NASDAQ:ELVA Q3 2026 Earnings Call Transcript

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Conference Call Operator | Operator:

Good day and welcome to the Electra Vaya Q3 2026 Financial Results Conference call. At this time, all participants are on a listen-only mode and 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. And please note, this conference is being recorded. I will now turn the conference over to your host, John Gibson, Vice President of Corporate Development and Investor Relations. Sir, the floor is yours.

John Gibson | Chief Financial Officer:

Thank you. Good morning, everyone, and thank you for joining today's call to discuss ElectroVaya's Q3 2026 financial results. Today's call has been hosted by Dr. Raj Das Gupta, CEO of ElectroVaya, and myself, John Gibson, CFO. Yesterday, after market close, ElectroVaya issued a press release concerning its business highlights and financial results for the quarter and nine months ended June 30th. If you would like a copy of the release, you can access it on our website. If you want to view our financial statements, management discussion and analysis, and annual information form, you can access those documents on the CEDARplus website at www.cedarplus.ca, the SEC Edgar website at sec.gov forward slash Edgar, or at our website at www.electrovia.com. 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 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 Q3 fiscal 2026 results and the most recent annual information forum and management discussion and analysis under risks and uncertainties, as well as in other public disclosures documents filed with the Canadian and U.S. security regulatory authorities. Also, please note that all numbers discussed on the call are in U.S. dollars unless otherwise noted. and now I'd like to turn the call over to Raj.

Dr. Raj Das Gupta | Chief Executive Officer:

Thank you, John, and good morning, everyone. Before I get into the quarter itself, I want to start with two developments that I believe matter most to the long-term value of this company because both of them happened in the last few weeks and both of them will be instrumental to our future success. More broadly, I would describe this as a strategic inflection quarter for Electrovia. In the near term, what moved on us was timing. and I will address that head on. But the developments that changed the trajectory of this company are structural and lasting. Our agreement with Amazon, the launch of the Elva Pulse energy storage systems, Jamestown nearing operation and the strongest margins in our history. First, our agreement with Amazon. On July 14th, we announced a new commercial agreement with Amazon, together with an associated warrant transaction Designed to support the long-term relationship. Amazon is one of the world's most sophisticated technology companies and one of the most demanding operators of material handling and logistics automation systems. Its decision to formalize and expand its relationship with ElectraVaya represents, in my view, the strongest external validation our technology has received to date. The agreement also establishes a framework for broader collaboration, including potential applications in robotics and stationary energy

storage, where advanced discussions are already underway. The most important aspect of this agreement is the strategic alignment it creates between the two companies. It provides a long-term framework through which Electrovia can support Amazon's evolving requirements across multiple applications while giving both organizations a shared interest in expanding the relationship over time. Future orders will continue to be placed through the normal commercial process, but the structure reflects a mutual commitment to pursuing a significantly broader and deeper commercial relationship. For context, Amazon was already Electrify's largest end customer in fiscal 2025. This agreement formalizes and expands a relationship that is already material to our business which is why we regard the purchase levels underlying the warning structure as a realistic path rather than an aspirational one, particularly as the relationship broadens beyond material handling into robotics and stationary energy storage. We believe that this relationship has the potential to accelerate the adoption of electrified technology across a wider range of advanced applications than we could otherwise pursue on our own. It also provides an important avenue for expanding our existing material handling business while accelerating opportunities in newer markets such as robotics and stationary energy storage. The second major development was the launch of the Elva Pulse energy storage solution. Very recently we launched the Elva Pulse 1500 The first product in a new stationary energy storage portfolio and the culmination of energy storage development program I have discussed over the last several calls. The Elvo Pulse 1500 is built around a modular 20 foot container and a 1500 volt DC architecture. It provides up to 2.88 megawatt hours of nominal energy and can be configured to deliver up to approximately 9 megawatts of power. That power to energy ratio allows it to discharge its full rated capacity in under 30 minutes compared with roughly two to four hour duration profiles of most utility scale lithium ion storage systems on the market today. We believe this makes the Elva Pulse one of the highest power density containerized stationary battery systems commercially available. That power density can translate to a The reason we designed the system this way is very specific AI data centers can experience large and rapidly changing power demands creating a growing requirement for storage systems capable of responding quickly and repeatedly Much of the storage available today was optimized primarily for energy duration The Elvo Pulse 1500 was purpose-built for high-power applications. It also incorporates the same ceramic separator technology that underpins our Infinity platform, which has now been validated across more than 35,000 battery systems, operating in demanding industrial environments. In a data center environment, safety, reliability, and rapid power response are not simply desirable attributes. They are fundamental requirements. The commercial interest we are seeing has been very encouraging. We are already in active discussions with hyperscale customers, data center developers, and major power and energy developers regarding a range of potential projects. Based on the scale of the opportunities currently under discussion, successful conversion of even a portion of this pipeline could require substantial utilization of the planned production capacity at Jamestown. Importantly, this energy storage pipeline is broad-based across multiple hyperscalers and developers and end markets, and it is not dependent on any single customer relationship. Together with defense, robotics, and high-voltage demand, it gives us confidence that Jamestown capacity will be drawn from several sources as it comes online rather than from any one customer. We have initiated UL 1973 and UL 9540 certification activities with completion currently targeted for the first quarter of calendar 2027. We are accepting production reservations now with initial deliveries targeted to begin in the second quarter of calendar 2027 from Jamestown. The platform has been designed to support eligibility for the Section 48E investment tax credit, including the domestic content bonus and foreign entity of concern, material assistance requirements, subject of course to project-specific structuring and each customer's individual tax position. We believe ElvaPulse can become an important new growth platform for Electrovia. It takes the safety and durability advantages We have demonstrated in material handling and applies them to a very large, rapidly developing market where power density, reliability, and domestic supply are becoming increasingly important. We will be presenting the Elva Pulse to customers and industry participants at ACP Recharge and Yoda in September, followed by RE Plus in November. Now for the quarter itself. Revenue for the third quarter was $17.7 million compared with $17.1 million in the same period last year. We exceeded our targets across several key profitability metrics, achieving gross margins of 34.9% compared to 30.8% a year ago, an adjusted EBITDA margin of approximately 20% for the first time, and record quarterly adjusted EBITDA. Our revenue performance during the quarter as well as our revised expectations for the full year primarily reflects the timing of several customer programs. Approximately $5 million of high voltage battery system deliveries originally anticipated

during fiscal 2026 have shifted into the first quarter of fiscal 2027 due to supply chain constraints affecting the completion and delivery schedule of these new products. We have also experienced delays in the implementation of certain material handling projects which affected order and delivery timing during the third quarter and are expected to have some impact on the fourth quarter. Importantly, these are timing shifts, not lost business. The high voltage systems are first in the 800 volt class, remain committed for delivery, and the delayed material handling projects remain active. Based on our current visibility, we expect order and delivery activity to normalize as the supply chain constraints are resolved and customer implementation schedules progress. Accordingly, the change in our fiscal year outlook reflects the timing of revenue recognition rather than a change in the underlying demand environment. Based on the order and delivery timing we currently see through the fourth quarter, we now expect full year normalized revenue of approximately $70 to $73 million. We expect approximately $5 million of deferred high voltage system revenue together with a portion of delayed material handling activity to be recognized early in fiscal 2027, with high voltage battery systems becoming an increasingly significant part of our product mix. While quarterly timing can vary, we remain confident in the strength of our underlying order pipeline and the long-term demand across our principal markets. We also believe our expanded relationship with Amazon has the potential to support increased demand for existing material handling products during fiscal 2027 and beyond. What did not change during the quarter was the quality and profitability of the underlining business. We remain profitable as we have every quarter of the fiscal year, and we believe that the combination of record gross margins and record adjusted EBITDA demonstrates the increasing earnings power of the business, which is still at its relative infancy. Turning to diversification beyond material handling, while material handling remains the foundation of our business and continues to represent significant growth opportunities, at the same time, We've accelerated the application of our Infinity technology across additional markets. Importantly, several of these initiatives are now progressing beyond development and qualification into a recurring commercial activity. In defense, we continued shipments to a major defense contractor and specialty defense platforms are becoming an increasingly recurring part of our order book. We recently developed our first 800 volt, 100 kilowatt hour hybrid drive battery for our major defense contractor. Overall, we believe these types of products have significant long-term potential and also provide validation of Electrify's latest generation of battery systems technology. In robotics and autonomous vehicles, commercial deliveries that began earlier in the fiscal year continued through the quarter. We also see potential to expand our participation in this market through the broader Amazon relationship. In stationary energy storage for data centers and other forms of critical infrastructure, we are participating in a U.S. Department of Energy-funded project led by Binghamton University and supported by a $5 million DOE award. This project provides an important applied research and demonstration platform that complements the commercial developments of the Elbow Pulse. We also completed UL2580 safety certification for six models of our next generation high voltage battery systems. These products are designed for integrated material handling vehicles operating in demanding all season outdoor environments. We continue to expect high voltage platforms to become a meaningful revenue contributor beginning in fiscal 2027 and completion of the certification removes an important prerequisite to commercialization. In Japan, our partnership with Sumitomo Corporation is helping us develop opportunities in construction equipment and other heavy-duty industrial applications. We are seeing increasing demand from a large Japan-based OEM partner, and based on the current program trajectory, we believe this opportunity could begin contributing material deliveries from fiscal 2027 onwards. Turning to technology and product development, we have made renewed progress in solid-state battery development following additional investment in our facilities and research capabilities. We are currently producing approximately one amp hour solid-state cells and are working towards increasing cell capacity to approximately five amp hours. Early results have been encouraging with strong performance and energy density. Based on our current development work, we believe that this technology has potential to achieve volumetric energy density of approximately 700 watt hours per liter, which would represent a highly competitive level of performance. Considerable development and scale-up work remains, but we are pleased with the progress to date. Our work with the next generation of electrified ceramic separator technology is also advancing well. At the lab scale, we're currently producing separator material that demonstrates performance and many more. Over time, a thinner separator could enable improvements in cell-level energy density and potentially reduce material manufacturing costs. The next phase of the program will focus on further testing and scale-up. With

respect to new product applications, we recently shipped prototype battery systems to a leading North American fuel cell manufacturer. frequently require batteries capable of delivering high power while maintaining long cycle life. These requirements align well with the core performance characteristics of our Infinity technology. The prototype will now proceed through the customer's normal testing and evaluation process. We are also beginning initial shipments of our 800-volt battery systems for specialized trucking and defense applications. Although these early deliveries are modest in quantities, they provide important validation of our high voltage system design and manufacturing capabilities. The 800 volt architecture will also be an important component of our stationary energy storage portfolio. To support these opportunities, we are equipping both our Jamestown and Mississauga facilities to manufacture this class of high voltage battery system. Finally, we are continuing to make brisk progress with the initial feasibility of our niobium oxide battery development program. We are now commissioning a 24-volt module designed to support charge and discharge rates of up to 20 C, and that would be under three minutes charge and discharge rates. At those rates, the technology has potential to support charging in rapid rates subject to final system configuration and operating conditions. The next stage will involve module-level performance, cycle life, and safety testing as we evaluate the most suitable commercial applications for the technology. On the Jamestown expansion, we've seen significant steady progress in the Jamestown manufacturing build-out. Dry room construction is fully completed. Site electrical and HVAC infrastructure upgrades are ongoing. and construction of the major manufacturing equipment, most importantly, has been completed. The most significant milestone and the one I'd like to draw your attention to is that in approximately seven to ten days, we will begin an extended eight-week factory acceptance test program at our equipment supplier in Korea. This is not a component level check. The full cell assembly line will be connected and set up to replicate the planned operation in Jamestown and run at the supplier's facility so that we can validate and complete process before anything is shipped. We are sending approximately 10 people from our Jamestown operations teams to Korea to participate in that testing directly, which means that people who will run this line in New York will have run it already at speed before it arrives. In parallel, logistics and shipping planning for the equipment is underway now. Overall, I'm very pleased with the progress at the site. As I mentioned previously, the startup of this facility will represent a step change for the company and will not only provide us the expanded capacity to execute our plans for energy storage, robotics, and other segments, but more importantly, will position us as one of very few advanced lithium ion battery manufacturers with domestic manufacturing capabilities. Electrovise technology, I believe, serves the trajectory of high utilization and sensitive applications that data centers, physical AI, and other industrial applications require better than any other available battery technology, a fact that I don't think is well understood. On closing, let me end where I started. I would characterize this as a strategic inflection quarter. The third quarter revenue was not what we wanted, and we are not going to dress that up. But what moved on us was timing, not lost business. And that revenue remains committed. Meanwhile, in the span of a few weeks, the developments that define this company's trajectory are all advanced. We signed a long-term commercial agreement with Amazon, already our largest customer. We launched the Elva Pulse into the fastest growing power market in the world. We moved Jamestown to the cusp of production and we posted the best gross margin in our history while staying profitable. From here, four pillars frame the story. Amazon, Elva Pulse, Jamestown and margins. Fiscal 2027 is when they converge as Jamestown capacity comes online and our newer verticals begin to scale. Our job over the next four quarters is to convert that position into profitable revenue growth. And that is exactly how we are measuring ourselves. With that, I will turn the call over to John for a detailed review of the financial results.

John Gibson | Chief Financial Officer:

Thanks, Raj. Revenue for the quarter was 17.7 million compared to 17.1 million in the prior year. Revenue for the nine-month period was 51.3 million compared to 43.3 million in the prior year. An increase of approximately 18.5%. Gross margin for the quarter was 34.9, an increase of 410 basis points over the prior year. And gross margin for the nine-month period was 33.8 compared to 30.8 in the prior year. As in previous quarters, the gross margin is primarily driven by product mix. This quarter did benefit from some higher

margin defense shipments, as well as some prototype shipments for other verticals. However, we are seeing the gradual structural improvements in margins for material handling products as economies of scale begin to take effect. Supplier management pricing tariffs remain key focuses for the business as we scale and management believes the company is well positioned to maintain these strong margins as we continue through 2026 and into 2027. Operating profit for the quarter was 0.8 million compared to 1.9 million in the prior year, a decrease of roughly 58%. This was primarily driven by increases in SG&A of 0.9 million and non-cash stock-based compensation of 1.8 million. There was also reallocation between research development and government grants to correct the presentation. Despite this increase in expenses, operating profit for the nine-month period was 4.3 million compared to 3.2 million, an increase of 37% year-over-year. Net profit for the quarter was 0.3 million compared to 0.9 million in the prior year. Net profit for the nine month period was 2.4 million compared to 1.3 million in the prior year. And the third quarter represents the sixth consecutive quarter of net profit and positive EPS. Adjusted EBITDA for the quarter was 3.7 million compared to 2.9 million in the prior year, an increase of 0.8 million or approximately 27%. Adjusted EBITDA for the nine month period was 8.5 million compared to 5.4 million in the prior year, an increase of 56% year over year. Adjusted EBITDA as a percentage of revenue was 20.7% for the quarter and 16.5% for the nine months. Despite the lower than expected sales, the company maintained these solid margins and profitability during the quarter. The company generated positive cash flow from operating activities of 8.6 million compared to 5.4 million in the prior year. On a year-to-date basis, cash used in operating activities was 17.4 million compared to 17.3 million in the prior year. primarily reflecting timing differences in working capital including increases in accounts receivable, inventory and prepaids. The increase in cash used here represents timing factors rather than changes in the underlying fundamentals of the business and the company had collected over $15 million in cash from customers within two weeks following the end of the quarter. The company ended the quarter with positive net working capital of $65.9 million compared to $31.9 million in the prior year A current ratio is 7.5 compared to 4.0 in the prior year. These figures reflect a stronger reported liquidity position compared with the prior year, while management remains focused on prudent working capital and liquidity management. June 30th, total debt was $38.3 million compared to $18.8 million in the prior year. This debt includes both working capital debt and debt from the Exxon facility, while the prior year figure is solely working capital. Working capital debt was $18.4 million at the end of the quarter, a slight decrease of $0.4 million over the prior year. At June 30th, the company had drawn $19.8 million from the Ex-Im loan. The company continues to utilize proceeds from the equity raise to support R&D activities. At the end of the quarter, the company had $13.1 million in unrestricted cash on hand and more than $7.8 million available under its bank facility. We believe we have adequate liquidity to support our expansion into these new verticals and anticipated growth as we continue through fiscal 26 and into 2027. Finally, I wanted to provide some additional context on the Amazon commercial agreement and related warrant transaction, including the expected accounting treatments. First, I would reiterate that the relationship with Amazon represents a significant commercial milestone for the company and provides an important platform for future growth. The warrants themselves comprise two Principal components, an initial vesting component and a revenue related component. The initial component is expected to be recognised over the applicable vesting period as a non-cash reduction of reported revenue with the amount determined by the Black Trolls calculation. We will provide the relevant accounting policy, valuation assumptions and recognised amounts in the notes to our year-end financial statements. The revenue related component is divided into 100 individual tranches, each associated with 2.8 million revenue milestones. for an aggregate revenue target of 280 million. The timing of vesting will depend on the achievement of the applicable contractual milestones. There is no annual revenue cap, meaning these milestones could be achieved before the contractual expiry of the warrants if the relevant revenue targets are reached. And we believe that this will be supported by our expansion into energy storage, robotics, and airport ground support equipment. Because these amounts are non-cash, we expect to separately identify them in our adjusted EBITDA reconciliation subject to the applicable reporting requirements and definitions. Following vesting, the warrants may generally be settled through cash exercise or, were permitted by the agreement, a cashless exercise. In a cash exercise, Amazon pays the exercise price and receives the corresponding number of underlying shares. In a cashless exercise, Amazon does not pay the exercise price in cash. Instead, fewer shares are issued based on the intrinsic value of the warrants and a contractual formula. As a result, Even though Amazon has 20% warrant coverage on the notional

commitment, the number of shares actually issued is expected to be meaningfully lower than 20%, particularly if cashless exercise is used. The ultimate dilution will depend on the number of warrants that vest, the exercise price, the share price, and the contractual settlement formula. Amazon has used both methods in the past, so both will be possible in this instance. The company remains focused on executing its growth strategy, maintaining disciplined management of margins and working capital, and expanding into attractive markets, including energy storage, robotics, and airport GSE. We believe our commercial relationship with Amazon, supported by our existing customer base, technology platform, and manufacturing capabilities, provides a strong foundation for future growth. While quarterly results may continue to reflect product mix, customer timing, working capital Management remains focused on building sustainable revenue, profitability, and long-term shareholder value. We thank our employees, customers, partners, and shareholders for our continued support. Now I'll pass the call over to Raj for closing remarks.

Dr. Raj Das Gupta | Chief Executive Officer:

Yeah, with that, we'll be happy to take questions from analysts.

Conference Call Operator | Operator:

Thank you. Ladies and gentlemen, at this time we will be conducting our question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad and 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. And 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. Thank you. Our first question today is coming from Colin Rusch with Oppenheimer. Your line is live.

Colin Rusch | Analyst, Oppenheimer:

Thanks so much, guys. Can you talk a little bit about the scope and scale of the ElvoPulse pipeline at this point and how you expect that to start flowing through into the P&L?

Dr. Raj Das Gupta | Chief Executive Officer:

Yeah, so the number of projects we're in discussions with are quite substantial. If we're successful with any of these guys, our 2027 production levels will be fully booked. So the production will, right now what we're focused on is getting the systems through its certification. That process has already started. And the manufacturing of these systems will be set up such that we can make deliveries starting really Q Q2 2027 calendar year, but with a ramp up over the rest of the year. In terms of some of these sites, they're like, you know, one data center would take our full production.

Colin Rusch | Analyst, Oppenheimer:

Okay, perfect. And then the second question is just really around timing for first revenue from Jamestown, and that's it from me. I'll pass it along. Thanks.

Dr. Raj Das Gupta | Chief Executive Officer:

I would say it would probably align with that same timing so Q1 next year in calendar year 27 is really going to be a startup validation period for the plant and then revenues will start in calendar year Q2 which is our fiscal year Q3.

Conference Call Operator | Operator:

Thank you. Our next question is coming from Craig Irwin with

spk05:

Ross Capital, your line is live. Hello, Craig, sir, we can't hear you.

Conference Call Operator | Operator:

Okay, we seem to have an issue with Craig's line. We cannot hear him, so I will move on to our next question, which is from Eric Stein with Craig Hallam Capital. Your line is live.

Eric Stein | Analyst, Craig-Hallum Capital:

Hi, Raj. Hi, John. Hi, Eric. Good morning. Hey, just maybe sticking with material handling, I know the two customers, just the timing puts out a little bit or differences with the schedule. But just curious, from those two customers, what kind of indications are you getting in terms of their plans for 2027? And just curious, kind of more broadly across material handling, what you're thinking about for 2027?

Dr. Raj Das Gupta | Chief Executive Officer:

Broadly speaking, we expect 2027 to be a much better year in material handling than 2026 has been. And I would presume some of that will be driven by increased demand from Amazon. If you look at 26 versus 25, it's been pretty much the same. And so I would expect the impacts from our recent agreement to manifest really in fiscal 27. Today it's August 10th, 11th, and there's really not much time for us to have any impact. The production slots for the rest of the quarter are already scheduled, and there's no way for us to make significant adjustments.

Eric Stein | Analyst, Craig-Hallum Capital:

Right. Right. Okay. And then maybe last one for me, just, you know, high level, I know that this really has been – Building, Bringing Jamestown Online, and Building Towards 2028, which presumably is going to be a very significant year in growth. But again, just high level for 2027. When you think about all these end markets, factoring, certification, timing, Jamestown production, et cetera, I mean, how do you think about the mix? I would assume material handling is still the biggest, but the mix between the others.

Dr. Raj Das Gupta | Chief Executive Officer:

So you're correct in that analysis. To one sense of things, what we've done over the last few years is prove the business, prove the technology. We don't have the scale as yet to make it very significant. That changes with the advent of the Jamestown production. and some of these new products which we've been working on

which will be able to be scaled as that new capacity comes online. So 2028 is when that's all there, right? So that's really I would say the year where the first full year where we have capacity, we have the products, that's where we will really demonstrate to the world the significance of this technology and how it can be impactful in some of those key end markets. In terms of how the breakdown of revenues will come out in 2027, what we're seeing is robotics is a key space for us already. It's starting to, we expect that to accelerate. High voltage battery systems has been somewhat of a surprise where the demand is higher than we expected. There's some complexity in how to manufacture those systems. They're very large. Our current facility in Mississauga isn't well optimized to pump out lots of them, so we're making those adjustments now. You know, if you visited our plant a year ago, you would have only seen material handling batteries on the floor, and it was a relatively straightforward operation. Today, you'll see batteries for robots, which are much smaller. You'll see these gigantic 800-volt systems One of them is about 240 kilowatt hours, so it's a very large pack. And so there's a wide breadth now on product portfolio. It is trading the resources here in Mississauga. The Jamestown operations can't come online soon enough. Now, because Jamestown is in full construction mode, we can't really utilize the Thank you.

Conference Call Operator | Operator:

Our next question is coming from Theo Genzibu with Raymond James. Your line is live.

Theo Genzibu | Analyst, Raymond James:

Yeah, great. Thanks for taking my call this morning, guys. Just on the 800-volt system shipments, touching on that question previously, are you seeing any broader patterns, I guess, in customer behavior, like around the timing between placing an order and actually taking delivery?

Dr. Raj Das Gupta | Chief Executive Officer:

So right now, we have more orders for 800 volts than we can quite a lot more than we can make delivery of. The deliveries of these products have been impacted by it's a new product, so the design cycle has had impact on the supply chain, so we can't get the right parts in soon enough. So it really comes down to a timing issue. We expect that to be resolved by our fiscal Q1, and we'll start ramping up deliveries into customers for the 800-volt systems. Importantly, that 800-volt architecture That we've developed is common. So that same battery management system, system design architecture that will be used in some of these vehicle applications will be very similar to the one that we're going to use in our energy storage applications. So it's a very important effort which has common outcomes.

Theo Genzibu | Analyst, Raymond James:

Okay, yeah, great. Thanks. for that color on that. And then just maybe on the gross margins were impressive for the quarter. Can you just give a bit more color, I guess, on the source of that as it relates to the relationship between product mix and economies of scale? And maybe just to follow up to that, but on the 45x manufacturing credit, how much of a boost would Jamestown, when Jamestown is operational, that could be to margins?

John Gibson | Chief Financial Officer:

Yeah, margins are always affected by product mix. This quarter we had some prototypes and some high margin defense units, but those were not material to the overall revenue position. But what we are seeing is a gradual creep up of the margins as we are able to take advantage of our purchasing power. We're getting

better pricing with some suppliers, which obviously is cascading through the bomb and into the cost of sales line. So take that and add to just increased efficiency on the floor and it's translating into these better margins. From a 45X standpoint, when James ends up running, I think that would probably represent a couple of percent of additional margin depending on how the accounting treatment would work for those tax credits.

Theo Genzibu | Analyst, Raymond James:

Okay, great. That's all from me this morning. Thanks for your time today.

Conference Call Operator | Operator:

Thank you. Our next question is coming from Jeffrey Campbell with Seaport Research Partners. Your line is live.

Colin Rusch | Analyst, Oppenheimer:

Good morning, guys, and congratulations on the Amazon project again. I agree, it's very impactful. Raj, you mentioned that your next generation ceramic separator was reducing thickness by 25% and would have significant implications for improvements in cost and energy density. I was wondering, is this separator for applications where you're pushing energy density, you know, some of these high voltage type things, or could this separator eventually feature in both the low voltage as well as the high voltage batteries?

Dr. Raj Das Gupta | Chief Executive Officer:

Yeah, I'd say this would go in all our products when it's ready. It's a step improvement to the existing technology, which already is, I would say, the world's best for ceramic separator. technologies. Making it thinner obviously will lead to improvements in energy density. One thing we're investigating is whether the new version will be able to allow winding, which would be a significant benefit for the technology that would enable it to be used in cylindrical cells. and a much larger number of cell formats, which could be very interesting in the long term. We're too early to say whether that is the case or not. But overall, we're pleased with the progress here. Generally, making something thinner and using less materials with the same end result is a good thing. It's going to lead to lower costs. It's going to lead to higher performance in terms of energy density. But most importantly, we are focused on maintaining The thermal performance that the existing material has clearly demonstrated and the other benefits that the existing material already demonstrates.

Colin Rusch | Analyst, Oppenheimer:

Thanks for that. And you also mentioned the development of the niobium oxide fast-charging battery tech continues. And I believe you mentioned that you're showing discharge rates up to 20C. So 20C ought to hit the five-minute threshold at something like an 80% or 90% discharge or charge. So what I wanted to, does commissioning mean you're testing a potentially commercially viable prototype or is it still more in research mode?

Dr. Raj Das Gupta | Chief Executive Officer:

We've made quite a few modules now with these cells. We're now designing a 800-volt platform to utilize this, a 400 and 800-volt platform to use this. The end market targets for the niobium oxide modules would be energy storage for data centers is one. That's probably the largest potential segment. and the other is robotics. So those are the two sides where they would potentially require that super high charge discharge rate.

spk05:

Okay, thank you.

Conference Call Operator | Operator:

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

Craig Irwin | Analyst, Ross Capital:

Good morning and thanks for taking my questions. So Raj, I apologize if you've already visited this, but there have been a lot of questions since the Amazon agreement was announced about how you would account for the two different tranches of options, the options that vest immediately and the options that vest over several years. The key item that people are looking for is the duration of the vesting period for the the tranche that does not vest immediately. Have you settled on the number of years that you'll use for the Black-Scholes valuation there? And can you maybe walk us through how you comply with both IFRS and US GAAP here? I assume it's probably the most conservative approach and not what we've seen from CLEAN or PLUG where this had a bigger sort of more volatile impact on the P&L.

John Gibson | Chief Financial Officer:

Craig. I'll take that one. So the Black Shoals calculation is being finalized. So we'll obviously include those variables within the Q4 financials. But I'll give you a kind of high level view of how the approach is being taken. Essentially, what we have is we have consultants going through the process of generating this Black-Scholes model so that it's independent from our auditors. The auditors will then audit those calculations to make sure that they comply with both IFRS and US GAAP. Now the two tranches of warrants are dealt with very differently. The initial tranche will be amortized over some period between seven and ten years, so there'll be a quarterly and so on. So, there will be an adjustment to revenue based on that calculation and the value of those warrants. And then for the revenue related warrants, the 100 individual tranches, those will hit revenue as and when they vest. So, for every 2.8 million of revenue, there will be an adjustment against it for the value of those warrants that are vesting for that purchase. It's difficult to say how long it will take to vest all those warrants, but we certainly don't expect it to take anywhere near the 10 years of their life.

Craig Irwin | Analyst, Ross Capital:

Understood. That's consistent with what I've been discussing with investors, so thank you. The second question I wanted to ask, Raj, nobody does a better job describing the differences in the major technologies out there. So when I look at energy storage for data centers, there's a few major choices. But I think the most direct comparisons to your technology are either titanate, which is predominantly supplied by Toshiba and used by Amazon, and then obviously the really cheap stuff from cattle, which is really what Ford's going to do. And maybe when they start making their own cells, they're going to have a supply chain on the powders,

right? and high five to Sankar for the role he played in actually getting that commercial with John Goodenough who got the Nobel Prize. But to get back to this, can you maybe describe for us the relative purchase price of Titan 8 versus your technology, the LFP versus your technology and how the economics work out as far as customer site installations. If you have a gigawatt data center, how much batteries do you need from each of these technologies? And how do the economics work if you're able to use the ElectroVaya product that cycles faster, is cheaper, and proven robustness versus the other technologies?

Dr. Raj Das Gupta | Chief Executive Officer:

Yeah, Craig, appreciate the question and the compliment to Sankar. With regards to energy storage, I'll start with lithium iron phosphate, which is the predominant technology that's used for most of the energy storage systems from our rivals. Generally speaking, those energy storage systems are designed to be charged and discharged in two to four hours or longer. So the C rates are quite low, right? They, in my opinion, they're not well optimized to run at higher power rates because the cells, the chemistry itself, it has its limitations and then the cells that they're using in those energy storage systems are quite large, right, often 500 amp hours or larger. So they have a significant limitation for power delivery. And so when they're being used in data center type applications, they're being oversized dramatically, right? So you may have to put significantly more energy storage containers to achieve the same goal as one of ours, right? If you look at the load profiles of these sites, these data centers or other industrial sites, they typically are focused on, like the batteries don't generate energy, right? They just store energy. So the energy generation is what matters. And the battery itself is serving almost like a hybrid vehicle's battery, right? It stabilizes the and others. They are grossly oversizing, in our opinion, the energy storage capacity to achieve that, which means more cost, means more So, I think our ELVA pulse system will be able to do that job much more effectively than the incumbent LFP-based technologies. Now, your other question was on Titanate. Now, Titanate is a very high-rate battery technology, but it's extremely expensive. So, it's being used heavily in robotics already. being investigated for use in that 400 to 800 volt data center applications, more for almost like a UPS application. And for that, I think that the Electro-Vaya technology, the existing Infinity technology, which is based on our ceramic separator and an NMC chemistry, gets pretty close on the on the power density, especially when you take into account the higher energy density of the cells themselves. So cost-wise, we'll be less and we'll be able to store more energy. So I think we're extremely competitive with lithium titanate. And then our niobium oxide solution, which is, as I mentioned, well underway and under development, will also be more competitive than lithium titanate is today.

Craig Irwin | Analyst, Ross Capital:

And, you know, am I correct that it's on an apples-to-apples basis? The titany product is roughly double the price today, not factoring those benefits?

Dr. Raj Das Gupta | Chief Executive Officer:

Yeah, I would presume so.

Craig Irwin | Analyst, Ross Capital:

And it takes more space, and it's harder to get, et cetera, yeah. Excellent. Well, congrats. We look forward to that product being in the field. Thank you.

Amit Dayal | Analyst, H.C. Wainwright:

Appreciate it.

Conference Call Operator | Operator:

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

Amit Dayal | Analyst, H.C. Wainwright:

Thank you. Good morning, guys. Just one question from my side. You know, the quarterly revenue variance, what steps are you taking to address this aspect of the story? I mean, the margins are coming through. Outlook is, you know, pretty strong. You have very good customers. Is there anything you can implement from a delivery contract perspective that can minimize some of this quarterly variance?

John Gibson | Chief Financial Officer:

I mean, customers' budgets are customers' budgets. We can't force companies to take the batteries. We have good relationships with all of our end users. We communicate with them. They communicate back with us. So the best thing we can do is really work with them, understand their business, the business demands, and see what we can do from just a relationship standpoint to secure orders and avoid delays.

Dr. Raj Das Gupta | Chief Executive Officer:

Generally speaking, we've been a just-in-time operation. We supply the products when the customers want them. That's different than automotive typically operates, where they will build cars, ship them to dealerships, and then there's some time between when the vehicles reach the customer versus when it comes out of the plant. Ideally, eventually, we come to something maybe more similar to that, which would alleviate some of these variances. Impact, which I think has been there, and that's limiting our ability to get higher numbers, is the number of product SKUs in our building today are very significant. That means much more inventory management, et cetera. The objective we have is the long term. We're not looking at maximizing revenue in Q4 2026. We're looking at maximizing revenue in 27, 28, 29, and so forth. To do that, you need to launch new products. They take time. They take effort. They take floor space. It's a growing pain in a sense. But I would definitely prioritize that over just maximizing production of our material handling products. And that's what we chose to do.

Amit Dayal | Analyst, H.C. Wainwright:

Thank you, guys. That is helpful. Appreciate it. That's all I have.

Conference Call Operator | Operator:

Thank you. As we have no further questions on the queue at this time, I'd like to turn it back to management for any closing remarks.

Dr. Raj Das Gupta | Chief Executive Officer:

Thank you. We look forward to speaking to you all after our Q4 fiscal year release.

Conference Call Operator | Operator:

Thank you. Thank you ladies and gentlemen. This does conclude today's call. You may disconnect your lines at this time and we thank you for your participation.