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UQM - Q1 2019 UQM Technologies Inc Earnings Call

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CONFERENCE CALL PARTICIPANTS

Dick Sargent

Chris Witty *Darrow Associates Inc. - MD*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the UQM Technologies, Inc. Conference Call. My name is Julie, 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 - *Darrow Associates Inc. - MD*

Good morning and thank you for joining for UQM's first 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. This conference call may contain forward-looking statements within the meaning of federal Private Securities Litigation Reform Act of 1995. These may include statements regarding our plans, beliefs, current expectations or otherwise, including those of our officers and directors with respect to, among other things, gaining access to global markets, gaining required certifications, new product development, the merger with Danfoss, 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 materially from those contained in the forward-looking statements are contained in our Form 10-K and other filings, which are available on our website at www.uqm.com or at www.sec.gov.

I'll now turn the call over to David Rosenthal to review the company's fiscal first quarter financial results. David?

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

Thanks, Chris, and good morning, everyone. My comments will reflect results for the first quarter of 2019, unless otherwise stated. During the 3 months ended March 31, 2019, we saw a nice growth year-over-year in terms of sales with UQM posting revenue of \$3.7 million versus \$1.6 million in the prior year period. Engineering service revenue grew even more sharply to \$700,000 in the current quarter compared to \$200,000 last year, reflecting continued development work with Meritor as well as several other customers. Overall, we're off to a great start in 2019 and look forward to additional growth momentum after the merger with Danfoss is complete.

Gross margin was 19.6% for the 2019 first quarter versus 19% last year, reflecting product mix. We generally expect margins to expand going forward as we scale the business and benefit from operating leverage.

Operating expenses for the quarter were \$3.2 million compared to \$2.2 million in the same period last year, primarily reflecting higher SG&A costs due to merger-related professional and administrative expenses. Our net loss for the quarter was \$2.6 million or \$0.05 per common share compared with \$1.9 million or \$0.04 per common share last year, reflecting the items I discussed. Our operating cash balance as of March 31, 2019, was \$2.9

million versus \$1.9 million at the start of the year, and we had \$1.6 million of accounts receivable outstanding. At quarter-end, we had \$4.6 million borrowed under our bank line of credit and \$1 million of remaining availability.

As a reminder, in early March, we renegotiated the maturity date on the line of credit and the debt is now payable on or before September 15, 2019.

In summary, the first quarter was a solid start to fiscal 2019 and points to continued execution of our business plan as we prepare for the pending merger with Danfoss.

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 first quarter conference call. On today's call, I will provide you with an update on key developments and an overview of our business areas, propulsion systems, auxiliary products and engineering services. First, as David just mentioned, we're pleased with the company's first quarter performance, which illustrates that our business continues to improve from a macro perspective driven by positive demand trends industry-wide. And while UQM revenue was down sequentially from the fourth quarter, this volatility is typical in a nascent and rapidly changing market, such as ours. We expect that volatility will continue to be the norm, at least for the near term, as the sector develops and expands and customers move from discrete sample and low-volume orders to serial production.

A major news during the quarter was clearly the overwhelming investor support shown for our pending merger with Danfoss. I'm very grateful to our shareholders for their approval as we look to leverage our technology and Danfoss' significant worldwide presence to increase market acceptance and drive top line growth. The last step before merging remains CFIUS approval, which we anticipate receiving late in second quarter, and we'll, obviously, keep you posted.

We continue to execute on order shipments during the quarter and our plant was indeed very busy. Revenue growth was driven mainly by the fuel cell compressor orders from China and funded development initiatives along with steady deliveries to our regular propulsion customers.

Asides from shipping new fuel cell compressors to the growing Chinese market, we continue servicing Meritor through E-axle development and sample deliveries. We also posted revenue from Proterra and Lightning Systems during the period, and as expected, work towards the launch of our China service center in Shanghai, which is critical to support our growth in the region. Our first fuel cell compressor sample orders were delivered from our China service center in the quarter to a number of new customers in that region.

Now I'd like to talk about some of the highlights of our propulsion systems and auxiliary product sector as well as our growing presence in engineering services. Let's start with propulsion systems, where we posted another solid quarter supporting our customers and growing the business. With our key customer in India, Ashok Leyland, we continue to support the product launch as we await our next order. The company's first buses are still in the commissioning stage and once plans for this year are solidified, we'll work with Danfoss on an appropriate localization strategy that is a requirement to serve the Indian market and volume production.

Turning to Meritor, the company continues to promote its Blue Horizon brand and has demonstration vehicles and further testing utilizing their E-axle drive systems with the UQM drive components. We're now delivering additional prototypes at the same time discussing other applications across various Meritor platforms. We remain very upbeat regarding the long-term potential of this customer.

Likewise, we continue to ship product to ongoing clients like Proterra and Lightning Systems, and as I mentioned earlier, are also in discussions with a number of potential new customers across the globe. The future looks very good for this part of our business even as the outlook for Sinotruk remains a bit uncertain. As discussed last quarter, due to their restructuring activities as well as general China-related economic issues, including current trade negotiations, are somewhat inhibiting our business and progress in those areas.



Now moving on to our auxiliary product sector. This sector continues to be a strong growth area for UQM and a key focus going forward giving the fuel cell compressor business and our unique integrated motor inverter customized for this application. We've been in discussions with a number of other customers outside of China that are interested in knowing more about this innovative system designed to meet an array of flexible operating requirements. Our many options covering a variety of voltage and power requirements serve the vast majority of fuel cell applications from 30-kilowatt to 150-kilowatt stacks. Localization and cost reduction will be key for mass acceptance and significant growth going forward.

Finally, moving on to our engineering services sector. I'm pleased that we posted a good quarter this period, reflecting solid funding of engineering programs in support of Meritor along with some other customers. This remains a key part of our overall business with funded engineering and design work supporting development of innovative future applications and our general product road map. This is in addition to internally funded programs that are designed to drive cost and performance improvements within the inverter area, along with our integrated fuel cell compressor system. As with any technology-based company, continuous R&D is necessary to stay world-class with regard to the efficiency, scalability and price of our applications.

Before turning the call over to questions, let me once again thank all of our investors for their passion and support these many years. We're focused on completing the Danfoss merger in a timely manner, and we'll keep you updated with regards to CFIUS, and ultimately, the closing of this transformational deal. We'll also continue to work hard on execution of product launches, customer development, R&D and ongoing deliveries, all supporting our business today as well as our future with Danfoss.

With that, I'll open it up to questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) [Stan Cummings], private investor.

Unidentified Participant

Sounds like you're having a great quarter. It sounds like this is what I thought would happen a long time ago with this company. And I'm very unhappy that we're not going to be -- that I'm not going to be a part of it. But I wanted to know what the feeling is with CFIUS? They denied it last time and now that Danfoss is not a Chinese company, but they are in China and probably a lot of the business is in China. Do you think the U.S. will allow this merger to happen?

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

Yes. Our expectation is, yes, they will allow it to happen. I mean when we had discussions with CFIUS in the past, obviously, the big concern was Chinese companies buying up U.S.-based companies and the transfer of the intellectual property. And Danfoss being a global company with thousands of employees here in the United States and as with most companies have businesses all over the world. And this type of merger and alliance was exactly what CFIUS was encouraging to look for when they blocked the previous deal. So it's our expectation that this should go through without major issues. And we're in regular discussion with CFIUS and answering follow-on questions. So we expect this process to continue and be successful in the end.

Unidentified Participant

So sometime before June then?



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

That's what -- well, probably, it's going to be in June would be our expectation. By the end of the first or second quarter would be our expectation.

Unidentified Participant

Okay. And if it doesn't happen, what's the company going to do then?

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

Well, obviously, we'd work one, there's always alternatives, and we would go back to, I guess, our base plan. I mean one of the big challenges that everyone's having is you're seeing a lot of consolidation in this industry. And one of the reasons we're doing this is, obviously, the capital that's needed to expand globally. And all of our smaller competitors have been absorbed into much larger companies, and we're competing head-to-head. So we would have to raise the capital and continue on with the business as planned previously.

Operator

(Operator Instructions) [Burdette Russ], shareholder.

Unidentified Shareholder

Listen, I bet buzz is better off, it's easier. I've been a stockholder for over -- almost 15 years. I took advantage of you guys when you first started coming out, and I saw the growth potential, you guys were over some \$7 a share. And when it took a slip back, I started buying in figuring, it's normal, a little slip here, it's a new company. I've been very faithful, watching everything going on. Now you're going to sell out to Danfoss at \$1.71. And I have -- I'm going to lose over 50% of my investment because I'm up over \$3 a share. And you never pulled off the deck very hard.

And now when you're going to make this commitment, I'm going to look at losing \$10,000 to \$15,000 out of my 401. I just don't know why you haven't been able to develop a better growth pattern than what you have in the past. You're constantly changing the Board of Directors people and stuff like this. And I'm sure they don't do it for free. And I was wondering where are the investors that have been with you for so long they've got more dollars into it than what they're going to sell for? What we're going to do? We're just going to take it on the chin, I guess?

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

Well, again, we looked at all of that and took the shareholder's interest into this decision because we know what's happening with the market. And when you bought at that point, I don't know how many dilutive offerings there's been since then and the challenges in the market were very significant. So we by far think this was the right decision and obviously, with close to 93% voting in favor, we think most of the shareholders felt that way, so...

Unidentified Shareholder

For sure. They probably bought a ton of your stock before it went to -- before it started go back and up, and I bought in too try to bring my cost base down, and I can only pull it down to about 3-dollars and 50-some-odd-cents a share and without constantly risking more and more capital in the subs that I'm not sure about it. It doesn't seem to be responding over the years. I mean I've been following you for over 15 years. I had a lot of faith in you in the beginning, and I heard a lot of stories from various different people when I called in and asked. I get all this rhetoric and talk of how great this is going, blah, blah, blah and now here 15 years later, you guys are going to sell out to a concern, it's a private concern. So I have no chance of selling my stock and getting into another company with the stock, right? They're a privately owned company so there's no stock transition -- no stock transfers, anything like that available for your shareholders. So I guess, it's just we kiss and say goodbye, right?

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

(inaudible) like I said, we definitely moved in the best interest of the shareholders and the basic business environment that we're working in. So I appreciate your comments. Thanks.

Operator

(Operator Instructions) [Patrick Haddad], shareholder.

Unidentified Shareholder

Question I have is once and if CFIUS approves the deal, what will transpire for Danfoss to pay us our shares? I mean how will that be transpired?

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

Yes. I will actually turn that over to David for the mechanics of how that would work because it's going to be a very straightforward process and they've got a banker on board to manage that. But I'll get -- let David give you the mechanics of how that will work.

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

Sure. So Danfoss is going to announce the selection of a U.S.-based bank to coordinate the payments for all the shares. And basically, shareholders who hold any certificates will need to contact that bank to prove ownership and with that proof, the payments will be made. And if shares are held by brokers, the brokers will also inform the bank and payments will be done in that manner. And that's really the mechanics as we understand it. When Danfoss makes the determination as to which bank will be used, that, of course, will be publicized so that all the shareholders know who to contact.

Unidentified Shareholder

I see. So then once that happens, would it be necessary for us to contact our brokerage to make sure that they're aware of all this or will they automatically know that this is transpiring?

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

They probably will know but it would be advisable for shareholders to talk to their brokers and make sure that it's all coordinated.

Operator

Dick Sergeant from NTB Financial.

Dick Sargent

Listen, I just listened to somebody else comment and on this one, I'm making some money, okay? But the whole thing is, all the deals that I've ever had and I've been in the business since '70s, '62. And I don't know, I think, I held a lot of more shares than the guy that just called. It's always happened that I had an idea and the stock went down and I just bought more. I've got some \$0.48 stock, I've got some \$0.50 stock. I'm the last guy to buy \$0.50 stock. I started at a \$1.

But the whole point is, this is a tough game, and I don't own any \$7 stock, never did. It's just a matter of where you come in. I want to commend you for what you've done because the more that I reflect on this, Joe, I think, it's going to turn out to be a godsend. I mean the world has changed and I think you've recognized that, and I just want to say, we can all whine and cry, but it's a matter of where were you when the stock was at \$0.50. And the other side of that coin is a loss is useful. I'm carrying forward and this is bailing me out of a big tax laws carryforward I've had from another mistake I made and it basically closes it out, \$0.25 million. But the whole point is that this is a rough game and sometimes you win and sometimes you lose.

But I want to be one to be supportive of you, Joe and Dave. I think you've done the best you can with the situation and that's basically, I'm just a guy down here in Golden, but I think you've done a hell of a good job and the like. But the other one is that whiners, you need to understand it's a tough game and you got to learn how to average down. But in the meantime, if you've got a loss, losses are useful and that's why this is going to be a tax-free profit for me. Why? Because I made a lot of mistakes before and -- but it's all in the game and as I say, I've done this since 1962. And I think you did a hell of a good job.

I'm sorry that it wasn't higher. We hope that we see it higher, but it wasn't. But I think, under the circumstances, Joe, you did the best you could. I don't know that I could possibly have done better. And so -- anyway, thanks a lot for what you're doing. At this end of the telephone, I appreciate everything you've done and that's all I got to say.

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

Well, thank you, Dick. Appreciate it.

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

Thank you, Dick.

Operator

There are no further questions in queue. I will now turn the call back over to management for any closing remarks.

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

Great, and thank you, Julie. And in summary, again, I just want to thank everyone for their time today. And as I said before, it's been great getting to know our many investors over the years, and I'm happy to say that the company is very well positioned for the future. We're excited about the next chapter of UQM, one in which our products and technology lead the industry in the support of electric vehicles worldwide. Thank you, again, and have a great day.

Operator

Thank you, Mr. Mitchell. A webcast audio replay will be available starting today, May 15, 2019, at 1:30 p.m. Eastern. The link can be found on the UQM website at www.uqm.com, click on Investors, then on earnings webcast. This concludes today's conference call.



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