the government is stepping in and saying, we don't want the direct investment from China in the U.S. companies for the very reasons you've said around the intellectual property. So it really is challenging, but you also look at what -- all of the major automotive companies are setting up alliances in China around electric vehicles and making billion-dollar-type investments in China. And they're all partnered up with somebody. So it is going to be very difficult to block those types of arrangements, especially in the technology that we're working on. So trust me, we're looking every day of how we make sure we work together while still protecting our intellectual property



because that is a valid concern. And then we have taken steps in the past to make sure with our software that we were never going to give access to the Chinese parties on that, and that's still our strategy to make sure that we're protecting our IP from that end. So it is a dynamic situation right now that we've got to manage through.

Operator

Our next question comes from Randy Hough from Ashworth & Sullivan.

Randy Hough

Joe, let me ask you to step out 10 years to try to put some sort of framework -- that all these questions about volumes and when is it going to uptrend and all the rest. To give us some idea whether -- that you could look into the future, forget about next year or the year after. Can you see a world out there where 25% of the vehicles that are run by internal combustion engines today might be replaced by other forms of electric power to drive those vehicles, either fuel cell or battery or whatever else might come along in the meantime? Ten years out, is the -- the industry seems to be saying that the history of the internal combustion engine is coming to an end. Would you comment on that?

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

Well, I think you're -- again, that far out, Randy, I don't have that crystal ball to say exactly how that's going to happen, but let me talk short-term, especially in the products. You're seeing municipalities now, around their public transportation, making a commitment to go to 100% electric because the economics are there. And that's some of the things we've talked about. To make that type of transition, the economics are going to have to make sense. In China, even though the market's still huge, I think last year it was roughly about 5% electric. But you're hearing major cities in China saying only if you want to get into the inner rings with the delivery vehicle, they've got to be electric. So the numbers you're putting out there, those types of presents and that timeframe are very realistic. And I think when you look at the next 2 to 3 years, we're positioned -- with all these various applications in the trial stages, they are going to be going to larger volumes. And the trend is definitely in the right direction for us as we've demonstrated here this year with our revenue.

Randy Hough

Well then, let me ask the negative side. What would stop it in your mind? What would put a holed to it?

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

Again, it's all going to be, I think -- to get to those kind of numbers, it's going to be economics. And that's really what's really going to drive this whole thing is it's got to make sense economically to go to that size. So if an electric or a fuel cell is -- for those types of volumes and there's a lot of factors that go into that, and also regulation's a big part of it -- but when I look at the product we've produced, the electric powertrain, far simpler and far less expensive than everything that's in an IC engine for a commercial vehicle. I mean, there's no comparison in the simplicity of the two drives. So I think from our end, we're -- the ultimate economics is again going to be around range and battery technology and charging infrastructure and those types of factors that come in.

Operator

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



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

Yes. Definitely. Again, first I want to thank everyone for their time today. Obviously illustrated by this quarter's results, momentum is clearly on our side. We've already generated more revenue this year than 2017 is a whole. And we continue to focus on our business development, technology leadership and operating execution. We're very well positioned for further top line growth and improved financial results in the quarter to come. So thank you again to everyone for your ongoing support, and we look forward to speaking to you in the next quarter. Thank you, and have a good day.

Operator

Thank you, Mr. Mitchell. A webcast audio replay will be available starting today, November 1, 2018, at 1:30 p.m. Eastern Time. The link can be found on UQM's website at www.uqm.com. Click on Investors then on Earnings Webcast. This concludes today conference call. Thank you.

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