NASDAQ:ELVA Q3 2025 Earnings Call Transcript

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Operator | Conference Operator:

It is now my pleasure to turn the floor over to your host, John Gibson, Chief Financial Officer at Electrovia. Sir, the floor is yours.

John Gibson | Chief Financial Officer:

Thank you.

John Gibson | Chief Financial Officer:

Good afternoon, everyone, and thank you for joining today's call to discuss Electrovia's Q3 2025 financial results. Today's call is being hosted by Dr. Raj Dasgupta, CEO of Electrovia, and myself, John Gibson, CFO. Today, Electrovia issued a press release concerning its business highlights, and financial results for the three- and nine-month period ending June 30, 2025. If you would like a copy of the release, you can access it on our website. If you want to view our financial statements and management discussion and analysis, you can access those documents on the CEDARplus website at www.cedarplus.ca or on the SEC EDGAR website at sec.gov forward slash EDGAR. As with previous calls, our comments today are subject to the normal provisions relating to forward-looking information. We will provide information relating to our current views regarding market trends, including their size and potential for growth, and our competitive position within our target markets. Although we believe that the expectations reflected in such forward-looking statements are reasonable, they do obviously involve risks and uncertainties, and actual results may differ materially from those expressed or implied in such statements. Additional information about factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the company's press release announcing the Q3 fiscal 2025 results and the most recent annual information forum and management discussion and analysis under risks and uncertainties, as well as in other public disclosure documents filed with the Canadian and American security regulatory authorities. Also, please note that all numbers discussed on this call are in US dollars, unless otherwise noted. And now, I'd like to turn the call over to Raj.

Dr. Raj Dasgupta | Chief Executive Officer:

Thank you, John, and good evening, everyone. It is a pleasure to address you today as we discuss our Q3 fiscal year 2025 quarter. The quarter marked another period of strong momentum for Electrovia as we continue to deliver significant growth in revenue and profitability while advancing our industry-leading Infinity technology into an expanded range of applications. We achieved a second consecutive quarterly profit with a revenue growing 67% year over year to over $17 million. Importantly, our adjusted EBITDA was strong at nearly $3 million and about 17% of revenue. We believe we can continue this growth trajectory into the current quarter and beyond as we leverage continuing demand growth from our core material handling sector and as we start seeing the contribution from other developing verticals. Operationally, we continue to see strong momentum from our OEM partners and leading end customers in the material handling sector. During the quarter, we secured more than $21 million worth of orders, bringing total orders to over $65 million in the nine months ending June 30th, 2025. This steady order flow is backed by a much larger pipeline of projects, primarily with a number of major Fortune 500 and Fortune 100 end customers, along with our OEM partners. To address increasing demand, we initiated a second shift at our Mississauga facilities in June and began some assembly operations at our Jamestown facility in May. These adjustments are expected to help us meet growing demand for our existing core battery systems, but also support the launch of new products for other sectors. Electrovise's advanced lithium-ion battery technology is fundamental to our success. It offers industry-leading cycle life, outstanding safety, and competitive energy and power density. This provides a significant advantage for mission-critical applications or those demanding superior safety and performance. We believe this is gaining increasing recognition in the industry, particularly as sectors valuing such performance, including e-commerce, robotics, and defense, are poised for rapid growth. We are particularly focused on the robotics sector. Robots and autonomous vehicles are designed for continuous, nonstop operation, independent of human operators, which is critical to their overall value. Given that these devices often operate indoors and in large numbers, safety and reliability are also paramount. This sector is experiencing rapid growth fueled by advancements in AI technologies and the expansion of e-commerce and is poised for further acceleration. We believe our technology is well-suited to this market, and we have the right product available at the right time. Currently, we have established partnerships with three impressive OEM partners in this space, and we are actively pursuing additional business development opportunities with a number of exciting prospects in our pipeline. We recently announced our entry into the airport ground equipment sector, a development that has been in progress for some time. This sector leverages system design similar to those we've successfully implemented in the material handling space. The timing is also ideal as major airlines are actively seeking to reduce their carbon footprint in their ground operations. Our Infinity lithium-ion battery technology offers the essential reliability and safety required by this mission-critical industry. We're also excited to showcase several of our products at the upcoming GSE Expo this September. Some of the largest battery systems that we are developing are for Class 8 trucks. This is a sector that has struggled to be electrified, in part, in my opinion, due to battery technology not being ready for the task. Cycle counts are high, along with energy, power, and safety requirements. These are factors that make it difficult, particularly for standard automotive battery technologies to be used. We partnered recently with Janus Electric based in Australia to develop some custom high voltage battery systems for the U.S. and Australian markets with our first delivery scheduled in 2026. Our partnership with Sumitomo Corporation has been responsible for multiple high profile OEM wins in the construction and earth moving equipment space. We are making shipments to our OEMs in Japan this quarter. These are customized battery modules that are being manufactured on an updated automated line in Mississauga. With our proven performance and technological edge, coupled with our investments in domestic manufacturing, we have identified the defense sector as a high-value growth opportunity. We are actively expanding our collaboration with a global defense contractor, showcasing our superior safety and cycle life in emission-critical vehicle application. Our strategy includes a more aggressive pursuit of this sector bolstered by our upcoming U.S.-based manufacturing capabilities. We are also working towards launching some specialized energy storage products later this calendar year that have been designed to leverage our technological strengths and specifically target a growing demand for domestically produced, high-performance, and importantly safe energy storage products. Investments in data centers, AI infrastructure, and overall greater need for improved energy infrastructure is driving this demand, and we believe we can provide our solutions while maintaining the strong margins which we have demonstrated in other verticals. Finally, we are also well underway to launching multiple recurring revenue stream products in fiscal year 2026. This includes energy services and software-based solutions. Given this, we anticipate separately itemizing these on our financial statements in fiscal year 2026. I'll now hand it over to John to review the financial results in more detail.

John Gibson | Chief Financial Officer:

Thanks, Rush. This quarter proved to be another wrecking, breaking quarter for the company. Q3 represents significant progress in both our financial results and operational capabilities. We are steadily strengthening the financial foundation required to drive scalable and sustainable growth. Revenue for the quarter ended June 30th, 2025 was $17.1 million compared to $10.3 million in the prior year. with revenue for the nine months ended June 30th, 2025 at 43.3 million compared to 33.1 million in the prior year. Year over year growth of 67% for the quarter and 31% year to date. We have now surpassed our breakeven point of 50 million, having recorded almost 55 million over the past 12 months. We continue to prove our ability to increase our run rate effectively and efficiently. As Raj mentioned, we've already received over 65 million in purchase orders in the nine months ending June 30th. With steady order intake and our enhanced working capital capabilities, we will continue to focus on efficient execution of orders. Gross margin for the quarter was 30.8%, a slight decrease from the prior year margin, driven primarily by product mix and some increase in cost of sales. Nine-month gross margins were 30.8% for 2025, and 32.4% for 2024. Similar to the prior quarter, the company had some marginal increased costs on certain components due to tariffs. We continue to increase our production efficiency and optimization to limit or remove the impact of these increased costs. With increased production volumes, we are able to push for better pricing with our key suppliers. Management believes the company is well positioned to maintain these strong margins throughout Q4 and into the next fiscal year. Operating profit increased significantly for both the quarter and year to date. Operating profit for Q3 2025 was 2 million compared to an operating loss of 0.6 million for Q3 2024. And for the nine months ended June, it was 33.2 million compared to just 19,000 in the prior year. Our adjusted EBITDA was 2.9 million for the quarter compared to 0.6 million in the prior year, with the nine-month figure being 5.4 million for 2025 and 2.6 million for the prior year. EBITDA as a percentage of revenue was 17% for the quarter and 12.6% for the nine months ended June. Q3 also represented our ninth consecutive quarter of positive adjusted EBITDA. The company generated a net profit of 0.9 million for Q3 2025, a significant increase from the net loss of 0.3 million in the prior year. Furthermore, the company generated a net profit for the nine months ending June of 1.3 million compared to a net loss of £1.4 million in the prior year. We have now had two consecutive quarters with a net profit, which management believes is a true inflection point for the company and reaffirms a message that we can achieve continued profitability. Further revenue growth, which we have line of sight of for the rest of the fiscal year, will further contribute to increased overall profitability. The company generated profit at positive cash flow provided by operating activities of 5.4 million and negative changes in working capital of 13.2 million. The movement in net changes in working capital is purely an invoice timing issue at the end of the quarter. To date, we have received a significant portion of this accounts receivable balance. The company ended Q3 2025 with positive net working capital of 31.8 million compared to negative net working capital of 0.4 million for the prior year. significant increase and this demonstrates the continued improved financial and operational performance of the company and management is committed to continue this positive trend. At June 30, 2025, total debt was $18.8 million compared to $18.4 million in the prior year. In addition to cash on hand, the company had availability within its bank facility of over $6 million. Subsequent to the end of the quarter, the execution of warrants provided a cash inflow of $3.2 million for the company. Management continues to manage cash conservatively and through the recent financings we have seen a reduction in the cash interest costs for both quarter and the nine months ended June. We believe we have adequate liquidity to support our anticipated growth for the remainder of the fiscal year and into 2026. With respect to the Jamestown financing, we expect to receive the first draw from the Exim facility in the coming days. In order to take full advantage of the payment terms of EXIM, we have funded the early smaller payments ourselves, waiting until the first round of large payments to make the first draw. Under the credit agreement, we are able to recover all payments made relating to the project, so any payments made to suppliers will come back to us. Furthermore, with the interest-only payment portion starting six months after the first draw, by doing this, we have pushed the start of interest payments into 2026 and the start of principal payments into 2027. That concludes the financial overview. I'm going to turn the call over to Raj for concluding remarks.

Dr. Raj Dasgupta | Chief Executive Officer:

Thank you, John. Our foremost priority and most significant historical investment is the expansion of our manufacturing capabilities in Jamestown, New York. We are actively collaborating with our strategic equipment suppliers and contractors alongside developing our internal expertise and team to guarantee the project's seamless executions. We're confident that cell production in Jamestown will commence by mid-next year, as originally scheduled. Importantly, the recent One Big Beautiful Bill Act continued the 45x production tax credits, which our Jamestown output will be eligible for. This will help provide additional capital, which we did not take into account in the EXIM financing. Concurrently, we have been establishing robust supply chains particularly those based in North America, to cater to the needs of more sensitive customers, especially within the defense sector. Years ago, we proactively avoided Chinese supply chains for this initiative, encompassing both materials and equipment. This foresight will safeguard us from future disruptions and aligns us with the requirements of many of our strategic customers. Electro-biased technology continues to lead the industry in safety and cycle life in particular. We are continuously enhancing this technology, as evidenced by our recent UL2580 certifications for higher capacity battery systems, which demonstrate incremental increases in energy density. Furthermore, we are actively developing a next generation ceramic separator for our Infinity battery products. This innovation will offer several improvements, including enhanced thermal stability, reduced cost, and decreased thickness. Our strategy involves increasing the domestic content of this crucial technology and ultimately scaling its production at our own facilities. We're collaborating with a domestic supplier of high-purity alumina, which possesses exceptional properties, to achieve this goal. The Electrovia Labs team continues its primary mission on its solid-state battery development. positive small cell results, we are investing in dry room facilities and additional equipment at our Mississauga labs. This expansion will enable the production of larger cells for sampling to potential customers. In closing, this quarter marked a significant milestone in our journey to becoming a leader in lithium ion batteries for heavy duty and mission critical applications. Our technology stands out, clearly demonstrating the essential attributes of cycle life and safety, which are increasingly vital in a rapidly growing automated industry. Coupled with our consistently strong financial results, we're clearly progressing towards our goals. That concludes our remarks this evening. John and I would now be pleased to hold a question and answer session.

Operator | Conference Operator:

Certainly. Everyone at this time will be conducting a question and answer session. If you have any questions or comments, please press star 1 on your phone at this time. We do ask that while posing your question, please pick up your handset if you're listening on speakerphone to provide optimum sound quality. Once again, if you have any questions or comments, please press star 1 on your phone. Your first question is coming from Daniel Magner from Raymond James. Your line is live.

Daniel Magner | Analyst, Raymond James:

afternoon gents and congrats on the quarter thanks Daniel thanks just obviously a lot of success in the quarter expanding into new verticals with a number of announcements how do you how do you think about the change in or a potential change in the revenue makeup in 26 as a result or these a longer term 26 is going to represent a

Dr. Raj Dasgupta | Chief Executive Officer:

These other verticals are going to be a significant contributor to revenue in fiscal 26. It's hard to predict exactly what percentage of revenue they're going to make, but for instance, on the robotic vertical, significant shipments will start at least one of our OEM customers starting next quarter. And that space... Battery systems are generally quite similar to each other, so we can launch products more quickly. And so I think that sector is going to grow nicely. Airport ground equipment is another one which I think can generate revenue rather quickly as well, given that the product is basically ready to go. We're going to be shipping first units within a within the next week or two. So that product line is good to go as well. On construction, with the construction OEMs in Japan, we've already been shipping, and this is sort of at the pre-production level. So fiscal 2026, that should scale a little bit. So when you take all these into account, they start adding up.

Daniel Magner | Analyst, Raymond James:

Yeah. And I guess in terms of customer types with these new verticals, obviously on the material handling side, discussions with Fortune 100 companies, is it a similar makeup of the type of new customers that you're having these discussions with?

Dr. Raj Dasgupta | Chief Executive Officer:

For the most part, they're the OEMs themselves. And That's what we're focusing on. For instance, robotics is the OEMs that we're talking to mostly in terms of, and same thing with the other sectors, especially, you know, of course, defense would be like that. So it's a little bit different than the material handling space where we have direct relations with some of those major end customers. The exception to that is on the energy storage side of things. where some of those same customers are the ones who have expressed interest in our energy storage products. So we will sell those same end customers. We're selling batteries for their material handling vehicles. We may sell those same customers energy storage solutions.

Daniel Magner | Analyst, Raymond James:

Got it. Well, thanks for that, and then I'll jump back into the queue.

Operator | Conference Operator:

Thank you. Your next question is coming from Eric Stein from Craig Hallam. Your line is live.

Eric Stein | Analyst, Craig Hallam:

Hi, Raj. Hi, John. Eric. Hey. So maybe just sticking with energy storage, I noticed that you did not call that out just in your written release, but clearly a huge opportunity, especially since it is with many of your material handling customers. I mean, the fact that you did not include it Should we view that one as a little bit further out? Maybe remind us of the timing of the contribution there. I mean, I would think it's safe to say that that vertical might be the largest of any of your emerging verticals.

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, we'll be making a separate launch of that product fairly soon. So that's why we haven't put it in. as a separate item in our press release. But it's a product line where our engineering team has been working on for some time. We want to make sure the specifications, everything is perfect before we launch it.

Eric Stein | Analyst, Craig Hallam:

Got it. I mean, I would think that your customers have given you some indications about demand levels or deployments at some of the same locations that you are deploying your material handling solutions?

Dr. Raj Dasgupta | Chief Executive Officer:

They most certainly have. So we will make deployments in calendar year 2026. With this, so we will make shipments next year. Okay. So it's a sector which is obviously very, very large, growing very quickly. We want to maintain our value there. You know, we're providing a battery solution, which is much safer, longer lasting than what you can find from competitors. And thus, we want to be able to secure strong margins, which is in that space, it's a more commoditized space in general. So we're going to be an outlier there. But we already have the strong relationships with some of those very large corporations which are investing significant sums in this area.

Eric Stein | Analyst, Craig Hallam:

All right. Thanks for that. Maybe just on the capacity addition in Mississauga, and then you combine that with Jamestown, maybe with those two steps where you're capacity stands, and then just thinking longer term, I mean, is the eventual goal to just move everything on the manufacturing side to Jamestown, Mississauga, more of an engineering facility, or how should we think about that?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, so first of all, we've added a second shift here in Mississauga, and we've started some and growing operations in Jamestown. That is to meet, if you We're taking a fair bit more orders than we're shipping, and so we need to catch up on that. So we're scaling things. That second shift is likely going to be a permanent piece, and Jamestown is only going to continue to increase its contribution. So that's what we're doing on the capacity front in the very near term. In terms of the longer term vision that we have, Mississauga is clearly engineering development is its main priority, but we will leverage its system manufacturing as well because it's well optimized to do that. If you think about these verticals which are launching products into, a lot of them are new types of battery systems and it makes sense to utilize Jamestown more for those verticals as opposed to the Mississauga site, which is well optimized to provide battery systems for the material handling space.

Eric Stein | Analyst, Craig Hallam:

Okay. Last one for me, just curious. I mean, obviously great order momentum here throughout the fiscal year. I mean, is that, I would assume that that has continued in Q4?

Dr. Raj Dasgupta | Chief Executive Officer:

It certainly has. So we haven't seen any, it's order intakes are are continuing to be rapid, especially with some of our key end customers, which are generally very large corporations. And so they've continued to provide us good order flow. And we're also seeing them provide us some sort of – give us more guidance to what's going to happen over the next year to 24 months. So we are very, very confident in this space as it stands. It gives us confidence with these investments we're making in Jamestown, et cetera.

Eric Stein | Analyst, Craig Hallam:

Okay, thank you.

Operator | Conference Operator:

Thank you. Your next question is coming from Craig Irwin from Roth Capital Partners. Your line is live.

Craig Irwin | Analyst, Roth Capital Partners:

Good evening, and thanks for taking my questions. So, Raj, a lot of investors are asking us about your participation in the robotics market, and we've been pointing them to your very early work with... the e-commerce guys, I guess one in particular that's a little bit of a pioneer here. Can you maybe help us understand the breadth of applications that you're looking at in robotics? There is some enthusiasm out there for certain applications that could really explode and see tremendous adoption over the next couple of years. For example, the Tesla humanoid, the supply chain is talking about 30 million units. which would be incredible. Can you maybe give us color on whether or not you're touching some of these applications that could see some very rapid growth over the next five to ten years? And the customers you're working with, I know many of them are iterative and they work from sort of lower risk to higher risk opportunities. Can you maybe talk about how you would see this evolve?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, it's very dynamic, Craig. But what's common to all these robots is they need to wirelessly charge. They need batteries which can do many charges in a day because they operate. To make a robot worthwhile, it has to do a lot of work. So they will have to do multiple cycles in a day, and they need that battery to be very safe so they don't damage this very expensive robot. piece of equipment. And so we meet those requirements. And we're already in a number of, again, the sector is growing very quickly. It's still sort of the early stages. Most of the robots that we're in right now, I would say, are moving goods inside warehouses and factory floors. But we're seeing some which are in surveillance. One which is a defense type of application. We don't really have a clear idea what it is. And my, you know, the battery is the same whether it goes into one or the other. So humanoid type robots in the future would definitely not rule it out. The typical battery that's going into these types of applications is roughly about two to five kilowatt hours. That's sort of what we're speccing. For us, they're relatively small. but the number of them could be very large, and that's what we're anticipating. So we're sort of standardizing the product to some degree, and it's getting a good reception in the market. We have a pipeline of partners we're talking to who are looking to test this technology we have, and we'll see how that goes. But we're very bullish on the space in general. It's a very good fit for us, both from a technological standpoint and on the product side, we're good to go. And so the initial partners we have, there's two in the United States, one of them is in Japan, and then there's a few guys that could come soon.

Craig Irwin | Analyst, Roth Capital Partners:

Excellent, excellent. The other market, sort of the other end of the spectrum, Eric asked the question about energy storage, but rail... You know, electric locomotives take huge batteries if they're going to be battery-powered for a couple miles, and you did have some projects that were in development. Can you maybe update us on where those stand? You know, I know there's often shifting customer priorities, but, you know, do you still expect to maybe make some deliveries there, and is there opportunity for customer projects to commercialize?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, rail is one where it's very sensitive to government incentives. And so we did have a partner there, but I think they had some government money which disappeared. So I see it as an interesting opportunity. It works well with our battery technology in the end of the day. Hybridized rail is probably an area that is more realistic and one where we're in discussions with one company partner there. We'll see how it goes. I think I'm more bullish, you know, it's the same battery end of the day whether it goes into a rail vehicle or a different type of vehicle. The Class A trucks is probably a better place.

Craig Irwin | Analyst, Roth Capital Partners:

That's a beautiful segue to my last question. Over the last many years, you've been generally cautious about electric vehicles, electric trucks, conservative in the amount of R&D dollars that you specifically applied to developing products for this market. This call, you're really calling that out just now and multiple times in prepared remarks and answers to other questions. What do you think about the approach of the OEMs now that are doing electric trucks You know, it seems that if they're coming to Electra Viya, they're willing to pay for performance and that they understand they need that performance. Has something fundamentally changed in this market that, you know, makes it more attractive for you? While I guess equity investors often look at this as maybe out of focus right now, given challenges of many of the companies that raise money as SPAC mergers.

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, you know, I would, we're cautiously optimistic about the space. I think the reason we got pulled in is precisely because of the failures of our, some of our competitors in the space, right? So you cannot, what we're finding is those who have applied standard automotive batteries, scaled them up to much larger capacities and put them in these types of vehicles have run into problems, whether they be safety or performance. and that's really put a black mark on electrified Class A vehicles. What we provide is a battery which can be safe in larger sizes, which can handle very high duty cycles, and that's what this market needs. So I believe that there will be a market for electrified trucks Class A trucks, most certainly it's not going to be the majority of the market. But I believe our technology, again, it's the right fit for the space. We'll see how it goes. We're not putting all our eggs in this basket for certain. The development we've done for this space is really leveraging the development we already have been doing for a defense customer, which is also large vehicles and trucks. And so, that's what we're utilizing for the space.

Craig Irwin | Analyst, Roth Capital Partners:

Great. Well, congratulations on another positive profitable quarter. So, great progress.

Amit Dayal | Analyst, HC Wainwright:

Thanks, Craig.

Operator | Conference Operator:

Thank you. Your next question is coming from Amit Dayal from HC Wainwright. Your line is live.

Amit Dayal | Analyst, HC Wainwright:

Thank you. Good afternoon, everyone. Congrats on another solid quarter. With regards to the guidance, Raj, you're maintaining at $60 million in revenues for this fiscal year. That's implying roughly sort of a flat quarter in Q4. But, you know, just the color on the call seems to be, you know, more optimistic. Just wondering, you know, is there a reason for you to be a little conservative?

Dr. Raj Dasgupta | Chief Executive Officer:

We're going to beat that guidance. We thought about revising it and didn't necessarily see the great urgency to do so. But this quarter, Q4 fiscal year 25, will be a growth quarter over fiscal year Q3.

Amit Dayal | Analyst, HC Wainwright:

Understood. Okay, that's good to hear. And then, you know, just on the same lines, you know, now that you are potentially going to see contribution from, you know, many new verticals next year, and as long as, you know, this material handling business stays at, you know, this year's level and even growing a little bit from here, I mean, what kind of growth should we be looking for? You have the balance sheet now. You have the production facility. You can really step on the gas. So I'm just trying to see if there is any color you can provide for how growth next year could look for you guys.

Dr. Raj Dasgupta | Chief Executive Officer:

We're still evaluating that, Amit. It's changing so it can change on a dime, right? What we're anticipating is our core sector, the material handling space, we'll see year-over-year growth. It's the other sectors where that growth rate is still unclear because they're just a little less mature for us. So I think by the end of the year, by the end of the calendar year, we'll have better clarity on how that's shaping up. But what we can tell you is we're going to continue growing. We're going to continue outperforming what we're doing continuously.

Amit Dayal | Analyst, HC Wainwright:

Understood. Is this potentially beginning in the next fiscal year or a little bit later? Just trying to understand. you know, how these products are going to be sold. Are these attached to the battery systems you are selling to customers or separately? You know, just trying to get a sense of, you know, what the profile of this sort of recurring revenue segment will look like.

Dr. Raj Dasgupta | Chief Executive Officer:

Okay, so on recurring revenue, there's really two main parts to it that we're targeting. One is services associated with energy management. So we're rolling, we already have data analytics, which we have some Fortune 100 companies buying that from us, that service, and that's a relatively inexpensive service we provide. What we're launching in the fall will be an AI-driven demand response system, which will allow customers and customers to save on electricity without seeing any reduction in performance. And that's a service we anticipate being able to generate meaningful continuous recurring revenue. So that's one product which we'll be launching. The other more complicated one probably is our energy services product, which is one we're working towards and one which will be directed more to some of these end customers which want to treat the battery as an energy service, right? So they would prefer to pay, instead of looking at a CapEx, they would look to utilize our technology as an OpEx. And given the strength of our technology, that's something that in the long run is very beneficial. Because when you sell one, Electrovia sells a battery for a warehouse application, for instance, the battery performance is so good, it takes a long time to get a repeat business. And that's something we're looking to leverage here with this.

Amit Dayal | Analyst, HC Wainwright:

So for this battery as a service model, Will those batteries be on your balance sheet then for the duration of those contracts?

Dr. Raj Dasgupta | Chief Executive Officer:

Potentially. That's something that still might be a special purpose vehicle with a third party investor where we take part in the benefit but not necessarily have it all on our shoulders there. It's something that's still being looked at. So it hasn't been finalized. What I can tell you is the profitability of this is much, much greater.

John Gibson | Chief Financial Officer:

Thank you for that. Yeah, that's all I have, guys. I will step back. Thank you. Thank you.

Operator | Conference Operator:

Your next question is coming from Jeffrey Campbell from Seaport Research. Your line is live.

Jeffrey Campbell | Analyst, Seaport Research:

First of all, congratulations on a very strong quarter and appreciate the encouraging guidance for the fourth quarter as well. I wanted to start with the Janus partnership. This appears to be a swappable battery approach, if I read it correctly. It was first pioneered in Israel years ago, and then it seems to be really gaining steam in China. So if I'm correct, do you see this swappable approach working in Australia? And you also mentioned in your remarks that there's an eye to the U.S. market with this as well. I was wondering, would that be a similar effort and maybe gear towards long haul trucking, or could this be something that would take advantage of distribution with any of your material handling relationship customers in the U.S.?

Dr. Raj Dasgupta | Chief Executive Officer:

So, you know, Janus has this approach of swapping the batteries, and this enables them to serve their customer needs where they're going long distances, they need power immediately, and I think it's If you want to do that, you need a battery which can handle very, very high utilization rates, which ours is a perfect fit. You also need batteries which are, of course, safer because you're doing a lot of movement. And so that's what we're supporting them with. I don't really have a strong opinion whether swapping is good or not. I don't really have a strong opinion on the application.

Jeffrey Campbell | Analyst, Seaport Research:

Well, then just let me ask again, what did you mean when you said that you're working with them, but you're also in Australia and the U.S. market?

Dr. Raj Dasgupta | Chief Executive Officer:

So they already have a large number of customers in Australia, and they have customers in California, and so that's what we do. So when we deploy batteries, it will be for both markets.

Jeffrey Campbell | Analyst, Seaport Research:

Okay. That's helpful. Thank you. Give me a second here. Can you provide an update on your leasing business? That seems to be the one that was most poised to participate in the long-term trend of lead-acid battery replacement with infinity batteries last time we discussed it.

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, that's leasing from our OEM partner. So they have taken, they're taking advantage of the performance of our batteries by providing a higher residual value on the leasing. So while, you know, if you're a Fortune 100 company, you're typically not leasing these batteries. But for mid-sized to large companies, They're often looking to lease, and because the residual value of our batteries is higher, that makes the leasing through the OEMs quite attractive. And so that leasing program with Toyota was launched really the start of this year. It's been very successful, and it's driving most of our orders for that brand.

Jeffrey Campbell | Analyst, Seaport Research:

And one of the reasons I wanted to ask about that is because it sounded like in your last remarks to admit that you're looking toward some kind of similar leasing program of your own. And I'm wondering if the leasing that you were talking about there at the end, would that be... to towards new customers with some sort of a new model, or would that even start to revert to OEMs, established OEMs that you have in the trail families?

Dr. Raj Dasgupta | Chief Executive Officer:

I don't think we would launch our own leasing program because that's something, you know, financial institutions, like the Toyota ones is Toyota Finance that's managing that. Leasing per se, no. Energy as a service, yes. It's a little bit more nuanced, and that's something we're more interested in. If a customer wants to lease, though, we do have good partnerships. We have one with Sumitomo Corporation where they're actively providing some customers with lease proposals.

John Gibson | Chief Financial Officer:

Okay. That's very helpful. Thank you. Thank you.

Operator | Conference Operator:

And once again, everyone, if you have any questions or comments, please press star then one on your phone. Your next question is coming from Oren Hirschman from AIGH. Your line is live. Hi. Congratulations again on the progress.

Oren Hirschman | Analyst, AIGH:

Just a couple of random questions. Just in terms of the, I know you've been asked this question a few different times, but I'll put a different spin on it. In terms of selling into the energy storage market, in terms of actual sales, you mentioned customer authority material handling. Have you actually sold anything to them, or do you have a first site? That's part A. And part B would be, you know, it's going to be a premium product, like you said. Does that mean it would be not residing, let's say, in a lithium battery farm for an energy application, but it would more likely be where there's more humans closer to a warehouse or something like that?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, Oren, you're correct on both. So now in terms of the project specifically, we have three customers who want to have this product. They are waiting on us to provide them final specifications, pricing, and delivery schedules before they move forward or not. So the onus is on us. That will come with our launch, which will be fairly soon. Again, we just want to make sure it's all buttoned up before it gets launched. On the sites they're considering, yeah, it's not these very large utility scale type storage sites that we're targeting. It would be specifically, for instance, warehouses. where these warehouses typically have diesel gensets outside. A lot of them have solar on their roofs. So that would be one type of application. Another would be data centers. A lot of these companies are building data centers. And data centers are very expensive. You don't want to have any fire hazards nearby. So that's what we're seeing, the interest around that. Maybe a third area would be somewhat related to more government-based procurements too.

Oren Hirschman | Analyst, AIGH:

The data center would be a target or one of those first three is data center related?

Dr. Raj Dasgupta | Chief Executive Officer:

It may be. One of the three companies has a lot of data centers.

Oren Hirschman | Analyst, AIGH:

Okay. Meaning they realize the fire aspect of it in terms of the safety. That's why you can command a premium?

Dr. Raj Dasgupta | Chief Executive Officer:

We think so.

Oren Hirschman | Analyst, AIGH:

Yeah. Okay. Skipping back to the ceramic separator technology, is that to get a better gross margin? Is it going to improve the actual performance? What's the purpose of doing all of that?

Dr. Raj Dasgupta | Chief Executive Officer:

It's Tim. We have the technology. When you have a good technology, you always want to make it better. And so we also want to improve the margins of it. Right now, the cost of what we produce leverages a lot of contract manufacturing and is very expensive. By this focus here, we will improve the margins.

Oren Hirschman | Analyst, AIGH:

Is it something that's notable where it might make a 1% or 2% type of difference on your cogs or it's not that big?

Dr. Raj Dasgupta | Chief Executive Officer:

It'll make a difference. It's also a lot of it is strategic, right? If we have it in-house, if we're producing the alumina either with a partner or ourselves, that's very valuable. So one way of looking at it is we're more than just a battery company. We've become an advanced materials company in a way. And this is something that is, in the long run, very, very valuable.

Oren Hirschman | Analyst, AIGH:

Okay. And just skipping to the robotics that people have asked about, is that a business that's even a million or two today? And do you think it could be you know, bigger than that next year? Do you have any line of sight?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, it's about like a million to two today, and we expect it to grow quickly.

Oren Hirschman | Analyst, AIGH:

Do you actually have line of sight into actual, you know, robotic ramps? And again, I assume these are not humanoids, right? We're talking about, you know, advanced warehouse type of robots?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, these are advanced warehouse type robots. A few of them have given us projections. for next year. So we can see around.

Oren Hirschman | Analyst, AIGH:

Okay. And is this coming from, are they captive? Meaning, you know, is a big company that actually, you know, they own the warehouses or they're in the warehouses, it's actually also building the robots? Or is the robot builder totally separate from the ultimate end customer?

Dr. Raj Dasgupta | Chief Executive Officer:

We're hoping we can get that one you're describing. But no, these are, these are, OEM-built vehicles which are provided to other customers.

Oren Hirschman | Analyst, AIGH:

Okay. Are they big OEMs? Some of them are startups?

Dr. Raj Dasgupta | Chief Executive Officer:

No, all three of them are big OEMs, yeah.

Oren Hirschman | Analyst, AIGH:

Okay. And last question, and I can't resist, on the solid-state. You've got a lot on your plate right now. Any comments on the solid-state R&D?

Dr. Raj Dasgupta | Chief Executive Officer:

So the team at our last division has a product which is, I would say, ready to go. What's stopping us from getting it tested is they're producing it in sort of suboptimal conditions. And given that the performance looks good under those conditions, we decided let's invest some money, improve those facilities. and equipment and get some samples sent to potential customers.

Oren Hirschman | Analyst, AIGH:

I think the last – it's been a while since you've updated on charge and discharges and those kind of metrics. It wasn't anywhere close to – going back a year or two ago, it wasn't anywhere close to being ready commercially, although it was still a large number of charge-discharge. Have you made significant progress on that?

Dr. Raj Dasgupta | Chief Executive Officer:

We've made – So if you look at which applications are most interested in this type of battery, the number one would be aerospace and drones. And the cycle count isn't really what they're looking for. They're looking for, okay, they want to have a couple hundred cycles. We can do that. They want rate capability. They want performance, et cetera. So I think we have it. I think the the results we're getting point in the direction where we will meet those attributes, but we do have this suboptimal lab condition which needs to be upgraded to get those better results.

Oren Hirschman | Analyst, AIGH:

If I can just follow up and end on this question, I was going to ask you about the drone business in general. Obviously, time and flight and power consumption is critical for drones, and it's a big problem. They've got to come back, refuel. People are trying to do refueling in air, so to speak, recharging in air. So do you have any drone business today? And is this solid-state battery really the key to that drone business?

Dr. Raj Dasgupta | Chief Executive Officer:

If you look at some of our competitors, there's companies who have shown success with silicon anode-type mine cells. And we think ours could be a rival to that. It won't be silicon anode. It will be a lithium metal anode. So probably even higher energy densities. So that's what we're targeting. We haven't – we want to get it right before we – so we want to get the samples to the potential customers before we push it.

Oren Hirschman | Analyst, AIGH:

But there is no drone business today. That would be your entry into that business. No.

Dr. Raj Dasgupta | Chief Executive Officer:

Correct, yeah. Right now we don't have, other than robotics, which you can say is a land-based drone, but yeah, in terms of the flying drones, no, we have no business there right now.

Oren Hirschman | Analyst, AIGH:

Congratulations on so much progress.

Dr. Raj Dasgupta | Chief Executive Officer:

Thanks, Oren.

Operator | Conference Operator:

Thank you. That completes our Q&A session. Everyone, this concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.