NASDAQ:ELVA Q1 2026 Earnings Call Transcript

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Conference Operator | Operator:

Greetings. Welcome to the Electrovia Q1 2026 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note, this conference is being recorded. I will now turn the conference over to your host, John Gibson, CFO. You may begin.

spk14:

Thank you.

John Gibson | Chief Financial Officer:

Good afternoon, everyone, and thank you for joining today's call to discuss Electrovia's Q1 2026 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 quarter ended December 31st, 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, our management discussion and analysis, You can access those documents on the Cedar Plus website at www.cedarplus.ca, the SEC's EDGAR website at sec.gov forward slash EDGAR, or at our updated website at www.electrowire.com. As with previous calls, 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 risk 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 Q1 fiscal 2022-2026 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 Canadian and U.S. security regulatory authorities. Also, please note that all the numbers discussed on this call are in U.S. dollars, unless otherwise notified. And now, I'd like to turn the call over to Raj. Thank you, John, and good evening, everyone.

Dr. Raj Dasgupta | Chief Executive Officer:

It is a pleasure to speak with you today as we review our first quarter fiscal 2026 results. Q1 provided a strong start to the year. Historically, this has been our weakest quarter due to seasonality in our core material handling vertical. Despite that, we continue to demonstrate meaningful momentum. Revenue increased nearly 40% year-over-year, margins improved materially, and we maintained profitability, delivering approximately $2 million in EBITDA and about $1 million in net income. I'LL BEGIN BY HIGHLIGHTING KEY OPERATIONAL DEVELOPMENTS DURING THE QUARTER AND YEAR TO DATE, FOLLOWED BY UPDATES ON OUR PRODUCT AND MANUFACTURING INITIATIVES. DURING THE QUARTER, WE FURTHER STRENGTHENED OUR BALANCE SHEET THROUGH A COMBINATION OF SOLID OPERATIONAL PERFORMANCE, SUPPORT FROM OUR FINANCIAL PARTNERS, AND THE EQUITY

RAISE COMPLETED IN NOVEMBER 2025. WE ENDED Q1 WITH THE FINANCIAL FOUNDATION execute the next phase of our strategy including expansion of manufacturing capacity in jamestown new york expansion into new verticals and continued development of next generation products and technologies within our core material handling vertical we continue to make strong progress our new oem integrated high voltage battery systems developed over the past two years ARE NOW SCHEDULED TO BEGIN COMMERCIAL DELIVERIES IN MARCH 2026. WE ALSO MADE DELIVERIES DURING THE QUARTER TO AN EXISTING GLOBAL DEFENSE CONTRACTOR FOR A NEW VEHICLE PLATFORM EXPANDING OUR RELATIONSHIP TO TWO DISTINCT APPLICATIONS WITH THAT OEM. WE EXPECT DEFENSE TO BECOME A MEANINGFUL CONTRIBUTOR TO REVENUE THIS FISCAL YEAR AND A STRATEGIC PRIORITY FOR THE COMPANY OVER THE LONG TERM. we initiated commercial deliveries of our latest modular 48-volt battery systems to a robotic OEM partner this January. We view robotics as a high-growth vertical aligned with our technological strengths, and we expect deployments to accelerate. Testing of our initial airport ground support equipment battery systems continues across multiple locations and climate conditions with the leading U.S. airlines. While this process has taken a bit longer than initially anticipated, we remain optimistic and believe this product line represents a meaningful long-term opportunity. We also established a Japanese subsidiary during the quarter to support growing demands across Japan and the broader Asia Pacific region. We are seeing encouraging interest across multiple verticals and believe this presence will support long-term growth in the region. TURNING TO SOME PRODUCT DEVELOPMENT ACTIVITIES, DEMAND TRENDS IN AUTOMATION, ROBOTICS, ADVANCED MOBILITY, AND ENERGY STORAGE FOR DATA CENTER INFRASTRUCTURE ARE INCREASINGLY ALIGNED WITH ELECTROVIA'S CORE STRENGTHS, WHICH INCLUDE SAFETY, CYCLE LIFE, AND HIGH POWER CAPABILITIES. WE ARE MAKING STRONG PROGRESS ON SEVERAL KEY INITIATIVES, INCLUDING THE RAPID CHARGING VERSION OF OUR INFINITY TECHNOLOGY and new energy storage systems focused on high power especially 800 volt dc architectures our ultra fast charging power cell development is advancing well this product integrates a next generation anode technology with our infinity platform including our ceramic separator technology to deliver enhanced safety and long cycle life while targeting five-minute charge and discharge capability. We have some significant application potential ranging from high-intensity robotic systems to data center infrastructure support, and we are targeting commercialization in 2027. In parallel, we are developing energy storage systems designed for emerging 800-volt DC data center architectures. These systems are intended to provide short-duration ride-through capability and manage rapid power fluctuations associated with workload shifts and generator transfers. We are currently in early stage discussions with potential partners in this area. To support these initiatives, we recently hired a new head of energy storage with extensive industry experience to help guide our technical AND COMMERCIAL STRATEGY FOR THIS KEY AREA. WE ARE ALSO ADVANCING OUR NEXT GENERATION CERAMIC SEPARATOR TECHNOLOGY, WHICH IS EXPECTED TO FURTHER IMPROVE ENERGY DENSITY AND CERAMIC STABILITY BEYOND OUR CURRENT PLATFORM. WE ARE ALREADY SEEING STRONG RESULTS AND ARE MOVING FORWARD WITH PLANS TO DOMESTICALLY SCALE UP THE STRATEGICALLY IMPORTANT TECHNOLOGY. CLOSER TO MARKET, WE PLAN TO LAUNCH NEW PRODUCTS FOR CLASS III MATERIAL HANDLING VEHICLES, AS WELL AS NEXT GENERATION SOFTWARE AND ANALYTIC SOLUTIONS AT MODEX 2026 THIS COMING APRIL. FINALLY, REGARDING OUR JAMESTOWN EXPANSION, WE HAVE COMMENCED BOTH INTERIOR AND EXTERIOR FACILITY UPGRADES. INITIAL DRIVE ROOM EQUIPMENT REQUIRED FOR CELL MANUFACTURING HAS BEEN DELIVERED. and we have begun hiring key personnel to support equipment installation and automation activities. This expansion remains a critical component to our strategy to increase capacity and support domestic production. With that, I will now turn the call over back to John for a detailed review of our financial results.

John Gibson | Chief Financial Officer:

Thanks, Rush. Electrify continues its steady growth into the first quarter of fiscal 2026. As Raj mentioned at the top of the call, the company has historically had lower revenues in this quarter due to customer seasonality. However, Q1 showed significant growth year over year, and we entered Q2 fiscal 26 with a strong balance sheet and the capital to continue our engineering focus on new market verticals and support organic growth. Revenue for the quarter was $15.5 million compared to $11.1 million in the prior year, year over year growth of 39%. Our gross margins for the quarter were 32.9, an increase of 240 basis points over the prior year gross margin of 30.5%. As of the case of previous quarters, gross margins are primarily driven by product mix. However, managing suppliers, prices, and tariffs continues to be at the forefront of our activities as we scale. Management believes the company is well positioned to maintain strong margins as we continue through 2026. Operating profit increased significantly year over year. Operating profit for Q1 was $1.4 million compared to an operating loss of $0.2 million in the prior year. And the company generated a net profit of $1 million in the quarter, a significant increase from the net loss of $0.4 million in the prior year. Q1 now represents the fourth consecutive quarter of net profit and positive earnings per share. And we believe we can continue this trend Our adjusted EBITDA was 2 million for the quarter compared to 0.5 million in the prior year, an increase of 1.4 million or 265%. EBITDA grew in the current year due to improved margins and managing operating costs. Adjusted EBITDA as a percentage of revenue was 13% for the quarter. The company generated positive cash flow from operations of 1.7 million after accounting for net changes of working capital. compared to cash used in operating activities of $0.3 million in the prior year. The company ended the first quarter with positive net working capital of $51.9 million, compared to $12.6 million in the prior year, a current ratio of 6 compared to 1.6. A clear indicator of improved financial performance and management is committed to continuing this positive trend. At December 31, our total debt was $27.3 million, compared to $15.3 million in the prior year, This day includes both working capital debt and debt from the Ex-Im facility. The working capital debt was 10.9 million at the end of the quarter, a decrease of 4.4 million over the prior year. This improved debt balance was driven primarily from cash flows from operations. At the end of the quarter, we had drawn 16.4 million from the Ex-Im loan. We're still in a period of no cash payments with Ex-Im, with interest payments starting on March 31st, 2026, and principal payments starting March 31st, 2027. During the quarter, the company raised gross proceeds of $28 million from an equity issuance. The company has utilized some of this cash for engineering and R&D efforts at the end of the quarter. The company had cash on hand of $22.7 million and availability within its banking facility of $9 million. We believe we have adequate liquidity to support our expansion into these new verticals and our anticipated growth as we continue through fiscal 2026.

spk14:

The company made a solid start to fiscal 26, maintaining disciplined progress across operations, which we see continuing into Q2.

John Gibson | Chief Financial Officer:

We would expect to build on this momentum as we continue through the remainder of the fiscal year and are reaffirming our revenue guidance of 30% growth for fiscal 26. Finally, I wanted to elaborate on one of the items detailed in the AGM material relating to the re-domiciling of the company. After our equity financing in November, and based on trading activity being substantially higher on the NASDAQ than the TSX, the company expects to lose its foreign private issuer status and be treated as a U.S. domestic filer under SEC rules. This change would subject the company to the full domestic reporting and governance regime, but absent a change in corporate domicile without the structural and legal advantages typically available to U.S. incorporated issuers. In addition, as a U.S. domestic issuer, the company would become eligible for inclusion in certain U.S. equities. Taken together, these changes position us to broaden our investor base, improve trading liquidity, and ultimately enhance long-term value for our shareholders. That concludes our financial

overview.

spk02:

Raj and I would now be pleased to hold a question and answer session. Thank you.

Conference Operator | Operator:

At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Once again, please press star 1 if you have a question or a comment. Our first question comes from Colin Roosh with Oppenheimer. Please proceed.

spk12:

Thanks so much, guys. You know, could you give us a bit of an update in terms of the scope and scale of the customers that are moving into your sales funnel and then how quickly they're moving through and how quickly they're – they're getting qualified on the product. We're just curious about the velocity of some of that sales activity.

spk13:

Okay, Colin, are you referring to just in general or specific verticals?

spk12:

You know, specific to material handling, just related to numbers.

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, material handling, we're, so in terms of the end customers, there are, it's DOMINATED BY A NUMBER OF LARGE FORTUNE 100 AND FORTUNE 500 COMPANIES. THE LARGEST TWO BUYERS HAVE GIVEN US VERY GOOD INDICATIONS OF THEIR DEMAND OVER THE NEXT FOR THE FULL FISCAL YEAR, WHICH IS PARTLY HOW WE DETERMINED OUR GUIDANCE FOR THE YEAR. AND THEY ARE LARGE RETAILERS, GENERALLY, OF COURSE, LIKE TO TAKE DELIVERY IN the quarters outside of this reported quarter so there we have we have very good visibility the same time we have a pipeline of new customers in various stages sometimes they're just testing solutions more often they have already done that and they're ordering small batches of systems to get to pilot and then full distribution scale so there are various stages there and that's a pretty A GOOD PLACE TO BE IN THAT SEGMENT. SO WE'RE SEEING GOOD THERE. WE'RE ALSO NOW STARTING TO ADD SOME ADDITIONAL SALES RESOURCES TO BROADEN THAT POOL. BUT IN THE OTHER VERTICALS I'LL TALK ABOUT ROBOTICS THERE A BIT. SO WE ALREADY HAVE A NUMBER OF PARTNERS WE HAVE AND WE'RE ALREADY NOW SHIPPING GROWING NUMBERS OF BATTERIES TO TO A COUPLE OF THESE OEMS. FOR INSTANCE, IF YOU VISIT OUR PLANT TODAY, YOU'LL SEE QUITE A LARGE NUMBER OF SMALLER 48-VOLT BATTERY SYSTEMS UNDER VARIOUS STAGES OF ASSEMBLY, AND THAT'S FOR ROBOTIC APPLICATIONS. BUT IN ADDITION TO THAT, WE ARE IN DISCUSSIONS WITH APPROXIMATELY THREE OR FOUR

ADDITIONAL OEMS IN THAT SPACE. Of course, when you're working on OEM projects, there is a time quotient, which is a little longer than a standardized product, which is the material handling product. That's a long answer to your question.

spk12:

No, that's super helpful. And then I'm just curious about preparations for a pilot on the stationary storage product, how those are proceeding, if you've had any incremental interest since announcing the new product where it's a little bit different. you know, characteristics and performance specs. It seems like it's really well tuned to what we're seeing on the data center side in terms of what the real needs are. So just curious about the timing on those pilots and growth and potential customers there.

Dr. Raj Dasgupta | Chief Executive Officer:

A great question. So essentially, we're coming out with two products for the energy storage space. One is more of a standardized product, which is based on the existing cell that we currently manufacture and uh it's it's a design for high power applications still 30 minute one hour energy storage uh and for that product we we have uh pilots scheduled one is a government-backed a us government-backed project which will hopefully um announce soon uh and then we are planning some internal pilots as well before we put them at uh customer sites The second product, which I mentioned in our prepared remarks, is that 800-volt DC system. And that is something that we've been in discussions with, I'd say, some electricity generation companies. So if you look at these data centers, they're often putting diesel gensets and turbines on-site for power generation. But those devices need, when you're looking at the 800-volt architecture, they need a energy storage component to deal with the seconds to minutes of demand response there. And so that's the system we're very excited about that's under development right now. And that system will utilize this ultra-high power cell

spk14:

Great. Thanks, guys. I'll hop back in, Kim.

Conference Operator | Operator:

The next question comes from Daniel Magner with Raymond James. Please proceed.

spk00:

Afternoon. Thanks for taking my questions here. Just curious as it relates to these new verticals, given the announced deliveries in the defense sector, do you still expect robotics will be the second largest revenue driver in the near term, or could defense potentially leapfrog it?

Dr. Raj Dasgupta | Chief Executive Officer:

We are expecting robotics this year to be larger than defense, but they'll both be present in a material way.

spk14:

Okay, got it.

Dr. Raj Dasgupta | Chief Executive Officer:

But the robotics delivery just started in the current quarter, so there are zero deliveries in fiscal Q1.

spk00:

And I guess just a follow-up here, recognizing you have the EXIM loan, the New York State grants and incentives. Given, obviously, the growth in defense and the current administration's focus on it, are there other potential government programs you think you could potentially be able to tap into?

Dr. Raj Dasgupta | Chief Executive Officer:

We think so. This is something that we're starting to look at. Currently, our number one focus is, of course, getting the partners, the right partners here. So we already have two very good, well-established defense contractors Customers, we are in discussions with another two. One of them is planning to test our products. So I think that's the route we're going at it. Eventually, let's perhaps look at some of those opportunities you just mentioned.

spk00:

Got it. And I guess lastly for me, given all the positive progress in other areas, is energy as a service still a key initiative for you? And just wondering... If you could provide me color on how it's progressing.

Dr. Raj Dasgupta | Chief Executive Officer:

It still is a key initiative. What we've seen is some of the customers we thought were going down that route decided to make purchase orders instead, which is great, of course. However, we are looking at a couple partnership opportunities to support energy as a service. One route is partnering with a group who has a a large company who has a long history in supporting similar type of activities, and that's something we're considering pursuing.

spk00:

Got it. All right. Well, that is for me for now, and I'll jump back into the queue. Thanks.

Conference Operator | Operator:

The next question comes from Eric Stein with Craig Hallam. Please proceed.

spk09:

Hi, everyone. Just jumping around between calls. I apologize if I'm pressing on things you already have. Maybe just material handling. I know that's the lion's share or the majority of your outlook here in fiscal 26. But when you think about that growth and when you think about the opportunity going forward, how do you think of that between existing versus adding new customers? and maybe penetration level with those existing customers that you've currently got?

Dr. Raj Dasgupta | Chief Executive Officer:

So today, Eric, we're already supplying at various stages of penetration level the world's largest company. And so you couldn't have a better pool of end customers that we have. they all are relatively early in adoption rates, right? So if you look at the addressable market within our existing customers, it's massive, right? So the need to bring in new end customers is actually not, you know, it's important, but the larger opportunity is selling more to the folks who are already buying the product. In terms of penetration rates, I'd say we're still early days. The largest operator of our systems has a very large number of distribution centers globally. So I'd say we're early innings with the existing customer base.

spk09:

Got it. And maybe following up on that, I know that your thought process has been that your solution is really applicable to all sizes of facilities for those existing customers. Has that come to fruition? Are you thinking any differently about the opportunity? And I guess that just speaks to the size of the overall opportunity.

spk13:

Yeah, the number of...

Dr. Raj Dasgupta | Chief Executive Officer:

Battery systems we deploy at a typical distribution center can vary widely. There doesn't seem to be a limit to how large a site we can support. So I'd say that's not really a factor.

John Gibson | Chief Financial Officer:

Yeah, we have a site, Eric, with over 300 batteries deployed in vehicles. Yep.

spk09:

I was actually getting at it the other way, that there are some solutions out there that it's tougher to go to the medium and smaller sizes, which is obviously a big part of the market. Whereas that is an area where I would think that you do quite well in.

Dr. Raj Dasgupta | Chief Executive Officer:

For sure. So there are plenty of sites operating our solution with probably under 10 systems.

spk14:

So there seems to be a broad range that we can service.

spk09:

Okay. Let's see. Maybe last one for me, just on the defense side. So just so I'm clear. So what you called out is just, you know, so expansion with one of, I think you currently have two defense contractors that you've been working with. So I guess first, just confirming that. and then secondly when you talk about the two plus two additional you're talking with i mean are these i know it's hard you can't disclose a whole lot but are these similar applications with those contractors or is it using your solution in a wide range of things it appears and you know we only know so much but it appears these are different applications so with the

Dr. Raj Dasgupta | Chief Executive Officer:

defense contractor we discussed in our prepared remarks, they initially and they continue to use our solution for an autonomous land-based application. And the second application, which we just made initial deliveries for, is for a hybridized vehicle system. The second defense contractor is a submersible.

spk14:

But in general, we see defense as a good vertical for this technology, given the safety and high performance of our technology.

spk02:

Yep, absolutely.

spk14:

Thank you.

Conference Operator | Operator:

The next question comes from Craig Irwin with Roth Capital Partners. Please proceed, Craig.

spk11:

Good evening, and thank you for taking my question. So Raj, I have a bunch of small questions around Jamestown that would be really important to understand as we shape the future. So the first one is the CapEx outlook for this year. Can you maybe shape that as far as the quarterly tempo and what your expectations are in this fiscal year? And then associated with that, where do you stand on the hiring and training of the workforce that would be necessary sort of in tandem with the installation and commissioning of that equipment.

Dr. Raj Dasgupta | Chief Executive Officer:

Yes, Craig, I'll let John answer the first part, and I'll jump on the second part.

John Gibson | Chief Financial Officer:

Yeah, hi, Craig. So essentially what we were at the end of the quarter was we'd drawn $16 million, over $16 million of the full $50 million eggs on loan. So we expect to spend that money before the end of the fiscal year or at least, you know, 90% before the end of the fiscal year. So from a CapEx perspective, you're going to see it increase certainly within Q2 and Q3. The majority of it will be within Q3 and Q4 though. So yeah, fully spending, or at least spending 90% of that loan and including that CapEx within the fiscal year.

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, and on the second question, Craig, we are hiring people right now. So about six months ago, we hired a senior individual from LG Chem who was closely involved with one of their large-scale giga plants. And more recently, we've been hiring other employees, be located at the site who have experience with other battery manufacturing sites in the United States, some of which may have been closed down. We also are hiring great talent. There's a long list of folks we're in process of giving offers to, and it seems to be an opportune time to bring in these types of individuals. If we were building this plant a year ago, it would have been much harder to find this level of talent that we're seeing in the market today.

spk11:

Understood. That's a good thing. So next question is, can you maybe give us some color on the revenue contribution out of the Jamestown facility this year? You know, I know your cell manufacturing is supposed to start at the end of the year, if you could just confirm the timeline for that. But do you expect any cell revenue in 2026 from the Jamestown facility, and roughly what percentage of revenue would you expect this facility to contribute?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, Craig, all along we were anticipating Jamestown, especially at the cell level, contributions starting from fiscal 27. So fiscal 26 for us ends on September 30th, and there will be no cell contributions to revenue Battery systems, on the other hand, that's different. You will likely see some revenue generation out of that plan in our fiscal fourth quarter, both probably on a module and system side of things.

spk11:

Sorry, I meant calendar year. So I'm assuming that all of the cell manufacturing equipment will be in place in your fiscal year before the end of September. with commissioning work underway, but do you expect cell production in that facility in the first quarter of your fiscal seven, the last three months of this calendar year?

Dr. Raj Dasgupta | Chief Executive Officer:

Potentially, correct. Potentially, yes. Of course, it doesn't start out, we'll make sure the output of the plant is matching what we need, of course, right? There's a bit of a start-up period. associated with that, but we could most definitely see some contribution in that quarter.

spk11:

Understood. And the last question, if I may, can you update us on 45X, what you think the benefit will be on equipment purchases, whether or not you're seeing tariffed equipment impacted And what do you think the potential contribution is, you know, once you are manufacturing your own cells in Jamestown in fiscal 27?

Dr. Raj Dasgupta | Chief Executive Officer:

So there's two parts of 45X. There's the $10 per kilowatt hour associated with module production. And then there's $35 per kilowatt hour associated with cell production. And under the new rules, under the Big Beautiful Bill Act, you can only get one or the other. So what we anticipate is we will start off with the $10 a kilowatt hour as we manufacture modules. And when the cell production hits a certain speed, we'll transfer to the $35 a kilowatt hour.

spk14:

Excellent. Thank you for that. Congrats again on the progress.

Conference Operator | Operator:

Up next is Amit Dial with HC Wainwright. Please proceed.

spk08:

Thank you. Good afternoon, everyone. Most of my questions have been asked, but just with respect to the outlook for the year, you know, the backlog still is at 100 to 125 million. So the, you know, the top line guidance seems a little conservative. You know, can you maybe provide any color on what could drive upside to the 30% growth you are targeting this year?

John Gibson | Chief Financial Officer:

Yeah, so the growth is based on not just the backlog, but the front log as well. So that number you quoted is backlog plus front log. So essentially, we're taking purchase orders we've received, purchase orders that we know are coming in, confirmation from the customers of demand, and then our estimates of run rate. And then what we do is we take that number and discount it back based on historic experience with customer delays or purchase order changes, et cetera. So, yeah.

Dr. Raj Dasgupta | Chief Executive Officer:

And 30% growth is not a bad number. I think there, as you can see in our Q1, some people forget this, there is some seasonality on our core material handling vertical. Sometimes distribution centers open a little later than they plan to if they're a new site. So there's some of that activity that's taken into account. But of course, there's some upside. We haven't taken into account meaningful revenue from the airport ground equipment space, which could most certainly come into the current fiscal year. But overall, we're very focused on maintaining growth, maintaining the profitability, and these new product developments and new technology developments in addition to the Jamestown setup.

spk08:

Well understood. Thank you. And then on the solid state side, any important milestones you are targeting to hit this year? Do these include maybe any pilots that could begin with customers?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, good question. I didn't discuss the solid-state battery much in the prepared remarks, but we had reached a certain level of development, I'd say, back in the summer, which was looking good, but we were somewhat hamstrung by equipment in terms of to get it to a pilot scale. We ordered the equipment several months back. It has arrived at our lab site already and it's being installed so we will start scaling up cells using our solid state battery technology in really from April onwards and at that point things look good we will start looking to sample them as well so there's definitely activity there we've added a couple key researchers to our team most definitely we have not forgotten about that that technology On the IP side as well, we're close to being awarded some patents around our solid state technology, but we're in the back and forth with the examiners at the moment. Okay.

spk08:

Thank you, guys. That's all I have.

Conference Operator | Operator:

Next question comes from Jeffrey Campbell with Seaport Research Partners. Please proceed.

spk06:

Good afternoon, gentlemen. Raj, my first question is I assume the OEM integrated high-voltage batteries refers to Toyota heavy-duty MHE, but you can correct me if I'm wrong. But if so, can you give us some color on how many models are integrated at present and what it might look like over the next couple of years?

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, you're probably correct. You are correct, Jeff. The model I refer to is the high voltage system, which is going into, there are a couple models of batteries, and it's going, we believe, into two distinct vehicle systems. And so there are orders for those vehicles already. Reason production is starting in,

spk14:

March, as it coincides with certification. Okay, great.

spk06:

My next question was regarding the solutions you mentioned. I think you're going to have a place where you're going to display your solutions targeting Class III MHE. I was wondering, is this going primarily to robotics applications, or will you also support more traditional Class III equipment? Because I believe in the past you've tended to

Dr. Raj Dasgupta | Chief Executive Officer:

identify class three as generally unable to support your margins uh it is the latter uh so it's our expanding in uh in the material handling uh vertical with a class three product which we normally had shied away from uh we believe we can maintain those margins uh the reason we're developing that product is it has sort of been driven uh customer driven But we will be able to maintain the margins with that product. It takes advantage of some aspects of the robotic battery systems that we've developed. So there's some overlap in the design of the system.

spk06:

Okay. Yeah, that's very interesting. And I guess my last question for today is kind of a more open-ended one regarding the next generation ceramic separator development that's undergoing. I was just wondering, what are the specific areas that you see demanding improvement here? I'm not trying to be coy, but the existing tech is class leading. So I'm interested in your insight here.

Dr. Raj Dasgupta | Chief Executive Officer:

Yeah, that's definitely a valid question. So the current technology is working well, very well validated. Of course, you want to continue to improve that technology. And that's one aspect of what we're doing here. improvements would be to make it thinner make it even higher thermal stability use new novel materials which were working on and also the current current separators working very well it's being manufactured under contract in Japan this one will be manufactured domestically so that's another I wouldn't say it's a benefit, it's just in addition. But it supports some activities like for, for instance, this high, super high, ultra high power cells. It has a benefit there. Potentially, this new material can also be utilized in other cell formats. That would be a major breakthrough for us, but that's too early to say.

spk06:

Well, we'll stay tuned for that. That sounds provocative. Thanks very much. I appreciate it.

Conference Operator | Operator:

Thank you. We have a follow-up coming from Colin Rush with Oppenheimer. Please proceed.

spk12:

Thanks so much, guys. You know, other than asking around the ground service equipment opportunity and how we should think about the cadence of that moving forward, going from piloting into a more substantial order and kind of the order of magnitude of that opportunity set for you guys right now.

spk14:

SO WHAT WE'RE LOOKING AT IS TO GO TO THAT MORE SUBSTANTIAL ORDER.

Dr. Raj Dasgupta | Chief Executive Officer:

WE'VE ALREADY RECEIVED SOME PILOT ORDERS WHICH ARE ESSENTIALLY ALREADY BEEN DELIVERED OR SOME OF THEM HAVE MOSTLY BEEN DELIVERED. BUT THIS WOULD BE TO GO TO SCALE RIGHT AWAY. AND SO THE OPPORTUNITY WE'RE LOOKING AT WITH THIS FIRST AIRLINE IS FOR REASONABLY LARGE SCALE DEPLOYMENT.

spk02:

Okay, great. I'll take the rest offline. Thanks, guys.

Conference Operator | Operator:

Once again, if you have a question or a comment, please press star 1. The next question comes from Graham Tanaka with Tanaka Capital Management. Please proceed.

spk05:

Hi, guys. Thank you. I'm just putting this all together. You have a lot of moving parts, and I just wonder if you could summarize for the next two years what are the main areas that can increase gross margins and operating margins versus decreasing. And on the decreasing side, if you could address your semiconductor content and what kind of cost increases you're getting in semiconductors. Thank you.

Dr. Raj Dasgupta | Chief Executive Officer:

So, overall, you know, as you saw in this current quarter, margins improved, going from about 30 percent to about 32 percent. WE EXPECT TO MAINTAIN THAT LEVEL OF ACTIVITY, THAT LEVEL OF IMPROVEMENT IN THE COMING QUARTERS. THAT'S SORT OF WHAT WE'RE ANTICIPATING. I WOULD SAY RELATIVELY MODEST IMPROVEMENT IN MARGINS, BUT IT COMES WITH, YOU KNOW, CORRELATES TO IMPROVED FINANCIAL RESULTS. THE BIGGER CHANGE IN MARGINS WILL OCCUR FOLLOWING JAMESTOWN SELL PRODUCTION COMING ONLINE, AND THAT WILL BE DUE TO A, you know, the vertical integration, but B, the ability to leverage the 45X production tax credits. And the second part of your question on, I guess you don't mean semiconductor, you mean input materials. We're, you know, electrified, our batteries are generally more expensive already. So input material price variations have an impact, of course, but I probably have a, more nuanced impact than it does on our commodity-driven rivals.

spk05:

So I just want to make sure that if there's any issues on supply or cost increases in semiconductors, which we're seeing across all Silicon Valley companies, whether you can cover any cost increases and can secure all supply that you think you might need in semiconductors. Thank you.

Dr. Raj Dasgupta | Chief Executive Officer:

So in terms of material inputs, the one that has fluctuated is lithium carbonate pricing, but it hasn't fluctuated enough for us to have any noticeable impact on margins. We, of course, can also update pricing to our customers if we haven't needed to, if those prices do go in the wrong direction enough. The only materials which probably are common with the semiconductor space is maybe alumina, but there, again, it's not substantial and often our bill of materials have a major impact.

spk14:

Right.

spk05:

That's great. I don't know if you can have added up, but what percent of your business can be coming from military spending, you address defense, but it kind of goes into a few different areas. I'm just wondering if that is going to rise as a percentage of the mix, and are the margins going to be lower in defense? Thank you.

Dr. Raj Dasgupta | Chief Executive Officer:

So, starting on the last part, margins in defense we would expect to be higher. Now, the defense base, at least from our experience, it moves slowly in terms of qualification, and they're very, very careful. A lot of testing goes, a lot of testing validation goes into this. There's also certain certifications. I don't want to get too deep into it, but there's MIL and Navy certification levels that you have to achieve sometimes. So it moves, it's a sticky space. Once you get designed in, you're designed in. But in terms of how quickly it scales in volume,

spk02:

My anticipation has scaled slowly.

spk03:

We have no further questions in the queue.

Conference Operator | Operator:

I'd like to turn the floor back to management for any closing remarks.

Dr. Raj Dasgupta | Chief Executive Officer:

Now, that concludes our call this evening, and thank you for listening. We look forward to speaking with you again after we report our second quarter 2026 results.

spk14:

Have a wonderful evening. Goodbye.

Conference Operator | Operator:

This concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.